UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549  
FORM 10-K  
☒  
ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934  

For the fiscal year ended December 31, 2019  

☐ 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 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)  

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

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

<table>
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<th>Title Of Each Class</th>
<th>Trading Symbol(s)</th>
<th>Name of Each Exchange on Which Registered</th>
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<tr>
<td>Common Stock</td>
<td>FVE</td>
<td>The Nasdaq Stock Market LLC</td>
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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 Section 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 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 ☒  

The aggregate market value of the voting shares of common stock, $0.01 par value, or common shares, of the registrant held by non-affiliates was $12.7 million based on the $4.60 closing price per common share on The Nasdaq Stock Market LLC on June 28, 2019. For purposes of this calculation, an aggregate of 100,330 common shares held directly by, or by affiliates of, the directors and officers of the registrant, plus 423,500 common shares held by Diversified Healthcare Trust (formerly known as Senior Housing Properties Trust) and 1,799,999 common shares held by ABP Acquisition LLC, have been included in the number of common shares held by affiliates.  

Number of the registrant’s common shares outstanding as of February 26, 2020: 31,543,711.
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References in this Annual Report on Form 10-K to the Company, Five Star, we, us or our mean Five Star Senior Living Inc. and its consolidated subsidiaries, unless otherwise expressly stated or the context indicates otherwise. All amounts and share information included in this Annual Report on Form 10-K have been retroactively adjusted for the reverse stock split that resulted in the conversion of every ten of our common shares into one of our common shares, effective September 30, 2019, as if such reverse stock split occurred on the first day of the first period presented, unless otherwise expressly stated or the context indicates otherwise. Certain adjusted amounts may not agree with previously reported amounts due to the receipt of cash in lieu of fractional shares.

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 2020 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission within 120 days after the fiscal year ended December 31, 2019.
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 Annual Report on Form 10-K relate to various aspects of our business, including:

• Our ability to operate our senior living communities profitably,
• Our ability to grow revenues at the senior living communities we manage and to increase the fees we earn from managing senior living communities,
• Our expectation to focus our expansion activities on internal growth from our existing senior living communities and the ancillary 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 rehabilitation and wellness services and other services we may provide,
• Whether the aging U.S. population and increasing life spans of older adults will increase the demand for senior living communities, health and wellness centers and other healthcare related properties and services,
• Our ability to comply and to remain in compliance with applicable Medicare, Medicaid and other federal and state regulatory, rulemaking and rate setting requirements,
• Our ability to access or raise debt or equity capital,
• Our ability to sell communities we may offer for sale, and
• Other matters.

Our actual results may differ materially from those contained in or implied by our forward-looking statements. Forward-looking statements involve known and unknown risks, uncertainties and other factors, some of which are beyond our control. Risks, uncertainties and other factors that could have a material adverse effect on our forward-looking statements and upon our business, 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 health and wellness related services businesses,
• Older adults delaying or forgoing moving into senior living communities or purchasing health and wellness services from us,
• Increases in our labor costs or in costs we pay for goods and services,
• Increases in tort and insurance liability costs,
• Our operating leverage,
• Actual and potential conflicts of interest with our related parties, including our Managing Directors, Diversified Healthcare Trust (formerly known as Senior Housing Properties Trust), or DHC, The RMR Group LLC, or RMR LLC, ABP Trust and others affiliated with them,
• Changes in Medicare or Medicaid policies and regulations or the possible future repeal, replacement or modification of these or other existing or proposed legislation or regulations, which could result in reduced Medicare or Medicaid rates, a failure of such rates to cover our costs or limit the scope or funding of either or both programs, or reductions in private insurance utilization and coverage,
Delays or nonpayment of government payments to us,

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,

Our exposure to litigation and regulatory and government proceedings due to the nature of our business,

Continued efforts by third party payers to reduce costs, and

Acts of terrorism, outbreaks of so-called pandemics or other manmade or natural disasters beyond our control.

For example:

Challenging conditions in the senior living industry continue to exist and our business and operations remain subject to substantial risks, many of which are beyond our control. As a result, our operations may not be profitable in the future and we may realize losses,

We may not successfully execute our strategic growth initiatives,

Our ability to operate senior living communities profitably and increase the revenues generated by us depends upon many factors, including our ability to integrate new communities into our existing operations, as well as some factors that are beyond our control, such as the demand for our services arising from economic conditions generally and competition from other providers of services to older adults. We may not be able to successfully integrate, operate, compete and profitably manage our senior living communities,

We expect to enter additional management arrangements with DHC for additional senior living communities that DHC owns or may acquire in the future. However, we cannot be sure that we will enter any additional management arrangements with DHC,

Our belief that the aging of the U.S. population and increasing life spans of older adults will increase demand for senior living communities and services may not be realized or may not result in increased demand for our services,

Our investments in our workforce and continued focus on reducing our employee turnover level by enhancing our competitiveness in the marketplace with respect to cash compensation and other benefits may not be successful and may not result in the benefits we expect to achieve through such investments,

Our marketing initiatives may not succeed in increasing our occupancy and revenues, and they may cost more than any increased revenues they may generate,

Our strategic investments to enhance efficiencies in, and benefits from, our purchasing of services may not be successful or generate the returns we expect,

Circumstances that adversely affect the ability of older adults 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 revenues and 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,

The various federal and state government agencies that pay us for the services we provide to some of our residents are still 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,

At December 31, 2019, we had $31.7 million of unrestricted cash and cash equivalents. As of December 31, 2019, we had no borrowings under our $65.0 million secured revolving credit facility, or our credit facility, letters of credit issued in an aggregate amount of $3.2 million and $55.9 million available for borrowing under our credit facility.
These statements may imply that we may have sufficient cash liquidity. However, we have incurred operating losses and have an accumulated deficit. Moreover, certain aspects of our operations and future growth we may pursue in our business may require significant amounts of working cash and require us to make significant capital expenditures. Accordingly, we may not have sufficient cash liquidity.

- 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,
- The amount of available borrowings under our credit facility is subject to our having qualified collateral, which is primarily based on the value of the assets securing our obligations under our credit facility. Accordingly, the availability of borrowings under our credit facility at any time may be less than $65.0 million. Also, the availability of borrowings under our credit facility is subject to our satisfying certain financial covenants and other conditions that we may be unable to satisfy,
- 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 any applicable acquisition or sale agreements we or DHC have entered into, or may enter into, may not be satisfied and our and DHC’s applicable acquisitions or sales, and any related management arrangements we may expect to enter into, 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,
- The fact that we have regained compliance with Nasdaq’s minimum $1.00 bid price per share requirement may imply that we will continue to satisfy that Nasdaq standard. The number of our common shares included in our nonaffiliated public float is currently at a reduced level, which may result in decreased liquidity and increased trading price volatility for our common shares. If we fail to maintain compliance with Nasdaq’s minimum $1.00 bid price or other standards, Nasdaq may initiate proceedings to delist our common shares,
- We believe that our relationships with our related parties, including DHC, RMR LLC, ABP Trust 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 have regulatory issues in the operation of our senior living communities and, as a result, some of our communities may periodically be prohibited from admitting new residents, or our license to continue operations at a community may be suspended or 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 elsewhere 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.

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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FIVE STAR SENIOR LIVING INC.
2019 ANNUAL REPORT ON FORM 10-K

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This Annual Report on Form 10-K includes our trademarks, such as “Five Star Senior Living”, “Bridge to Rediscovery” and “Ageility Physical Therapy Solutions”, which are our property and are protected under applicable intellectual property laws. Solely for convenience, these trademarks referred to in this Annual Report on Form 10-K may appear without the ™ symbol, but such references are not intended to indicate, in any way, that we will not assert, to the fullest extent under applicable law, our rights to these trademarks.
PART I

Item 1. Business

The Company

We operate 268 senior living communities, including one active adult community, located in 32 states and provide services to approximately 26,000 residents. We have achieved J.D. Power Senior Living Certification for 32 of our senior living communities as of December 31, 2019.

With our new mission, “To honor and enrich the journey of life, one experience at a time,” we are a leadership team committed to prioritizing the needs of our residents, clients and team members. With approximately 23,000 team members experienced in supporting older adults, we are focused on establishing ourselves as a premier provider of services to older adults and their caregivers.

As of December 31, 2019, our residents resided in (i) 257 primarily independent and assisted living communities and (ii) 11 skilled nursing facilities, or SNFs. Our independent and assisted living communities, which includes our Bridge to Rediscovery memory care units, consists of 30,021 living units. These units include 31 continuing care retirement communities, or CCRCs, with 7,070 living units, and our SNFs consist of 1,264 living units. As of December 31, 2019, we leased and operated 170 of these 268 senior living communities (18,840 living units), owned and operated 20 of these senior living communities (2,108 living units) and managed 78 of these senior living communities (10,337 living units), including one active adult community (169 living units).

With the goal of offering a comprehensive suite of services, which includes our rehabilitations and wellness division, Ageility Physical Therapy Solutions, or Ageility, we provide our residents and others with rehabilitation and wellness services at our senior living communities as well as at outpatient clinics located separately from our senior living communities. As of December 31, 2019, we operated 41 inpatient clinics providing rehabilitation services in 34 of our CCRCs and seven of our SNFs. As of December 31, 2019, we operated 190 outpatient clinics, of which 150 were clinics within our senior living communities and 40 were clinics with other senior living companies. We provided Ageility services to approximately 10,000 clients in 2019. As of December 31, 2019, we have expanded our Ageility service line by introducing innovative fitness and personal training offerings to complement outpatient therapy in nine active adult communities.

According to the Longevity Economy Outlook, AARP with The Economist, as of December 31, 2019, the over 50 age population in the United States was comprised of 117.4 million people, or 35% of the population. The fastest growing age population in the United States is the over 85, and the second fastest is the over 100. We believe our business has the platform and service offerings to position us to support a higher quality of life for these adults as they age.

We are focused on (i) creating experiences for older adults that meet their expectations and (ii) offering residences and services that meet the needs and demands of older adults. To that end, we collaborate and actively engage with innovative organizations. We also sponsor and pilot programs to continually evolve our service capabilities to meet the needs of our residents and team members and we adapt our offerings to meet the evolving consumer demands of a growing population of older adults. In 2019, we served approximately 27,000 older adults on a daily basis by providing a variety of living experiences and services in addition to delivering ancillary services, such as through Ageility. For our residents in our assisted living and SNF communities, we offer assistance with their daily living activities, including bathing and dressing, eating, toileting and agility and mobility assistance. In certain communities, we also provide licensed skilled nursing services. In addition, we offer additional services including, but not limited to, on-site entertainment, personal grooming services and home health and dining services. Our focus on offering a broad array of services helps promote a greater sense of community and enable older adults to age-in-place independently.
Restructuring with DHC

On April 1, 2019, we entered into a transaction agreement, or the Transaction Agreement, with DHC to restructure our business arrangements with DHC, or the Restructuring Transactions, pursuant to which, effective as of January 1, 2020, or the Conversion Time:

- our five then existing master leases with DHC for 166 of DHC’s senior living communities (18,636 living units) that we then leased, as well as our then existing management and pooling agreements with DHC for 78 senior living communities (10,337 living units) were terminated and replaced, or the Conversion, with new management agreements for all of these senior living communities and a related omnibus agreement, or collectively, the New Management Agreements;

- we issued 10,268,158 of our common shares to DHC and an aggregate of 16,118,849 of our common shares to DHC’s shareholders of record as of December 13, 2019, or, together, the Share Issuances; and

- as consideration for the Share Issuances, DHC provided to us $75.0 million of additional consideration by assuming certain of our working capital liabilities (with DHC’s provision of such consideration to us, collectively with the Conversion and the Share Issuances, being included in the definition of Restructuring Transactions in this Annual Report on Form 10-K).

In connection with the Transaction Agreement, we entered into a credit agreement with DHC pursuant to which DHC extended to us a $25.0 million line of credit, or the DHC credit facility, which was secured by six senior living communities we own. The DHC credit facility matured and was terminated in connection with the completion of the Restructuring Transactions. There were no amounts outstanding under the DHC credit facility at the time of such termination and we did not make any borrowings under the DHC credit facility during its term.

Also in connection with the Restructuring Transactions, we agreed to expand our Board of Directors within six months following the Conversion Time to add an Independent Director (as defined in our bylaws) reasonably satisfactory to DHC. On February 26, 2020, our Board of Directors elected Michael E. Wagner, M.D. as an Independent Director, which satisfied our agreement with DHC to expand our Board of Directors.

For more information regarding the Restructuring Transactions, see "Properties" included in Part I, Item 2, and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in Part II, Item 7, of this Annual Report on Form 10-K and Notes 1 and 9 to our Consolidated Financial Statements included in Part IV, Item 15 of this Annual Report on Form 10-K.

Our History

We are a corporation formed under the laws of the State of Maryland in 2001. Effective March 3, 2017, we changed our name from Five Star Quality Care, Inc. to Five Star Senior Living Inc. Since then we have grown primarily by leasing or managing communities acquired by DHC. We also offer rehabilitation and wellness services both at our senior living communities as well as in communities of other senior living companies. Our principal executive offices are located at 400 Centre Street, Newton, Massachusetts 02458, and our telephone number is (617) 796-8387.

Our Communities and Our Services

Our present business plan contemplates the operation of owned, managed and leased independent and assisted senior living communities. Our communities can be classified into different primary service categories; while some provide a single service, others provide multiple services in a single building or campus. The majority of the senior living communities we operate are organized in campus-like settings or stand-alone communities containing multiple service levels.

**Independent Living Communities.** Independent living communities provide residents with high levels of privacy in various types of apartments and require residents to be relatively independent. 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 housekeeping service or planned activities. Additional non-healthcare services are generally available from staff employees on a fee for service basis. Included in independent living communities are 31 CCRC communities, as well as independent living communities that provide both assisted living and skilled nursing services in separate parts of the community. As of December 31, 2019, our operations included 11,364 independent living apartments in 97 communities. We also have an active adult community, which we classify as an independent living community.
**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 bathing, dressing and eating. Professional nursing and healthcare services are usually available at the community, as requested, or at regularly scheduled times. We may also provide Alzheimer’s or memory care services at certain of our assisted living communities through our award winning Bridge to Rediscovery program. As of December 31, 2019, our operations included 16,470 assisted living suites in 229 communities.

**Skilled Nursing Facilities.** SNFs generally provide extensive nursing and healthcare services that are similar to services available in hospitals, without the high costs associated with operating theaters, emergency rooms or intensive care units. A typical purpose-built SNF 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, 2019, our operations included 3,451 SNF units in 49 communities.

**Rehabilitation and Wellness Services.** Our rehabilitation and wellness services are offered by Ageility. Ageility’s services are primarily clinically based rehabilitation services, including physical therapy, speech therapy and occupational therapy. Ageility also offers other rehabilitation and wellness services with a hospitality approach, including strength training, orthopedic rehabilitation, fall prevention, cognitive or memory enhancement, aquatic therapy, continence management programs, pain management programs, neurological rehabilitation, post-surgical or post-hospitalization services and general personal fitness and wellness programs. The clinics are staffed with licensed therapists or other trained personnel.

**Current Industry Trends**

While the construction of new senior living communities is starting to slow down, it has experienced in the past several years significant construction of new communities and other buildings to service older adults. We believe this resulted in an oversupply and put downward pressures on occupancy and the rates that operators can charge for their services to their residents. In addition, pressures on governmental budgets has resulted in reductions or limitations on the growth of government funding for senior living and healthcare services, despite the increasing regulatory requirements imposed on the industry. These revenue pressures have been buffeted by increased costs for labor, insurance and regulatory compliance. At the same time, older adults are delaying the age at which they move to senior living communities, or forgoing such a move entirely.

In the last ten years, as the industry evolved to serve the growing number of older adults, it was also facing the impacts of an economic recession. We have searched for innovative ways to overcome the industry's challenges that include workforce shortages and low retention, occupancy pressures, challenges related to new technology and the increasing desire for exceptional customer experience including concierge level services.

To address workforce and retention challenges, senior living companies like us have looked to data-driven recruitment processes that use benchmarking and analytics to find quality candidates who stay in their roles longer. Personnel retention plans also include increasing wages, especially in geographic areas where competition for healthcare and senior living professionals is fierce. Other innovative efforts to attract talent to the senior living industry include connecting to the future workforce through school partnerships and recruitment presentations.

To address occupancy challenges, we are investing in business intelligence, website enhancements and technology-enabled marketing to understand market demands and adapt its service offerings to attract families and individuals searching for the services they need for their aging loved ones or themselves. In addition, we have increased our use of sales training that focuses on research-based sales tactics to more effectively “close” the prospects generated by technology with a genuine, human touch.

In the technology arena, demographic trends regarding aging adults have captured the attention of a number of entrepreneurs, start-ups and other companies, resulting in a steady stream of innovations entering the senior living space. Many of these innovations enable older adults to age in their own existing homes longer. Technology is causing the industry to look at new ways of delivering care to older adults. Regardless of the influx of technology solutions that change how senior living companies deliver older adult care, the senior living industry remains a person-to-person, relationship-centered business. Technology can augment, but we believe, will never replace the human touch, friendship and compassion of individuals of all ages who feel called to care for and honor the generations who came before them.

Recent trends suggest older adults are focused on evaluating senior living communities that offer service platforms that enable individuals to live a more independent lifestyle. With a broader scope of senior living communities operating in the
United States, combined with technology enablement, consumers have more options in choosing where to live as they age. This wider range of options for consumers is causing further pressure on the industry to implement innovative methods and services that provide for an exceptional customer experience.

**Competition**

The senior living services business is highly competitive. We compete with numerous other senior living community operators, as well as companies that provide senior living services, such as home healthcare companies and other real estate based service providers. Some of our competitors are larger and have greater financial resources than we do and some of our competitors are not-for-profit entities that have endowment income and may not face the same financial pressures that we do. Also, in recent years, a significant number of new senior living communities have been developed, and we expect this increased development activity to continue in the future. This activity has increased competitive pressures on us, particularly in the geographic markets where we have high concentrations of senior living communities.

We continue to address competition (i) by focusing on operations to ensure an exceptional resident experience, high customer satisfaction and employee retention through, among other things, training and development, (ii) by differentiating ourselves with the innovative programs and services we offer, (iii) with enhanced marketing efforts and (iv) by evaluating the current position of our communities relative to their competition. In addition, we may enter additional arrangements with DHC for us to operate new or additional senior living communities including active adult communities that DHC owns, and our relationships with DHC and RMR LLC may provide us with competitive advantages; however, DHC is not obligated to provide us with opportunities to operate additional properties it owns. We cannot be sure that we will be able to compete successfully or operate profitably. For more information on the competitive pressures we face and associated risks, see “Risk Factors” in Part I, Item 1A of this Annual Report on Form 10-K.

**Our Growth Strategy**

We are one of the largest senior living management companies in the United States, based on unit count, and we have been in operation for over 18 years currently servicing approximately 26,000 older adults in our senior living communities as well as approximately 10,000 clients in our Ageility clinics. As the demographics and psychographics of our prospective customers change, we are focused on establishing ourselves as a premier provider of services to older adults and their caregivers.

We seek to improve revenues from our existing senior living operations by focusing on an exceptional resident experience for those who pay with private resources. We also seek to improve profitability through continued strategic capital investments at our senior living communities and investments in the development of our staff, as well as by working with service providers to increase the desirability and competitiveness of our senior living communities. In addition to routine renovations and upgrades at our existing senior living communities, since January 1, 2018, we have invested $106.5 million in capital improvements in our senior living communities.

We also seek to grow our business by entering additional long-term management agreements for senior living communities and active adult communities where residents’ private resources account for all or a large majority of revenues. In 2018 and 2019, we sold four senior living communities, all of which we previously owned and operated, to DHC and began managing those communities for the account of DHC upon completion of each sale. In 2018 and 2019, we also began managing three DHC owned senior living communities and one active adult community for the account of DHC. For more information about the sale transactions, see “Our Dispositions” included in Part I, Item I of this Annual Report on Form 10-K. For more information about our management and prior leasing arrangements with DHC, see “Properties — Our DHC Leases and Management Agreements with DHC” included 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 provide diversified offerings to older adults within our communities and outside, including 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 focused on older adults; 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 reside with us for a longer period.
Since January 1, 2018, we have opened 101 rehabilitation and wellness outpatient clinics. We also expanded our rehabilitation and wellness services to senior living communities outside of our current operations. In addition, we continue to seek ways to grow our other ancillary services that complement our existing senior living operations to residents of the senior living communities we operate as well as older adults living outside of our communities.

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, we offer “Lifestyle360”, a wellness program focused on five dimensions of wellness (social, intellectual, spiritual, emotional and physical). We believe that programs like “Lifestyle360” will 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 expansion efforts are currently focused on internal growth through effective management of our existing portfolio, by increasing occupancy, as well as by increasing revenues from our ancillary services, such as outpatient therapy services and health and wellness and concierge services, to residents of the senior living communities we operate as well as older adults living outside of our communities. We may also agree to operate additional senior living communities and active adult communities for the account of DHC or other third parties pursuant to management arrangements and, from time to time, we may acquire and operate additional senior living communities.

Recent Developments

**Portfolio Optimization Through Dispositions.** We continually monitor our portfolio of senior living communities and other assets, and we seek to dispose of, or change our method of operating, certain of our senior living communities if and when we determine it is in our best interest to do so and we are able to reach an agreement regarding the sale or change of our method of operating of such communities with our pre-existing contracting parties, including DHC. Since January 1, 2018, we have sold or participated in the sale of 23 senior living communities that we or DHC owned and we operated.

**Portfolio Optimization Through Expansion Activities.** We currently expect that our expansion activities will be focused on internal growth from our existing senior living communities and entering into additional long-term management agreements for senior living communities, as well as the growth of ancillary service offerings, including rehabilitation and wellness services and other home-based service offerings.

In June 2018, DHC acquired an additional living unit at a senior living community that we leased from DHC located in Florida which was added to the then existing lease for that senior living community.

In June 2018, DHC also began managing communities for the account of DHC, pursuant to a management agreement and/or our then existing pooling agreements, as amended and restated, senior living communities owned by DHC as follows:

<table>
<thead>
<tr>
<th>Month</th>
<th>State</th>
<th>Units</th>
</tr>
</thead>
<tbody>
<tr>
<td>June 2018</td>
<td>California</td>
<td>98</td>
</tr>
<tr>
<td>November 2018</td>
<td>Colorado</td>
<td>238</td>
</tr>
<tr>
<td>April 2019</td>
<td>Oregon</td>
<td>318</td>
</tr>
<tr>
<td>December 2019</td>
<td>Texas</td>
<td>169</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>823</strong></td>
</tr>
</tbody>
</table>

Effective January 1, 2020, our then existing management and pooling agreements with DHC for these communities were terminated and replaced with New Management Agreements in connection with the Restructuring Transactions.

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 former leases and our management arrangements with DHC, see “Properties—Our Leases and Management Agreements with DHC” in Part I, Item 2 and Note 9 to our Consolidated Financial Statements included in Part IV, Item 15 of this Annual Report on Form 10-K.

**Financing Sources**

Our principal sources of funds to meet operating and capital expenses and debt service obligations are cash flows from operating activities, unrestricted cash balances and borrowings under our $65.0 million secured revolving credit facility, which is available for general business purposes. Our credit facility matures in June 2021, and, subject to our payment of an extension
fee and meeting other conditions, we have the option to extend the stated maturity date of our credit facility for a one-year period. We are required to pay interest at a rate of LIBOR plus a premium of 250 basis points per annum, or at a base rate, as defined in the agreement governing our credit facility, or our credit agreement, plus 150 basis points per annum on borrowings under our credit facility. The annual interest rates as of December 31, 2019, were 4.20% and 6.25%, respectively. 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. No principal repayment is due until maturity. 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.

On January 1, 2020, as part of the Restructuring Transactions, we issued 10,268,158 of our common shares to DHC and an aggregate of 16,118,849 of our common shares to DHC’s shareholders of record as of December 13, 2019, or, together, the Share Issuances. As consideration for the Share Issuances, DHC provided to us $75.0 million of additional consideration by assuming certain of our working capital liabilities.

In addition, in connection with the Transaction Agreement, we entered into a credit agreement with DHC for the DHC credit facility, which was secured by six senior living communities we own. The DHC credit facility matured and was terminated on January 1, 2020, in connection with the completion of the Restructuring Transactions. There were no borrowings outstanding under the DHC credit facility at the time of such termination and we did not make any borrowings under the DHC credit facility during its term.

For more information about our credit facility and the DHC credit facility, see Notes 8 and 9 to our Consolidated Financial Statements included in Part IV, Item 15 of this Annual Report on Form 10-K.

In the future, we may also assume mortgage debt on properties we may acquire in the future, or place mortgages on properties we own or seek to obtain other additional sources of financing, including term debt or issuing equity or debt securities. We currently have mortgage debt that we assumed in connection with a previous acquisition of one of our properties.

Operating Structure

We have four operating divisions. Three of these divisions are responsible for senior living communities located in specified geographic regions. Each region’s management is responsible for independent living, assisted living and skilled nursing units within its specified region. A divisional vice president, with extensive experience in the senior living industry, manages one of our divisions from one of our regional offices. Our regional offices are responsible for the senior living communities we operate that are located within a designated geographic region and are led by regional directors of operations that have extensive experience in the senior living industry. Each of our regional offices 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 senior living community operations within their designated geographic region, including:

- resident services;
- sales and marketing;
- hiring of community personnel;
- compliance with applicable legal and regulatory requirements; and
- supporting our development and acquisition plans within their region.

Our fourth division is responsible for rehabilitation and therapy services and is headed by a vice president at our corporate office who has extensive experience in rehabilitation services and is supported by a network of divisional and regional directors of rehabilitation services that are assigned to specified geographic regions.

Our corporate headquarters staff is responsible for corporate level systems, policies and procedures, such as:

- company-wide policies and procedures;
- human resources and team member engagement;
- marketing and communications;
• resident experience;
• information technology services;
• licensing and certification maintenance;
• legal services and regulatory compliance;
• centralized purchasing and cash disbursements;
• financial planning and analysis;
• budgeting and supervision of maintenance and capital expenditures;
• implementation of our growth strategy; and
• accounting, auditing and finance functions, including operations, budgeting, certain accounts receivable and collections functions, accounts payable, payroll, tax and financial reporting.

As described elsewhere in this Annual Report on Form 10-K, we have a business management agreement with RMR LLC, pursuant to which RMR LLC provides to us certain business management services, including services related to compliance with various laws and rules applicable to our status as a publicly traded company, including our internal audit function, capital markets and financing activities and investor relations.

Employees and Staffing

As of February 26, 2020, we had approximately 23,600 employees, including approximately 15,600 full time equivalents. We believe our relations with our employees are good.

Our employees predominately work collaboratively in our communities that have different staffing requirements further described below:

Independent and Assisted Living Community Staffing. Each of our independent and assisted living communities has an executive director that is responsible for the day-to-day operations of the applicable community, including quality of care, resident services, sales and marketing, financial performance and staff supervision, as applicable. The executive director is supported by department managers who oversee the care and service of our residents, a wellness director who is responsible for coordinating the services necessary to meet the care needs of our residents and a sales director who is responsible for sales and promoting our services and brand. These communities also typically have a dining services coordinator, an activities coordinator, a business office manager and a property maintenance coordinator.

Skilled Nursing Facility Staffing. Each of our SNFs is managed by a state licensed administrator who is supported by other professional personnel, including a director of nursing, an activities director, a marketing director, a social services director, a business office manager and physical, occupational and speech therapists. Our directors of nursing are state licensed nurses who supervise our registered nurses, licensed practical nurses and nursing assistants. Staff size and composition vary among our SNFs depending on the size and occupancy of, and the type of care provided at, the applicable SNF. Our SNFs also contract with physicians who provide certain administrative, clinical and oversight services.

Government Regulation and Reimbursement

The senior living and healthcare industries are subject to extensive, frequently changing federal, state and local laws and regulations. These laws and regulations vary by jurisdiction but may address, among other things, licensure, personnel training, staffing ratios, types and quality of medical care, physical facility requirements, government healthcare program participation, fraud and abuse, payments for patient services and patient records.

We are subject to, and our operations must comply with, these laws and regulations. From time to time, our communities receive notices from federal, state and local agencies regarding noncompliance with such requirements. Upon receipt of these notices, we review them for accuracy and, based on our review, we either take corrective action or contest the allegation of noncompliance. When corrective action is required, we work with the relevant agency to address and remediate...
any violations. Challenging and appealing any notices or allegations of noncompliance require the expenditure of significant legal fees and management attention. Any adverse determination concerning any of our licenses or eligibility for Medicare or Medicaid reimbursement, any penalties, repayments or sanctions, and the increasing costs of required compliance with applicable laws may adversely affect our ability to meet our financial obligations and negatively affect our financial condition and results of operations. Also, adverse findings with regard to any one of our communities may have an adverse impact on our licensing and ability to operate and attract residents to other communities.

The healthcare industry depends significantly upon federal and state programs for revenues and, as a result, is affected by the budgetary policies of both the federal and state governments. Reimbursements under the Medicare and Medicaid programs for skilled nursing, physical therapy and rehabilitation and wellness services provided operating revenues at our outpatient clinics and some of our senior living communities (principally our SNFs). We derived approximately 21.5% and 23.3% of our consolidated senior living revenues from Medicare and Medicaid programs for the years ended December 31, 2019 and 2018, respectively.

In addition to existing government regulation, we are aware of numerous healthcare regulatory initiatives and fair housing laws on the federal, state and local levels, which may affect our business operations if implemented.

**Independent Living Communities.** Government benefits are not generally available for services at independent living communities, and residents in those communities use private resources to pay for their living units and the services they receive. The rates in these communities are determined by local market conditions and operating costs. However, a number of federal Supplemental Security Income program benefits pay housing costs for elderly or disabled recipients to live in these types of residential communities. The Social Security Act requires states to certify that they will establish and enforce standards for any category of group living arrangement in which a significant number of Supplemental Security Income recipients reside or are likely to reside. Categories of living arrangements that may be subject to these state standards include independent living communities and assisted living communities. Because independent living communities usually offer common dining facilities, in many jurisdictions, they are required to obtain licenses applicable to food service establishments in addition to complying with land use and life safety requirements. In addition, in some states, state or county health departments, social service agencies and/or offices on aging have jurisdiction over group residential communities for older adults and license independent living communities. To the extent that independent living communities include units to which assisted living or nursing services are provided, these units are subject to applicable state licensing regulations. If the communities receive Medicaid or Medicare funds, they are subject to certification standards and requirements that they must meet, or the Conditions of Participation. In some states, insurance or consumer protection agencies regulate independent living communities in which residents pay entrance fees or prepay for services.

**Assisted Living Communities.** A majority of states provide or are approved to provide Medicaid payments for personal care and medical services to some residents in licensed assisted living communities under waivers granted by or under Medicaid state plans approved by the Centers for Medicare and Medicaid Services, or CMS, of the U.S. Department of Health and Human Services, or HHS. State Medicaid programs control costs for assisted living and other home and community based services by various means such as restrictive financial and functional eligibility standards, enrollment limits and waiting lists. Because rates paid to assisted living community operators are generally lower than rates paid to SNF operators, some states use Medicaid funding of assisted living as a means of lowering the cost of services for residents who may not need the higher level of services provided in SNFs. States that administer Medicaid programs for services in assisted living communities are responsible for monitoring the services at, and physical conditions of, the participating communities.

As a result of a large number of states using Medicaid funds to purchase services at assisted living communities and the growth of assisted living in recent years, states have adopted licensing standards applicable to assisted living communities. According to the National Center for Assisted Living and the HHS Office of the Assistant Secretary for Planning and Evaluation, all states regulate assisted living and residential care communities, although states do not use a uniform approach. Most state licensing standards apply to assisted living communities regardless of whether they accept Medicaid funding. Also, according to the National Conference of State Legislatures, a few states require certificates of need, or CONs, from state health planning authorities before new assisted living communities may be developed. Based on our analysis of recent economic and regulatory trends, we believe that assisted living communities that become dependent upon Medicaid or other government payments for a majority of their revenues may decline in value because Medicaid and other public rates may fail to keep up with increasing costs. We also believe that assisted living communities located in states that adopt CON requirements or other limitations on the development of new assisted living communities may increase in value because those limitations may help ensure higher nongovernment rates and reduced competition.

HHS, the Senate Special Committee on Aging and the Government Accountability Office, or the GAO, have studied and reported on the development of assisted living and its role in the continuum of long-term care and as an alternative to
SNFs. Since 2003, CMS has commenced a series of actions to increase its oversight of state quality assurance programs for assisted living communities and has provided guidance and technical assistance to states to improve their ability to monitor and improve the quality of services paid for through Medicaid waiver programs.

CMS is encouraging state Medicaid programs to expand their use of home and community based services as alternatives to institutional services, pursuant to provisions of the Deficit Reduction Act of 2005, or the DRA, the Patient Protection and Affordable Care Act, as amended by the Health Care and Education Reconciliation Act, or collectively, the ACA, and other authorities, through the use of several programs. One such program, the Community First Choice Option, or the CFC Option, grants states that choose to participate in the program a 6% increase in federal matching payments for related medical assistance expenditures. According to CMS, as of January 2019, eight states had approved CFC Option programs. We are unable to predict the effect of the implementation of the CFC Option and other similar programs, but their impact may be adverse and material to our operations and our future financial results of operations.

**Skilled Nursing Facilities - Medicare Reimbursement.** A majority of all SNF revenues in the United States comes from publicly funded programs. According to CMS, Medicaid is the largest source of public funding for SNFs, followed by Medicare. For example, in 2016 approximately 31% of SNF and continuing care retirement community revenues came from Medicaid and 23% from Medicare. In November 2019, CMS proposed new reporting requirements for state supplemental payments to Medicaid providers and limitations on approvals to state plan amendments for payments for services at long-term care facilities, including SNFs. The finalization of the proposal could impact the availability of supplemental Medicaid payments to SNFs.

SNFs are highly regulated businesses. The federal and state governments regularly monitor the quality of care provided at SNFs. State health departments conduct surveys of resident care and inspect the physical condition of SNF properties. These periodic inspections and occasional changes in life safety and physical plant requirements sometimes require SNF operators to make significant capital improvements. These mandated capital improvements have usually resulted in Medicare and Medicaid rate adjustments, albeit on the basis of amortization of expenditures over the expected useful lives of the improvements.

Under the Medicare SNF prospective payment system, or SNF PPS, capital costs are part of the prospective rate and are not community specific. The SNF PPS and other recent legislative and regulatory actions with respect to state Medicaid rates limit the reimbursement levels for some SNF services. At the same time, federal and state enforcement agencies have increased oversight of SNFs, making licensing and certification of these communities more rigorous.

CMS implemented the SNF PPS pursuant to the Balanced Budget Act of 1997. Under the SNF PPS, SNFs receive a fixed payment for each day of care provided to residents who are Medicare beneficiaries. Medicare SNF PPS payments cover substantially all services provided to Medicare residents in SNFs, including ancillary services such as rehabilitation services. The SNF PPS historically required SNFs to assign each resident to a care group depending on that resident’s medical characteristics and service needs using a resident assessment instrument called the Minimum Data Set 3.0. These care groups were known as Resource Utilization Groups, or RUGs, and CMS establishes a per diem payment rate for each RUG.

On July 31, 2018, CMS finalized its proposal to replace the RUG model, with a revised case-mix methodology called the Patient-Driven Payment Model, or PDPM, which became effective October 1, 2019. The PDPM focuses on clinically relevant factors, rather than volume-based payment, by using ICD-10 diagnosis codes and other patient characteristics as the basis for patient classification. PDPM will eliminate the need for SNFs to use Minimum Data Set 3.0 to assign residents to a care group. Therapy reimbursement will be linked to patient diagnoses with higher reimbursements being provided to higher-acuity patients. As a result, initial patient assessments, including obtaining full clinical documentation from hospitals and accurately applying ICD-10 coding to reflect a patient’s full clinical status, will become increasingly important factors in reimbursement. CMS estimates that paperwork simplification related to patient assessments will reduce reporting burdens for SNFs by approximately $2.0 billion over 10 years. With regard to Medicaid, in an update to PDPM guidance issued on April 4, 2019, CMS will permit states to continue reimbursement based on the state’s previous Medicaid SNF payment system, rather than requiring conversion to PDPM by October 1, 2020.

On July 30, 2019, CMS issued the latest SNF prospective payment system final rule for federal fiscal year 2020, which CMS estimates will increase Medicare payments to SNFs by approximately $851 million for federal fiscal year 2020, or 2.4%, compared to federal fiscal year 2019. It is unclear whether these adjustments in Medicare rates will compensate for the increased costs we may incur for services to our residents whose services are paid for by Medicare.
The Middle Class Tax Relief and Job Creation Act of 2012, enacted in February 2012, incrementally reduced the SNF reimbursement rate for Medicare bad debt from 100% to 65% by federal fiscal year 2015 for beneficiaries dually eligible for Medicare and Medicaid. Because a majority of SNF bad debt has historically been related to dual eligible beneficiaries, this rule has a substantial negative effect on SNFs, including some that we operate. The same law also reduced the SNF Medicare bad debt reimbursement rate for Medicare beneficiaries not eligible for Medicaid from 70% to 65% in federal fiscal year 2013 and going forward.

The Budget Control Act of 2011 and the Bipartisan Budget Act of 2013 allow for automatic reductions in federal spending by means of a process called sequestration, which reduces Medicare payment rates by 2.0% through 2023. In subsequent years, Congress approved additional extensions of Medicare sequestration, through 2029. Medicaid is exempt from the automatic reductions, as are certain Medicare benefits. The automatic 2.0% payment cuts took effect in April 2013 and had an adverse effect on our operations and financial results. Subsequent legislation appears to have modified some aspects of the sequestration process, but at this time it is unclear what impact this legislation may have on Medicare payments we receive. Any future reductions in Medicare payment rates could be adverse and material to our operations and financial results.

We are unable to predict the impact of on us of these or other recent legislative or regulatory actions or proposed actions with respect to Medicare rates received by our facilities.

Skilled Nursing Facilities - Medicaid Reimbursement. Although Medicaid is exempt from the sequestration process described above, some of the states in which we operate either have not raised Medicaid rates by amounts sufficient to offset increasing costs or have frozen or reduced, or are expected to freeze or reduce, Medicaid rates. Some states are expanding their use of managed care, partly to control Medicaid program costs. According to a report by CMS Office of the Actuary in February 2018, Medicaid enrollment is estimated to have increased 11.9% in 2014, 4.9% in 2015, 3.0% in 2016, and 2.0% in 2017, due primarily to the expansion in Medicaid eligibility under the ACA, which began in 2014. In 2019, Medicaid enrollment declined (1.7%) and is projected to modestly increase 0.8% in 2020, which moderation in growth we believe is due to a strong economy, changes in the renewal process and enhanced verification and data matching systems.

In January 2018, CMS issued a letter to State Medicaid Directors announcing that CMS would support state efforts to test incentives that make participation in work or other community engagement a requirement for continued Medicaid eligibility for non-elderly, non-pregnant adults. States would be required to have exemptions for individuals who are classified as “disabled” for Medicaid eligibility purposes, as well those with acute medical conditions or medical frailty that would prevent them from complying with the work requirement. As of December 2019, previously approved work requirements implemented in Arkansas, Kentucky and New Hampshire had been suspended by federal courts. Arkansas’s work requirements were later struck down by a federal appeals court panel and Kentucky’s governor rescinded the state’s work requirement waiver. Arizona, Indiana, Michigan, Ohio, South Carolina, Utah and Wisconsin have received CMS approval but have not yet implemented or have suspended implementation of work requirements. In addition, Alabama, Georgia, Idaho, Mississippi, Montana, Nebraska, Oklahoma, South Dakota, Tennessee and Virginia have submitted requests to modify their respective state Medicaid plans to include work requirements. The implementation of work requirements may reduce the availability of Medicaid coverage within our patient population.

Some of the states in which we operate either have not raised Medicaid rates by amounts sufficient to offset increasing costs or have frozen or reduced, or are expected to freeze or reduce Medicaid rates. Effective June 30, 2011, Congress ended certain temporary increases in federal payments to states for Medicaid programs that had been in effect since 2008. We expect the ending of these temporary federal payments, combined with other state budgetary pressures, to result in continued challenging state fiscal conditions, particularly in those states that are not participating in Medicaid expansion. As a result, some state budget deficits may increase, and certain states may continue to reduce Medicaid payments to healthcare providers like us as part of an effort to balance their budgets. These state level cuts have the potential to negatively impact our revenue from Medicaid sources.

We are unable to predict the impact on us of these or other recent legislative and regulatory actions or proposed actions with respect to state Medicaid rates, the federal payments to states for Medicaid programs, Medicaid program design and Medicaid eligibility standards.

Skilled Nursing Facilities – Provider Reimbursement. The outpatient therapy revenue received by our providers is tied to the Medicare Physician Fee Schedule, or MPFS, which has historically been subject to limitations on the amount of therapy services that can be provided, as well as limitations on annual cost growth.
In 2006, Medicare payments for outpatient therapies became subject to payment limits. The DRA created an exception process under which beneficiaries could request an exception from the cap and be granted the amount of services deemed medically necessary by Medicare. In April 2014, the Protecting Access to Medicare Act of 2014, or PAMA, extended the Medicare outpatient therapy cap exception process through March 2015, postponing the implementation of firm limits on Medicare payments for outpatient therapies. In April 2015, Congress passed the Medicare Access and CHIP Reauthorization Act of 2015, or MACRA, which extended the outpatient therapy cap exceptions process from March 2015 through December 2017, further postponing the implementation of strict limits on Medicare payments for outpatient therapies. The Bipartisan Budget Act of 2018 permanently repealed the caps, effective January 1, 2018.

In October 2016, CMS issued a final rule to implement the Merit-Based Incentive Payment System, or MIPS, and Advanced Alternative Payment Models, or APMs, which together CMS calls the Quality Payment Program. These reforms were mandated under MACRA and replace the Sustainable Growth Rate, or SGR, methodology for calculating updates to the MPFS. Starting in 2019, providers may be subject to either MIPS payment adjustments or APM incentive payments. MIPS consolidates the various CMS incentive and quality programs into a single reporting mechanism. Providers will receive either incentive payments or reimbursement cuts based on their compliance with MIPS requirements and their performance against a mean and median threshold of all MIPS eligible providers. CMS expanded the definition of MIPS-eligible clinicians to include physical and occupational therapists. APMs are innovative models approved by CMS for paying healthcare providers for services provided to Medicare beneficiaries that draw on existing programs, such as the bundled payment and shared savings models.

In addition, under MACRA, there were and will be MPFS conversion factor updates of 0.0% from January 2015 through June 2015, 0.5% from July 2015 through December 2015, and 0.5% each year from 2016 through 2018. The Bipartisan Budget Act of 2018 reduced the conversion factor for 2019 from 0.5% to 0.25%. For 2020 through 2025, the conversion factor will be further reduced to 0.0%.

In November 2019, CMS published a final rule that updates the MPFS for the calendar year 2020 and changed other Medicare Part B policies. In particular, the rule continued to implement a statutory requirement that claim modifiers be used to identify certain therapy services that are furnished in whole or in part by physical therapy assistants, or PTAs, and occupational therapy assistants, or OTAs, beginning January 1, 2020. CMS has adopted a standard that, when more than 10% of the service is furnished by a PTA or OTA, then the service is considered to be furnished “in whole or in part” by a PTA or OTA. CMS proposes to base the 10% calculation on the therapeutic minutes of time spent by the therapist versus a PTA or OTA. Beginning January 1, 2022, claims that contain a therapy assistant modifier will be paid at 85% of the otherwise applicable payment amount.

Our Medicare Part B outpatient therapy provider revenue rates are tied to the MPFS and may be affected by these modifications; however, we are unable to predict the impact of these modifications on the Medicare rates received by our providers.

**Skilled Nursing Facilities - Quality Improvement, Pay-for-Performance and Value-Based Purchasing Initiatives.** In addition to the reimbursement and rate changes discussed above, payments to SNFs will be increasingly determined by the quality of care provided. The federal government has enhanced its focus on developing and imposing quality-related regulations, standards and programs to improve the quality of care provided at SNFs and to better align payment to quality outcomes. As mandated by MACRA, PAMA and the Improving Medicare Post-Acute Care Transformation Act of 2014, or the IMPACT Act, CMS established the SNF Value-Based Purchasing Program and the SNF Quality Reporting Program to achieve these goals.

The IMPACT Act established the SNF Quality Reporting Program, under which SNFs are required to report certain quality measures and resource use measures in a standardized and interoperable format and to report certain patient assessment data in such a format. Beginning in federal fiscal year 2018, SNFs that failed to comply with the reporting requirements by the established times are subject to a 2.0% reduction in their Medicare payment rates for that fiscal year. Beginning in October 2018, SNF Quality Reporting Program data is publicly available on CMS’ Nursing Home Compare website.

PAMA established the SNF Value-Based Purchasing Program, under which HHS will assess SNFs based on hospital readmissions and make these assessments available to the public. In the SNF PPS final rule for fiscal year 2016, CMS adopted a 30-day all-cause, all-condition hospital readmission measure for SNFs, which was replaced with an all-condition, risk-adjusted potentially preventable hospital readmission rate measure in the SNF PPS final rule for fiscal year 2017. Beginning in federal fiscal year 2019, Medicare payment rates will be partially based on SNFs’ performance scores on this measure. The 2020 federal fiscal year update adopted two new quality measures to assess whether certain health information is provided by the SNF at the time of transfer or discharge. The update also adopted several standardized patient assessment data elements. To
fund the program, CMS will reduce Medicare payments to all SNFs by 2.0% through a withhold mechanism starting in October 2018 and then redistribute approximately 60% of the withheld payments as incentive payments to those SNFs with the highest rankings on this measure. CMS estimates that the federal fiscal year 2020 changes to the SNF VBP program will decrease payments to SNFs by an aggregate of approximately $213.6 million, compared to federal fiscal year 2019.

In August 2015, CMS announced that it would conduct the second phase of another SNF quality improvement program, the Initiative to Reduce Avoidable Hospitalizations Among Nursing Facility Residents, a pilot program first announced in 2012, which will be continued in partnership with selected organizations from October 2016 to October 2020. In this phase of the initiative, participants will test whether a new payment model for SNFs and practitioners, together with clinical and educational interventions that participants are currently implementing, will further reduce avoidable hospitalizations, lower combined Medicare and Medicaid spending and improve the quality of care received by long stay SNF residents. As of December 2019, six organizations had cooperative agreements with CMS to implement this phase of the initiative, and over 247 long-term care facilities were selected to participate.

As these quality improvement initiatives increase in size and scope, the federal government will likely monitor the impact of these programs more closely. We are unable to predict the impact of these quality improvement initiatives on our Medicare reimbursement rates or the cost of our SNFs’ operations.

Other legislative proposals introduced in Congress, proposed by federal or state agencies or under consideration by some state governments include the option of block grants for states rather than federal matching money for certain state Medicaid services, laws authorizing or directing Medicare to negotiate rate reductions for prescription drugs, additional Medicare and Medicaid enforcement procedures and federal and state cost containment measures, such as freezing Medicare or Medicaid SNF payment rates at their current levels and reducing or eliminating annual Medicare or Medicaid inflation allowances or gradually reducing rates for SNFs. We cannot estimate the type or magnitude of the potential Medicare and Medicaid policy changes, rate reductions or other changes and the impact on us of the possible failure of these programs to increase rates to match our increasing expenses, but they may be material to and adversely affect our future results of operations.

**Skilled Nursing Facilities – Conditions of Participation.** CMS maintains and enforces Conditions of Participation that healthcare organizations must meet in order to participate in the Medicare and Medicaid programs. These standards are designed to improve the quality of care and protect the health and safety of beneficiaries. Through the Conditions of Participation, CMS is able to require certain quality standards protocols, including most recently, requiring SNFs to implement a quality assurance and performance improvement program.

In September 2016, CMS released a final rule to comprehensively update the Conditions of Participation for long-term care facilities that participate in Medicare and Medicaid, such as our SNFs. The final rule, which went into effect beginning in November 2016, institutes a broad range of new requirements, some of which stem from statutory modifications under the ACA and the IMPACT Act. In particular, the final rule requires our SNFs, in a multi-phased approach over the next few years, to: train staff on care for residents with dementia and on abuse prevention; consider residents’ health needs when making decisions about the kinds and levels of staffing; ensure that staff have the appropriate skills and competencies to provide individualized, resident centered care; augment care planning activities, including considering residents’ goals and preferences and, on discharge, giving residents necessary follow up information and improving communication with receiving facilities or services; permit dietitians and therapy providers to write orders under certain circumstances; meet heightened food and nutrition services requirements; implement an updated infection prevention and control program, including requiring each of our SNFs to designate an infection prevention and control officer; and strengthen residents’ rights. In addition, the final rule requires our SNFs to: alter their staffing levels and competencies based on the results of mandated facility assessments; develop, implement and maintain a compliance and ethics program and a quality assurance and performance improvement program; and implement new practices surrounding the preparation and implementation of care plans and discharge summaries, among other new requirements. These requirements will increase the cost of operations for long-term care facilities that participate in Medicare and Medicaid, including our SNFs. Specifically, CMS estimated in the final rule that the cost of complying with all of the new requirements per facility would be approximately $62,900 in the first year, and approximately $55,000 each year thereafter. However, we believe new requirements often cost considerably more than CMS estimates.

In July 2019, CMS announced two rules - one final and one proposed - to further update requirements that long-term care facilities that participate in Medicare and Medicaid must meet. Specifically, the final rule repeals the prohibition on the use of pre-dispute, binding arbitration agreements by long-term care facilities. The final rule also imposes certain safeguards intended to increase the transparency of arbitration agreements used by long-term care facilities, as well as the related arbitration process, including requiring that a facility not require any resident or his or her representative to sign an arbitration agreement as a condition of admission to the facility. Under the proposed rule, CMS proposes to further reform the
requirements for long-term care facilities by eliminating or reducing certain requirements deemed unnecessary, obsolete, or excessively burdensome. Notably, CMS put forward proposals to modify certain requirements related to grievance policies, infection control staffing, and compliance program requirements, among other changes. We cannot estimate the type or magnitude of the potential Medicare and Medicaid policy changes, but they may be material to and adversely affect our future results of operations.

**Skilled Nursing Facilities - Survey and Enforcement.** Pursuant to the Omnibus Reconciliation Act of 1987, Congress enacted major reforms to federal and state regulatory systems for SNFs that participate in the Medicare and Medicaid programs. Since then, the OIG has reported that, although much progress has been made, substantial problems remain in the effectiveness of federal and state regulatory activities. The HHS Office of Inspector General, or the OIG, has issued several reports concerning quality of care and billing practices in SNFs, and the OIG has issued several reports recommending that CMS and states strengthen their compliance and enforcement practices, including federal oversight of state actions and to ensure that SNFs provide adequate care and states act more consistently. Moreover, in its fiscal year 2017 work plan and subsequent monthly updates, the OIG specifically stated that it will review compliance with various aspects of the SNF PPS, including the documentation requirement in support of claims paid by Medicare, and assess the incidence of serious quality of care issues, such as abuse and neglect. In recent years, the OIG and the GAO have also repeatedly called for increased oversight and payment system reform for SNFs.

In August 2017, the OIG issued an early alert regarding preliminary results of its ongoing review of potential abuse or neglect of Medicare beneficiaries in SNFs. As a result of the review, which is part of the ongoing efforts of the OIG to detect and combat elder abuse, the OIG concluded that CMS has inadequate procedures to ensure that incidents of potential abuse or neglect of beneficiaries residing in SNFs are identified and reported. The OIG provided suggestions for immediate actions that CMS can take to ensure better protection of beneficiaries. It is unclear what policy changes or oversight efforts CMS will undertake as a result of this early alert.

In addition to scrutiny from the GAO and the OIG, the Senate Special Committee on Aging and other congressional committees have also held hearings on related SNF issues. As a result, CMS has undertaken several initiatives to increase the effectiveness of Medicare and Medicaid SNF survey and enforcement activities. CMS has been taking steps to identify and focus enforcement efforts on SNFs and chains of SNF operators with findings of substandard care or repeat violations of Medicare and Medicaid standards. CMS has also increased its oversight of state survey agencies and has improved the process by which data is captured from these surveys. As an added measure of improving patient care, the ACA provides for the funding of a state background check system for job applicants to long-term care providers who will have direct access to patients. CMS has begun the administration of this program, and, as of January 2018, had awarded funding to approximately half of the states.

In addition, CMS adopted regulations expanding federal and state authority to impose civil monetary penalties in instances of noncompliance. When CMS or state agencies identify deficiencies under state licensing and Medicare and Medicaid standards, they may impose sanctions and remedies such as denials of payment for new Medicare and Medicaid admissions, civil monetary penalties, state oversight, temporary management or receivership and loss of Medicare and Medicaid participation or licensure on SNF operators. Our communities may incur sanctions and penalties from time to time. If we are unable to cure deficiencies that have been identified or that are identified in the future, or if appeals of proposed sanctions or penalties are not successful, decertification or additional sanctions or penalties may be imposed. These consequences may adversely affect our ability to meet our financial obligations and negatively affect our financial condition and results of operations.

**Certificates of Need.** As a mechanism to prevent overbuilding and subsequent healthcare price inflation, many states limit the number of SNFs by requiring developers to obtain CONs before new facilities may be built or additional beds may be added to existing facilities. As noted above, a few states also limit the number of assisted living facilities by requiring CONs. In addition, some states (such as California and Texas) that have eliminated CON laws have retained other means of limiting new development, including moratoria, licensing laws or limitations upon participation in the state Medicaid program. These government requirements limit expansion, which we believe may make existing SNFs more valuable by limiting competition.

**Healthcare Reform.** The ACA has resulted in changes to insurance, payment systems and healthcare delivery systems. The ACA was intended to expand access to health insurance coverage, including expansion of access to Medicaid coverage, and reduce the growth of healthcare expenditures while simultaneously maintaining or improving the quality of healthcare. The ACA also encouraged the development and testing of bundled payment for services models, the development of Medicare value-based purchasing plans as well as several initiatives to encourage states to develop and expand home and community based services under Medicaid. Some of the provisions of the ACA took effect immediately, whereas others took effect or will take effect at later dates. Recently, the ACA has been subject to significant reform, repeal and revision efforts by the executive
and legislative branches of the federal government and subject to changes resulting from lawsuits filed with the judicial branch of the federal government. It is unclear what the result of any of these legislative, executive and regulatory reform efforts may be or the effect they may have on us, if any. For example:

• In June 2017, HHS solicited suggestions for changes that could be made within the existing ACA legal framework to improve health insurance markets and meet the Trump Administration’s reform goals. HHS sought comments from interested parties to inform its ongoing efforts to create a more patient-centered healthcare system that adheres to the key principles of affordability, accessibility, quality, innovation and empowerment.

• On October 12, 2017, President Trump signed an executive order that modified certain aspects of the ACA. Specifically, the executive order directed federal agencies to reduce limits on association health plans and temporary insurance plans, allowing more widespread offerings of plans that do not adhere to all of the ACA’s mandates, and to permit workers to use funds from tax advantaged accounts to pay for their own coverage. On October 2, 2018, the U.S. Department of Labor, the U.S. Internal Revenue Service, or the IRS, and CMS issued regulations to permit insurers to sell short-term plans that provide coverage for up to 12 months; previous Obama Administration guidance had limited such plans to 90 days. Short-term plans are often less expensive than plans that meet the requirements of the ACA; however, short-term plans are also exempt from the ACA’s essential health benefits and other consumer protection requirements. In addition, on October 22, 2018, CMS announced that future Section 1332 of the ACA state health insurance innovation waivers may include short-term or association health plans as having coverage comparable to ACA plans.

• On October 12, 2017, the Trump Administration also announced that it would stop paying what are known as cost sharing reduction subsidies to issuers of qualified health plans under the ACA. As a result, in 2018 payors generally increased premiums for plans offered on exchanges in order to make up for termination of federal cost sharing reduction subsidies.

• In 2018, the ACA was also subject to lawsuits that sought to invalidate some or all of its provisions. In February 2018, a lawsuit brought federal district court in Texas by 18 attorneys general and two governors in federal district court argued that, following the legislative repeal of the ACA mandate’s tax penalties by the Tax Cuts and Jobs Act of 2017 (which set the penalty to $0), the entire ACA should be enjoined as invalid. On December 14, 2018, the district court found that the ACA, following the mandate repeal, was unconstitutional. Following the ruling, additional state attorneys general intervened as defendants in the case and on December 30, 2018, the court granted the intervenor defendants’ request for a stay pending appeal.

• In January 2019, the Department of Justice, or the DOJ, and the intervenor defendants appealed the district court’s 2018 decision to the Fifth Circuit Court of Appeals. On December 18, 2019, a three-judge panel of the Fifth Circuit Court of Appeals held in a 2-1 opinion that the ACA’s individual mandate was unconstitutional, but, rather than determining whether the remainder of the ACA is valid, the Fifth Circuit Court of Appeals remanded the case for additional analysis on severability.

If the ACA is repealed, replaced or modified, additional regulatory risks may arise and our future financial results could be adversely and materially affected. We are unable to predict the impact of these or other recent legislative and regulatory actions or proposed actions with respect to state Medicaid rates and federal Medicare rates and federal payments to states for Medicaid programs discussed above on us. The changes implemented or to be implemented as a result of such actions could result in the failure of Medicare, Medicaid or private payment reimbursement rates to cover increasing costs, in a reduction in payments or other circumstances.

Regulatory Reform. In the fall of 2019, the Trump Administration, including HHS, updated its “Unified Agenda of Regulatory and Deregulatory Actions,” which lists the scope and anticipated timing of pending and future regulations. In releasing the agenda, the Administration highlighted its “ongoing progress toward the goals of more effective and less burdensome regulation,” which appears to be consistent with Executive Order 13771’s mandate to eliminate two economically significant regulations for every regulation added. It is unclear how these regulatory reform efforts will impact our operations. Some of the regulatory updates described above may in the future, be repealed, replaced or modified as a result of these regulatory reform efforts. For instance, in the latest update, HHS and CMS stated their intent to propose changes to the current Conditions of Participation or Conditions for Coverage that healthcare organizations must meet in order to begin and continue participating in the Medicare and Medicaid programs. This may include additional changes to the Conditions of Participation for long-term care facilities that participate in Medicare and Medicaid, such as our SNFs.
We are unable to predict the impact on us of these or other regulatory reform efforts. While these efforts could ultimately decrease the regulatory burden for our operations in the long-term, they may increase regulatory uncertainty in the near term.

**Enforcement.** Federal and state efforts to target false claims, fraud and abuse and violations of anti-kickback, physician referral (including the Ethics in Patient Referrals Act of 1989), privacy and consumer protection laws by providers under Medicare, Medicaid and other public and private programs have increased in recent years, as have civil monetary penalties, treble damages, repayment requirements and criminal sanctions for noncompliance. The FCA, as amended and expanded by the Fraud Enforcement and Recovery Act of 2009, and the ACA, provides significant civil monetary penalties and treble damages for false claims and authorizes individuals to bring claims on behalf of the federal government for false claims. The federal Civil Monetary Penalties Law authorizes the Secretary of HHS to impose substantial civil penalties, treble damages and program exclusions administratively for false claims or violations of the federal Anti-Kickback Statute. In addition, the ACA increased penalties under federal sentencing guidelines by between 20% and 50% for healthcare fraud offenses involving more than $1.0 million. State Attorneys General typically enforce consumer protection laws relating to senior living services, clinics and other healthcare facilities.

Government authorities are devoting increasing attention and resources to the prevention, detection and prosecution of healthcare fraud and abuse. The OIG has guidelines for SNFs intended to assist them in developing voluntary compliance programs to prevent fraud and abuse; these guidelines recommend that CMS identify SNFs that are billing for higher paying RUGs and more closely monitor their compliance with patient therapy assessments as methods of fraud prevention. CMS contractors are also expanding the retrospective audits of Medicare claims submitted by SNFs and other providers, and recouping alleged overpayments for services determined by auditors not to have been medically necessary or not to meet Medicare coverage criteria as billed. State Medicaid programs and other third party payers are conducting similar medical necessity and compliance audits.

The ACA facilitates the DOJ’s ability to investigate allegations of wrongdoing or fraud at SNFs, in part because of increased cooperation and data sharing among CMS, the OIG, the DOJ and the states. In 2019, the DOJ announced two settlements with SNF facilities and their affiliates for $2 million and $10 million, as well as a $44 million judgment, relating to allegedly unnecessary rehabilitation therapy services provided to SNF patients. The significant nature of the settlements indicates that the federal government is increasingly focused on the appropriateness of billing practices of, and medical necessity of services provided at, SNFs. The DOJ has also established 10 regional intergovernmental Elder Justice Task Forces across the country to identify and take enforcement action against SNFs that provide substandard care to residents. In September 2019, the DOJ announced that it intends to identify criminal charges, such as wire fraud or healthcare fraud, that can be brought alongside civil actions against SNFs and employees accused of abusing or defrauding elderly patients.

In addition, the ACA requires all states to terminate the Medicaid participation of any provider that has been terminated under Medicare or any other state Medicaid plan. Moreover, state Medicaid fraud control agencies may investigate and prosecute assisted living communities and SNFs, clinics and other healthcare facilities under fraud and patient abuse and neglect laws. We expect that increased enforcement and monitoring by government agencies will cause us to expend considerable amounts on regulatory compliance and likely reduce the profits available from providing healthcare services.

Current state laws and regulations allow enforcement officials to make determinations as to whether the care provided at our communities exceeds the level of care for which a particular community is licensed. A finding that a community is delivering care beyond the scope of its license could result in closure of the community and the immediate discharge and transfer of residents. Some states and the federal government allow certain citations of one community to impact other communities operated by the same entity or a related entity, including communities in other states. Revocation of a license or certification at one of our communities could therefore impact our ability to obtain new licenses or certifications or to maintain or renew existing licenses and certifications at other communities, and trigger defaults under our management agreements with DHC and our credit facility or adversely affect our ability to operate or obtain financing in the future. In addition, an adverse finding by state officials could serve as the basis for lawsuits by private plaintiffs and lead to investigations under federal and state laws, which could result in civil and/or criminal penalties against the community as well as a related entity.

**Other Matters.** Our communities must comply with laws designed to protect the confidentiality and security of individually identifiable information. Under the federal Health Insurance Portability and Accountability Act of 1996, or HIPAA, and the Health Information Technology for Economic and Clinical Health Act, or the HITECH Act, our communities must comply with rules adopted by HHS governing the privacy, security, use and disclosure of individually identifiable information, including financial information and protected health information, or PHI, and also with security rules for electronic PHI. There may be both civil monetary penalties and criminal sanctions for noncompliance with these laws. Under the HITECH Act, penalties for violation of certain provisions may be as high as $50,000 per violation for a maximum civil penalty of
$1.5 million per calendar year. In January 2013, HHS released the HIPAA Omnibus Rule, or the Omnibus Rule, which went into effect in March 2013 and required compliance with most provisions by September 2013. The Omnibus Rule modified various requirements, including the standard for providing breach notices, previously required an analysis of the harm of any disclosure, to a more objective analysis relating to whether any PHI was actually acquired or viewed as a result of the breach. In addition to HIPAA, many states have enacted their own security and privacy laws relating to individually identifiable information, including financial information and health information. In some states, these laws are more burdensome than HIPAA. In instances in which the state provisions are more stringent than or differ from HIPAA, our communities must comply with both the applicable federal and state standards. If we fail to comply with applicable federal or state standards, we could be subject to civil sanctions and criminal penalties, which could materially and adversely affect our business, financial condition and results of operations. HIPAA enforcement efforts have increased considerably over the past few years, with HHS, through its Office for Civil Rights, entering into several multi-million dollar HIPAA settlements in 2019 alone. Finally, the Office for Civil Rights and other regulatory bodies have become increasingly focused on cybersecurity risks, including the emerging threat of ransomware and similar cyber-attacks. The increasing sophistication of cybersecurity threats presents challenges to the entire healthcare industry.

Our communities must also comply with the Americans with Disabilities Act, or the ADA, and similar state and local laws to the extent that such communities are “public accommodations” as defined in those laws. The obligation to comply with the ADA and other similar laws is an ongoing obligation, and we continue to assess our communities and make appropriate modifications.

Insurance

Litigation against senior living and healthcare companies continues to increase, and liability insurance costs continue to increase as a result. In addition, our employee benefit costs, including health insurance and workers’ compensation insurance, generally continue to increase. To partially offset these insurance cost increases, among other things, we have:

- become fully self-insured for all health-related claims of covered employees;
- increased the deductible or retention amounts for which we are liable under our liability insurance;
- operated an offshore captive insurance company which participates in our workers’ compensation, professional and general liability and certain of our automobile liability insurance programs, which may allow us to reduce our net insurance costs by retaining the earnings on our reserves, provided our claims experience does not exceed that projected by various statutory and actuarial formulas;
- increased the amounts that some of our employees are required to pay for health insurance coverage and copayments for health services and pharmaceutical prescriptions and decreasing the amount of certain healthcare benefits as well as adding a high deductible health insurance plan as an option for our employees;
- for our managed senior living communities, our residents either buy insurance directly and are required to list us as an insured party, or we purchase the insurance ourselves and are reimbursed;
- utilized insurance and other professional advisors to help us establish programs to reduce our workers’ compensation and professional and general liabilities, including programs to prevent liability claims and to reduce workplace injuries; and
- utilized insurance and other professional advisors to help us establish appropriate reserves for our retained liabilities and captive insurance programs.

We partially self-insure up to certain limits for workers’ compensation, professional and general liability, automobile and property coverage. Claims that exceed these limits are insured up to contractual limits, over which we are self-insured. Our current insurance arrangements are generally renewable annually. We cannot be sure that our insurance charges and self-insurance reserve requirements will not increase, and we cannot predict the amount of any such increase, or to what extent, if at all, we may be able to offset any such increase through higher deductibles, retention amounts, self-insurance or other means in the future.
Environmental and Climate Change Matters

Ownership of real estate is subject to risks associated with environmental hazards. Under various laws, owners as well as tenants and operators of real estate may be required to investigate and clean up or remove hazardous substances present at or migrating from properties they own, lease or operate and may be held liable for property damage or personal injuries that result from hazardous substances. These laws also expose us to the possibility that we may become liable to government agencies or third parties for costs and damages we incur in connection with hazardous substances. In addition, these laws also impose various requirements regarding the operation and maintenance of properties, and recordkeeping and reporting requirements relating to environmental matters that may require us to incur costs to comply.

Under our previously existing leases with DHC, we agreed to indemnify DHC for any environmental liabilities it may incur related to the senior living communities subject to those leases and the properties on which they are located. We reviewed environmental surveys of certain of our owned and previously leased, but now managed, properties prior to their purchase or the commencement of our leasing of those communities. Based upon environmental surveys we obtained and reviewed for certain of our senior living communities, as well as the results of operations at our senior living communities, we do not believe that there are environmental conditions at any of the senior living communities we currently operate that have had or will have a material adverse effect on us. However, we cannot be sure that environmental conditions are not present at our owned or previously leased properties, that potential costs we incur in the future related to any such conditions will be funded by DHC if they relate to a senior living community we manage for DHC, or that such potential costs will not have a material adverse effect on our business or financial condition or results of operations.

When major weather or climate-related events, such as hurricanes, floods and wildfires, occur near our senior living communities, we may relocate the residents at our senior living communities to alternative locations for their safety and close or limit the operations of the impacted senior living community until the event has ended and the senior living community is then ready for operation. We may incur significant costs and losses as results of these activities, both in terms of operating, preparing and repairing our senior living communities in anticipation of, during and after a severe weather or climate-related event, and suffer potential lost business due to the interruption in operating our senior living communities. Our insurance may not adequately compensate us for these costs and losses.

Concerns about climate change have resulted in various treaties, laws and regulations that are intended to limit carbon emissions and address other environmental concerns. These and other laws may cause energy or other costs at our communities to increase. In the long-term, we believe any such increased costs will be passed through and paid by our residents and other customers in the form of higher charges for our services. However, in the short-term, these increased costs, if material in amount, could materially and adversely affect our financial condition and results of operations. For more information regarding climate change and other environmental matters and their possible adverse impact on us, see “Risk Factors—Risks Related to Our Business—Our operations are subject to environmental risks,” “Risk Factors—Risks Related to Our Business—Our operations are subject to climate change and adverse weather risks” and “Management's Discussion and Analysis of Financial Condition and Results of Operations—Impact of Climate Change”.

We are aware of the impact of our communities on the environment. When we renovate our senior living communities, we generally use energy-efficient products, including lighting, windows and heating ventilation and air conditioning equipment.

Internet Website

Our internet website address is www.fivestarseniorliving.com. Copies of our governance guidelines, our code of business conduct and ethics, or our Code of Conduct, and the charts of our audit, quality of care, compensation and nominating and governance committees are posted on our website and also may be obtained free of charge by writing to our Secretary, Five Star Senior Living Inc., Two Newton Place, 255 Washington Street, Newton, Massachusetts 02458-1634. We also have a policy outlining procedures for handling concerns or complaints about accounting, internal accounting controls or auditing matters and a governance hotline accessible on our website that stockholders can use to report concerns or complaints about accounting, internal accounting controls or auditing matters or violations or possible violations of our Code of Conduct. We make available, free of charge, through the “Investor Relations” section of our website, our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to these reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, or the Exchange Act, as soon as reasonably practicable after these forms are filed with, or furnished to, the SEC. Any material we file with or furnish to the SEC is also maintained on the SEC website, www.sec.gov. Securityholders may send communications to our Board of Directors or individual Directors by writing to the party for whom the communication is intended at c/o Secretary, Five Star Senior Living Inc., Two Newton Place, 255 Washington Street, Newton, Massachusetts 02458 or by email at secretary@5ssl.com. Our website address is included several times in this Annual Report on Form 10-K as a textual reference only and the information in
any such website is not incorporated by reference into this Annual Report on Form 10-K or other documents we file with, or furnish to, the SEC. We intend to use our website as a means of disclosing material non-public information and for complying with our disclosure obligations under Regulation FD. Those disclosures will be included on our website in the “Investor Relations” section. Accordingly, investors should monitor our website, in addition to following our press releases, SEC filings and public conference calls and webcasts.

Item 1A. Risk Factors

Our business is subject to a number of risks and uncertainties. Investors and prospective investors should carefully consider the risks described below, together with all of the other information in this Annual Report on Form 10-K. The risks described below may not be the only risks we face, but are risks we believe may be material at this time. Additional risks that we do not yet know of, or that we currently think are immaterial, may also impair our business operations or financial results. If any of the events or circumstances described below occurs, our business, financial condition or results of operations and the value of our securities could decline. Investors and prospective investors should consider the following risks, the information contained under the heading “Warning Concerning Forward-Looking Statements” and the risks described elsewhere in this Annual Report on Form 10-K before deciding whether to invest in our securities.

Risks Related to Our Business

We and DHC restructured our business arrangements to address financial and operating challenges we had been experiencing, but those arrangements may not result in the benefits we expect.

On January 1, 2020, we and DHC completed the Restructuring Transactions to address financial and operating challenges we had been experiencing under the challenging conditions in the senior living industry that had been existing and continue to exist. In connection with the Restructuring Transactions, among other things, all of the senior living communities that DHC owns and that we previously leased and operated are now operated by us pursuant to long-term management agreements.

As a result of this change, our operating leverage has been reduced significantly because we are no longer paying rent to DHC for the senior living communities we previously leased but now manage for the account of DHC as of January 1, 2020. We believe these changes will enable us to be profitable in the future. However, our business remains subject to various risks, including, among others, the highly competitive nature of the senior living industry; medical advances and health and wellness services that allow some potential residents to defer the time when they require the special services available at our senior living communities; low unemployment in the United States combined with a competitive labor market within our industry that are increasing our employment costs, including labor costs that we incur and which DHC is not obligated to fund or reimburse to us; significant regulatory requirements imposed on our business; and other factors. Many of these factors are beyond our control. As a result, we may not achieve and maintain profitability in future periods, despite having completed the Restructuring Transactions.

We may fail to operate profitably, despite having completed the Restructuring Transactions.

Most of the senior living communities we operate are owned by DHC and we operate those senior living communities pursuant to long-term management agreements. Pursuant to those management agreements, DHC funds the operations and capital needs of those senior living communities, which alleviates us of those funding commitments. In return, we receive management fees based on revenues, and construction costs for construction projects we manage, at those senior living communities. In addition, we may earn incentive fees if the combined earnings before interest, taxes, depreciation and amortization, or EBITDA, at those senior living communities exceed certain targets. We engage in other businesses besides managing senior living communities for DHC, including owning and leasing from other third parties senior living communities, as well as providing other services, such as rehabilitation, wellness and home health services. Further, we may grow these businesses or engage in new or additional businesses in the future. If we do not profitably operate our businesses, we may incur losses if the fees we earn from the senior living communities we manage for DHC do not exceed those losses. In addition, we incur other expenses that are not incurred at the senior living communities we manage for DHC, including corporate and general and administrative expenses, that we are responsible for funding. If those expenses exceed the fees we earn from the senior living communities we manage for DHC and any profits we may realize at our other businesses, we may incur operating losses.
Our ability to grow our revenues may be limited, and a small percentage decline in our revenues or increase in our expenses could have a material adverse impact on our operating results.

Most of the senior living communities we operate currently are pursuant to long-term management agreements. The base management and construction supervision fees we earn under those management agreements are based on a fixed percentage of revenues and construction costs for construction projects we manage at those senior living communities, which are currently 5% and 3%, respectively. As a result, our ability to grow our revenues from managing those senior living communities will be limited to the applicable fee percentages related to the growth of revenues or applicable construction costs from those senior living communities, subject to any incentive fees we may earn, which are capped at 1.5% of gross revenues realized at all communities on a combined basis in a calendar year. In addition, some of our costs are fixed or may not be able to, or may be delayed in being, proportionally adjusted in response to any decline in fees and other revenues we may experience. As a result, a small percentage decline in our revenues or increase in our expenses could have a material adverse impact on our operating results.

Our ability to earn incentive fees and avoid triggering DHC termination rights will depend, in part, on our ability to grow EBITDA at our managed senior living communities.

We may earn incentive fees under the New Management Agreements with DHC if EBITDA from the managed senior living communities exceeds target levels. The EBITDA target levels are increased annually based on the greater of the yearly increase in the Consumer Price Index and 2%, plus a percentage of any capital costs we fund at our managed senior living communities in excess of target amounts. If the revenues from our managed senior living communities do not grow in excess of those increases, or if the expenses from our senior living communities grow in excess of those increases, we may not earn incentive fees, or any incentive fees we may earn may decrease. Further, DHC has certain termination rights if EBITDA from our managed senior living communities do not exceed target levels. As a result, if we fail to increase EBITDA at our managed senior living communities by the amount of the annual increases to the target levels, our business, results of operations and cash flows may be adversely affected.

Circumstances that adversely affect the ability of older adults or their families to pay for our services could cause our revenues and results of operations to decline.

As further discussed below, government benefits, such as Medicare and Medicaid, are not generally available for services at independent and assisted living communities. Many older adults are not otherwise able to pay our monthly resident fees with private resources. Our residents paid approximately 78.5% of the total resident fees in connection with the senior living communities we operated during the year ended December 31, 2019, from their private resources, and we expect to continue to rely on the ability of our residents to pay for our services from their own financial resources. Economic downturns, softness in the U.S. housing market, higher levels of unemployment among resident family members, lower levels of consumer confidence, stock market volatility and/or changes in demographics could adversely affect the ability of older adults to afford their resident fees. If we are unable to retain and/or attract older adults with sufficient income, assets or other resources required to pay the fees associated with independent and assisted living services and other service offerings, our revenues and results of operations could decline.

The current trend for older adults to delay moving to senior living communities until they require greater care or to forgo moving to senior living communities altogether could have a material adverse effect on our business, financial condition and results of operations.

Older adults have been increasingly delaying moving to senior living communities, including to our senior living communities, until they require greater care, and they have been increasingly forgoing moving to senior living communities altogether. Further, rehabilitation services and other services are increasingly being provided to older adults on an outpatient basis or in older adults’ personal residences in response to market demand and government regulation, which may increase the trend for older adults to delay moving to senior living communities. Such delays may cause decreases in our occupancy rates and increases in our resident turnover rates. Moreover, older adults may have greater care needs and require higher acuity services, which may increase our cost of doing business, expose us to additional liability or result in lost business and shorter stays at our senior living communities if we are not able to provide the requisite care services or fail to adequately provide those services. These trends may negatively impact our occupancy rates, revenues, cash flows and results of operations.
Increases in our labor costs and staffing turnover may have a material adverse effect on us.

Wages and employee benefits associated with our operations were approximately 43% of our 2019 total operating expenses. The U.S. labor market has been experiencing an extended period of low unemployment. Further, there has been recent legislation enacted and proposed legislation to increase the minimum wage in certain jurisdictions. This, in turn, has put upward pressure on wages. We compete with other senior living community operators, among others, to attract and retain qualified personnel responsible for the day-to-day operations of our senior living communities. The market for qualified nurses, therapists and other healthcare professionals is highly competitive, and periodic or geographic area shortages of such healthcare professionals may require us to increase the wages and benefits we offer to our employees in order to attract and retain such personnel or to utilize temporary personnel at an increased cost. In addition, employee benefit costs, including health insurance and workers’ compensation insurance costs, have materially increased in recent years. Increasing employee health insurance and workers’ compensation insurance costs and other employee benefits costs may materially and adversely affect our earnings.

We have been experiencing increases in labor costs. The low level of unemployment in the United States currently may result in our being unable to fully staff our senior living communities and clinics or having to pay overtime to adequately staff our senior living communities and clinics. Although, following completion of the Restructuring Transactions, we manage most of the senior living communities we operate and are not responsible for funding labor costs at those senior living communities, labor cost pressures impact the other senior living communities we own and lease, as well as our other businesses and corporate level activities. Further, increases in labor costs at our managed senior living communities may negatively impact our financial results at those managed senior living communities and hence reduce or prevent our earning incentive fees or any incentive fees for our management of those senior living communities or give rise to a DHC right of termination of the applicable management agreements if the EBITDA at those managed senior living communities does not meet certain targets. We cannot be sure that our labor costs will not continue to increase or that any increases will be recovered by corresponding increases in the rates we charge to our residents or otherwise. Any significant failure by us to control labor costs or to pass any increases on to residents through rate increases could have a material adverse effect on our business, financial condition and results of operations. Further, increased costs charged to our residents may reduce our occupancy and growth.

We often experience staffing turnover, which has recently increased in light of the current competitive labor market conditions and the competitive environment in the senior living industry. Heightened levels of staffing turnover, particularly for key and skilled positions, such as management, our regional and executive directors for our senior living communities and other skilled and qualified personnel, may disrupt our operations, limit or slow our ability to execute our business strategies, decrease our revenues and increase our costs, any of which may have a material adverse effect our business, financial condition, results of operations and prospects.

We face significant competition.

We compete with numerous other senior living community operators, as well as companies that provide senior living services, such as home healthcare companies and other real estate based service providers. Some of our existing competitors are larger and have greater financial resources than us and some of our competitors are not for profit entities which have endowment income and may not face the same financial pressures that we do. We cannot be sure that we will be able to attract a sufficient number of residents to our senior living communities at rates that will generate acceptable returns or that we will be able to attract employees and keep wages and other employee benefits, insurance costs and other operating expenses at levels which will allow us to compete successfully and operate profitably.

In recent years, a significant number of new senior living communities have been developed and continue to be developed. Although there are indications that the rate of newly started developments has recently declined, the increased supply of senior living communities that has resulted from recent development activity has increased competitive pressures on us, particularly in certain geographic markets where we operate senior living communities, and we expect these competitive challenges to continue for the foreseeable future. These competitive challenges may prevent us from maintaining or improving occupancy and rates at our senior living communities, which may adversely affect their profitability and, therefore, negatively impact our revenues, cash flows and results from operations.

If we fail to identify and successfully act upon changes and trends in healthcare and the needs and preferences of older adults, our business, financial condition, results of operations and prospects will be adversely impacted.

The healthcare industry is a dynamic industry. The needs and preferences of older adults have generally changed over the past several years, including preferences to reside in their homes longer or permanently, as well as changes in services and offerings, including delivery of home healthcare services, utilization of outpatient rehabilitation services and services that address their increasing desire to maintain active lifestyles. If we fail to identify and successfully act upon and address changes
We may fail to comply with the terms of our credit agreement.

Our credit agreement includes various conditions, covenants and events of default. We may not be able to satisfy all of these conditions or may default on some of these covenants for various reasons, including for reasons beyond our control. For example, our credit agreement requires us to comply with certain financial and other covenants. Our ability to comply with such covenants will depend upon our ability to operate our business profitably. If the recent trends in occupancy, rates and employment and other costs and expenses continue or increase, we may incur operating losses. Complying with these covenants may limit our ability to take actions that may be beneficial to us and our securityholders.

If we default under our credit agreement, our lenders may demand immediate payment. Any default under our credit agreement that results in acceleration of our obligations to repay outstanding indebtedness would likely have serious adverse consequences to us, including the possible foreclosure of the real estate mortgages on 11 senior living communities owned by our guarantor subsidiaries, and would likely cause the value of our securities to decline.

In the future, we may obtain additional debt financing, and the covenants and conditions which apply to any such additional debt may be more restrictive than the covenants and conditions that are contained in our credit agreement.

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

Some of our current operations, especially our SNFs, receive significant revenues from Medicare and Medicaid. We derived approximately 21.5% and 23.3% of our total resident fees at the senior living communities we operated from these programs for the years ended December 31, 2019 and 2018, respectively. Payments under Medicare and Medicaid are set by government policy, laws and regulations. The rates and amounts of these payments are subject to periodic adjustment. Current and projected federal budget deficits, federal spending priorities and challenging state fiscal conditions have resulted in numerous recent legislative and regulatory actions or proposed actions with respect to Medicare and Medicaid payments, insurance and healthcare delivery. Examples of these, and other information regarding such matters and developments, are provided under the caption “Business—Government Regulation and Reimbursement” in Part I, Item 1 of this Annual Report on Form 10-K. These matters could result in the failure of Medicare or Medicaid payment rates to cover our costs of providing required services to residents, or in reductions in payments to us or other circumstances that could have a material adverse effect on our business, financial condition and results of operations.

Private third party payers continue to try to reduce healthcare costs.

Private third party payers such as insurance companies continue their efforts to control healthcare costs through direct contracts with healthcare providers, increased utilization review practices and greater enrollment in managed care programs and preferred provider organizations. These third party payers increasingly demand discounted fee structures and the assumption by healthcare providers of all or a portion of the financial risk. These efforts to limit the amount of payments we receive for health and wellness services could adversely affect us. Reimbursement payments under third party payer programs may not remain at levels comparable to present levels or be sufficient to cover the costs allocable to patients participating in such programs. Future changes in, or renegotiations of, the reimbursement rates or methods of third party payers, or the implementation of other measures to reduce payments for our services could result in a substantial reduction in our net operating revenues. At the same time, as a result of competitive pressures, our ability to maintain operating margins through price increases to private pay residents may be limited.

Provisions of the ACA and efforts to repeal, replace or modify the ACA could reduce our income and increase our costs.

The ACA contains insurance changes, payment changes and healthcare delivery systems changes that have affected, and will continue to affect our revenues and costs, subject to possible future repeal, replacement or modification of the ACA. The ACA provides for multiple reductions to the annual market updates for inflation that may result in reductions in SNF Medicare payment rates. In addition, certain provisions of the ACA that affect employers generally, including the employer shared responsibility provisions that went into effect on January 1, 2015, may have an impact on the design and cost of the health coverage that we offer to our employees. We are unable to predict the impact of the ACA on our future financial results of operations, but it may be adverse and material. In addition, maintaining compliance with the ACA will require us to expend management time and financial resources.
The ACA includes other changes that may affect us, such as enforcement reforms and Medicare and Medicaid program integrity control initiatives, new
collaboration, ethics and public disclosure requirements, initiatives to encourage the development of home and community based long-term care services rather than
institutional services under Medicaid, value based purchasing plans and a Medicare post-acute care pilot program to develop and evaluate making a bundled
payment for services, including physician and SNF services, provided during an episode of care. We are unable to predict the impact on us of the insurance,
payment, and healthcare delivery systems reforms contained in and to be developed pursuant to the ACA. If the changes implemented under the ACA result in
reduced payments for our services or the failure of Medicare, Medicaid or insurance payment rates to cover our increasing costs, our future financial results could
be adversely and materially affected.

**Depressed U.S. housing market conditions may reduce the willingness or ability of older adults to relocate to our senior living communities.**

Downturns or stagnation in the U.S. housing market could adversely affect the ability, or perceived ability, of older adults to afford our entrance fees and
resident fees, as prospective residents frequently use the proceeds from the sale of their homes to cover the cost of such fees. If older adults have a difficult time
selling their homes, their ability to relocate to our senior living communities or finance their stays at our senior living communities with private resources could be
adversely affected. If U.S. housing market conditions reduce older adults’ willingness or ability to relocate to our senior living communities, the occupancy rates,
revenues and cash flows at our senior living communities and our results of operations could be negatively impacted.

**Federal, state and local employment related laws and regulations could increase our cost of doing business, and our failure to comply with such laws and
regulations could have a material adverse effect on our business, financial condition and results of operations.**

Our operations are subject to a variety of federal, state and local employment related laws and regulations, including, but not limited to, the U.S. Fair
Labor Standards Act, which governs matters such as minimum wages, the Family and Medical Leave Act, overtime pay, compensable time, recordkeeping and
other working conditions, and a variety of similar laws that govern these and other employment related matters. Because labor represents a significant portion of
our operating expenses, compliance with these evolving laws and regulations could substantially increase our cost of doing business, while failure to do so could
subject us to significant back pay awards, fines and lawsuits. Although following completion of the Restructuring Transactions, we manage most of the senior
living communities we operate and are not responsible for funding labor costs at those senior living communities, labor cost pressures impact the other senior
living communities we own and lease, as well as our other businesses and corporate level activities. Further, increases in labor costs at our managed senior living
communities may negatively impact the financial results at those managed senior living communities and as a result, reduce or prevent our earning incentive fees
for our management of those senior living communities or give rise to a DHC right of termination of the applicable management agreements if the EBITDA at
those managed senior living communities does not meet certain targets. We are currently subject to employment related claims in connection with our operations.
These claims, lawsuits and proceedings are in various stages of adjudication or investigation and involve a wide variety of claims and potential outcomes. Our
failure to comply with federal, state and local employment related laws and regulations could have a material adverse effect on our business, financial condition
and results of operations.

**Our business is subject to extensive regulation, which requires us to incur significant costs and may result in losses.**

Licensing and Medicare and Medicaid laws require operators of senior living communities and rehabilitation and wellness clinics to comply with
extensive standards governing operations and physical environments. Federal and state laws also prohibit fraud and abuse by senior living providers and
rehabilitation and wellness clinic operators, including civil and criminal laws that prohibit false claims and regulate patient referrals in Medicare, Medicaid and
other payer programs. In recent years, federal and state governments have devoted increased resources to monitoring the quality of care at senior living
communities and to anti-fraud investigations in healthcare generally. CMS contractors are expanding the retroactive audits of Medicare claims submitted by SNFs and
other providers, and recouping alleged overpayments for services determined by auditors not to have been medically necessary or not to meet Medicare
coverage criteria as billed. State Medicaid programs and other third party payers are conducting similar medical necessity and compliance audits. When federal or
state agencies identify violations of anti-fraud, false claims, anti-kickback and physician referral laws, they may impose or seek civil or criminal penalties, treble
damages and other government sanctions, and may revoke a community’s license or make conditional or exclude the community from Medicare or Medicaid
participation. The ACA amended the federal Anti-Kickback Statute and the FCA, making it easier for government agencies and private plaintiffs to prevail in
lawsuits brought against healthcare providers, and for severe fines and penalties to be imposed on healthcare providers that violate applicable laws and regulations.
In addition, when these agencies determine that there has been quality of care deficiencies or improper billing, they may impose or seek various remedies or
sanctions, including denial of new admissions, exclusion from Medicare or Medicaid.
Current state laws and regulations allow enforcement officials to make determinations as to whether the care provided at our communities exceeds the level of care for which a particular community is licensed. A finding that a community is delivering care beyond the scope of its license could result in closure of the facility and the immediate discharge and transfer of residents. Certain states and the federal government may determine that citations relating to one community affect other communities operated by the same entity or related entities, which may negatively impact an operator’s ability to maintain or renew other licenses or Medicare or Medicaid certifications or to secure new licenses or certifications. In addition, revocation of a license or certification at one community could impact our ability to obtain new licenses or certifications or to maintain or renew existing licenses and certifications at other communities, and trigger defaults under our management agreements with DHC, our leases and our credit agreement, or adversely affect our ability to operate or obtain financing in the future.

Our communities incur sanctions and penalties from time to time. As a result of the healthcare industry’s extensive regulatory system and increasing enforcement initiatives, we have experienced increased costs for monitoring quality of care compliance, billing procedures and compliance with referral laws and other laws that apply to us, and we expect these costs may continue to increase. For example, as disclosed elsewhere in this Annual Report on Form 10-K, as a result of our compliance program initiative to review records related to our Medicare billing practices, in September 2017, we made a disclosure to the OIG regarding potential inadequate documentation and other potential issues at one of our leased SNFs. In June 2019, we settled this matter with the OIG without admitting any liability and agreed to pay approximately $1.1 million in exchange for a customary release. The compliance review we undertook, which resulted in this OIG voluntary disclosure, was not initiated in response to any specific complaint or allegation, but a review of the type that we periodically undertake to test our own compliance with applicable Medicare billing rules pursuant to our compliance program.

The revenues we receive from Medicare and Medicaid may be subject to statutory and regulatory changes, retroactive rate adjustments, recovery of program overpayments or set offs, administrative rulings and policy interpretations, and payment delays. If we become subject to additional regulatory sanctions or repayment obligations at any of our existing communities (or at any of our newly acquired communities with prior deficiencies that we are unable to correct or resolve), our business may be adversely affected, and we might experience financial losses. Any adverse determination concerning any of our licenses or eligibility for Medicare or Medicaid reimbursement or any penalties, repayments, or sanctions, and the increasing costs of required compliance with applicable federal and state laws, may adversely affect our ability to meet our financial obligations and negatively affect our financial condition and results of operations.

The nature of our business exposes us to litigation and regulatory and government proceedings.

We have been, are currently, and expect in the future to be, involved in claims, lawsuits and regulatory and government audits, investigations and proceedings arising in the ordinary course of our business, some of which may involve material amounts. The defense and resolution of such claims, lawsuits and other proceedings may require us to incur significant expenses.

In several well publicized instances, private litigation by residents of senior living communities for alleged abuses has resulted in large damage awards against other senior living companies. Some lawyers and law firms specialize in bringing litigation against senior living community operators. As a result of this litigation and potential litigation, the cost of our liability insurance continues to increase. Medical liability insurance reform has at times been a topic of political debate, and some states have enacted legislation to limit future liability awards. However, such reforms have not generally been adopted, and we expect our insurance costs may continue to increase. Further, although we determine our self-insurance reserves with guidance from third party professionals, our reserves may nonetheless be inadequate. Increasing liability insurance costs and increasing self-insurance reserves could have a material adverse effect on our business, financial condition and results of operations.

In addition, we are currently defendants in two employee litigation matters and may be subject to future employee litigation. For more information regarding the two pending employee litigation matters, see “Legal Proceedings” in Part I, Item 3 of this Annual Report on Form 10-K.

Litigation may subject us to adverse rulings and judgments that may materially impact our business, operating results and liquidity. In addition, defending litigation distracts the attention of our management and may be expensive. For more information regarding certain of our legal contingencies and past legal and compliance matters, see Note 12 to our Consolidated Financial Statements included in Part IV, Item 15 of this Annual Report on Form 10-K.
If we do not achieve and maintain a high quality of care, payments through pay-for-performance and value-based purchasing programs may be reduced, and the overall attractiveness of our senior living communities to potential residents could decrease as more quality data becomes publicly available.

CMS is moving towards pay-for-performance programs, such as value-based payment, as an alternative to fee-for-service reimbursement. In October 2016, CMS issued a final rule to implement the Quality Payment Program. Beginning in 2019, providers were subject to either MIPS payment adjustments or APM incentive payments. Under PAMA, since October 2018, Medicare payment rates are now partially based on SNFs’ performance scores on a hospital readmission measure as part of CMS’s new SNF Value-Based Purchasing Program. Moreover, under the IMPACT Act, SNFs are required to report certain quality measures, resource use measures and certain patient assessment data in a standardized and interoperable format. SNFs that fail to comply with the reporting requirements are subject to a 2.0% reduction in their Medicare payment rates. Since October 2018, HHS has made SNF-reported data publicly available on its Nursing Home Compare website. We cannot predict the impact of these quality-driven payment reforms, but they may be material to and adversely affect our future results of operations. In addition, we cannot predict the impact of more quality data becoming publicly available, but if we do not achieve and maintain a high quality of care, the overall attractiveness of our communities to potential residents could decrease.

Changes in market interest rates, including changes that may result from the expected phase out of LIBOR, may adversely affect us.

Since the most recent U.S. recession, the Board of Governors of the U.S. Federal Reserve System, or the U.S. Federal Reserve, has taken actions which have resulted in low interest rates prevailing in the marketplace for a historically long period of time. The U.S. Federal Reserve steadily increased the targeted federal funds rate over the last several years, but recently took action to decrease the federal funds rate and may continue to make adjustments in the near future. In addition, LIBOR is expected to be phased out in 2021. The interest rates under our revolving credit facility is based on LIBOR and future debt we may incur may also be based on LIBOR. We currently expect that the determination of interest under our revolving credit facility would be based on the alternative rates provided under our credit agreement or would be revised to provide for an interest rate that approximates the existing interest rate as calculated in accordance with LIBOR. Despite our current expectations, we cannot be sure that, if LIBOR is phased out or transitioned, the changes to the determination of interest under our credit agreement would approximate the current calculation in accordance with LIBOR. An alternative interest rate index that may replace LIBOR may result in our paying increased interest. Increases in market interest rates may materially and negatively affect us in several ways, including:

- increases in interest rates could adversely impact the housing market and reduce demand for our services and occupancy at our senior living communities, could reduce the likelihood that we will earn incentive fees at our managed senior living communities if the EBITDA we realize at our managed senior living communities declines as a result; and could increase our rent expense at our leased senior living communities due to the landlord setting rent based on a required return on its investment;
- amounts outstanding under our credit facility require interest to be paid at variable interest rates. When interest rates increase, our interest costs will increase, which could adversely affect our cash flows, our ability to pay principal and interest on our debt and our cost of refinancing our debt when it becomes due and our ability to fund our operations and working capital; and
- an increase in interest rates could decrease the amount buyers may be willing to pay for our senior living communities, thereby reducing the market value of our senior living communities and limiting our ability to sell senior living communities. Further, increased interest rates would increase our costs for, and may limit our ability to obtain, mortgage financing secured by our senior living communities.

Low market interest rates, particularly if they remain over a sustained period, may increase our use of debt capital to fund property acquisitions, lower capitalization rates for property purchases and increased competition for property purchases, which may reduce our and, with respect to opportunities for us to operate additional communities owned by DHC, DHC’s ability to acquire new properties.

Our growth strategy may not succeed.

We intend to continue to grow our business by entering into additional long-term operating arrangements for senior living communities and growing the ancillary services we provide where residents’ private resources account for all or a large majority of revenues. Our business plans include seeking to take advantage of expected long-term increases in demand for
senior living communities and health and wellness services. Our growth strategy is subject to risks, including, but not limited to, the following:

- we may not be an attractive business partner given our operating history and the liquidity challenges we have experienced;
- we may be unable to identify and operate additional senior living communities and clinics on acceptable terms;
- we may be unable to access the capital required to operate additional senior living communities and clinics or grow ancillary services;
- we may be unable to identify and operate additional senior living communities and clinics where residents’ private resources account for all or a large majority of revenues;
- we may not achieve the operating results we expect from newly managed senior living communities or any health and wellness or other services we may provide;
- the operations of newly managed senior living communities and clinics and provision of other health and wellness services may subject us to unanticipated contingent liabilities or regulatory matters;
- we may be required to make significant capital expenditures to improve newly managed senior living communities, including capital expenditures that were unanticipated at the time of entry into the management arrangements;
- we may have difficulty hiring and retaining key employees and other personnel at newly managed senior living communities and clinics;
- it may take a period of time to stabilize the operations of newly managed senior living communities;
- integrating the operations of newly managed senior living communities, clinics or other health and wellness services we may provide may disrupt our existing operations, or may cost more than anticipated;
- we may fail to realize any expected operating or cost efficiencies from senior living communities or clinics we agree to manage;
- we may agree to manage senior living communities subject to unknown liabilities and without any recourse, or with limited recourse, such as liability for the cleanup of undisclosed environmental contamination or for claims by residents, vendors or other persons related to actions taken by former owners or operators of the communities;
- any failure to comply with licensing requirements at our senior living communities, clinics or elsewhere may prevent our obtaining or renewing licenses needed to conduct and grow our businesses; and
- newly managed senior living communities, clinics and other new or expanded health and wellness services we may seek to provide might require significant management attention that would otherwise be devoted to our other business activities.

For these reasons, among others, we might not realize the anticipated benefits of our additional long-term operating arrangements, and our growth strategy may not succeed or may cause us to experience losses.

**Our business requires us to make significant capital expenditures to maintain and improve our senior living communities.**

Our senior living communities sometimes require significant expenditures to address required ongoing maintenance or to make them more attractive to residents. Physical characteristics of senior living communities are mandated by various government authorities; changes in these regulations may require us to make significant expenditures. In addition, we are often required to make significant capital expenditures when we acquire or lease or manage new senior living communities. Our available financial resources may be insufficient to fund these expenditures. Although, following completion of the Restructuring Transactions, we manage most of the senior living communities we operate and we are not responsible for funding capital costs at those senior living communities, we still will incur capital costs for the senior living communities we own and lease, as well as for our other businesses and corporate level activities. Further, increases in capital costs at our
managed senior living communities may negatively impact the financial results at those managed senior living communities and, if DHC funds capital costs above target amounts, the target EBITDA for the applicable senior living communities would be increased by an amount equal to six percent of the excess. Our earning incentive fees, and certain DHC rights to terminate our management agreements, are based on EBITDA generated at our managed senior living communities compared to EBITDA targets. Hence, increased capital costs at our managed senior living communities may reduce or prevent our earning incentive fees for our management of those senior living communities or give rise to a DHC right of termination of the applicable management agreements if the EBITDA at those managed senior living communities does not meet certain targets.

**We rely on information technology and systems in our operations, and any material failure, inadequacy, interruption or security failure of that technology or those systems could materially and adversely affect us.**

We rely on information technology and systems, including the Internet and cloud-based infrastructures, commercially available software and our internally developed applications, to process, transmit, store and safeguard information and to manage or support a variety of our business processes (including managing our building systems), including financial transactions and maintenance of records, which may include personally identifiable information or protected health information of employees, residents and tenants and lease data. If we experience material security or other failures, inadequacies or interruptions of our information technology, we could incur material costs and losses and our operations could be disrupted as a result. Further, third party vendors could experience similar events with respect to their information technology and systems that impact the products and services they provide to us. We rely on commercially available systems, software, tools and monitoring, as well as our internally developed applications and internal procedures and personnel, to provide security for processing, transmitting, storing and safeguarding confidential employee, resident, tenant, customer and vendor information, such as personally identifiable information related to our employees and others, including our residents, and information regarding their and our financial accounts. We take various actions, and incur significant costs, to maintain and protect the operation and security of our information technology and systems, including the data maintained in those systems. However, it is possible that these measures will not prevent the systems’ improper functioning or a compromise in security, such as in the event of a cyber attack or the improper disclosure of confidential or protected information.

Security breaches, computer viruses, attacks by hackers, online fraud schemes and similar breaches can create significant system disruptions, shutdowns, fraudulent transfer of assets or unauthorized disclosure of confidential information. The cybersecurity risks to us and our third party vendors are heightened by, among other things, the evolving nature of the threats faced, advances in computer capabilities, new discoveries in the field of cryptography and new and increasingly sophisticated methods used to perpetrate illegal or fraudulent activities against us, including cyberattacks, email or wire fraud and other attacks exploiting security vulnerabilities in our or third parties’ information technology networks and systems or operations. Any failure to maintain the security, proper function and availability of our information technology and systems, or certain third party vendors’ failure to similarly protect their information technology and systems that are relevant to us or our operations, or to safeguard our business processes, assets and information could result in financial losses, interrupt our operations, damage our reputation, cause us to be in default of material contracts and subject us to liability claims or regulatory penalties, any of which could materially and adversely affect our business and the value of our securities.

**We may fail to comply with laws governing the privacy and security of personal information, including relating to health.**

We are required to comply with federal and state laws governing the privacy, security, use and disclosure of personally identifiable information and protected health information. Under HIPAA and the HITECH Act, as updated by the Omnibus Rule, we are required to comply with the HIPAA privacy rule, security standards and standards for electronic healthcare transactions. State laws also govern protected health information, and rules regarding state privacy rights may be more stringent than HIPAA. Other federal and state laws govern the privacy of other personally identifiable information. If we fail to comply with applicable federal or state standards, we could be subject to civil sanctions and criminal penalties, which could materially and adversely affect our business, financial condition and results of operations.

**We may incur significant costs from our self-insurance arrangements.**

We partially self-insure up to certain limits for workers’ compensation, professional and general liability and automobile coverage. Claims in excess of these limits are insured up to contractual limits, over which we are self-insured. We fully self-insure all health related claims for our covered employees. Although, following completion of the Restructuring Transactions, we manage most of the senior living communities we operate and are not responsible for funding insurance costs at those senior living communities, including health insurance for our employees who work at those senior living communities, these insurance cost pressures impact senior living communities we own and lease, as well as our other businesses and corporate level activities. Further, increases in insurance costs at our managed senior living communities may negatively impact the financial results at those managed senior living communities and, as a result, reduce or prevent our earning incentive fees.
fees for our management of those senior living communities or give rise to a DHC right of termination of the applicable management agreements if the EBITDA at those managed senior living communities does not meet certain targets. We may incur significant costs for claims and related matters under our self-insurance arrangements. We cannot be sure that our insurance charges and self-insurance reserve requirements will not increase, and we cannot predict the amount of any such increase, or to what extent, if at all, we may be able to offset any such increase through higher retention amounts, self-insurance or other means in the future. Although we determine our employee health insurance, workers’ compensation and professional and general liability self-insurance reserves with guidance from third party professionals, our reserves may nonetheless be inadequate. Determining reserves for the casualty, liability, workers’ compensation and healthcare losses and costs that we have incurred as of the end of a reporting period involves significant judgments based upon our experience and our expectations of future events, including projected settlements for pending claims, known incidents that we expect may result in claims, estimates of incurred but not yet reported claims, expected changes in premiums for insurance provided by insurers whose policies provide for retroactive adjustments, estimated litigation costs and other factors. Since these reserves are based on estimates, the actual expenses we incur may differ from the amount reserved and could result in our recognizing a significant amount of expenses in excess of our reserves. Our costs under our self-insurance arrangements may materially and adversely affect our business, results of operations and liquidity.

Insurance may not adequately cover our losses, and the cost of obtaining such insurance may continue to increase.

We maintain insurance coverage for our properties and the operations conducted on them, including for casualty, liability, malpractice at managed properties, fire, extended coverage and rental or business interruption loss insurance. Pursuant to our management agreements with DHC, we are obligated to maintain insurance for the senior living communities that we manage for DHC’s account. Recently, the costs of insurance have increased significantly, and these increased costs have had an adverse effect on us and the operating results for our senior living communities. Although DHC funds the insurance premiums for the managed senior living communities, the increased costs of insurance may negatively impact the financial results at those managed senior living communities and hence reduce or prevent our earning incentive fees for our management of those senior living communities or give rise to a DHC right of termination of the applicable management agreements if the EBITDA at those managed senior living communities does not meet certain targets. In addition, we are responsible for paying for insurance for other properties that we operate, including senior living communities that we own or lease, and increased insurance costs will adversely impact us as a result. Losses of a catastrophic nature, such as those caused by hurricanes, flooding, volcanic eruptions and earthquakes, among other things, or losses from terrorism, may be covered by insurance policies with limitations such as large deductibles or co-payments that we or, with respect to the properties that DHC owns and we manage, DHC may not be able to pay. Insurance proceeds may not be adequate to restore an affected property to its condition prior to a loss or to compensate us for our losses, including the loss of future revenues from an affected property. Similarly, our other insurance, including our general liability insurance, may not provide adequate insurance to cover our losses. In addition, we do not have any insurance to limit losses that we may incur as a result of known or unknown environmental conditions. Further, we cannot be sure that certain types of risks that are currently insurable will continue to be insurable on an economically feasible basis, and, in the future, we may discontinue certain insurance coverage on some or all of our properties that we own or are otherwise not obligated to maintain pursuant to agreements with third parties if the cost of premiums for any of these policies in our judgment exceeds the value of the coverage discounted for the loss. If an uninsured loss or a loss in excess of insured limits occurs, we may have to incur uninsured costs to mitigate such losses or lose all or a portion of the capital invested in a property, as well as the anticipated future revenue from the property. We might also remain obligated for any financial obligations related to the property, even if the property is irreparably damaged. In addition, future changes in the insurance industry’s risk assessment approach and pricing structure could further increase the cost of insuring our properties or decrease the scope of insurance coverage, either of which could have an adverse effect on our financial condition, results of operations or liquidity.

Successful union organization of our employees may adversely affect our business, financial condition and results of operations.

From time to time labor unions attempt to organize our employees. If federal legislation modifies the labor laws to make it easier for employee groups to unionize, additional groups of employees may seek union representation. If our employees were to unionize, it could result in business interruptions, work stoppages, the degradation of service levels due to work rules, or increased operating expenses that may adversely affect our results of operations.

Our geographic concentration of our senior living communities exposes us to changes in market conditions in those areas.

We have a high concentration of our senior living communities in various geographic areas, including in Florida, North Carolina, South Carolina, Georgia, Texas and California. As a result of this concentration, the conditions of local economies and real estate markets, changes in governmental rules and regulations, particularly with respect to senior living communities, acts of nature and other factors that may result in a decrease in demand for our services in these states could have
an adverse effect on our revenues, results of operations and cash flow. In addition, we are particularly susceptible to revenue loss, cost increases or damage caused by severe weather conditions or natural disasters such as hurricanes, wildfires, earthquakes or tornadoes in those areas.

**Termination of assisted living resident agreements and resident attrition could adversely affect our revenues and earnings.**

State regulations governing assisted living communities typically require a written resident agreement with each resident. Most of these regulations also require that each resident have the right to terminate these assisted living resident agreements for any reason on reasonable notice. Consistent with these regulations, if a large number of residents elect to terminate their resident agreements at or around the same time, our revenues and earnings could be materially and adversely affected. In addition, the advanced ages of our senior living residents may result in high resident turnover rates.

**We are subject to limitations on our ability to use our net operating loss and tax credit carryforwards.**

We expect that our ability to deduct pre-2020 net operating loss carryforwards and tax credit carryforwards will be subject to a significant annual limitation on account of the ownership changes resulting from the Restructuring Transactions. The impact of the ownership change on our net operating losses and other tax credit carryforwards as a result of the completion of the Restructuring Transactions is described in Note 5 to our Consolidated Financial Statements included in Part IV, Item 15 of this Annual Report on Form 10-K. Losses and credits that arise after the Conversion Time, which currently are expected to be utilized to offset future taxable income, will not be subject to the limitations resulting from the Restructuring Transactions, but future changes in ownership may result in limitations on usage or elimination of those future losses and credits. Our bylaws contain provisions to facilitate the preservation of the tax treatment of our net operating losses and tax credit carryforwards, including provisions generally prohibiting a person or group from becoming a “5-percent shareholder” (as defined in the applicable Treasury regulations) without the consent of our Board of Directors. However, we cannot be sure that these restrictions will be effective or that our Board of Directors will not determine to waive such restrictions in the future. Moreover, net operating losses and other carryforwards are subject to other limitations under the United States Internal Revenue Code of 1986, as amended, or the IRC, including provisions generally restricting carryforwards of net operating losses arising in taxable years beginning after 2017 from offsetting more than 80% of the current year’s taxable income, which could affect our ability to utilize all of our existing net operating loss and tax credit carryforwards in a given year.

**Our operations are subject to environmental risks and liabilities.**

Our operations are required to comply with various environmental laws governing the use, management and disposal of, and human exposure to, hazardous and toxic substances. If we fail to comply with such laws, or if the properties we own, operate or use for disposal are contaminated by such substances, we may be subject to penalties or other corrective action requirements and liabilities, including the costs to investigate or remediate such contamination. These laws also expose us to claims by third parties for costs and damages they may incur in connection with hazardous substances related to our activities and properties. If we experience these environmental liabilities and costs, they could have a material impact on our operating results and financial condition.

**Our operations are subject to risks from adverse weather and climate events.**

Severe weather may have an adverse effect on certain senior living communities we operate. Flooding caused by rising sea levels and severe weather events, including hurricanes, tornadoes and widespread fires have had and may have in the future an adverse effect on senior living communities we operate and result in significant losses to us and interruption of our business. When major weather or climate-related events, such as hurricanes, floods and wildfires, occur near our senior living communities, we may relocate the residents at our senior living communities to alternative locations for their safety and close or limit the operations of the impacted senior living community until the event has ended and the senior living community is then ready for operation. We may incur significant costs and losses as a result of these activities, both in terms of operating, preparing and repairing our senior living communities in anticipation of, during and after a severe weather or climate-related event and in terms of potential lost business due to the interruption in operating our senior living communities. Our insurance may not adequately compensate us for these costs and losses.

Further, concerns about climate change have resulted in various treaties, laws and regulations that are intended to limit carbon emissions and address other environmental concerns. These and other laws may cause energy or other costs at our
senior living communities to increase. In the long-term, we believe any such increased operating costs will be passed through and paid by our residents and other customers in the form of higher charges for our services. However, in the short-term, these increased costs, if material in amount, could adversely affect our financial condition and results of operations and cause the value of our securities to decline.

A severe cold and flu season, epidemics or any other widespread illnesses could adversely affect the occupancy of our senior living communities.

Our revenues are dependent on occupancy at our senior living communities. If there were to occur a severe cold and flu season, an epidemic or any other widespread illnesses, including the Coronavirus, in locations where our senior living communities are located, our revenues from those communities would likely be significantly adversely impacted. During such occasions, we may experience a decline in occupancy due to residents leaving our communities and, we may be required, or we may otherwise determine that it would be prudent, to quarantine some or all of the senior living community and not permit new residents during that time. Further, depending on the severity of the occurrence, we may be required to incur costs to identify, contain and remedy the impacts of those occurrences at those senior living communities. As a result, these occurrences could significantly adversely affect our results of operations.

Our business could be adversely impacted if there are deficiencies in our disclosure controls and procedures or our internal control over financial reporting.

The design and effectiveness of our disclosure controls and procedures and our internal control over financial reporting may not prevent all errors, misstatements or misrepresentations. While management will continue to review the effectiveness of our disclosure controls and procedures and our internal control over financial reporting, we cannot be sure that our disclosure controls and procedures and internal control over financial reporting will be effective in accomplishing all control objectives all of the time. Deficiencies, including any material weaknesses, in our disclosure controls and procedures or internal control over financial reporting could result in misstatements of our results of operations or our financial statements or could otherwise materially and adversely affect our business, reputation, results of operations, financial condition or liquidity.

Risks Arising From Certain of Our Relationships and Our Organization and Structure

Our agreements and relationships with DHC, one of our Managing Directors, RMR LLC and others related to them may create conflicts of interest or the perception of such conflicts of interest.

We have significant commercial and other relationships with DHC, the Chair of our Board of Directors and one of our Managing Directors, Adam D. Portnoy, RMR LLC and others related to them, including:

• the substantial majority of the senior living communities that we operate are owned by DHC and our business is substantially dependent upon our relationship with DHC;

• following the completion of the Restructuring Transactions, DHC owned 33.9% of our outstanding common shares as of January 1, 2020;

• RMR LLC provides management services to us and DHC and we pay RMR LLC fees for those services based on a percentage of revenues, as defined under our business management agreement with RMR LLC. In the event of a conflict between us and DHC or us and RMR LLC, any of its affiliates or any public entity RMR LLC or its subsidiaries provide management services to, RMR LLC may act on its own and DHC’s or such other entity’s behalf rather than on our behalf;

• Adam Portnoy, is also the chair of the board of trustees and a managing trustee of DHC, is a managing director, an officer and employee and, as the sole trustee of ABP Trust, the controlling shareholder of RMR Inc., and is an officer of, and through ABP Trust owns equity interests in, RMR LLC. RMR Inc. is the managing member of RMR LLC;

• Adam Portnoy beneficially owned, following the completion of the Restructuring Transactions, in aggregate, approximately 6.3% of our outstanding common shares and 1.1% of DHC’s outstanding common shares, in each case as of January 1, 2020;
our President and Chief Executive Officer, Katherine E. Potter, and our Executive Vice President, Chief Financial Officer and Treasurer, Jeffrey C. Leer, are also officers and employees of RMR LLC, as are DHC’s president and chief operating officer and chief financial officer and treasurer;

our other Managing Director and Secretary, Jennifer B. Clark, is a managing trustee and secretary of DHC and a managing director and officer of RMR Inc. and an officer and employee of RMR LLC;

prior to December 31, 2001, we were a wholly owned subsidiary of DHC. On that date, DHC distributed substantially all of our then outstanding common shares it owned to its shareholders. In connection with that distribution, we entered agreements with DHC and RMR LLC which, among other things, limit (subject to certain exceptions) ownership of more than 9.8% of our voting shares, restrict our ability to take any action that could jeopardize the tax status of DHC as a real estate investment trust and limit our ability to acquire real estate of types which are owned by DHC or other businesses managed by RMR LLC; and

we lease our office headquarters building from a subsidiary of ABP Trust.

These multiple responsibilities, relationships and cross ownerships could create competition for the time and efforts of RMR LLC, our Managing Directors and other RMR LLC personnel, including our executive officers, and give rise to conflicts of interest, or the perception of such conflicts of interest with respect to matters involving us, RMR Inc., RMR LLC, our Managing Directors, the other companies to which RMR LLC or its subsidiaries provide management services and their related parties. Conflicts of interest or the perception of conflicts of interest could have a material adverse impact on our reputation, business and the market price of our common shares and other securities and we may be subject to increased risk of litigation as a result.

As a result of these relationships, the New Management Agreements, business management agreement with RMR LLC and other transactions with DHC, our Managing Director, RMR LLC and others related to them were not negotiated on an arm’s-length basis between unrelated third parties, and therefore, while certain of these agreements were negotiated with the use of a special committee and approved by our disinterested directors, the terms thereof may not be as favorable to us as they would have been if they were negotiated on an arm’s-length basis between unrelated third parties. In the past, in particular, following periods of volatility in the overall market or declines in the market price of a company’s securities, stockholder litigation, dissident stockholder nominations and dissident stockholder proposals have often been instituted against companies alleging conflicts of interest, in business dealings with affiliated and related persons and entities. These activities, if instituted against us, and the existence of conflicts of interest or the perception of conflicts of interest could result in substantial costs and diversion of our management’s attention and could have a material adverse impact on our reputation, business and the market price of our common shares.

The substantial majority of the senior living communities that we operate are owned by DHC and our business is substantially dependent on our relationship with DHC.

Of the 268 senior living communities we operate, 244 are owned by DHC, and, as of January 1, 2020, we manage all of those senior living communities pursuant to the New Management Agreements.

DHC may terminate the New Management Agreements in certain circumstances, including if the EBITDA we generate at our managed senior living communities does not exceed target levels or for our uncured material breach. Our business is substantially dependent upon our continued relationship with DHC. The loss of the New Management Agreements with DHC, or a material change to their terms, could have a material adverse effect on our business, financial condition or results of operations.

DHC owns 33.9% of our outstanding common shares. As a result, investors in our securities may have less influence over our business than shareholders of other publicly traded companies.

As of the date of this Annual Report on Form 10-K, DHC owns 33.9% of our outstanding common shares.

For so long as DHC continues to retain a significant ownership stake in us, it may have a significant influence in the election of the members of our Board of Directors, including our Independent Directors, and the outcome of stockholder actions. As a result, DHC may have the ability to significantly impact all matters affecting us, including:

• the composition of our Board of Directors;
• through our Board of Directors, determinations with respect to our management, business and investments generally, including with respect to our acquisition and disposition of assets, financing activities and plans, capital structure, distributions on our common shares, corporate policies and the appointment and removal of our officers, among others;

• determinations with respect to mergers and other business combinations; and

• the number of common shares available for issuance under our equity compensation plan.

In addition, the significant ownership of DHC and Adam Portnoy and the entities controlled by him in us may discourage transactions involving a change of control of us, including transactions in which our stockholders might otherwise receive a premium for their common shares over the then current market price.

As a result of the large ownership position of DHC, trading in our common shares may be more difficult.

As of the date of this Annual Report on Form 10-K, DHC owns 33.9% of our outstanding common shares. This large shareholding reduces the number of our common shares that might otherwise be available to trade publicly, which could adversely affect the liquidity and market price of our common shares.

Ownership limitations and certain provisions in our charter, bylaws and certain material agreements, as well as certain provisions of Maryland law, may deter, delay or prevent a change in our control or unsolicited acquisition proposals.

Our charter and bylaws contain separate provisions which prohibit any stockholder from owning more than 9.8% and 5% of the number or value of any class or series of our outstanding shares of stock. The 9.8% ownership limitation in our charter is consistent with our contractual obligation with DHC to not take actions that may conflict with DHC’s status as a real estate investment trust under the IRC. The 5% ownership limitation in our bylaws, or our NOL bylaw, is intended to help us preserve the tax treatment of any net operating losses and other tax benefits we may have from time to time. We also believe these provisions promote good orderly governance. These provisions inhibit acquisitions of a significant stake in us and may deter, delay or prevent a change in control of us or unsolicited acquisition proposals that a stockholder may consider favorable.

Other provisions contained in our charter and bylaws or under Maryland law may also inhibit acquisitions of a significant stake in us and deter, delay or prevent a change in control of us or unsolicited acquisition proposals that a stockholder may consider favorable, including, for example, provisions relating to:

• the division of our Directors into three classes, with the term of one class expiring each year, which could delay a change of control of us;

• stockholder voting rights and standards for the election of Directors and other provisions which require larger majorities for approval of actions which are not approved by our Board of Directors than for actions which are approved by our Board of Directors;

• the authority of our Board of Directors, and not our stockholders, to adopt, amend or repeal our bylaws and to fill vacancies on our Board of Directors;

• required qualifications for an individual to serve as a Director and a requirement that certain of our Directors be “Independent Directors” and other Directors be “Managing Directors”, as defined in our bylaws;

• limitations on the ability of our stockholders to propose nominees for election as Directors and propose other business to be considered at a meeting of stockholders;

• certain procedural and informational requirements applicable to stockholders requesting that a special meeting be called;

• limitations on the ability of our stockholders to remove our Directors;

• the authority of our Board of Directors to create and issue new classes or series of stock (including stock with voting rights and other rights and privileges that may deter a change in control) and issue additional common shares;
Our rights and the rights of our stockholders to take action against our Directors and officers are limited.

Our charter limits the liability of our Directors and officers to us and our stockholders for money damages to the maximum extent permitted under Maryland law. Under current Maryland law, our Directors and officers will not have any liability to us and our stockholders for money damages other than liability resulting from:

- actual receipt of an improper benefit or profit in money, property or services; or
- active and deliberate dishonesty by such Director or officer that was established by a final judgment as being material to the cause of action adjudicated.

Our charter and contractual obligations authorize and may require us to indemnify, to the maximum extent permitted by Maryland law, any present or former Director or officer for actions taken by them in those and other capacities. In addition, we may be obligated to pay or reimburse the expenses incurred by our present and former Directors and officers without requiring a preliminary determination of their ultimate entitlement to indemnification. As a result, we and our stockholders may have more limited rights against our present and former Directors and officers than might otherwise exist absent the provisions in our charter and contracts or that might exist with other companies, which could limit our stockholders’ recourse in the event of actions not in their best interest.

Stockholder litigation against us or our Directors, officers, manager, other agents or employees may be referred to mandatory arbitration proceedings, which follow different procedures than in-court litigation and may be more restrictive to stockholders asserting claims than in-court litigation.

Our stockholders agree, by virtue of becoming stockholders, that they are bound by our governing documents, including the arbitration provisions of our bylaws, as they may be amended from time to time. Our bylaws provide that such arbitration proceedings would be conducted in accordance with the procedures of the Commercial Arbitration Rules of the American Arbitration Association, as modified by our bylaws. These procedures may provide materially more limited rights to our stockholders than litigation in a federal or state court. For example, arbitration in accordance with these procedures does not include the opportunity for a jury trial, document discovery is limited, arbitration hearings generally are not open to the public, there are no witness depositions in advance of arbitration hearings and arbitrators may have different qualifications or experiences than judges. In addition, although our bylaws’ arbitration provisions contemplate that arbitration may be brought in a representative capacity or on behalf of a class of our stockholders, the rules governing such representation or class arbitration may be different from, and less favorable to, stockholders than the rules governing representative or class action litigation in courts. Our bylaws also generally provide that each party to such an arbitration is required to bear their own costs in the arbitration, including attorneys’ fees, and that the arbitrators may not render an award that includes shifting of such costs or, in a derivative or class proceeding, award any portion of our award to any
stockholder or such stockholder’s attorneys. The arbitration provisions of our bylaws may discourage our stockholders from bringing, and attorneys from agreeing to represent our stockholders wishing to bring, litigation against us or our Directors, officers, manager, other agents or employees. Our agreements with RMR LLC and DHC have similar arbitration provisions to those in our bylaws.

We believe that the arbitration provisions in our bylaws are enforceable under both state and federal law, including with respect to federal securities laws claims. We are a Maryland corporation and Maryland courts have upheld the enforceability of arbitration bylaws. In addition, the United States Supreme Court has repeatedly upheld agreements to arbitrate other federal statutory claims, including those that implicate important federal policies. However, some academics, legal practitioners and others are of the view that charter or bylaw provisions mandating arbitration are not enforceable with respect to federal securities laws claims. It is possible that the arbitration provisions of our bylaws may ultimately be determined to be unenforceable.

By agreeing to the arbitration provisions of our bylaws, stockholders will not be deemed to have waived compliance by us with federal securities laws and the rules and regulations thereunder.

Our bylaws designate the Circuit Court for Baltimore City, Maryland as the sole and exclusive forum for certain actions and proceedings that may be initiated by our stockholders, which could limit our stockholders’ ability to obtain a favorable judicial forum for disputes with us or our Directors, officers, manager, agents or employees.

Our bylaws currently provide that, unless the dispute has been referred to binding arbitration, the Circuit Court for Baltimore City, Maryland will be the sole and exclusive forum for: (1) any derivative action or proceeding brought on our behalf; (2) any action asserting a claim for breach of a fiduciary duty owed by any Director, officer, manager, agent or employee of ours to us or our stockholders; (3) any action asserting a claim against us or any Director, officer, manager, agent or employee of ours arising pursuant to Maryland law, our charter or bylaws brought by or on behalf of a stockholder, either on his, her or its own behalf, on our behalf or on behalf of any series or class of shares of stock of ours or by stockholders against us or any Director, officer, agent, or employee of ours, or our manager, including any disputes, claims or controversies relating to the meaning, interpretation, effect, validity, performance or enforcement of the charter or bylaws; or (4) any action asserting a claim against us or any Director, officer, agent, employee, or manager of ours that is governed by the internal affairs doctrine. Our bylaws currently also provide that the Circuit Court for Baltimore City, Maryland will be the sole and exclusive forum for any dispute, or portion thereof, regarding the meaning, interpretation or validity of any provision of our charter or bylaws. The exclusive forum provision of our bylaws does not apply to any action for which the Circuit Court for Baltimore City, Maryland does not have jurisdiction or to a dispute that has been referred to binding arbitration in accordance with our bylaws. The exclusive forum provision of our bylaws does not establish exclusive jurisdiction in the Circuit Court for Baltimore City, Maryland for claims that arise under the Securities Act of 1933, as amended, the Exchange Act or other federal securities laws if there is exclusive or concurrent jurisdiction in the federal courts. Any person or entity purchasing or otherwise acquiring or holding any interest in our common shares shall be deemed to have notice of and to have consented to these provisions of our bylaws, as they may be amended from time to time. The arbitration and exclusive forum provisions of our bylaws may limit a stockholder’s ability to bring a claim in a judicial forum that the stockholder believes is favorable for disputes with us or our Directors, officers, agents, employees, or our manager, which may discourage lawsuits against us and our Directors, officers, agents, employees or our manager.

Risks Related to Our Securities

If we fail to operate profitably, the value of our securities may decline and could become worthless.

We have incurred operating losses in each of our past four fiscal years and we had an accumulated deficit of $245.2 million as of December 31, 2019, and we had net negative cash flows from operations in recent prior years. Since December 31, 2018, we have taken various actions to improve our business, financial condition, results of operations and prospects, including completing the Restructuring Transactions on January 1, 2020. Although we believe these actions will allow us to operate profitably in the future, our business remains subject to various risks, including those noted in this Annual Report on Form 10-K, some of which are beyond our control. As a result, we may fail to operate profitably in the future, despite the actions we have taken. If we fail to operate profitably, the value of our securities may decline and could become worthless.
The number of common shares we issued in connection with the Restructuring Transactions may significantly impact our share price and volatility.

In connection with the Restructuring Transactions, on January 1, 2020, we issued an aggregate of 26,387,007 of our common shares to DHC and to DHC shareholders of record as of December 13, 2019, which resulted in DHC owning 33.9% and those DHC shareholders owning 51.1% of our then outstanding common shares as of that date. The number of our common shares issued in the Share Issuances represents a significant percentage of our currently outstanding common shares. The trading, the lack of trading, or any market expectations of the trading or lack of trading of those shares may significantly impact the trading price and liquidity of our common shares.

Any future equity issuances we may make may significantly dilute our stockholders’ equity interests.

The trading price of our common shares is currently well below the historical trading prices for our common shares, adjusting for the one-for-ten reverse stock split that we completed on September 30, 2019. If we issue additional common shares at or near current trading price levels, certain of our pre-existing stockholders, especially our long-term stockholders, may experience significant dilution of their equity interests.

If we fail to maintain compliance with the minimum bid price requirements of the Nasdaq listing standards, Nasdaq may determine to delist our common shares, which could negatively impact the market price and liquidity of our common shares and reduce our ability to raise additional capital.

On October 22, 2018, we received a letter from Nasdaq informing us that we were not in compliance with the minimum bid price Nasdaq standard for continued listing on Nasdaq. On September 30, 2019, we completed a one-for-ten reverse stock split of our outstanding common shares, which resulted in the closing bid price of our common shares exceeding the $1.00 per share minimum bid price requirement for the applicable period. Consequently, on October 15, 2019, we received a letter from Nasdaq informing us that we had regained compliance with the minimum bid price standard for continued listing on Nasdaq. We cannot be sure that we will be able to maintain compliance with this listing standard or that we will otherwise be in compliance with other Nasdaq listing standards. If we fail to maintain compliance with the minimum bid price requirement or to meet other applicable continued listing standards of Nasdaq in the future, and Nasdaq determines to delist our common shares, the market price and liquidity of our common shares could be negatively impacted and our ability to raise additional capital could be reduced.

We do not intend to pay cash dividends on our common shares in the foreseeable future.

We have never declared or paid any cash dividends on our common shares, and we currently do not anticipate paying any cash dividends in the foreseeable future.

Changes in market conditions could adversely affect the value of our securities.

As with other publicly traded securities, the value of our securities depends on various market conditions and other factors that are subject to change from time to time, including:

• the extent of investor interest in our securities;
• the liquidity of the market for our securities;
• investor confidence in the stock markets, generally;
• changes in our operating results;
• changes in analysts’ expectations;
• market interest rates;
• national economic conditions; and
• general market conditions.
In addition, the stock market in recent years has experienced broad price and volume fluctuations that often have been unrelated to the operating performance of particular companies. These market fluctuations may also cause the value of our securities to decline. Stockholders may be unable to resell our common shares at or above the price at which they purchased our common shares.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

Our Senior Living Communities

We classify a senior living community based on the predominant type of services offered at that community. As of December 31, 2019, prior to the completion of the Restructuring Transactions, we owned, leased or managed 268 senior living communities which we have categorized into five groups as follows (dollars in thousands):

<table>
<thead>
<tr>
<th>Type of Community</th>
<th>No. of Communities</th>
<th>Indep. Living</th>
<th>Assisted Living</th>
<th>Skilled Nursing</th>
<th>Total Units</th>
<th>Average Occupancy</th>
<th>Revenues (2)(3)</th>
<th>Percent of Revenues from Private Resources</th>
</tr>
</thead>
<tbody>
<tr>
<td>IL/AL Communities:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Leased (DHC) (1)</td>
<td>155</td>
<td>6,176</td>
<td>9,383</td>
<td>1,813</td>
<td>17,372</td>
<td>83.9%</td>
<td>$817,254</td>
<td>88.1%</td>
</tr>
<tr>
<td>Leased (PEAK)</td>
<td>4</td>
<td>—</td>
<td>204</td>
<td>—</td>
<td>204</td>
<td>81.9%</td>
<td>9,220</td>
<td>100.0%</td>
</tr>
<tr>
<td>Owned</td>
<td>20</td>
<td>564</td>
<td>1,544</td>
<td>—</td>
<td>2,108</td>
<td>81.4%</td>
<td>73,271</td>
<td>98.4%</td>
</tr>
<tr>
<td>Managed (3)</td>
<td>78</td>
<td>4,571</td>
<td>5,339</td>
<td>427</td>
<td>10,337</td>
<td>85.0%</td>
<td>433,458</td>
<td>93.2%</td>
</tr>
<tr>
<td>Total: IL/AL Communities</td>
<td>257</td>
<td>11,311</td>
<td>16,470</td>
<td>2,240</td>
<td>30,021</td>
<td>84.1%</td>
<td>1,333,203</td>
<td>90.4%</td>
</tr>
<tr>
<td>SNFs - Leased (DH) (1)</td>
<td>11</td>
<td>53</td>
<td>—</td>
<td>1,211</td>
<td>1,264</td>
<td>76.6%</td>
<td>138,169</td>
<td>23.2%</td>
</tr>
<tr>
<td>Total: SNF Leased (DHC)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Totals:</td>
<td>268</td>
<td>11,364</td>
<td>16,470</td>
<td>3,451</td>
<td>31,285</td>
<td>83.6%</td>
<td>$1,471,372</td>
<td>84.1%</td>
</tr>
</tbody>
</table>

(1) Effective as of January 1, 2020, following the completion of the Restructuring Transactions, our then existing leases and management agreements with DHC were terminated and we began managing these communities under the New Management Agreements.

(2) Data includes $4.2 million of deferred resident fees and deposits, or Deferred Resident Fees and Deposits, related to senior living communities we previously leased from DHC that were recognized as revenue in December 2019, as a result of the completion of the Restructuring Transactions.

(3) Data excludes $47.3 million of revenue from Ageility physical therapy clinics.

As of December 31, 2019, we operated, owned, leased and managed 268 communities located in 32 states. We leased 166 of these communities from DHC and four of these communities from Healthpeak Properties, Inc. (formerly known as HCP, Inc.), or PEAK, owned 20 communities and managed 78 on behalf of DHC. The following table sets forth certain information about our owned, leased and managed communities as of December 31, 2019 (dollars in thousands):

35
Our Leases and Management Agreements with DHC

As of December 31, 2019, we had five master leases with DHC, and managed senior living communities for the account of DHC pursuant to long-term management and pooling agreements. Effective January 1, 2020, we and DHC completed the Restructuring Transactions pursuant to which our five then existing master leases with DHC for all the senior living communities that we leased from DHC, as well as our then existing management and pooling agreements with DHC for the senior living communities that we managed for DHC, were terminated and replaced with the New Management Agreements.

Pursuant to the New Management Agreements, we will receive a management fee equal to 5% of the gross revenues realized at the applicable senior living communities, plus reimbursement for our direct costs and expenses related to such communities, as well as an annual incentive fee equal to either 15% of the amount by which the annual EBITDA of all communities on a combined basis exceeds the target EBITDA for all communities on a combined basis for such calendar year.

(1) Includes owned, leased and managed communities.

(2) Effective as of January 1, 2020, following the completion of the Restructuring Transactions, our then existing leases for 166 of these leased senior living communities were terminated and we

(3) Data does not include revenue earned in the state of Iowa of $12,204, as the Iowa communities were disposed of during the year ended December 31, 2019. The percentage of revenues from private resources for the state of Iowa was 28.3%.

(4) Data includes $4.2 million of Deferred Resident Fees and Deposits related to senior living communities we previously leased from DHC that were recognized as revenue in December 2019, as a result of the completion of the Restructuring Transactions, and excludes $473 million of revenue earned from Ageility physical therapy clinics.
provided that in no event shall the incentive fee be greater than 1.5% of the gross revenues realized at all communities on a combined basis for such calendar year.

The New Management Agreements expire in 2034, subject to our right to extend for two consecutive five-year terms if we achieve certain performance targets for the combined managed communities portfolio, unless earlier terminated or timely notice of nonrenewal is delivered. The New Management Agreements also provide that DHC has, and in some cases we have, the option to terminate the agreements upon the acquisition by a person or group of more than 9.8% of the other’s voting stock and upon certain change in control events affecting the other party, as defined in the applicable agreements, including the adoption of any stockholder proposal (other than a precatory proposal) with respect to the other party, or the election to the board of directors or trustees, as applicable, of the other party of any individual, if such proposal or individual was not approved, nominated or appointed, as the case may be, by a majority of the other party’s board of directors or board of trustees, as applicable, in office immediately prior to the making of such proposal or the nomination or appointment of such individual.

The New Management Agreements also provide DHC with the right to terminate the New Management Agreement for any community that does not earn 90% of the target EBITDA for such community for two consecutive calendar years or in any two of three consecutive calendar years, with the measurement period commencing January 1, 2021 (and the first termination not possible until the beginning of calendar year 2023); provided DHC may not in any calendar year terminate communities representing more than 20% of the combined revenues for all communities for the calendar year prior to such termination. Pursuant to a guaranty agreement dated as of January 1, 2020, made by us in favor of DHC’s applicable subsidiaries, we have guaranteed the payment and performance of each of our applicable subsidiary’s obligations under the applicable New Management Agreements.

For more information regarding our historical leases and management arrangements with DHC, see Note 9 to our Consolidated Financial Statements included in Part IV, Item 15 of this Annual Report on Form 10-K. For more information regarding our relationship with DHC, see Note 14 to our Consolidated Financial Statements included in Part IV, Item 15 of this Annual Report on Form 10-K.

Rehabilitation and Wellness

Our Ageility clinics operate within our senior living communities and lease approximately 40 clinics totaling 19,000 square feet located in 12 states.

Corporate Headquarters

Our corporate headquarters is located in Newton, Massachusetts, where we lease approximately 41,000 square feet of administrative space from a subsidiary of ABP Trust. For more information regarding our relationship with ABP Trust, see Note 14 to our Consolidated Financial Statements included in Part IV, Item 15 of this Annual Report on Form 10-K.

Item 3. Legal Proceedings

We are defendants in two lawsuits filed by former employees in California. The first lawsuit, Lefevre v. Five Star Quality Care, Inc. was filed in San Bernardino County Superior Court in May 2015 and the second lawsuit, Mandviwala v. Five Star Quality Care, Inc. d/b/a Five Star Quality Care - CA, Inc. and FVE Managers, Inc., our wholly owned subsidiary, was filed in Orange County Superior Court in July 2015. The claims asserted against us in the similar, though not identical, complaints include: (i) failure to pay all wages due, (ii) failure to pay overtime, (iii) failure to provide meal and rest breaks, (iv) failure to provide itemized, printed wage statements, (v) failure to keep accurate payroll records and (vi) failure to reimburse business expenses. Both plaintiffs assert causes of action on behalf of themselves and on behalf of other similarly situated employees, including causes of action pursuant to the California Labor Code Private Attorney General Act. We believe that the claims against us are without merit and intend to vigorously defend against them. The results of litigation are uncertain and entail risk of adverse outcomes, and litigation is usually expensive and can be distracting to management. We can provide no assurance as to the outcome of these lawsuits. For the years ended December 31, 2019 and 2018, we incurred costs related to this litigation of $0.5 million and $0.6 million, respectively.

Procedurally, both matters were removed to the U.S. District Court for the Central District of California, or the District Court, where we filed motions to compel arbitration in each matter. In December 2015, our motions to compel arbitration in both cases were denied and we appealed each to the U.S. Court of Appeals for the Ninth Circuit, or the Ninth Circuit. In Lefevre, the Ninth Circuit affirmed the District Court’s decision. In Mandviwala, the Ninth Circuit affirmed the District Court’s decision in part and reversed the District Court’s decision in part. We filed petitions for writ of certiorari seeking review by the
U.S. Supreme Court in both cases. The U.S. Supreme Court denied our petition for writ of certiorari in both cases and, as a result, the merits of both cases will be decided in litigation in the District Court.

In addition, from time to time, we become involved in litigation matters incidental to the ordinary course of our business. Although we are unable to predict with certainty the eventual outcome of any litigation, we do not believe any of our currently pending litigation is likely to have a material adverse effect on our business.

Item 4. Mine Safety Disclosures

Not applicable.
PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Our common shares are traded on Nasdaq (symbol: FVE).

As of February 26, 2020, there were approximately 1,200 stockholders of record of our common shares.

Issuer purchases of equity securities. The following table provides information about our purchases of our equity securities during the quarter ended December 31, 2019:

<table>
<thead>
<tr>
<th>Calendar Month</th>
<th>Number of Shares Purchased (1)</th>
<th>Average Price Paid per Share</th>
<th>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</th>
<th>Maximum Approximate Dollar Value of Shares that May Yet be Purchased Under the Plans or Programs</th>
</tr>
</thead>
<tbody>
<tr>
<td>December 2019</td>
<td>5,724</td>
<td>$4.50</td>
<td>—</td>
<td>$—</td>
</tr>
<tr>
<td>Total</td>
<td>5,724</td>
<td>$4.50</td>
<td>—</td>
<td>$—</td>
</tr>
</tbody>
</table>

(1) These common share withholdings and purchases were made to satisfy tax withholding and payment obligations of current and former employees and officers of us and of RMR LLC in connection with the vesting of awards of our common shares. We withheld and purchased these shares at their fair market value based upon the trading price of our common shares at the close of trading on Nasdaq on the purchase date.

Item 6. Selected Financial Data

Not applicable.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following information should be read in conjunction with our Consolidated Financial Statements and accompanying notes to the financial statements in Part IV, Item 15 of this Annual Report on Form 10-K.

General Industry Trends

We believe that the primary market for senior living services is focused towards individuals age 80 and older, and that the fastest-growing age population is the over 85. Also, as a result of medical advances, older adults are living longer. Due to these demographic trends, we expect the demand for senior living services to increase in future years. However, in the last ten years, as the senior living industry evolved to serve the growing number of older adults, it was also facing challenges from a recovery from an economic recession, such as workforce shortages and low retention, occupancy pressures, challenges related to new technology and the increasing desire for exceptional customer experience.

Future economic downturns, softness in the U.S. housing market, higher levels of unemployment among our residents and potential residents' family members, lower levels of consumer confidence, stock market volatility and/or changes in demographics could adversely affect the ability of older adults to afford our resident charges. Prospective residents who plan to use the proceeds from the sale of their homes to cover the cost of senior living services seem to be especially affected by cyclical factors affecting the housing market. However, any appreciation in U.S. housing values may not result in increased demand for our services. Although many of the services that we provide to residents are needs driven, economic circumstances, among other reasons, are key factors when making decisions as to whether to relocate to a senior living community.

For the past few years, increased access to capital and continued low interest rates appear to have encouraged increased senior living development, particularly in areas where existing senior living communities have historically experienced high occupancies. This has resulted in a significant increase in new senior living community inventory entering the market in recent years, despite a slowdown of construction of new communities the senior living industry is starting to see. The new senior living community inventory has increased competitive pressures on us, particularly in certain of our geographic markets, and we expect these challenges to continue for at least the next few years. We expect to have continuing challenges to maintain or increase occupancies and charges at our senior living communities at least through the end of 2020.
In addition, low unemployment in the United States combined with a competitive labor market and, in certain jurisdictions, legislation and regulations that increase the minimum wage, are increasing our employment costs, including salaries, wages and benefits, such as health care benefit coverage, for our employees, which will increase our operating expenses and may negatively impact our financial results. We have incurred increased labor costs as a result of these labor market conditions. In response, we have increased our investments in our workforce and we are continuing to focus on reducing our employee turnover by enhancing our competitiveness in the marketplace with respect to cash compensation and other benefits.

The senior living and health and wellness industries are subject to extensive and frequently changing federal, state and local laws and regulations. These laws and regulations vary by jurisdiction but may address, among other things, licensure, personnel training, staffing ratios, types and quality of medical care, physical facility requirements, government healthcare program participation, the definition of "fraud and abuse", payment rates for resident services and confidentiality of patient records. We incur significant costs to comply with these laws and regulations and these laws and regulations may result in our having to repay payments we received for services we provided and to pay penalties, fines and interest, which amounts can be significant. See Note 12 to our Consolidated Financial Statements included in Part IV, Item 15 of this Annual Report on Form 10-K. For further information regarding government regulations and reimbursements, including possible changes and related legislative and other reform efforts, see "Business—Government Regulation and Reimbursement" included in Part I, Item 1, and "—Concentration of Risk - Revenues" included in Part II, Item 7, of this Annual Report on Form 10-K.

Recent trends would suggest that consumer preferences of older adults are focused on evaluating senior living communities that offer service platforms to their residents that enable individuals to live a more independent lifestyle. With a broader scope of senior living communities operating in the United States, combined with technology enablement, consumers have more options in choosing where to live as they age. The impact of this wider range of options for consumers is causing further demand on the industry to provide innovative methods on services that provide for an exceptional customer experience.

2019 Operations

We primarily earn our senior living revenues by providing housing and services to residents of our senior living communities. During 2019, approximately 21.5% of our senior living revenues came from the Medicare and Medicaid programs and approximately 78.5% of our senior living revenues came from residents' private resources. We bill all private pay residents in advance for the housing and services to be provided in the following month.

Our expenses primarily were:

- senior living wages and benefits, including wages and wage-related expenses, such as health insurance, workers’ compensation insurance and other benefits for our employees working at our senior living communities;
- other senior living operating expenses, including utilities, housekeeping, dietary, maintenance, insurance and community level administrative costs at our senior living communities;
- costs incurred on behalf of managed communities, including wages and benefits for staff and other operating expenses related to the communities that we manage for the account of DHC, which are reimbursed to us by DHC, including from revenues we receive from the applicable managed communities, pursuant to our management agreements with DHC;
- rent expense attributable to the 166 senior living communities we leased from DHC and four senior living communities from PEAK. Effective January 1, 2020, all our then existing leases with DHC were terminated and we entered into the New Management Agreements. For more information about our management arrangements with DHC, see “Properties—Our Leases and Management Agreements with DHC” 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;
- general and administrative expenses, principally comprised of wages and wage-related expenses for headquarters and regional staff as well as investments in technology used in supporting our senior living community operations and ancillary business lines;
- depreciation and amortization expense as we incur depreciation expense on buildings and furniture and equipment that we own and we incur amortization expense on certain identifiable intangible assets. As a result of the
completion of the Restructuring Transactions, we do not expect that depreciation and amortization expense will continue to be a material expense for us in at least the near-to-intermediate term; and

- interest and other expense, primarily including interest on outstanding debt and amortization of deferred financing costs.

As of December 31, 2019, we had two operating segments: senior living communities and rehabilitation and wellness. In the senior living communities segment, we operate for our own account or manage for the account of others, independent living communities, assisted living communities, CCRCs and SNFs that provide housing and services to older adults through centralized oversight. In the rehabilitation and wellness operating segment, we provide therapy services, including physical, occupational, speech and other specialized therapy services, in the inpatient setting as well as through outpatient clinics. We determined that our two operating segments meet the aggregation criteria as prescribed under the Financial Accounting Standards Board Accounting Standards Codification™ Topic 280, Segment Reporting, and we have therefore determined that our business is comprised of one reportable segment, senior living. All of our operations and assets are located in the United States, except for the operations of our Cayman Islands organized captive insurance company subsidiary, which participates in our workers’ compensation, professional and general liability and certain automobile insurance programs.

Expansion Activities

In June 2018, DHC acquired an additional living unit at a senior living community located in Florida that we then leased from DHC, which was added to the lease for that senior living community, our annual rent payable to DHC increased by $14,000.

Also in June 2018, we began managing for the account of DHC a senior living community DHC owns located in California with 98 living units.

In November 2018, we began managing for the account of DHC a senior living community DHC owns located in Colorado with 238 living units.

In April 2019, we began managing for the account of DHC a senior living community DHC owns located in Oregon with 318 living units.

In December 2019, we began managing for the account of DHC an active adult community DHC owns located in Texas with 169 units.

We currently expect that our expansion activities will be focused on entering into additional long-term management agreements for senior living communities and growing the ancillary services that we provide, including through our Ageility clinics, rather than from the acquisition or leasing of senior living communities, although we may from time to time acquire additional senior living communities.

Investment Activities

Historically, when we made capital improvements to the senior living communities that we leased from DHC we would sell such improvements to DHC and our annual rent payments would increase pursuant to the terms of our then existing leases with DHC. On April 1, 2019, DHC purchased from us approximately $50.0 million of unencumbered Qualifying PP&E (as defined in the Transaction Agreement) related to DHC’s senior living communities leased and operated by us, which was subsequently reduced to $49.2 million due to the exclusion of certain fixed assets in accordance with the Transaction Agreement. In addition, subsequent to entering into and in accordance with the Transaction Agreement, DHC pre-funded estimated capital expenditures for the DHC senior living communities that we operated on a monthly basis. In the following month, adjustments were made based on the actual amounts incurred in the prior month. Similar arrangements will continue following December 31, 2019, in accordance with the New Management Agreements. As of December 31, 2019, due to related persons on our consolidated balance sheets included $1.8 million due to DHC. On January 1, 2020, in accordance with the Transaction Agreement, we sold to DHC $2.7 million of the remaining qualified capital improvements at the senior living communities we previously leased from DHC at net book value.

During 2019 and 2018, we received gross proceeds of $5.2 million and $9.4 million, respectively, in connection with the sale of equity and debt investments, and recorded net realized gains of $0.2 million and $0.1 million, respectively.
During 2019 and 2018, we purchased certain debt and equity investments for $3.0 million and $5.3 million, respectively.

Transaction Agreement with DHC and Credit Facilities

As previously discussed, on April 1, 2019, we entered into the Transaction Agreement with DHC to restructure our business arrangements with DHC, pursuant to which, effective as of the Conversion Time:

• our five then existing master leases with DHC for all of DHC’s senior living communities that we then leased, as well as our then existing management and pooling agreements with DHC for DHC’s senior living communities that were then managed by us, were terminated and replaced with the New Management Agreements;

• we effected the Share Issuances pursuant to which we issued 10,268,158 of our common shares to DHC and an aggregate of 16,118,849 of our common shares to DHC’s shareholders of record as of December 13, 2019; and

• as consideration for the Share Issuances, DHC provided to us $75.0 million of additional consideration by assuming certain of our working capital liabilities.

In connection with the Transaction Agreement, we entered into the DHC credit facility, which was secured by six senior living communities we own. The DHC credit facility matured and was terminated in connection with the completion of the Restructuring Transactions. There were no amounts outstanding under the DHC credit facility at the time of such termination and we did not make any borrowings under the DHC credit facility during its term.

On June 12, 2019, we entered into a second amended and restated credit agreement with Citibank, N.A., as administrative agent and lender, and a syndicate of other lenders, pursuant to which we obtained a $65.0 million secured revolving credit facility that is available for general business purposes. Our credit facility replaced our prior credit facility, which was scheduled to expire on June 28, 2019. In June 2019, we repaid, in aggregate, approximately $51.5 million of outstanding borrowings under our credit facility.

For more information regarding our credit agreement, our credit facility, our prior credit facility and the DHC credit facility, see Note 8 to our consolidated financial statements included in Part IV, Item 15 of this Annual Report on Form 10-K.

For more information regarding our leases and management arrangements with DHC, see Notes 9 and 11 to our consolidated financial statements included in Part IV, Item 15 of this Annual Report on Form 10-K.

Disposition Activities

During the first quarter of 2018, we sold to DHC two senior living communities pursuant to a transaction agreement we entered with DHC in November 2017, or the 2017 transaction agreement. Concurrent with our sales of the senior living communities to DHC pursuant to the 2017 transaction agreement, we began managing those senior living communities for DHC’s account.

In June 2018, we and DHC sold to a third party a SNF, that DHC owned and leased to us, located in California with 97 living units, for a sales price of approximately $6.5 million, excluding closing costs. Pursuant to the terms of our then existing lease with DHC, and as a result of this sale, our annual rent payable to DHC decreased by 10.0% of the net proceeds that DHC received from this sale.

In May and September of 2019, we and DHC sold to third parties 18 SNFs located in California, Kansas, Iowa and Nebraska that DHC owned and leased to us for an aggregate sales price of approximately $29.5 million, excluding closing costs. As a result of these sales, the annual minimum rent payable to DHC by us under our then existing master leases with DHC was reduced in accordance with the Transaction Agreement.
# Results of Operations

## Key Statistical Data For the Years Ended December 31, 2019 and 2018.

For the year ended December 31, 2019, compared to the year ended December 31, 2018 (dollars in thousands, except average monthly rate):

<table>
<thead>
<tr>
<th>Year Ended December 31,</th>
<th>Increase/(Decrease)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019</td>
<td>2018</td>
</tr>
<tr>
<td>$ 1,085,183</td>
<td>$ 1,094,404</td>
</tr>
<tr>
<td>16,169</td>
<td>15,145</td>
</tr>
<tr>
<td>313,792</td>
<td>280,845</td>
</tr>
<tr>
<td>1,415,144</td>
<td>1,390,394</td>
</tr>
</tbody>
</table>

**Operating expenses:**

<table>
<thead>
<tr>
<th>Description</th>
<th>2019</th>
<th>2018</th>
<th>Amount</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Senior living wages and benefits</td>
<td>573,593</td>
<td>563,263</td>
<td>10,330</td>
<td>1.8 %</td>
</tr>
<tr>
<td>Other senior living operating expenses</td>
<td>297,885</td>
<td>301,239</td>
<td>(3,354)</td>
<td>(1.1)%</td>
</tr>
<tr>
<td>Costs incurred on behalf of managed communities</td>
<td>313,792</td>
<td>280,845</td>
<td>32,947</td>
<td>11.7 %</td>
</tr>
<tr>
<td>Rent expense</td>
<td>141,486</td>
<td>209,150</td>
<td>(67,664)</td>
<td>(32.4)%</td>
</tr>
<tr>
<td>Depreciation and amortization expense</td>
<td>87,884</td>
<td>78,189</td>
<td>9,695</td>
<td>12.4 %</td>
</tr>
<tr>
<td>Loss (gain) on sale of senior living communities</td>
<td>3,282</td>
<td>461</td>
<td>2,821</td>
<td>611.9 %</td>
</tr>
<tr>
<td>Total operating expenses</td>
<td>1,435,418</td>
<td>1,461,955</td>
<td>(26,537)</td>
<td>(1.8)%</td>
</tr>
</tbody>
</table>

**Operating loss**

<table>
<thead>
<tr>
<th>2019</th>
<th>2018</th>
<th>Amount</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>(20,274)</td>
<td>(71,561)</td>
<td>51,287</td>
<td>(71.7)%</td>
</tr>
</tbody>
</table>

**Interest, dividend and other income**

<table>
<thead>
<tr>
<th>2019</th>
<th>2018</th>
<th>Amount</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>1,364</td>
<td>818</td>
<td>546</td>
<td>66.7 %</td>
</tr>
</tbody>
</table>

**Interest and other expense**

<table>
<thead>
<tr>
<th>2019</th>
<th>2018</th>
<th>Amount</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>(2,615)</td>
<td>(3,018)</td>
<td>403</td>
<td>(13.4)%</td>
</tr>
</tbody>
</table>

**Unrealized gain (loss) on equity investments**

<table>
<thead>
<tr>
<th>2019</th>
<th>2018</th>
<th>Amount</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>782</td>
<td>(690)</td>
<td>1,472</td>
<td>(213.3)%</td>
</tr>
</tbody>
</table>

**Realized gain on sale of debt and equity investments, net of tax**

<table>
<thead>
<tr>
<th>2019</th>
<th>2018</th>
<th>Amount</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>229</td>
<td>99</td>
<td>130</td>
<td>131.3 %</td>
</tr>
</tbody>
</table>

**Loss before income taxes and equity in earnings of an investee**

<table>
<thead>
<tr>
<th>2019</th>
<th>2018</th>
<th>Amount</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>(20,514)</td>
<td>(74,352)</td>
<td>53,838</td>
<td>(72.4)%</td>
</tr>
</tbody>
</table>

**Provision for income taxes**

<table>
<thead>
<tr>
<th>2019</th>
<th>2018</th>
<th>Amount</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>(56)</td>
<td>(247)</td>
<td>191</td>
<td>(77.3)%</td>
</tr>
</tbody>
</table>

**Equity in earnings of an investee**

<table>
<thead>
<tr>
<th>2019</th>
<th>2018</th>
<th>Amount</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>575</td>
<td>516</td>
<td>59</td>
<td>11.4 %</td>
</tr>
</tbody>
</table>

**Net loss**

| $ (19,995) | $ (74,083) | $ 54,088 | (73.0)% |

**Total number of communities (end of period):**

| Owned and leased communities | 190 | 208 | (18) | (8.7)% |
| Managed communities          | 78  | 76  | 2    | 2.6 %  |
| Number of total communities  | 268 | 284 | (16) | (5.6)% |

**Total number of living units (end of period):**

| Owned and leased living units | 20,948 | 22,250 | (1,302) | (5.9)% |
| Managed living units          | 10,337 | 9,766  | 571     | 5.8 %  |
| Number of total living units  | 31,285 | 32,016 | (731)   | (2.3)% |

**Owned and leased communities:**

<table>
<thead>
<tr>
<th>Occupancy %</th>
<th>Average monthly rate</th>
<th>Percent of senior living revenue from Medicaid</th>
<th>Percent of senior living revenue from Medicare</th>
<th>Percent of senior living revenue from private and other sources</th>
</tr>
</thead>
<tbody>
<tr>
<td>82.9%</td>
<td>$ 4,708</td>
<td>11.3%</td>
<td>10.2%</td>
<td>78.5%</td>
</tr>
</tbody>
</table>

(1) Effective as of January 1, 2020, following the completion of the Restructuring Transactions, our then existing leases for 166 of these leased senior living communities (18,636 living units) were terminated and we began managing these communities under the New Management Agreements.
(2) Includes only living units categorized as in service. As a result, the number of living units may change from period to period for reasons other than the acquisition or disposition of senior living communities.
(3) Occupancy and average monthly rate for the year ended December 31, 2018, include data for the senior living communities that were sold to DHC during such period as owned until the time of sale and as managed from the time of sale through the end of such period. Average monthly rate is calculated by taking the average daily rate, which is defined as total operating revenues for senior living services divided by occupied units during the period, and multiplying it by 30 days. The calculation of the December 31, 2019, average monthly rates excludes $4.2 million of Deferred Resident Fees and Deposits, related to senior living communities we previously leased from DHC that were recognized as revenue in December 2019, as a result of the completion of the Restructuring Transactions.

Comparable Communities

The following table presents a summary of senior living communities that we owned, leased or managed continuously since January 1, 2018, for the year ended December 31, 2019, compared to the year ended December 31, 2018 (dollars in thousands, except average monthly rate):

<table>
<thead>
<tr>
<th>Year Ended December 31,</th>
<th>Increase/(Decrease)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2019</td>
</tr>
<tr>
<td>Revenues:</td>
<td></td>
</tr>
<tr>
<td>Senior living</td>
<td>$1,026,365</td>
</tr>
<tr>
<td>Management fees</td>
<td>13,687</td>
</tr>
<tr>
<td>Senior living wages and benefits</td>
<td>531,849</td>
</tr>
<tr>
<td>Other senior living operating expenses</td>
<td>281,441</td>
</tr>
<tr>
<td>Total number of communities (end of period):</td>
<td></td>
</tr>
<tr>
<td>Owned and leased communities (1)</td>
<td>190</td>
</tr>
<tr>
<td>Managed communities</td>
<td>70</td>
</tr>
<tr>
<td>Number of total communities</td>
<td>260</td>
</tr>
<tr>
<td>Total number of living units (end of period):</td>
<td></td>
</tr>
<tr>
<td>Owned and leased living units (1) (2)</td>
<td>20,948</td>
</tr>
<tr>
<td>Managed living units</td>
<td>9,059</td>
</tr>
<tr>
<td>Number of total living units</td>
<td>30,007</td>
</tr>
</tbody>
</table>

Owned and leased communities:

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2018</th>
<th>Amount</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Occupancy % (3)</td>
<td>83.2%</td>
<td>82.2%</td>
<td>100 bps</td>
<td>n/a</td>
</tr>
<tr>
<td>Average monthly rate (3)</td>
<td>$4,648</td>
<td>$4,637</td>
<td>$11</td>
<td>0.2%</td>
</tr>
<tr>
<td>Percent of senior living revenue from Medicaid</td>
<td>9.3%</td>
<td>8.9%</td>
<td>40 bps</td>
<td>n/a</td>
</tr>
<tr>
<td>Percent of senior living revenue from Medicare</td>
<td>8.9%</td>
<td>9.8%</td>
<td>(90 bps)</td>
<td>n/a</td>
</tr>
<tr>
<td>Percent of senior living revenue from private and other sources</td>
<td>81.8%</td>
<td>81.3%</td>
<td>50 bps</td>
<td>n/a</td>
</tr>
</tbody>
</table>

(1) Effective as of January 1, 2020, following the completion of the Restructuring Transactions, our then existing leases for 166 of these leased senior living communities (18,636 living units) were terminated and we began managing these communities under the New Management Agreements.

(2) Includes only living units categorized as in service. As a result, the number of living units may change from period to period for reasons other than the acquisition or disposition of senior living communities.

(3) Average monthly rate is calculated by taking the average daily rate, which is defined as total operating revenues for senior living services divided by occupied units during the period, and multiplying it by 30 days. The calculation of the December 31, 2019 average monthly rates excludes $4.2 million of Deferred Resident Fees and Deposits.

Year Ended December 31, 2019, Compared to Year Ended December 31, 2018

The following is a discussion of our operating results for our senior living communities during the year ended December 31, 2019, compared to the year ended December 31, 2018.

Senior living revenue. Senior living revenue decreased approximately 0.8%, or $9.2 million, primarily due to the sales during the first half of 2018 of four senior living communities to DHC, which we now manage for DHC’s account, as well as the impact of the sales of 18 SNFs to third parties during the second and third quarters of 2019. The impact of these sales were partially offset by increases in occupancy as well as increased revenues from our ancillary services, such as rehabilitation and wellness services, in conjunction with the recognition of $4.2 million of Deferred Resident Fees and Deposits. The 1.5% increase in senior living revenue at the communities that we have operated continuously since January 1, 2018 was primarily due to an increase in occupancy as well as $4.2 million of Deferred Resident Fees and Deposits.
Management fee revenue. Management fee revenue increased by 6.8%, or $1.0 million, due to an increase in the number of managed communities to 78 from 76, partially offset by decreases in occupancy and average monthly rates for rooms to residents who pay privately for services at the communities that we have operated continuously since January 1, 2018.

Reimbursed costs incurred on behalf of managed communities. Reimbursed costs incurred on behalf of managed communities increased by 11.7%, or $32.9 million, due to an increase in the number of managed communities to 78 from 76, as well as an increase in our salaries and wages at the communities we have operated continuously since January 1, 2018, primarily attributable to the competitive labor market. In addition, as part of our evaluation of our operations in 2019, we identified certain corporate personnel that were providing full time dedicated direct support to communities and therefore, costs associated with that personnel would be reimbursed by those communities in accordance with our then existing management agreements with DHC.

Senior living wages and benefits. Senior living wages and benefits increased by 1.8%, or $10.3 million, primarily due to an increase in our salaries and wages of $18.7 million at the communities that we have operated continuously since January 1, 2018 attributable to the competitive labor market and, in certain jurisdictions, legislation and regulations that increased the minimum wage. In addition, outside labor costs increased $5.3 million at the communities that we have operated continuously since January 1, 2018, primarily due to the transition plan of the operations of the SNFs that DHC owns and leases to us, which we and DHC have since agreed to sell. These increases were partially offset by a decrease in employee health insurance expense, and the impact of sales of 18 senior living communities to DHC, which we now manage for DHC’s account, and the sale of one SNF to a third party during the first half of 2018, coupled with the sales of 18 SNFs to third parties during the second and third quarters of 2019. The 5.0% increase in senior living wages and benefits at the communities that we have operated continuously since January 1, 2018 is due to an increase in salaries and wages attributable to our continued investment in our employees, including our focus on reducing employee turnover through market competitive cash compensation and other benefits. In addition, we also experienced increased outside labor costs due to the transition of the operations of the SNFs that DHC owns and leases to us, which we and DHC have agreed to sell, partially offset by a decrease in employee health insurance expense.

Other senior living operating expenses. Other senior living operating expenses, which include utilities, housekeeping, dietary, repairs and maintenance, insurance and community level administrative costs, decreased by 1.1%, or $3.4 million, primarily due to the sales during the first half of 2018 of four senior living communities to DHC, which communities we now manage for DHC’s account, and the sale of one SNF to a third party during the first half of 2018, coupled with the sales of 18 SNFs to third parties during the second and third quarters of 2019. The 1.7% increase in other senior living operating expenses at the communities that we have operated continuously since January 1, 2018 was primarily due to repairs and maintenance and certain insurance costs as a result of increased rates attributable to the property and casualty insurance market and certain consulting and other purchased services expenses incurred in connection with costs associated with our strategic investments to enhance efficiencies in and benefits from our purchasing of services.

Rent expense. Rent expense decreased by 32.4%, or $67.7 million, due to the reduction in our aggregate minimum monthly rent payable to DHC commencing February 1, 2019, pursuant to the Transaction Agreement, which includes the recognition of a lease inducement in 2019 totaling $13.8 million.

General and administrative expenses. General and administrative expenses increased by 12.4%, or $9.7 million, primarily due to $12.0 million of transaction costs incurred in connection with the Restructuring Transactions, partially offset by a decrease in wages due to our evaluation of our operations in 2019, in which we identified certain corporate personnel that were providing full time dedicated direct support to communities as a result of which, costs associated with that personnel would be reimbursed by those communities in accordance with our then existing management agreements with DHC.

Depreciation and amortization expense. Depreciation and amortization expense decreased by 53.7%, or $19.3 million, primarily attributable to the sale of approximately $110.0 million of fixed assets and improvements to DHC during the year ended December 31, 2019, as well as the sales during the first half of 2018 of four senior living communities to DHC, which communities we now manage for DHC’s account, as well as one SNF to a third party and the sales of 18 SNFs to third parties during the second and third quarters of 2019.

Loss (gain) on sale of senior living communities. A loss on sale of senior living communities of $0.9 million was recorded during the year ended December 31, 2019, primarily in connection with the sales of 18 SNFs to third parties during the second and third quarters of 2019. A gain on sale of senior living communities of $7.1 million was recognized during the year ended December 31, 2018, primarily in connection with our sale of four senior living communities to DHC during the first half of 2018.
Long-lived asset impairment. For the years ended December 31, 2019 and 2018, we recorded non-cash charges for long-lived asset impairments of $3.3 million and $0.5 million, respectively, to reduce the carrying value of certain of our long-lived assets to their estimated fair values.

Interest, dividend and other income. Interest, dividend and other income increased by 66.7%, or $0.5 million, primarily due to the combination of higher stated interest rates and increased cash balances invested during the period.

Interest and other expense. Interest and other expense decreased by 13.4%, or $0.4 million, primarily attributable to decreased borrowings under our credit facilities and DHC’s assumption of two mortgage notes in connection with our sale of four senior living communities to DHC during the first half of 2018.

Unrealized gain (loss) on equity investments. Unrealized gain (loss) on equity investments represents adjustments made to our investments in equity securities to record amounts to fair value.

Realized gain on sale of debt and equity investments, net of tax. Realized gain on sale of debt and equity investments represents our realized gain on investments, net of applicable taxes.

 Provision for income taxes. For the years ended December 31, 2019 and 2018, we recognized a provision for income taxes of $0.1 million and $0.2 million, respectively. The provision for income taxes for the year ended December 31, 2019, is related to our federal and state income tax obligations. The provision for the year ended December 31, 2018, is due to our state income taxes. For additional information regarding our taxes, see Note 5 to our Consolidated Financial Statements included in Part IV, Item 15 of this Annual Report on Form 10-K.

Concentration of Risk - Revenues

We have primarily derived the majority of our revenues from the communities we operate that are owned by DHC. For the year ended December 31, 2019, 88.9% of our senior living revenue was derived from properties leased from DHC and primarily all of our management fee revenue was from properties managed for the account of DHC. We expect to continue to be dependent on revenues from the management of senior living communities owned by DHC for the foreseeable future and, effective as of January 1, 2020, all of our then existing leases and management and pooling agreements with DHC were terminated and replaced with the New Management Agreements. Failure of DHC to continue to own these communities in the future, or DHC’s termination of a significant number of the New Management Agreements, could significantly impact our business. For additional information about our management arrangements with DHC, see “Properties—Our Leases and Management Agreements with DHC” included in Part I, Item 2, and “—Liquidity and Capital Resources—Related Person Transactions” included in Part II, Item 7, 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.

At some of our senior living communities (principally our SNFs) and our rehabilitation and wellness clinics, Medicare and Medicaid programs provide operating revenues for skilled nursing and rehabilitation and wellness services. We derived approximately 21.5% and 23.3% of our consolidated revenues from these government funded programs for the years ended December 31, 2019 and 2018, respectively. For the years ended December 31, 2019 and 2018, our net Medicare revenues totaled $110.3 million and $119.1 million, respectively. For the years ended December 31, 2019 and 2018, our net Medicaid revenues totaled $122.8 million and $135.9 million, respectively. As a result of the completion of the Restructuring Transactions, our revenues from Medicare and Medicaid will decline; however, we will earn management fees on Medicare and Medicaid revenue generated at the senior living communities we manage and we expect to continue to receive Medicare and Medicaid revenues at the senior living communities we own and lease, as well as for certain ancillary services we provide.

We cannot currently predict the type or magnitude of the potential Medicare and Medicaid policy changes, rate reductions or other changes and the impact on us of the possible failure of these programs to increase rates to match our increasing expenses, but they may be adverse and material to our operations and to our future financial results of operations. Similarly, we are unable to predict the impact on us of the insurance changes, payment changes and healthcare delivery systems changes contained in and to be developed pursuant to the ACA. If the changes implemented under the ACA result in reduced payments for our services, or the failure of Medicare, Medicaid or insurance payment rates to cover our costs of providing required services to residents, our future financial results could be materially and adversely affected. Finally, to the extent the ACA is repealed, replaced or modified, additional regulatory risks may arise. Depending upon what aspects of the ACA are repealed, replaced or modified, our future financial results could be adversely and materially affected.
For more information regarding government regulation and its possible impact on us and our business, revenues and operations, see “Business—Government Regulation and Reimbursement” in Part I, Item 1 of this Annual Report on Form 10-K.

LIQUIDITY AND CAPITAL RESOURCES

We require cash to fund our operating expenses, to make capital expenditures and to service debt obligations. As of December 31, 2019, we had $31.7 million of unrestricted cash and cash equivalents. As of December 31, 2019 and 2018, we had current assets of $143.4 million and $138.1 million, respectively, and current liabilities of $164.3 million and $229.7 million, respectively.

In addition, on January 1, 2020, in connection with the Restructuring Transactions, we issued 10,268,158 of our common shares to DHC and an aggregate of 16,118,849 of our common shares to DHC’s shareholders of record as of December 13, 2019. As consideration for the Share Issuances, DHC provided to us $75.0 million of additional consideration by assuming certain of our working capital liabilities.

The following is a summary of cash flows from operating, investing and financing activities, as reflected in our consolidated statement of cash flows:

<table>
<thead>
<tr>
<th>Description</th>
<th>2019</th>
<th>2018</th>
<th>$ Change</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net cash used in operating activities</td>
<td>$(4,109)</td>
<td>$(54,223)</td>
<td>50,114</td>
<td>92.4%</td>
</tr>
<tr>
<td>Net cash provided by investing activities</td>
<td>62,981</td>
<td>4,936</td>
<td>58,045</td>
<td>1,176.0%</td>
</tr>
<tr>
<td>Net cash (used in) provided by financing activities</td>
<td>(53,146)</td>
<td>50,964</td>
<td>(104,110)</td>
<td>(204.3)%</td>
</tr>
<tr>
<td>Net increase in cash, cash equivalents and restricted cash</td>
<td>5,726</td>
<td>1,677</td>
<td>4,049</td>
<td>241.4%</td>
</tr>
<tr>
<td>Restricted cash transferred to held for sale assets</td>
<td>(5)</td>
<td>—</td>
<td>(5)</td>
<td>—%</td>
</tr>
<tr>
<td>Cash, cash equivalents and restricted cash at beginning of period</td>
<td>51,258</td>
<td>49,581</td>
<td>1,677</td>
<td>3.4%</td>
</tr>
<tr>
<td>Cash, cash equivalents and restricted cash at end of period</td>
<td>$56,979</td>
<td>$51,258</td>
<td>$5,721</td>
<td>11.2%</td>
</tr>
</tbody>
</table>

We had cash flows used in operating activities of $4.1 million for the year ended December 31, 2019, compared to cash flows used in operating activities of $54.2 million for the year ended December 31, 2018. The decrease in cash flows used in operating activities was mainly attributable to improved operating income before non-cash items as a result of the reduction in minimum monthly rent payments to DHC pursuant to the Transaction Agreement, coupled with a one-time recognition of $4.2 million in Deferred Resident Fees and Deposits as well as $12.4 million of lease inducement, and an improvement in the working capital, including a $2.9 million current liability at December 31, 2019 resulting from the impact of the adoption of the Financial Accounting Standards Board Accounting Standards Codification Topic 842, Leases.

We had cash flows provided by investing activities of $63.0 million and $4.9 million for the years ended December 31, 2019 and 2018, respectively. The increase in cash flows provided by investing activities was primarily attributable to a year-over-year increase of $92.1 million for the sale of property and equipment and the $9.0 million initial liquidating distribution received from Affiliates Insurance Company, or AIC. This was partially offset by a decrease in the proceeds received from the sale of senior living communities of $32.6 million and an increase for the acquisition of property and equipment of $8.5 million. Historically, we acquired property and equipment and then subsequently sold these assets to DHC.

We had cash flows used in financing activities of $53.1 million for the year ended December 31, 2019, compared to cash flows provided by financing activities of $51.0 million for the year ended December 31, 2018. The decrease was primarily attributable to a $71.5 million reduction of borrowings on our credit facilities and a net increase in repayments of $31.5 million related to our repayment of borrowings on our credit facilities.

We believe we have adequate financial resources from our existing cash flows from operations, together with cash on hand, amounts available under our credit facility and DHC's assumption of $75.0 million in liabilities in connection with the Share Issuances on January 1, 2020 pursuant to the Transaction Agreement, as further detailed in Notes 9 and 10 to our Consolidated Financial Statements included in Part IV, Item 15 of this Annual Report on Form 10-K, to support our business for at least the next twelve months, assuming relatively stable general economic conditions.

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Our liquidity and capital funding requirements depend on numerous factors, including our operating results, our capital expenditures, general economic conditions and the cost of capital. Shortfalls in cash flows from operating results or other principal sources of liquidity may have an adverse impact on our ability to execute on our strategy or to maintain capital spending levels.

We currently expect to use cash balances to fund our future operations, capital expenditures, fixed debt obligations as well as investments in diversifying our service offerings to diversify our revenue streams. We may borrow funds from our credit facility from time to time in connection with these strategic investments. We also may seek to participate in a joint venture or other arrangement that may provide additional sources of financing. Although we cannot be sure we will be successful in consummating any particular type of financing, we believe that we will have access to financings, such as debt and equity offerings, to fund future business ventures and to pay our current obligations.

Debt Investments

We routinely evaluate our debt investments to determine if they have been impaired. If the fair value of a debt investment is less than its book or carrying value, and we expect that situation to continue for more than a temporary period, we will record an “other than temporary impairment” loss in our consolidated statements of operations. We evaluate the fair value of our debt investments by reviewing each debt investment’s current market price, the ratings of the investment, 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 investment is below the investment’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 investment is historically volatile. Additionally, there may be instances in which impairment losses are recognized even if the decline in value does not meet the criteria described above, such as if we plan to sell the investment in the near term and the fair value is below our cost basis. When we believe that a change in fair value of a debt investment is temporary, we record a corresponding credit or charge to other comprehensive income for any unrealized gains and losses. When we determine that impairment in the fair value of a debt investment is an “other than temporary impairment”, we record a charge to earnings. We did not record an impairment charge for the years ended December 31, 2019 or 2018 for our debt investments.

Compliance and Litigation Matters

As previously disclosed, in July 2017, as a result of our compliance program to review records related to our Medicare billing practices, we became aware of certain potential inadequate documentation and other issues at one of our leased SNFs. This compliance review was not initiated in response to any specific complaint or allegation but was a review of the type that we periodically undertake to test our compliance with applicable Medicare billing rules. As a result of these discoveries, we made a voluntary disclosure of deficiencies to the OIG pursuant to the OIG’s Provider Self-Disclosure Protocol. We submitted supplemental disclosures related to this matter to the OIG in December 2017 and March 2018. In June 2019, we settled this matter with the OIG without admitting any liability and paid $1.1 million to the OIG in exchange for a customary release. The expense associated with this matter was recorded primarily in 2017, with the exception of an adjustment of $0.2 million that was made during the year ended December 31, 2018, to reduce the balance of the liability previously recorded. We did not recognize any expenses related to this matter in 2019.

Insurance

Increases over time in the costs of insurance, especially professional and general liability insurance, workers’ compensation and employee health insurance, have had an adverse impact upon our results of operations. Although we self-insure a large portion of these costs, and also require residents in our managed senior living communities to buy insurance directly or reimburse us for insurance that we purchase, our costs have increased as a result of the higher costs that we incur to settle claims and to purchase insurance for claims in excess of the self-insurance amounts. These increased costs may continue in the future. We previously participated with other companies to which RMR LLC provides management services in a combined property insurance program through AIC. The policies under that program expired on June 30, 2019, and we and the other AIC shareholders elected not to renew the AIC property insurance program; we instead have purchased standalone property insurance coverage with unrelated third party insurance providers.

For more information about our existing insurance see “Business—Insurance” in Part I, Item 1 of this Annual Report on Form 10-K.
Off-Balance Sheet Arrangements

At December 31, 2019, we had seven irrevocable standby letters of credit outstanding, totaling $28.6 million. In 2019, we increased, from $22.7 million to $25.4 million, one of these letters of credit which secures our workers’ compensation insurance program, and this letter of credit is currently collateralized by approximately $21.7 million of cash equivalents and $7.3 million of debt and equity investments. This letter of credit currently expires in June 2020 and is automatically extended for one-year terms unless notice of nonrenewal is provided by the issuing bank prior to the end of the applicable term. We expect that our workers’ compensation insurance program will require an increase in the value of this letter of credit in June 2020. The remaining six irrevocable standby letters of credit outstanding at December 31, 2019, totaling $3.2 million, secure certain of our other obligations. These letters of credit are scheduled to mature between June 2020 and October 2020 and are required to be renewed annually.

Debt Financings and Covenants

In December 2018, we amended the credit agreement governing our prior credit facility. As a result of the amendment to such credit agreement, the aggregate amount of the commitments under our prior credit facility was reduced to $54.0 million from $100.0 million, and the stated maturity date of our prior 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 prior credit facility for two, one-year periods, as well as to request an increase in the aggregate amount of the commitments under our prior credit facility. In June 2019, we entered into a new credit agreement to replace our prior credit facility with our $65.0 million secured revolving credit facility, which is available for general business purposes. Our credit facility matures in June 2021, and, subject to our payment of an extension fee and meeting other conditions, we have the option to extend the stated maturity date of our credit facility for a one-year period. Other terms of our credit facility are substantially similar to those of our prior credit facility. We are required to pay interest at a rate of LIBOR plus a premium of 250 basis points per annum, or at a base rate, as defined in our credit agreement, plus 150 basis points per annum, on borrowings under our credit facility; the annual interest rates as of December 31, 2019 were 4.20% and 6.25%, respectively. 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. No principal repayment is due until maturity.

Our credit facility is secured by real estate mortgages on 11 senior living communities with a combined 1,245 living units owned by certain of our subsidiaries that guarantee our obligations under our credit facility. Our credit facility is also secured by these subsidiaries’ accounts receivable and related collateral. The amount of available borrowings under our credit facility is subject to our having qualified collateral, which is primarily based on the value of the communities securing our obligations under our credit facility. Our credit facility provides for acceleration of payment of all amounts outstanding under our credit facility upon the occurrence and continuation of certain events of default, including a change of control of us, as defined in our credit agreement. Our credit agreement contains financial and other covenants, including those that restrict our ability to pay dividends or make other distributions to our stockholders in certain circumstances.

At December 31, 2019, we had seven irrevocable standby letters of credit outstanding, totaling $28.6 million. In 2019, we increased, from $22.7 million to $25.4 million, one of these letters of credit which secures our workers’ compensation insurance program, and this letter of credit is currently collateralized by approximately $21.7 million of cash equivalents and $7.3 million of debt and equity investments. This letter of credit currently expires in June 2020 and is automatically extended for one-year terms unless notice of nonrenewal is provided by the issuing bank prior to the end of the applicable term. We expect that our workers’ compensation insurance program will require an increase in the value of this letter of credit in June 2020. The remaining six irrevocable standby letters of credit outstanding at December 31, 2019, totaling $3.2 million, secure certain of our other obligations. These letters of credit are scheduled to mature between June 2020 and October 2020 and are required to be renewed annually.

We also have mortgage debt of $7.5 million as of December 31, 2019 that we assumed in connection with a previous acquisition of a senior living community. Payments of principal and interest are due monthly under this mortgage debt until maturity in September 2032. The annual interest rate on this mortgage debt was 6.20% as of December 31, 2019.

As of December 31, 2019, we had no borrowings outstanding under our credit facility and $3.2 million in letters of credit issued under our credit facility, and $55.9 million of availability for further borrowing under our credit facility, and we had $7.5 million in outstanding mortgage debt. As of December 31, 2019, we believe we were in compliance with all applicable covenants under our debt agreements.

As of December 31, 2019, we had a $25.0 million available to us under the DHC credit facility we obtained from DHC on April 1, 2019. The DHC credit facility matured and was terminated on January 1, 2020, in connection with the
completion of the Restructuring Transactions. There were no borrowings outstanding under the DHC credit facility at the time of such termination and we did not make any borrowings under the DHC credit facility during its term. See Note 8 and 9 to our Consolidated Financial Statements included in Part IV, Item 15 of this Annual Report on Form 10-K.

Related Person Transactions

We have relationships and historical and continuing transactions with DHC, RMR LLC, ABP Trust and others related to them. For example: DHC is our former parent company, our former largest landlord, the owner of the senior living communities that we manage and our largest stockholder, owning as of January 1, 2020, 33.9% of our outstanding common shares, and with which we restructured our business arrangements as of January 1, 2020 pursuant to the Transaction Agreement; Adam D. Portnoy, the Chair of our Board of Directors and one of our Managing Directors, is the sole trustee, an officer and the controlling shareholder of ABP Trust and he is also a managing director and the president and chief executive officer of RMR Inc., an officer and employee of RMR LLC and the chair of the board of trustees and a managing trustee of DHC; Jennifer Clark, our other Managing Director and Secretary, is a managing director and the executive vice president, general counsel and secretary of RMR Inc., an officer of ABP Trust, an officer and employee of RMR LLC and a managing trustee and secretary of DHC; various services we require to operate our business are provided to us by RMR LLC pursuant to our business management agreement with RMR LLC and RMR LLC also provides management services to DHC; RMR LLC employs our President and Chief Executive Officer and our Executive Vice President, Chief Financial Officer and Treasurer; Adam Portnoy, directly and indirectly through ABP Trust and its subsidiaries, is a significant stockholder of us, beneficially owning approximately 6.3% of our outstanding common shares as of January 1, 2020; a subsidiary of ABP Trust is also the landlord for our headquarters; and Adam Portnoy, through ABP Trust, is also the controlling shareholder of RMR Inc., which is the managing member of RMR LLC. We have relationships and historical and continuing transactions with other companies to which RMR LLC or its subsidiaries provide management services and some of which have directors, trustees or officers who are also directors, trustees or officers of us, DHC, RMR LLC or RMR Inc.

For further information about these and other such relationships and related person transactions, see Notes 9, 11, 13 and 14 to our Consolidated Financial Statements included in Part IV, Item 15 of this Annual Report on Form 10-K, which are incorporated herein by reference and our other filings with the SEC, including our definitive Proxy Statement for our 2020 Annual Meeting of Stockholders, or our definitive Proxy Statement, to be filed with the SEC within 120 days after the fiscal year ended December 31, 2019. For further information about the risks that may arise as a result of these and other related person transactions and relationships, see elsewhere in this Annual Report on Form 10-K, including “Warning Concerning Forward-Looking Statements”, Part I, Item 1, “Business” and Part I, Item 1A, “Risk Factors.” Our filings with the SEC and copies of certain of our agreements with these related persons, including our prior leases, forms of management agreements and related pooling and omnibus agreements with DHC, 2019 and 2017 transaction agreements with DHC, our business management agreement with RMR LLC, and our headquarters lease with a subsidiary of ABP Trust, are available as exhibits to our public filings with the SEC and accessible at the SEC’s website, www.sec.gov. We may engage in additional transactions with related persons, including businesses to which RMR LLC or its subsidiaries provide management services.

Critical Accounting Policies

Our critical accounting policies concern revenue recognition, including contractual allowances, the allowance for doubtful accounts, self-insurance reserves, leases, long-lived assets and our judgments and estimates concerning our provisions for income taxes.

Our revenue recognition policies involve judgments about Medicare and Medicaid rate calculations. These judgments are based principally upon our experience with these programs and our knowledge of current rules and regulations applicable to these programs. Our principal sources of revenue are senior living revenues, management fees and reimbursed costs incurred pursuant to our management and pooling agreements.

We recognize revenues when services are provided, and these amounts are reported at their estimated net realizable amounts. Some Medicare and Medicaid revenues are subject to audit and retroactive adjustment and sometimes retroactive legislative changes. See “Revenue Recognition” in Note 2 to our Consolidated Financial Statements included in Part IV, Item 15 of this Annual Report on Form 10-K for a detailed discussion of our revenue recognition policies and our contractual arrangements.

Our policies for valuing accounts receivable, including the allowance for doubtful accounts, involve significant judgments based upon our experience, including consideration of the age of the receivables, the terms of the agreements with our residents, their third party payers or other obligors, the residents’ or payers’ stated intent to pay, the residents’ or payers’
Determining reserves for Medicare repayment obligations and related costs including penalties, and the casualty, liability, workers’ compensation and healthcare losses and costs that we have incurred as of the end of a reporting period involves significant judgments based upon our experience and our expectations of future events, including projected settlements for pending claims, known incidents which we expect may result in claims, estimates of incurred but not yet reported claims, expected changes in premiums for insurance provided by insurers whose policies provide for retroactive adjustments, estimated litigation costs and other factors. Since these reserves are based on estimates, the actual expenses we incur may differ from the amount reserved. We regularly adjust these estimates to reflect changes in the foregoing factors, our actual claims experience, recommendations from our professional consultants, changes in market conditions and other factors; it is possible that such adjustments may be material.

We use our judgment in determining the incremental borrowing rate used to discount lease payments based on the applicable reference rate, coupled with a credit spread and lease specific adjustments.

We regularly evaluate whether events or changes in circumstances have occurred that could indicate impairment in the value of our long-lived assets. If there is an indication that the carrying value of an asset is not recoverable, we determine the amount of impairment loss, if any, by comparing the historical carrying value of the asset to its estimated fair value. We determine estimated fair value through an evaluation of recent financial performance, recent transactions for similar assets, market conditions and projected cash flows using standard industry valuation techniques. This process requires that estimates be made, and, if we misjudge or estimate incorrectly, this could have a material effect on our financial statements.

Our income tax expense, deferred tax assets and liabilities, and liabilities for unrecognized tax benefits, if any, reflect our assessment of estimated current and future taxes to be paid. We are subject to income taxes in the United States. Significant judgments and estimates are required in determining our income tax expense and the realization of our deferred tax assets and liabilities.

Deferred income taxes arise from temporary differences between the tax basis of assets and liabilities and their reported amounts in the financial statements, which will result in taxable or deductible amounts in the future. In evaluating our ability to recover our deferred tax assets, we consider all available positive and negative evidence, including scheduled reversals of deferred tax liabilities, projected future taxable income, tax-planning strategies, and results of recent operations. In projecting future taxable income, we begin with historical results adjusted for the results of discontinued operations and incorporate assumptions about the amount of future state and federal pretax operating income adjusted for items that do not have tax consequences. The assumptions about future taxable income require significant judgment and are consistent with the plans and estimates we use to manage the underlying business. In evaluating the objective evidence that historical results provide, we consider three years of cumulative operating income or loss.

We established a valuation allowance against our deferred tax assets that we have determined to be not realizable. The decision to establish the valuation allowance includes our assessment of the available positive and negative evidence to estimate if sufficient future taxable income will be generated to realize the existing deferred tax assets. An important aspect of objective negative evidence evaluated includes the significant losses incurred by us in recent years. This objective negative evidence is difficult to overcome and would require a substantial amount of objectively verifiable positive evidence of future income to support the realization of our deferred tax assets. For these reasons, we have recorded a valuation allowance against the majority of our deferred tax assets and liabilities as of December 31, 2019 and 2018.

Some of our judgments and estimates are based upon published industry statistics and, in some cases, third party professionals. Any misjudgments or incorrect estimates affecting our critical accounting policies could have a material effect on our financial statements.

In the future, we may need to revise the judgments, estimates and assessments we use to formulate our critical accounting policies to incorporate information which is not now known. We cannot predict the effect changes to the premises underlying our critical accounting policies may have on our future results of operations, although such changes could be material and adverse.

For a summary of recent accounting pronouncements applicable to our Consolidated Financial Statements, see Note 2, "Summary of Significant Accounting Policies", to the Consolidated Financial Statements in Item 15 of Part IV of this Annual Report on Form 10-K, which is incorporated herein by reference.
Impact of Inflation and Deflation

Inflation in the past several years in the United States has been modest, but recently there have been indications of inflation in the U.S. economy and some market forecasts indicate an expectation of increased inflation in the near to intermediate term. Future inflation might have both positive and negative impacts on our business. Rising price levels might allow us to increase our charges to residents, but might cause our operating costs, including our percentage rent, to increase. Also, our ability to realize rate increases paid by Medicare and Medicaid programs might be limited despite inflation.

Deflation would likely have a negative impact upon us. A large component of our expenses consists of our fixed minimum rental obligations. Accordingly, we believe that a general decline in price levels which could cause our charges to residents to decline would likely not be fully offset by a decline in our expenses.

Seasonality

Our senior living business is subject to modest effects of seasonality, which we experience in certain regions more than others, due to weather patterns, geography and higher incidence and severity of flu and other illnesses during winter months. We do not expect these seasonal differences to cause material fluctuations in our revenues or operating cash flows.

Impact of Climate Change

Concerns about climate change have resulted in various treaties, laws and regulations that are intended to limit carbon emissions and address other environmental concerns. These and other laws may cause energy or other costs at our communities to increase. In the long-term, we believe any such increased costs will be passed through and paid by our residents and other customers in higher charges for our services. However, in the short-term, these increased costs, if material in amount, could materially and adversely affect our financial condition and results of operations.

Some observers believe severe weather in different parts of the world over the last few years is evidence of global climate change. Severe weather has had and may continue to have an adverse effect on certain senior living communities we operate. Flooding caused by rising seas levels and severe weather events, including hurricanes, tornadoses and widespread fires may have an adverse effect on the senior living communities we operate. We mitigate these risks by procuring insurance coverage we believe adequate to protect us from material damages and losses resulting from the consequences of losses caused by climate change. However, we cannot be sure that our mitigation efforts will be sufficient or that future storms, rising sea levels or other changes that may occur due to future climate change could not have a material adverse effect on our financial results. For more information on the impact of climate change, see “Risk Factors” in Part I, Item 1A of this Annual Report on Form 10-K.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Not applicable.

Item 8. Financial Statements and Supplementary Data

The information required by this Item is included in Part IV, Item 15 of this Annual Report on Form 10-K.

Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

As of the end of the period covered by this Annual Report on Form 10-K, our management carried out an evaluation, under the supervision and with the participation of our President and Chief Executive Officer and our Executive Vice President, Chief Financial Officer and Treasurer, of the effectiveness of our disclosure controls and procedures pursuant to Rules 13a-15 and 15d-15 under the Exchange Act. Based upon that evaluation, our management, including our President and Chief Executive Officer and our Executive Vice President, Chief Financial Officer and Treasurer, concluded that our disclosure controls and procedures are effective.
There have been no changes in our internal control over financial reporting during the quarter ended December 31, 2019, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Management Report on Assessment of Internal Control Over Financial Reporting

We are responsible for establishing and maintaining adequate internal control over financial reporting. Our internal control system is designed to provide reasonable assurance to our management and Board of Directors regarding the preparation and fair presentation of published financial statements. All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Our management assessed the effectiveness of our internal control over financial reporting as of December 31, 2019. In making this assessment, it used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control-Integrated Framework (2013 framework). Based on this assessment, we believe that, as of December 31, 2019, our internal control over financial reporting is effective.

Item 9B. Other Information

On February 26, 2020, our Board of Directors pursuant to a recommendation of the Nominating and Governance Committee of our Board of Directors, increased its size from five to seven members, with each new Director to be in Class III of our Board of Directors with a term expiring at our 2022 annual meeting of stockholders, and in order to fill the vacancies created by such increase, elected Jennifer B. Clark and Michael E. Wagner, M.D., a Managing Director and an Independent Director, respectively, each in Class III of our Board of Directors. Dr. Wagner was also elected as a member of the Audit Committee, Compensation Committee, the Nominating and Governance Committee and Quality of Care Committee of our Board of Directors.

Also, on February 26, 2020, our Board, pursuant to a recommendation of the Nominating and Governance Committee of our Board of Directors, changed the designation of its Director, Gerard M. Martin, from a Managing Director to an Independent Director, in part because Mr. Martin is not an employee or officer of the Company or RMR LLC or involved in the day to day activities of the Company. Mr. Martin continues to be a Director in Class II of our Board of Directors with a term expiring at our 2021 annual meeting of stockholders. Mr. Martin was also elected as a member of the Audit Committee and the Nominating and Governance Committee, and will continue to serve on the Quality of Care Committee, of our Board of Directors.

Ms. Clark, age 58, has been executive vice president, general counsel and secretary of RMR Inc. since shortly after its formation in 2015, and a managing director of RMR Inc. since 2018. Ms. Clark joined RMR LLC in 1999 as a vice president; she became a senior vice president in 2006, an executive vice president and general counsel in 2008 and secretary in 2015. Ms. Clark has also served as a managing trustee of DHC since 2018. Ms. Clark also serves as a director and secretary of Sonesta International Hotels Corporation, a director, executive vice president, general counsel and secretary of Tremont Realty Advisors LLC, and a managing trustee, secretary and chief legal officer of RMR Real Estate Income Fund. Ms. Clark serves as the secretary of each of the companies to which RMR LLC or its subsidiaries provide management services, including the Company and DHC. Ms. Clark has also served as secretary of RMR Office Property Fund LP since 2018 and as a director of RMR Advisors LLC since 2016, as its president and chief executive officer since 2019, and prior to that as its executive vice president and general counsel from October 2017 through December 2018 and as its secretary since 2004, and as vice president and chief legal officer from 2007 through September 2017. Prior to joining RMR LLC, Ms. Clark was a partner at the law firm of Sullivan & Worcester LLP.

Dr. Wagner, age 60, has been chief physician executive since 2018 of Wellforce, a Massachusetts health care system, and served as interim president and chief executive officer during 2019. He is also an associate professor of clinical medicine at Tufts University School of Medicine. Prior to joining Wellforce, Dr. Wagner held a number of positions with one of its founding members, Tufts Medical Center, or Tufts, including president and chief executive officer from 2013 to 2018, president and chief executive officer of Tufts Medical Center Physicians Organization from 2012 to 2014, chief medical officer from 2011 to 2013, and chief, internal medicine and adult primary care from 2008 to 2012. While at Tufts, Dr. Wagner also served on its board of trustees and was a member of many of its committees, including the compensation, governance and nominating, finance, audit, investment and real estate and quality of care committees at various time from 2011 to 2018. Prior to joining Tufts, Dr. Wagner held various positions in health care organizations and hospitals.

There is no arrangement or understanding between Ms. Clark or Dr. Wagner and any other person pursuant to which Ms. Clark or Dr. Wagner, respectively, was selected as a Director. There are no transactions, relationships or agreements.

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between Dr. Wagner and us that would require disclosure pursuant to Item 404(a) of Regulation S-K promulgated under the Exchange Act. As noted above, Ms. Clark has relationships with DHC and RMR LLC. Please see Notes 9, 13 and 14 to our consolidated financial statements included in this Annual Report for further information regarding our relationships with DHC and RMR LLC.

Our Board of Directors concluded that each of Dr. Wagner and Mr. Martin is qualified to serve as an Independent Director in accordance with the requirements of The Nasdaq Stock Market LLC, the Securities and Exchange Commission and our bylaws, and Ms. Clark is qualified to serve as a Managing Director in accordance with the requirements of our bylaws. For their service as Directors, Mr. Martin and Dr. Wagner will be entitled to the compensation we generally provide to our Independent Directors, with the annual cash fees prorated, and Ms. Clark will be entitled to the compensation we generally provide to our Managing Directors, which is limited to awards of our common shares. A summary of our currently effective Director compensation is filed as Exhibit 10.6 to this Annual Report on Form 10-K and is incorporated herein by reference. Consistent with those compensation arrangements, on February 26, 2020, we awarded to each of Dr. Wagner and Ms. Clark 2,000 of our common shares in connection with their election, all of which vested on the award date.

In connection with Dr. Wagner’s election, we entered into an indemnification agreement with Dr. Wagner, effective as of February 26, 2020, on substantially the same terms as the agreements previously entered into between us and each of our other Directors. We previously entered into indemnification agreements with Ms. Clark and Mr. Martin will continue to apply. The form of indemnification agreement entered into between us and our Directors is filed as Exhibit 10.5 to this Annual Report on Form 10-K and is incorporated herein by reference.
PART III

Item 10. Directors, Executive Officers and Corporate Governance

We have a Code of Conduct that applies to our officers and Directors and RMR Inc. and RMR LLC, their senior level officers and certain other officers and employees of RMR LLC. Our Code of Conduct is posted on our website, www.fivestarseniorliving.com. A printed copy of our Code of Conduct is also available free of charge to any person who requests a copy by writing to our Secretary, Five Star Senior Living Inc., Two Newton Place, 255 Washington Street, Newton, MA 02458. We intend to disclose any amendments or waivers to our Code of Conduct applicable to our principal executive officer, principal financial officer, principal accounting officer or controller (or any person performing similar functions) on our website.

The remainder of the information required by Item 10 is incorporated by reference to our definitive Proxy Statement.

Item 11. Executive Compensation

The information required by Item 11 is incorporated by reference to our definitive Proxy Statement.


Equity Compensation Plan Information

We may award common shares to our officers and employees and to employees of RMR LLC under our 2014 Equity Compensation Plan, or the 2014 Plan. In addition, each of our Directors receives common shares as part of his or her annual compensation for serving as a Director and such shares are awarded under the 2014 Plan. The terms of awards made under the 2014 Plan are determined by the Compensation Committee of our Board of Directors at the time of the awards. The following table is as of December 31, 2019:

<table>
<thead>
<tr>
<th>Equity compensation plans approved by securityholders—2014 Plan</th>
<th>Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights (a)</th>
<th>Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights (b)</th>
<th>Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a)) (c)</th>
</tr>
</thead>
<tbody>
<tr>
<td>None</td>
<td>None</td>
<td>176,460 (1)</td>
<td></td>
</tr>
<tr>
<td>Equity compensation plans not approved by securityholders</td>
<td>None</td>
<td>None</td>
<td>None</td>
</tr>
<tr>
<td>Total</td>
<td>None</td>
<td>None</td>
<td>176,460 (1)</td>
</tr>
</tbody>
</table>

(1) Consists of common shares available for issuance pursuant to the terms of the 2014 Plan. Share awards that are forfeited will be added to the common shares available for issuance under the 2014 Plan.

Payments by us to RMR LLC employees are described in Notes 10 and 14 to our Consolidated Financial Statements included in Part IV, Item 15 of this Annual Report on Form 10-K. The remainder of the information required by Item 12 is incorporated by reference to our definitive Proxy Statement.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required by Item 13 is incorporated by reference to our definitive Proxy Statement.

Item 14. Principal Accountant Fees and Services

The information required by Item 14 is incorporated by reference to our definitive Proxy Statement.
## Item 15. Exhibits and Financial Statement Schedules

### (a) Index to Financial Statements

<table>
<thead>
<tr>
<th>Financial Statement</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Report of Independent Registered Public Accounting Firm</td>
<td>F-1</td>
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<tr>
<td>Consolidated Balance Sheets at December 31, 2019 and 2018</td>
<td>F-2</td>
</tr>
<tr>
<td>Consolidated Statements of Operations for the years ended December 31, 2019 and 2018</td>
<td>F-3</td>
</tr>
<tr>
<td>Consolidated Statements of Comprehensive Loss for the years ended December 31, 2019 and 2018</td>
<td>F-4</td>
</tr>
<tr>
<td>Consolidated Statements of Shareholders’ Equity for the years ended December 31, 2019 and 2018</td>
<td>F-5</td>
</tr>
<tr>
<td>Consolidated Statements of Cash Flows for the years ended December 31, 2019 and 2018</td>
<td>F-6</td>
</tr>
<tr>
<td>Notes to Consolidated Financial Statements</td>
<td>F-7</td>
</tr>
</tbody>
</table>

All other schedules for which provision is made in the applicable accounting regulations of the SEC are not required under the related instructions, or are inapplicable, and therefore have been omitted.

### (b) Exhibits

<table>
<thead>
<tr>
<th>Exhibit Number</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>3.1</td>
<td>Composite Copy of Articles of Amendment and Restatement, dated December 5, 2001, as amended to date. (Incorporated by reference to the Company’s Quarterly Report on Form 10-Q for the quarter ended September 30, 2019.)</td>
</tr>
<tr>
<td>3.2</td>
<td>Amended and Restated Bylaws of the Company, adopted March 3, 2017. (Incorporated by reference to the Company’s Annual Report on Form 10-K for the year ended December 31, 2016.)</td>
</tr>
<tr>
<td>4.1</td>
<td>Form of Common Stock Certificate. (Incorporated by reference to the Company’s Quarterly Report on Form 10-Q for the quarter ended September 30, 2019.)</td>
</tr>
<tr>
<td>4.2</td>
<td>Consent, Standstill, Registration Rights and Lock-Up Agreement, dated October 2, 2016, among the Company, ABP Trust, ABP Acquisition LLC, Barry M. Portnoy and Adam D. Portnoy. (Incorporated by reference to the Company’s Current Report on Form 8-K dated October 2, 2016.)</td>
</tr>
<tr>
<td>4.3</td>
<td>Description of Securities. (Filed herewith.)</td>
</tr>
<tr>
<td>10.1</td>
<td>Five Star Senior Living Inc. (f/k/a Five Star Quality Care, Inc.) 2014 Equity Compensation Plan (+) (Incorporated by reference to the Company’s Current Report on Form 8-K dated September 30, 2014.)</td>
</tr>
<tr>
<td>10.2</td>
<td>Form of Restricted Share Agreement (+) (Incorporated by reference to the Company’s Quarterly Report on Form 10-Q for the quarter ended September 30, 2013.)</td>
</tr>
<tr>
<td>10.3</td>
<td>Form of Share Award Agreement (+) (Incorporated by reference to the Company’s Annual Report on Form 10-K for the year ended December 31, 2016.)</td>
</tr>
<tr>
<td>10.4</td>
<td>Five Star Senior Living Inc. Nonqualified Deferred Compensation Plan (+) (Incorporated by reference to the Company’s Current Report on Form 8-K dated May 17, 2018.)</td>
</tr>
<tr>
<td>10.5</td>
<td>Form of Indemnification Agreement (+) (Filed herewith.)</td>
</tr>
<tr>
<td>10.6</td>
<td>Summary of Director Compensation (+) (Incorporated by reference to the Company’s Current Report on Form 8-K dated June 11, 2019.)</td>
</tr>
<tr>
<td>10.7</td>
<td>Second Amended and Restated Credit Agreement, dated as of June 12, 2019, among the Company, the Guarantors party thereto, Citibank, N.A., and the other parties thereto. (Incorporated by reference to the Company’s Current Report on Form 8-K dated June 11, 2019.)</td>
</tr>
<tr>
<td>10.9</td>
<td>Transaction Agreement, dated as of April 1, 2019, between the Company and Diversified Healthcare Trust. (Incorporated by reference to the Company’s Current Report on Form 8-K dated April 1, 2019.)</td>
</tr>
<tr>
<td>10.10</td>
<td>Omnibus Agreement, dated as of January 1, 2020, among the Company, FVE Managers, Inc. and certain subsidiaries of Diversified Healthcare Trust. (Filed herewith.)</td>
</tr>
<tr>
<td></td>
<td>Description</td>
</tr>
<tr>
<td>---</td>
<td>-------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>10.11</td>
<td>Guaranty Agreement, dated as of January 1, 2020, by the Company for the benefit of certain subsidiaries of Diversified Healthcare Trust. (Filed herewith.)</td>
</tr>
<tr>
<td>10.13</td>
<td>Amended and Restated Business Management and Shared Services Agreement, dated as of March 16, 2015, between the Company and The RMR Group LLC (+) (Incorporated by reference to the Company’s Annual Report on Form 10-K for the year ended December 31, 2014.)</td>
</tr>
<tr>
<td>21.1</td>
<td>Subsidiaries of the Company. (Incorporated by reference to the Company’s Annual Report on Form 10-K for the year ended December 31, 2018.)</td>
</tr>
<tr>
<td>23.1</td>
<td>Consent of RSM US LLP. (Filed herewith.)</td>
</tr>
<tr>
<td>31.1</td>
<td>Rule 13a-14(a) Certification. (Filed herewith.)</td>
</tr>
<tr>
<td>31.2</td>
<td>Rule 13a-14(a) Certification. (Filed herewith.)</td>
</tr>
<tr>
<td>32.1</td>
<td>Section 1350 Certification of Chief Executive Officer and Chief Financial Officer. (Furnished herewith.)</td>
</tr>
<tr>
<td>99.1</td>
<td>Representative form of Management Agreement, dated as of January 1, 2020. (Filed herewith.)</td>
</tr>
<tr>
<td>99.2</td>
<td>Lease Agreement, dated as of May 12, 2011, between 400 Centre Street LLC and the Company. (Incorporated by reference to the Company’s Current Report on Form 8-K dated May 13, 2011.)</td>
</tr>
<tr>
<td>99.3</td>
<td>First Amendment to Lease, dated as of December 23, 2014, between 400 Centre Street LLC and the Company. (Incorporated by reference to the Company’s Annual Report on Form 10-K for the year ended December 31, 2014.)</td>
</tr>
<tr>
<td>99.4</td>
<td>Amended and Restated Reimbursement Agreement, dated May 1, 2012, among The RMR Group LLC, TravelCenters of America LLC and the Company. (Incorporated by reference to the Company’s Quarterly Report on Form 10-Q for the quarter ended June 30, 2012.)</td>
</tr>
<tr>
<td>99.5</td>
<td>Management Agreement, dated as of August 31, 2012, between FVE Managers, Inc., as Manager, and D&amp;R Yonkers LLC, as Licensee. (Incorporated by reference to the Company’s Quarterly Report on Form 10-Q for the quarter ended September 30, 2012.)</td>
</tr>
<tr>
<td>99.6</td>
<td>First Amendment to Management Agreement, dated as of August 31, 2012, between FVE Managers, Inc., as Manager, and D&amp;R Yonkers LLC, as Licensee. (Incorporated by reference to the Company’s Annual Report on Form 10-K for the year ended December 31, 2014.)</td>
</tr>
<tr>
<td>99.7</td>
<td>Amended and Restated Shareholders Agreement, dated May 21, 2012, among Affiliates Insurance Company, the Company, Service Properties Trust, Diversified Healthcare Trust, TravelCenters of America Inc. (f/k/a TravelCenters of America LLC), ABP Trust (as successor to The RMR Group LLC), Office Properties Income Trust (f/k/a Government Properties Income Trust) and Industrial Logistics Properties Trust (as successor to Select Income REIT). (Incorporated by reference to the Company’s Quarterly Report on Form 10-Q for the quarter ended June 30, 2012.)</td>
</tr>
<tr>
<td>99.8</td>
<td>FedEx Pricing Agreement, dated June 17, 2015, among the Company, TA Operating LLC, Sonesta International Hotels Corporation and The RMR Group LLC. (Incorporated by reference to the Company’s Quarterly Report on Form 10-Q for the quarter ended June 30, 2015.)</td>
</tr>
<tr>
<td>101.INS</td>
<td>XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.</td>
</tr>
<tr>
<td>101.SCH</td>
<td>XBRL Taxonomy Extension Schema Document. (Filed herewith.)</td>
</tr>
<tr>
<td>101.CAL</td>
<td>XBRL Taxonomy Extension Calculation Linkbase Document. (Filed herewith.)</td>
</tr>
<tr>
<td>101.DEF</td>
<td>XBRL Taxonomy Extension Definition Linkbase Document. (Filed herewith.)</td>
</tr>
<tr>
<td>101.LAB</td>
<td>Taxonomy Extension Label Linkbase Document. (Filed herewith.)</td>
</tr>
<tr>
<td>101.PRE</td>
<td>Taxonomy Extension Presentation Linkbase Document. (Filed herewith.)</td>
</tr>
<tr>
<td>104</td>
<td>Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101).</td>
</tr>
</tbody>
</table>

(+) Management contract or compensatory plan or arrangement.

**Item 16. Form 10-K Summary**

None.
Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders
Five Star Senior Living Inc.

Opinion on the Financial Statements
We have audited the accompanying consolidated balance sheets of Five Star Senior Living Inc. (the Company) as of December 31, 2019 and 2018, the related consolidated statements of operations, comprehensive loss, shareholders' equity and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively, the financial statements). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2018, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion
These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ RSM US LLP

We have served as the Company's auditor since 2014.

Boston, Massachusetts
March 2, 2020

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## Five Star Senior Living Inc.

### Consolidated Balance Sheets

**(Dollars in thousands, except per share data)**

<table>
<thead>
<tr>
<th></th>
<th>December 31, 2019</th>
<th>December 31, 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>ASSETS</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Current assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>$31,740</td>
<td>$29,512</td>
</tr>
<tr>
<td>Accounts receivable, net of allowance of $4,664 and $3,422 at December 31, 2019 and 2018, respectively</td>
<td>$34,190</td>
<td>$37,758</td>
</tr>
<tr>
<td>Due from related persons</td>
<td>$5,533</td>
<td>$7,855</td>
</tr>
<tr>
<td>Prepaid expenses</td>
<td>$3,809</td>
<td>$8,567</td>
</tr>
<tr>
<td>Investments in available for sale securities, of which $12,622 and $11,285 are restricted as of December 31, 2019 and 2018, respectively</td>
<td>$21,070</td>
<td>$20,179</td>
</tr>
<tr>
<td>Restricted cash</td>
<td>$23,995</td>
<td>$20,823</td>
</tr>
<tr>
<td>Other current assets</td>
<td>$13,477</td>
<td>$13,359</td>
</tr>
<tr>
<td><strong>Total current assets</strong></td>
<td>$143,368</td>
<td>$138,053</td>
</tr>
<tr>
<td><strong>Property and equipment, net</strong></td>
<td>$167,247</td>
<td>$243,873</td>
</tr>
<tr>
<td><strong>Equity investment of an investee</strong></td>
<td>$298</td>
<td>$8,633</td>
</tr>
<tr>
<td><strong>Restricted cash</strong></td>
<td>$1,244</td>
<td>$923</td>
</tr>
<tr>
<td><strong>Restricted investments in available for sale securities</strong></td>
<td>$7,105</td>
<td>$8,073</td>
</tr>
<tr>
<td><strong>Right of use assets</strong></td>
<td>$20,855</td>
<td>—</td>
</tr>
<tr>
<td><strong>Other long-term assets</strong></td>
<td>$5,676</td>
<td>$6,069</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>$345,793</td>
<td>$405,624</td>
</tr>
<tr>
<td><strong>LIABILITIES AND SHAREHOLDERS' EQUITY</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Current liabilities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revolving credit facilities</td>
<td>$—</td>
<td>$51,484</td>
</tr>
<tr>
<td>Accounts payable and accrued expenses</td>
<td>$82,447</td>
<td>$69,667</td>
</tr>
<tr>
<td>Current portion of lease liabilities</td>
<td>$2,872</td>
<td>—</td>
</tr>
<tr>
<td>Accrued compensation and benefits</td>
<td>$35,629</td>
<td>$35,421</td>
</tr>
<tr>
<td>Due to related persons</td>
<td>$2,247</td>
<td>$18,883</td>
</tr>
<tr>
<td>Mortgage notes payable</td>
<td>$362</td>
<td>$339</td>
</tr>
<tr>
<td>Accrued real estate taxes</td>
<td>$1,676</td>
<td>$12,959</td>
</tr>
<tr>
<td>Security deposits and current portion of continuing care contracts</td>
<td>$434</td>
<td>$3,468</td>
</tr>
<tr>
<td>Other current liabilities</td>
<td>$26,089</td>
<td>$37,472</td>
</tr>
<tr>
<td>Liabilities held for sale</td>
<td>$12,544</td>
<td>—</td>
</tr>
<tr>
<td><strong>Total current liabilities</strong></td>
<td>$164,300</td>
<td>$229,693</td>
</tr>
<tr>
<td><strong>Long-term liabilities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mortgage notes payable</td>
<td>$7,171</td>
<td>$7,533</td>
</tr>
<tr>
<td>Long-term portion of lease liabilities</td>
<td>$19,671</td>
<td>—</td>
</tr>
<tr>
<td>Accrued self-insurance obligations</td>
<td>$33,872</td>
<td>$33,030</td>
</tr>
<tr>
<td>Deferred gain on sale and leaseback transaction</td>
<td>$—</td>
<td>$59,478</td>
</tr>
<tr>
<td>Other long-term liabilities</td>
<td>$798</td>
<td>$4,721</td>
</tr>
<tr>
<td><strong>Total long-term liabilities</strong></td>
<td>$61,512</td>
<td>$104,762</td>
</tr>
<tr>
<td><strong>Commitments and contingencies</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Shareholders’ equity</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Common stock, par value $.01: 75,000,000 shares authorized, 5,154,892 and 5,085,345 shares issued and outstanding at December 31, 2019 and 2018, respectively</td>
<td>$52</td>
<td>$51</td>
</tr>
<tr>
<td>Additional paid in capital</td>
<td>$362,450</td>
<td>$362,012</td>
</tr>
<tr>
<td>Accumulated deficit</td>
<td>$(245,184)</td>
<td>$(292,636)</td>
</tr>
</tbody>
</table>
The accompanying notes are an integral part of these consolidated financial statements.
## FIVE STAR SENIOR LIVING INC.
### CONSOLIDATED STATEMENTS OF OPERATIONS
(amounts in thousands, except per share data)

### For the year ended December 31,

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>REVENUES</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Senior living</td>
<td>$1,085,183</td>
<td>$1,094,404</td>
</tr>
<tr>
<td>Management fee</td>
<td>16,169</td>
<td>15,145</td>
</tr>
<tr>
<td>Reimbursed costs incurred on behalf of managed communities</td>
<td>313,792</td>
<td>280,845</td>
</tr>
<tr>
<td><strong>Total revenues</strong></td>
<td>$1,415,144</td>
<td>$1,390,394</td>
</tr>
<tr>
<td><strong>OPERATING EXPENSES</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Senior living wages and benefits</td>
<td>573,593</td>
<td>563,263</td>
</tr>
<tr>
<td>Other senior living operating expenses</td>
<td>297,885</td>
<td>301,239</td>
</tr>
<tr>
<td>Costs incurred on behalf of managed communities</td>
<td>313,792</td>
<td>280,845</td>
</tr>
<tr>
<td>Rent expense</td>
<td>141,486</td>
<td>209,150</td>
</tr>
<tr>
<td>General and administrative expenses</td>
<td>87,884</td>
<td>78,189</td>
</tr>
<tr>
<td>Depreciation and amortization expense</td>
<td>16,640</td>
<td>35,939</td>
</tr>
<tr>
<td>Loss (gain) on sale of senior living communities</td>
<td>856</td>
<td>(7,131)</td>
</tr>
<tr>
<td>Long-lived asset impairment</td>
<td>3,282</td>
<td>461</td>
</tr>
<tr>
<td><strong>Total operating expenses</strong></td>
<td>$1,435,418</td>
<td>$1,461,955</td>
</tr>
</tbody>
</table>

Operating loss | (20,274) | (71,561) |

Interest, dividend and other income | 1,364 | 818 |
Interest and other expense | (2,615) | (3,018) |
Unrealized gain (loss) on equity investments | 782 | (690) |
Realized gain on sale of debt and equity investments, net of tax | 229 | 99 |

Loss before income taxes and equity in earnings of an investee | (20,514) | (74,352) |
Provision for income taxes | (56) | (247) |
Equity in earnings of an investee, net of tax | 575 | 516 |

Net loss | $ (19,995) | $ (74,083) |

Weighted average shares outstanding (basic and diluted) | 5,006 | 4,969 |

Net loss per share (basic and diluted) | $ (3.99) | $ (14.91) |

The accompanying notes are an integral part of these consolidated financial statements.
FIVE STAR SENIOR LIVING INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(dollars in thousands)

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net loss</td>
<td>$(19,995)</td>
<td>$(74,083)</td>
</tr>
<tr>
<td>Other comprehensive income (loss):</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unrealized gain (loss) on investments, net of tax of $294 and $0, respectively</td>
<td>831</td>
<td>(385)</td>
</tr>
<tr>
<td>Equity in unrealized gain (loss) of an investee, net of tax</td>
<td>90</td>
<td>(68)</td>
</tr>
<tr>
<td>Realized gain on investments reclassified and included in net loss, net of tax of $0 and $0, respectively</td>
<td>—</td>
<td>106</td>
</tr>
<tr>
<td>Other comprehensive income (loss)</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>921</td>
<td>(347)</td>
</tr>
<tr>
<td>Comprehensive loss</td>
<td>$(19,074)</td>
<td>$(74,430)</td>
</tr>
</tbody>
</table>

The accompanying notes are an integral part of these consolidated financial statements.
## Five Star Senior Living Inc.
### Consolidated Statements of Shareholders’ Equity
*(dollars in thousands)*

<table>
<thead>
<tr>
<th></th>
<th>Number of Shares</th>
<th>Common Stock</th>
<th>Additional Paid In Capital</th>
<th>Accumulated Deficit</th>
<th>Accumulated Other Comprehensive Income</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Balance at December 31, 2017</strong></td>
<td>5,052,442</td>
<td>$51</td>
<td>$361,396</td>
<td>$(220,489)</td>
<td>$4,036</td>
<td>$144,994</td>
</tr>
</tbody>
</table>

**Comprehensive Loss:**

- **Cumulative effect of reclassification of unrealized gain on equity investments in connection with the adoption of FASB ASU No. 2016-01:** $1,947
- **Net loss:** $(74,083)
- **Unrealized loss on investments, net of tax:** $(385)
- **Realized gain on investments reclassified and included in net loss, net of tax:** $106
- **Equity in unrealized loss of an investee, net of tax:** $(68)

**Total Comprehensive Loss:** $(72,136)

| Grants under share award plan and share based compensation | 47,100 | 616 | — | — | 616 |
| Repurchases under share award plan                          | (14,197) | — | — | (11) | (11) |
| **Balance at December 31, 2018**                            | 5,085,345 | $51 | $362,012 | $(292,636) | 1,742 | 71,169 |

**Comprehensive Income (Loss):**

- **Net loss:** $(19,995)
- **Unrealized gain on investments, net of tax:** $831
- **Equity in unrealized gain of an investee, net of tax:** $90

**Total Comprehensive Income (Loss):** $(19,995)

| Cumulative effect adjustment to beginning retained earnings in connection with the adoption of FASB ASU No. 2016-02 | — | — | — | 67,473 | — | 67,473 |
| Grants under share award plan and share based compensation | 85,800 | 1 | 438 | — | — | 439 |
| Repurchases under share award plan                           | (16,253) | — | — | (26) | — | (26) |
| **Balance at December 31, 2019**                            | 5,154,892 | $52 | $362,450 | $(245,184) | $2,663 | 119,981 |

The accompanying notes are an integral part of these consolidated financial statements.
# FIVE STAR SENIOR LIVING INC.  
## CONSOLIDATED STATEMENTS OF CASH FLOWS  
### (dollars in thousands)  
#### For the year ended December 31,  
<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
</table>
### CASH FLOW FROM OPERATING ACTIVITIES:  
#### Net loss  
$ (19,995)  
$ (74,083)  
#### Adjustments to reconcile net loss to cash used in operating activities:  
<table>
<thead>
<tr>
<th>Description</th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Depreciation and amortization expense</td>
<td>16,640</td>
<td>35,939</td>
</tr>
<tr>
<td>Loss (gain) on sale of senior living communities</td>
<td>856</td>
<td>(7,131)</td>
</tr>
<tr>
<td>Unrealized (gain) loss on equity securities</td>
<td>(782)</td>
<td>690</td>
</tr>
<tr>
<td>Realized gain on sale of debt and equity securities</td>
<td>(229)</td>
<td>(99)</td>
</tr>
<tr>
<td>Loss on disposal of property and equipment</td>
<td>86</td>
<td>16</td>
</tr>
<tr>
<td>Long-lived asset impairment</td>
<td>3,282</td>
<td>461</td>
</tr>
<tr>
<td>Equity in earnings of an investee, net of tax</td>
<td>(575)</td>
<td>(516)</td>
</tr>
<tr>
<td>Stock based compensation</td>
<td>439</td>
<td>616</td>
</tr>
<tr>
<td>Provision for losses on receivables</td>
<td>4,891</td>
<td>4,904</td>
</tr>
<tr>
<td>Amortization of non-cash rent adjustments</td>
<td>(13,840)</td>
<td>(6,609)</td>
</tr>
<tr>
<td>Other non-cash expense (income) adjustments, net</td>
<td>346</td>
<td>1,192</td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>(1,323)</td>
<td>(3,989)</td>
</tr>
<tr>
<td>Prepaid expenses and other assets</td>
<td>914</td>
<td>1,535</td>
</tr>
<tr>
<td>Accounts payable and accrued expenses</td>
<td>12,850</td>
<td>(4,211)</td>
</tr>
<tr>
<td>Accrued compensation and benefits</td>
<td>208</td>
<td>(2,472)</td>
</tr>
<tr>
<td>Due (to) from related persons, net</td>
<td>(1,619)</td>
<td>(1,683)</td>
</tr>
<tr>
<td>Other current and long-term liabilities</td>
<td>(6,258)</td>
<td>1,217</td>
</tr>
<tr>
<td>Net cash used in operating activities</td>
<td>(4,109)</td>
<td>(54,223)</td>
</tr>
</tbody>
</table>
### CASH FLOW FROM INVESTING ACTIVITIES:  
#### Acquisition of property and equipment | (57,494)  | (48,980)   |
#### Purchases of investments         | (2,991)   | (5,297)    |
#### Proceeds from sale of property and equipment | 110,027  | 17,956     |
#### Distributions in excess from Affiliates Insurance Company | 9,000   | —          |
#### (Settlement of liabilities) proceeds from sale of communities | (754)    | 31,819     |
#### Proceeds from sale of investments | 5,193     | 9,438      |
| Net cash provided by investing activities | 62,981   | 4,936      |
### CASH FLOW FROM FINANCING ACTIVITIES:  
#### Proceeds from borrowings on revolving credit facilities | 5,000    | 76,484     |
#### Repayments of borrowings on revolving credit facilities | (56,484) | (25,000)   |
#### Repayments of mortgage notes payable | (365)    | (509)      |
#### Payment of deferred financing fees | (1,271)   | —          |
#### Payment of employee tax obligations on withheld shares | (26)     | (11)       |
| Net cash (used in) provided by financing activities | (53,146) | 50,964     |
### Change in cash, cash equivalents and restricted cash  
<table>
<thead>
<tr>
<th>Description</th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Change in cash, cash equivalents and restricted cash</td>
<td>5,726</td>
<td>1,677</td>
</tr>
<tr>
<td>Restricted cash transferred to held for sale assets</td>
<td>(5)</td>
<td>—</td>
</tr>
<tr>
<td>Cash, cash equivalents and restricted cash at beginning of period</td>
<td>51,258</td>
<td>49,581</td>
</tr>
<tr>
<td>Cash, cash equivalents and restricted cash at end of period</td>
<td>$ 56,979</td>
<td>$ 51,258</td>
</tr>
</tbody>
</table>
### Reconciliation of cash, cash equivalents and restricted cash  
#### Cash and cash equivalents | $ 31,740  | $ 29,512   |
#### Restricted cash | 25,239 | 21,746    |
| Cash and cash equivalents and restricted cash at end of period | $ 56,979 | $ 51,258  |
### SUPPLEMENTAL CASH FLOW INFORMATION:
<table>
<thead>
<tr>
<th>Description</th>
<th>Amount 1</th>
<th>Amount 2</th>
<th>Amount 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest paid</td>
<td>$1,819</td>
<td>$1,577</td>
<td></td>
</tr>
<tr>
<td>Income taxes (received) paid, net</td>
<td>$1,947</td>
<td>$311</td>
<td></td>
</tr>
</tbody>
</table>

**NON-CASH ACTIVITIES:**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount 1</th>
<th>Amount 2</th>
<th>Amount 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Initial recognition of right of use asset</td>
<td>$1,478,958</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Initial recognition of lease liability</td>
<td>$1,478,958</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Real estate sales</td>
<td>—</td>
<td>$33,364</td>
<td></td>
</tr>
<tr>
<td>Mortgage notes assumed by purchaser in real estate sales</td>
<td>—</td>
<td></td>
<td>$33,364</td>
</tr>
</tbody>
</table>

The accompanying notes are an integral part of these consolidated financial statements.

F-6
1. Organization and Description of Business

General. Five Star Senior Living Inc., collectively with its consolidated subsidiaries, we, us or our, is a corporation formed in 2001 under the laws of the State of Maryland. As of December 31, 2019, we operated 268 senior living communities located in 32 states with 31,285 living units, including 257 primarily independent and assisted living communities with 30,021 living units and 11 skilled nursing facilities, or SNFs, with 1,264 living units. As of December 31, 2019, we owned and operated 20 of these senior living communities (2,108 living units), we leased and operated 170 of these senior living communities (18,840 living units) and we managed 78 of these senior living communities (10,377 living units). Our 268 senior living communities, as of December 31, 2019, included 11,364 independent living apartments, 16,470 assisted living suites and 3,451 SNF units. The foregoing numbers exclude living units categorized as out of service.

Restructuring of Business Arrangements with DHC. On April 1, 2019, we entered into a transaction agreement, or the Transaction Agreement, with Diversified Healthcare Trust (formerly known as Senior Housing Properties Trust), or DHC, to restructure our business arrangements with DHC, pursuant to which, effective as of January 1, 2020, or the Conversion Time:

- our five then existing master leases with DHC for all of DHC’s senior living communities that we then leased, as well as our then existing management and pooling agreements with DHC for DHC’s senior living communities that were then managed by us, were terminated and replaced, or the Conversion, with new management agreements for all of these senior living communities and a related omnibus agreement, or collectively, the New Management Agreements;
- we issued 10,268,158 of our common shares to DHC and an aggregate of 16,118,849 of our common shares to DHC’s shareholders of record as of December 13, 2019, or, together, the Share Issuances; and
- as consideration for the Share Issuances, DHC provided to us $75,000 of additional consideration by assuming certain of our working capital liabilities. Such consideration, the Conversion and the Share Issuances are collectively referred to as the Restructuring Transactions.

In connection with the Transaction Agreement, we entered into a credit agreement with DHC pursuant to which DHC extended to us a $25,000 line of credit, or the DHC credit facility, which was secured by six senior living communities we own. The DHC credit facility matured and was terminated in connection with the completion of the Restructuring Transactions. There were no amounts outstanding under the DHC credit facility at the time of such termination and we did not make any borrowings under the DHC credit facility during its term.

Reverse Stock Split. On September 30, 2019, we completed a one-for-ten reverse stock split of our outstanding common shares, or the Reverse Stock Split, pursuant to which every ten of our common shares issued and outstanding as of the effective time of the Reverse Stock Split were converted into one share of our common stock, par value $.10 per share, subject to the receipt of cash in lieu of fractional shares. Following the effective time of the Reverse Stock Split on September 30, 2019, we changed the par value of our common stock from $.10 per share back to $.01 per share. The Reverse Stock Split affected all record holders of our common shares uniformly and did not affect any record shareholder’s percentage ownership interest in us. The Reverse Stock Split reduced the number of our then issued and outstanding common shares from 50,823,340 to 5,082,334.

All impacted amounts and share information included in the consolidated financial statements and notes hereto have been retroactively adjusted for the Reverse Stock Split, effective September 30, 2019, as if the Reverse Stock Split occurred on the first date of the first period presented. Certain adjusted amounts in the notes to these consolidated financial statements may not agree with the previously reported amounts due to the receipt of cash in lieu of fractional shares.

2. Summary of Significant Accounting Policies

Principles of Consolidation. The accompanying consolidated financial statements include the accounts of Five Star Senior Living Inc. and its wholly owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

Use of Estimates. Preparation of these financial statements in conformity with accounting principles generally accepted in the United States requires us to make estimates and assumptions that may affect the amounts reported in these
financial statements and related notes. Some significant estimates are included in our revenue recognition, including contractual allowances, the allowance for doubtful accounts, self-insurance reserves, long-lived assets, and estimates concerning our provisions for income taxes.

Our actual results could differ from our estimates. We periodically review estimates and assumptions and we reflect the effects of changes, if any, in the consolidated financial statements in the period that they are determined.

**Fair Value of Financial Instruments.** Our financial instruments are limited to cash and cash equivalents, accounts receivable, debt and equity investments, accounts payable and mortgage notes payable. Except for our mortgage debt, the fair value of these financial instruments was not materially different from their carrying values at December 31, 2019 and 2018. We estimate the fair values of our mortgage debt using market quotes when available, discounted cash flow analyses and current prevailing interest rates.

**Segment Information.** Operating segments are components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker, or decision-making group, in determining the allocation of resources and in assessing performance. Our chief operating decision maker is our President and Chief Executive Officer. As of December 31, 2019, we have two operating segments: senior living and rehabilitation and wellness. In the senior living segment, we operate for our own account or manage for the account of others independent living communities, assisted living communities and SNFs that are subject to centralized oversight and provide housing and services to older adults. In the rehabilitation and wellness operating segment, we provide therapy services, including physical, occupational, speech and other specialized therapy services, in the inpatient setting and in outpatient clinics. We have determined that our two operating segments meet the aggregation criteria as prescribed under the Financial Accounting Standards Board, or FASB, Accounting Standards Codification, or ASC, Topic 280, Segment Reporting, and we have therefore determined that our business is comprised of one reportable segment, senior living. All of our operations and assets are located in the United States, except for the operations of our Cayman Islands organized captive insurance company subsidiary which participates in our workers’ compensation, professional and general liability and certain automobile insurance programs.

**Earnings Per Share.** We calculate basic earnings per common share, or EPS, by dividing net income (loss) by the weighted average number of common shares outstanding during the year. We calculate diluted EPS using the more dilutive of the two-class method or the treasury stock method.

**Cash and Cash Equivalents and Restricted Cash.** Cash and cash equivalents, consisting of short-term, highly liquid investments and money market funds with original maturities of three months or less at the date of purchase, are carried at cost plus accrued interest, which approximates market.

Restricted cash as of December 31, 2019 and 2018, includes cash that we deposited as security for obligations arising from our self-insurance programs and other amounts for which we are required to establish escrows including real estate taxes and capital expenditures as required by our mortgages and certain resident security deposits.

<table>
<thead>
<tr>
<th>As of December 31,</th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Current</td>
<td>Long-Term</td>
</tr>
<tr>
<td>Insurance reserves and other restricted amounts</td>
<td>$679</td>
<td>$1,244</td>
</tr>
<tr>
<td>Real estate taxes and capital expenditures as required by our mortgages</td>
<td>$526</td>
<td>—</td>
</tr>
<tr>
<td>Resident security deposits</td>
<td>$32</td>
<td>—</td>
</tr>
<tr>
<td>Workers’ compensation letter of credit collateral</td>
<td>$21,655</td>
<td>—</td>
</tr>
<tr>
<td>Health deposit-imprest cash</td>
<td>1,103</td>
<td>—</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$23,995</strong></td>
<td><strong>$1,244</strong></td>
</tr>
</tbody>
</table>

**Concentrations of Credit Risk.** Our financial instruments that potentially subject us to concentrations of credit risk consist primarily of cash and cash equivalents, investments and trade receivables. We have cash investment policies that, among other things, limit investments to investment-grade securities. We hold our cash and cash equivalents and investments with high-quality financial institutions and we monitor the credit ratings of those institutions.

We perform ongoing credit evaluations of our customers, and the risk with respect to trade receivables is further mitigated by the diversity, both by geography and by industry, of the customer base. As of December 31, 2019, payments due from Medicare and Medicaid represented 26.5% and 25.0%, respectively, of our consolidated accounts receivable balance. As
of December 31, 2018, payments due from Medicare and Medicaid represented 23.4% and 33.8%, respectively, of our consolidated accounts receivable.

We derive primarily all of our management fee revenue from DHC. As of December 31, 2019 and 2018, we had $3,363 due from DHC and $10,900 due to DHC, respectively, which are included in due from related persons and due to related persons, respectively, on our consolidated balance sheets.

**Accounts Receivable and Allowance for Doubtful Accounts.** We record accounts receivable at their estimated net realizable value. Included in accounts receivable as of December 31, 2019 and 2018, are amounts due from the Medicare program of $9,056 and $8,821, respectively, and amounts due from various state Medicaid programs of $8,532 and $12,757, respectively.

We estimate allowances for uncollectible amounts and contractual allowances based upon factors which include, but are not limited to, historical payment trends, write-off experience, analyses of accounts receivable portfolios by payor source and the age of the receivable as well as a review of specific accounts, the terms of the agreements, the residents’ or third party payers’ stated intent to pay, the payers’ financial capacity to pay and other factors which may include likelihood and cost of litigation.

Billings for services under third party payer programs are recorded net of estimated retroactive adjustments, if any. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods or as final settlements are determined. Contractual or cost related adjustments from Medicare or Medicaid are accrued when assessed (without regard to when the assessment is paid or withheld). Subsequent adjustments to these accrued amounts are recorded in net revenues when known.

The allowance for doubtful accounts reflects estimates that we periodically review and revise based on new information, to which revisions may be material. Our allowance for doubtful accounts consists of the following:

<table>
<thead>
<tr>
<th>Allowance for Doubtful Accounts</th>
<th>Balance at Beginning of Period</th>
<th>Provision for Doubtful Accounts</th>
<th>Recoveries</th>
<th>Write-offs</th>
<th>Balance at End of Period</th>
</tr>
</thead>
<tbody>
<tr>
<td>December 31, 2018</td>
<td>$3,572</td>
<td>$4,904</td>
<td>$1,461</td>
<td>$(6,515)</td>
<td>$3,422</td>
</tr>
<tr>
<td>December 31, 2019</td>
<td>$3,422</td>
<td>$4,891</td>
<td>$1,459</td>
<td>$(5,108)</td>
<td>$4,664</td>
</tr>
</tbody>
</table>

**Equity and Debt Investments.** On January 1, 2018, we adopted FASB Accounting Standards Update, or ASU, No. 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities, which changes how entities measure certain equity investments and present changes in the fair value of financial liabilities measured under the fair value option that are attributable to their own credit. Prior to our adoption of this ASU, we recorded changes in the fair value of our equity investments through other comprehensive income. Pursuant to this ASU, these changes will now be recorded through earnings. We adopted this ASU using the cumulative effect adjustment method and recorded an adjustment of $1,947 on January 1, 2018, to accumulated other comprehensive income and accumulated deficit in our consolidated balance sheets.

Equity investments are carried at fair value with changes in fair value recorded in earnings. At December 31, 2019, these equity investments had a fair value of $6,409 and a net unrealized holding gain of $1,201. At December 31, 2018, these equity investments had a fair value of $5,466 and a net unrealized holding gain of $419.

Debt investments are carried at fair value, with unrealized gains and losses reported as a separate component of shareholders’ equity and “other than temporary impairment” losses recorded through earnings. Realized gains and losses on debt investments are recognized based on specific identification. Restricted debt investments are kept as security for obligations arising from our self-insurance programs. At December 31, 2019, these debt investments had a fair value of $21,766 and a net unrealized holding gain of $2,104. At December 31, 2018, these debt investments had a fair value of $22,785 and a net unrealized holding gain of $979.

In 2019 and 2018, our debt and equity investments generated interest and dividend income of $1,364 and $818, respectively, which is included in interest, dividend and other income in our consolidated statements of operations.

The following table summarizes the fair value and gross unrealized losses related to our debt investments, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position for the years ended:
We routinely evaluate our debt investments to determine if they have been impaired. If the fair value of a debt investment is less than its book or carrying value and we expect that situation to continue for a more than temporary period, we will record an “other than temporary impairment” loss in our consolidated statements of operations. We evaluate the fair value of our debt investments by reviewing each investment’s current market price, the ratings of the investment, 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 investment is below the investment’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 investment is historically volatile. Additionally, there may be instances in which impairment losses are recognized even if the decline in value does not meet the criteria described above, such as if we plan to sell the investment in the near term and the fair value is below our cost basis. When we believe that a change in fair value of a debt investment is temporary, we record a corresponding credit or charge to other comprehensive income for any unrealized gains and losses. When we determine that impairment in the fair value of a debt investment is an “other than temporary impairment”, we record a charge to earnings. We did not record such an impairment charge for the years ended December 31, 2019 and 2018.

Deferred Financing Costs. We capitalize issuance costs related to our secured revolving credit facility, or our credit facility, and amortize the deferred costs over the term of the agreement governing our credit facility, or our credit agreement. Our unamortized balance of deferred finance costs was $980 and $187 at December 31, 2019 and 2018, respectively, of which $692 and $187 was included in other current assets on our consolidated balance sheets as of December 31, 2019 and 2018, respectively, and $288 and $0 was included in other long-term assets on our consolidated balance sheets as of December 31, 2019 and 2018, respectively. In connection with an amendment to the agreement governing our prior credit facility, in December 2018, we wrote off $554 in deferred financing fees in the fourth quarter of 2018 and recorded such amount to interest and other expense in our consolidated statements of operations. No such write-offs occurred during the year ended December 31, 2019. In June 2019, we entered into a new credit agreement to replace our prior credit facility with our $65,000 secured revolving credit facility. See Note 8 for more information on our credit facility. At December 31, 2019, the weighted average amortization period remaining, related to our finance costs, is less than two years.

Assets and Liabilities Held for Sale. We designate communities as held for sale when it is probable that the communities will be sold within one year. We record these assets on the consolidated balance sheets at the lesser of the carrying value and fair value less estimated selling costs. If the carrying value is greater than the fair value less the estimated selling costs, we record an impairment charge. We evaluate the fair value of the assets held for sale each period to determine if it has changed. At December 31, 2019, we designated all communities under our then master leases with DHC as held for sale, because, pursuant to the Transaction Agreement, effective January 1, 2020, those leases were terminated and we and DHC entered into the New Management Agreements.

Property and Equipment. Property and equipment are recorded at cost and depreciated using the straight-line basis over their estimated useful lives, which are typically as follows:

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>Estimated Useful Life (in years)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Buildings</td>
<td>40</td>
</tr>
<tr>
<td>Building improvements</td>
<td>3 - 15</td>
</tr>
<tr>
<td>Equipment</td>
<td>7</td>
</tr>
<tr>
<td>Computer equipment and software</td>
<td>5</td>
</tr>
<tr>
<td>Furniture and fixtures</td>
<td>7</td>
</tr>
</tbody>
</table>

We regularly evaluate whether events or changes in circumstances have occurred that could indicate impairment in the value of our long-lived assets. If there is an indication that the carrying value of an asset is not recoverable, we determine the amount of impairment loss, if any, by comparing the historical carrying value of the asset to its estimated fair value, with any amount in excess of fair value recognized as an expense in the current period. We determine estimated fair value through an
Equity Method Investments. As of December 31, 2019, and until its dissolution on February 13, 2020, we and six other shareholders each owned approximately 14.3% of the outstanding equity of Affiliates Insurance Company, or AIC. Although we owned less than 20% of AIC, we used the equity method to account for this investment because we believed that we had significant influence over AIC, as all of our then Directors were also directors of AIC. Under the equity method, we recorded our percentage share of net earnings from AIC in our consolidated statements of operations. If we determined there was an “other than temporary impairment” in the fair value of this investment, we would have recorded a charge to earnings. In evaluating the fair value of this investment, we have considered, among other things, the 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. As of December 31, 2019, we had invested $6,034 in AIC. As discussed further in Note 14, AIC was dissolved on February 13, 2020, and in connection with this dissolution, we and each other AIC shareholder received an initial liquidating distribution of $9,000 in December 2019.

Legal Proceedings and Claims. We have been, are currently, and expect in the future to be involved in claims, lawsuits, and regulatory and other government audits, investigations and proceedings arising in the ordinary course of our business, some of which may involve material amounts. Also, the defense and resolution of these claims, lawsuits, and regulatory and other government audits, investigations and proceedings may require us to incur significant expense. We account for claims and litigation losses in accordance with FASB, Accounting Standards Codification®, or ASC, Topic 450, Contingencies. Under FASB ASC Topic 450, loss contingency provisions are recorded for probable and estimable losses at our best estimate of a loss or, when a best estimate cannot be made, at our estimate of the minimum loss. These estimates are often developed prior to knowing the amount of the ultimate loss, require the application of considerable judgment, and are refined as additional information becomes known. Accordingly, we are often initially unable to develop a best estimate of loss and therefore the estimated minimum loss amount, which could be zero, is recorded; then, as information becomes known, the minimum loss amount is updated, as appropriate. Occasionally, a minimum or best estimate amount may be increased or decreased when events result in a changed expectation.

Self-Insurance. We partially self-insure up to certain limits for workers’ compensation, professional and general liability, automobile and property coverage. Claims that exceed these limits are insured up to contractual limits, over which we are self-insured. We fully self-insure all health-related claims for our covered employees. We have established an offshore captive insurance company subsidiary that participates in our workers’ compensation, professional and general liability and automobile insurance programs. Determining reserves for the casualty, liability, workers’ compensation and healthcare losses and costs that we have incurred as of the end of a reporting period involves significant judgments based upon our experience and our expectations of future events, including projected settlements for pending claims, known incidents that we expect may result in claims, estimates of incurred but not yet reported claims, expected changes in premiums for insurance provided by insurers whose policies provide for retroactive adjustments, estimated litigation costs and other factors. Since these reserves are based on estimates, the actual expenses we incur may differ from the amount reserved. We regularly adjust these estimates to reflect changes in the foregoing factors, our actual claims experience, recommendations from our professional consultants, changes in market conditions and other factors; it is possible that such adjustments may be material. Our total self-insurance reserves were $65,908 and $67,534 as of the year ended December 31, 2019 and 2018, respectively, and are included in accrued compensation and benefits, other current liabilities and accrued self-insurance obligations in our consolidated balance sheets.

Lease Accounting. On January 1, 2019, we adopted FASB ASC Topic 842, Leases, or ASC Topic 842, utilizing the modified retrospective transition method with no adjustments to comparative periods presented. Additionally, we elected the practical expedients within FASB ASU No. 2016-02, Leases (Topic 842), or ASU No. 2016-02 that allow an entity to not reassess as of January 1, 2019, its prior conclusions on whether an existing contract contains a lease, lease classification for existing leases, and whether costs incurred for existing leases qualify as initial direct costs.

In accordance with ASC Topic 842, at the inception of a contract, we, as lessee, evaluate and determine whether such a contract is or contains a lease based on whether such contract conveys the right to control the use of the identified asset. We apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase of the leased asset by the lessee. We have elected to apply the portfolio approach where possible in assessing our leases and performed an assessment of all our leases. In addition, we have elected the practical expedient, by class of underlying asset, not to separate non-lease components from the associated lease component if certain conditions are met. As lessee, we lease senior living communities and our headquarters, and enter into contracts for the use and
maintenance of various pieces of equipment that contain a lease. We have determined that none of these leases have met any of the criteria to be classified as a finance lease and, therefore, we have accounted for all of these leases as operating leases.

We have determined that our leases for the use and maintenance of equipment are short-term leases. In accordance with ASC Topic 842, we have made an accounting policy election for our leases, which are determined to be short-term leases, whereby we recognize the lease payments on a straight-line basis over the lease term and variable lease payments in the period in which the obligations for those payments are incurred. Expenses related to these leases are recognized in the statement of operations in other senior living operating expenses and are not material to our consolidated financial statements.

We have determined that our leases for senior living communities and our headquarters are long-term leases. In accordance with ASC Topic 842, a lessee is required to record a right of use asset and a lease liability for all leases with a term greater than 12 months regardless of their classification. Accordingly, we have recorded a right of use asset and lease liability for all of our leased communities and our headquarters. We determined that the discount rate implicit in the leases was not readily available, and therefore, in accordance with ASC Topic 842, we determined our incremental borrowing rate, or IBR, to calculate the right of use assets and lease liabilities. For purposes of determining the lease term, we concluded that it is not reasonably certain that our lease extensions will be exercised and, therefore, we included payments required to be made under the committed lease term in calculating the right of use assets and lease liabilities. Expenses related to these leases are recognized in the statement of operations in rent expense, except for the expense related to our headquarters, which is recorded in general and administrative expenses. We recognized variable lease payments primarily relating to percentage rent paid under our leases with DHC and operating costs such as insurance and real estate taxes, in the statement of operations in the period in which the obligations for those payments are incurred.

We have capitalized any initial direct costs related to our leases as these costs are not material to our consolidated financial statements.

ASC Topic 842 provides lessors with a practical expedient, by class of underlying asset, not to separate non-lease components from the associated lease component if certain conditions are met. In addition, ASC Topic 842 clarifies which ASC Topic (Topic 842 or FASB ASC Topic 606, Revenue from Contracts with Customers, or ASC Topic 606) applies for the combined component. Specifically, if the non-lease components associated with the lease component are the predominant component of the combined components, the lessor should account for the combined component in accordance with ASC Topic 606. Otherwise, the lessor should account for the combined component as an operating lease in accordance with ASC Topic 842. We have elected this practical expedient and recognized revenue under our resident agreements at our independent living and assisted living communities based upon the predominant component rather than allocating the consideration and separately accounting for it under ASC Topic 842 and ASC Topic 606. We have concluded that the non-lease components of the agreements with respect to our independent and assisted living communities are the predominant component of the leases and, therefore, we recognize revenue for these agreements under ASC Topic 606.

Stock-Based Compensation. We have a stock-based compensation plan under which we grant equity-based awards. We measure the compensation cost of award recipients’ services received in exchange for an award of equity instruments based on the grant date fair value of the underlying award. That cost is recognized over the period during which an employee is required to provide service in exchange for the award. The impact of forfeitures are recognized as they occur.

Income Taxes. Our income tax expense includes U.S. income taxes. Certain items of income and expense are not reported in tax returns and financial statements in the same year. We account for income taxes under the asset and liability method, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences to be included in our financial statements. Under this method, deferred tax assets and liabilities are determined on the basis of the differences between the financial statement and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse, while the effect of a change in tax rates on deferred tax assets and liabilities is recognized in income in the period that includes the enactment date.

We can recognize a tax benefit only if it is “more likely than not” that a particular tax position will be sustained upon examination or audit. To the extent the “more likely than not” standard has been satisfied, the benefit associated with a tax position is measured as the largest amount that has a greater than 50% likelihood of being realized.

Changes in deferred tax assets and liabilities are recognized in the provision for income taxes. We assess the likelihood that our deferred tax assets will be recovered from future taxable income and, to the extent, we believe that we are more likely than not that all or a portion of deferred tax assets will not be realized, we establish a valuation allowance to reduce the deferred tax assets to the appropriate valuation. To the extent we establish a valuation allowance or increase or decrease this allowance in a given period, we include the related tax expense or tax benefit within the tax provision in the consolidated
statement of operations in that period. In making such a determination, we consider all available positive and negative evidence, including future reversals of existing taxable temporary differences, projected future taxable income, tax-planning strategies and results of recent operations. In the future, if we determine that we would be able to realize our deferred tax assets in excess of their net recorded amount, we would make an adjustment to the deferred tax asset valuation allowance and record an income tax benefit within the tax provision in the consolidated statement of operations in that period.

We pay franchise taxes in certain states in which we have operations. We have included franchise taxes in general and administrative and other senior living operating expenses in our consolidated statements of operations.

Revenue Recognition. We recognize revenue from contracts with customers in accordance with ASC Topic 606 using the practical expedient in paragraph 606-10-10-4 that allows for the use of a portfolio approach, because we have determined that the effect of applying the guidance to our portfolios of contracts within the scope of ASC Topic 606 on our consolidated financial statements would not differ materially from applying the guidance to each individual contract within the respective portfolio or our performance obligations within such portfolio. The five-step model defined by ASC Topic 606 requires us to: (i) identify our contracts with customers, (ii) identify our performance obligations under those contracts, (iii) allocate the transaction prices to our performance obligations in those contracts and (iv) recognize revenue when each performance obligation under those contracts is satisfied. Revenue is recognized when promised goods or services are transferred to the customer in an amount that reflects the consideration expected in exchange for those goods or services.

A substantial portion of our revenue at our independent living and assisted living communities relates to contracts with residents for housing services that are generally short-term in nature and initially is subject to ASC Topic 842. As previously discussed, we have concluded that the non-lease components of these contracts are the predominant components of the contracts; therefore, we recognize revenue for these contracts under ASC Topic 606. Our contracts with residents and other customers that are within the scope of ASC Topic 606 are generally short-term in nature. We have determined that services performed under those contracts are considered one performance obligation in accordance with ASC Topic 606 as such services are regarded as a series of distinct events with the same timing and pattern of transfer to the resident or customer. Revenue is recognized for those contracts when our performance obligation is satisfied by transferring control of the service provided to the resident or customer, which is generally when the services are provided over time.

Senior Living Revenue. Resident fees at our independent living and assisted living communities consist of regular monthly charges for basic housing and support services and fees for additional requested services, such as assisted living services, personalized health services and ancillary services. Fees are specified in our agreements with residents, which are generally short-term (30 days to one year), with regular monthly charges billed in advance. Funds received from residents in advance of services being provided are not material to our consolidated financial statements. Some of our senior living communities require payment of an upfront entrance fee in advance of a resident moving into the community; substantially all of these community fees are non-refundable and are initially recorded as deferred revenue and included in other current liabilities in our consolidated balance sheets. These deferred amounts are then amortized on a straight line basis into revenue over the term of the resident's agreement. When the resident no longer resides within our community, the remaining deferred non-refundable fees are recognized in revenue. Revenue recorded and deferred in connection with community fees is not material to our consolidated financial statements. Revenue for basic housing and support services and additional requested services is recognized in accordance with ASC Topic 606 and measured based on the consideration specified in the resident agreement and is recorded when the services are provided.

In our SNFs and certain of our independent and assisted living communities where we provide SNF services, we are paid fixed daily rates from governmental and contracted third party payers, and we charge a predetermined fixed daily rate for private pay residents. These fixed daily rates and certain other fees are billed monthly in arrears. Although there are complex regulatory compliance rules governing fixed daily rates, we have no episodic payments or capitation arrangements. We currently use the “most likely amount” technique to estimate revenue in accordance with ASC Topic 606, although rates are generally known and considered fixed prior to services being performed, whether included in the resident agreement or contracted with governmental or third party payers. Rate adjustments from Medicare or Medicaid are recorded when known (without regard to when the assessment is paid or withheld), and subsequent adjustments to these amounts are recorded in revenues when known. Billings under certain of these programs are subject to audit and possible retroactive adjustment, and related revenue is recorded at the amount we ultimately expect to receive, which is inclusive of the estimated retroactive adjustments or refunds, if any, under reimbursement programs. Retroactive adjustments are recorded on an estimated basis in the period the related services are rendered and adjusted in future periods or as final settlements are determined. Revenue is recognized when performance obligations are satisfied by transferring control of the service provided to the resident, which is generally when services are provided over the duration of care.
Continuing Care Contracts. Residents at one of our senior living communities may enter continuing care contracts with us, which require the resident to pay an upfront entrance fee prior to moving into the community, which is partially refundable in certain circumstances up to 90% of the total entrance fee. Three other forms of continuing care contracts were in effect for existing residents but are not offered to new residents. The non-refundable portion of a resident’s entrance fee is recorded as deferred revenue and amortized over the estimated stay of the resident based on an actuarial valuation. When the resident no longer resides within our community, the remaining deferred non-refundable fees are recognized in revenue. The refundable portion of a resident’s entrance fee is generally refundable within a certain number of months or days following contract termination or upon the resale of the unit, or in some agreements, upon the resale of a comparable unit, or 12 months after the resident vacates the unit. The refundable portion of the entrance fee is not amortized and is included in security deposits and the current portion of continuing care contracts on the consolidated balance sheet. All refundable amounts due to residents at any time in the future are classified as current liabilities.

We pay refunds of these admission fees to the extent refundable under the contract when residents relocate from our communities. We report the refundable amount of these admission fees as current liabilities and the non-refundable amount as deferred revenue, a portion of which is classified as a current liability. The balance of our refundable admission fees as of December 31, 2019 and 2018 were $552 and $755, respectively, and were included in liabilities held for sale and security deposits and current portion of continuing care contracts, respectively, on our consolidated balance sheets. The balance of non-refundable admission fees as of December 31, 2019 and 2018 were $0 and $1,119, respectively, of which $0 and $863, respectively, were included in other long-term liabilities on our consolidated balance sheets.

SNFs. In our SNFs and certain of our independent and assisted living communities where we provide SNF services, we are paid fixed daily rates from governmental and contracted third party payers, and we charge a predetermined fixed daily rate for private pay residents. These fixed daily rates and certain other fees are billed monthly in arrears. Although there are complex regulatory compliance rules governing fixed daily rates, we have no episodic payments or capitation arrangements. We currently use the “most likely amount” technique to estimate revenue in accordance with ASC Topic 606, although rates are generally known and considered fixed prior to services being performed, whether included in the resident agreement or contracted with governmental or third party payers. Rate adjustments from Medicare or Medicaid are recorded when known (without regard to when the assessment is paid or withheld), and subsequent adjustments to these amounts are recorded in revenues when known. Billings under certain of these programs are subject to audit and possible retroactive adjustments, and related revenue is recorded at the amount we ultimately expect to receive, which is inclusive of the estimated retroactive adjustments or refunds, if any, under reimbursement programs. Retroactive adjustments are recorded on an estimated basis in the period the related services are rendered and adjusted in future periods or as final settlements are determined. Revenue is recognized when performance obligations are satisfied by transferring control of the service provided to the resident, which is generally when services are provided over the duration of care. We derived approximately 21.5% and 23.3% of our senior living revenues for the years ended December 31, 2019 and 2018, respectively, from payments under Medicare and Medicaid programs.

Management Fee Revenue and Reimbursed Costs Incurred on Behalf of Managed Communities. We manage senior living communities for the account of DHC pursuant to long-term management agreements which provide for periodic management fee payments to us and reimbursement for our direct costs and expenses related to such communities. Although there are various management and operational activities performed by us under the agreements, we have determined that all community operations management activities constitute a single performance obligation, which is satisfied over time as the services are rendered.

Management fees are determined by an agreed upon percentage of gross revenues (as defined) and recognized in accordance with ASC Topic 606 in the same period that we provide the management services to DHC, generally monthly.

We estimate the amount of incentive fee revenue expected to be earned, on an annual basis and revenue is recognized as services are provided. Our estimate of the transaction price for management services also includes the amount of reimbursement due from the owners of the communities for services provided and related costs incurred.

FASB ASU No. 2016-08, Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net), clarifies how an entity should identify the unit of accounting for the principal versus agent evaluation and how it should apply the control principle to certain types of arrangements, such as service transactions. Where we are the primary obligor and therefore control the transfer of the goods and services with respect to any such operating expenses incurred in connection with the management of these communities, we recognize revenue when the goods have been delivered or the service has been rendered and we are due to be reimbursed from DHC. Such revenue is included in reimbursed costs incurred on behalf of managed communities in our consolidated statements of operations. The related costs are included in costs incurred on behalf of managed communities in our consolidated statements of operations. Amounts due
from DHC related to management fees and reimbursed costs incurred on behalf of managed communities are included in due from related persons in our consolidated balance sheets.

The following table presents revenue disaggregated by type of contract and payer:

<table>
<thead>
<tr>
<th></th>
<th>Year Ended December 31,</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>2019</td>
</tr>
<tr>
<td>Leasing revenue (1)</td>
<td></td>
<td>$654,563</td>
</tr>
<tr>
<td>Revenue from contracts with customers:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Medicare and Medicaid programs (1)</td>
<td></td>
<td>237,455</td>
</tr>
<tr>
<td>Additional requested services, and private pay and other third party payer SNF services (1)</td>
<td></td>
<td>193,165</td>
</tr>
<tr>
<td>Management fee revenue</td>
<td></td>
<td>16,169</td>
</tr>
<tr>
<td>Reimbursed costs incurred on behalf of managed communities</td>
<td></td>
<td>313,792</td>
</tr>
<tr>
<td>Total revenue from contracts with customers</td>
<td></td>
<td>760,581</td>
</tr>
<tr>
<td>Total revenues</td>
<td></td>
<td>$1,415,144</td>
</tr>
</tbody>
</table>

(1) Included in senior living revenue in our consolidated statements of operations.

**One-time Employee Termination Benefits.** FASB ASC Topic 420, Exit or Disposal Cost Obligations, or ASC Topic 420, specifies the criteria for recognizing a one-time employee termination arrangement. In connection with their respective retirement, we and The RMR Group LLC, or RMR LLC, entered into retirement agreements with our former officers, Bruce J. Mackey Jr. and Richard A. Doyle. Additionally, we entered into a separation agreement with our former Senior Vice President, Senior Living Operations, R. Scott Herzig. Pursuant to these agreements, we made cash payments of $600 and $510 to Mr. Mackey and Mr. Herzig, respectively, in January 2019, and made cash payments of $260 to Mr. Doyle in each of June 2019 and January 2020. In addition, we made release payments to Mr. Mackey in cash, in an aggregate amount of $330, during the year ended December 31, 2019 and $110 in January 2020, and made transition payments to Mr. Mackey and Mr. Doyle in cash, in an aggregate amount of $96 and $56, respectively, during the year ended December 31, 2019. Our arrangements with Messrs. Mackey, Herzig and Doyle meet the criteria in ASC Topic 420, and, as a result, we recorded the full severance cost of $1,160 for Mr. Mackey and $510 for Mr. Herzig in the year ended December 31, 2018, and we recorded the full severance cost of $581 for Mr. Doyle in the year ended December 31, 2019, all of which amounts are included in general and administrative expenses in our consolidated statements of operations.

**Reclassifications.** We have made reclassifications to the prior years’ financial statements to conform to the current year’s presentation. These reclassifications had no effect on net loss or shareholders’ equity.

**Recently Adopted Accounting Pronouncements.**

As previously discussed, on January 1, 2019, we adopted FASB ASU No. 2016-02 and FASB ASU No. 2018-11 under ASC Topic 842, Leases, or ASC Topic 842, utilizing the modified retrospective transition method with no adjustments to comparative periods presented. Accordingly, the information presented for 2018 has not been restated and remains as previously reported under ASC 840 and related interpretations. Additionally, we elected the practical expedients within ASU No. 2016-02 that allow an entity to not reassess as of January 1, 2019, its prior conclusions on whether an existing contract contains a lease, lease classification for existing leases, and whether costs incurred for existing leases qualify as initial direct costs. While the adoption of these ASUs did not affect the rent we pay, the rent expense amounts presented in our consolidated statements of operations were impacted primarily due to changes in how we accounted for our deferred gain on the sale and leaseback transaction we entered into with DHC in 2017. As such, on January 1, 2019, we recorded through retained earnings our total deferred gain of $67,473 on our consolidated balance sheets as of December 31, 2018, $55 of which was in accounts payable and accrued expenses, $6,724 of which was in other current liabilities, $1,216 of which was in other long-term liabilities and the remaining $59,478 was separately stated on our consolidated balance sheets.

On January 1, 2019, we adopted FASB ASU No. 2017-08, Receivables-Nonrefundable Fees and Other Costs (Subtopic 310-20), which shortens the amortization period for certain callable debt securities held at a premium. Specifically, this ASU requires the premium to be amortized to the earliest call date. This ASU does not require an accounting change for securities held at a discount; the discount continues to be amortized to maturity. The adoption of this ASU did not have a material impact on our consolidated financial statements.

On January 1, 2019, we adopted FASB ASU No. 2018-02, Income Statement-Reporting Comprehensive Income (Topic 220), which permits an entity to reclassify the tax effects that remain recorded within other comprehensive income to retained earnings.
earnings as a result of the tax reform legislation that became effective in December 2017. The adoption of this ASU did not have a material impact on our consolidated financial statements.

On January 1, 2019, we adopted FASB ASU No. 2018-07, Compensation-Stock Compensation (Topic 718), which expands the scope of ASU Topic 718 to include share based payment transactions for acquiring goods and services from non-employees. The adoption of this ASU did not have a material impact on our consolidated financial statements.

**Recently Issued Accounting Pronouncements Not Yet Adopted**

In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments-Credit Losses (Topic 326), which requires a financial asset or a group of financial assets measured at amortized cost basis to be presented at the net amount expected to be collected. This ASU eliminates the probable initial recognition threshold and instead requires reflection of an entity’s current estimate of all expected credit losses. In addition, this ASU amends the current available for sale security other-than-temporary impairment model for debt securities. The length of time that the fair value of an available for sale debt security has been below the amortized cost will no longer impact the determination of whether a credit loss exists and credit losses will now be limited to the difference between a security’s amortized cost basis and its fair value. In November 2018, the FASB issued ASU No. 2018-19, Codification Improvements to Topic 326, Financial Instruments-Credit Losses, which amends the transition and effective date for nonpublic entities and clarifies that receivables arising from operating leases are not in the scope of this ASU. These ASUs are effective for reporting periods beginning after December 15, 2022. We are assessing the potential impact that the adoption of these ASUs will have on our consolidated financial statements.

In August 2018, the FASB issued ASU No. 2018-13, Fair Value Measurement (Topic 820), which modifies certain disclosure requirements in Topic 820, such as the removal of the need to disclose the amount of and reason for transfers between Level 1 and Level 2 of the fair value hierarchy, and several changes related to Level 3 fair value measurements. This ASU is effective for reporting periods beginning after December 15, 2019. We expect this ASU will not have a material impact on our consolidated financial statements.

In August 2018, the FASB issued ASU No. 2018-15, Intangibles-Goodwill and Other-Internal Use Software (Subtopic 350-40), which aligns the requirements for capitalizing implementation costs incurred in a cloud computing hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal use software. This ASU is effective for reporting periods beginning after December 15, 2019. We expect this ASU will not have a material impact on our consolidated financial statements.

In December 2019, the FASB also issued ASU 2019-12, Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes, which simplifies certain requirements under Topic 740, including eliminating the exception to intraperiod tax allocation when there is a loss from continuing operations and income from other sources, such as other comprehensive income or discontinued operations. This ASU is effective for reporting periods beginning after December 15, 2020. We expect this ASU will not have a material impact on our consolidated financial statements.

### 3. Property and Equipment

Property and equipment consist of the following:

<table>
<thead>
<tr>
<th></th>
<th>As of December 31,</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2019</td>
</tr>
<tr>
<td>Land</td>
<td>$12,155</td>
</tr>
<tr>
<td>Buildings and improvements</td>
<td>201,447</td>
</tr>
<tr>
<td>Furniture, fixtures and equipment</td>
<td>59,174</td>
</tr>
<tr>
<td>Property and equipment, at cost</td>
<td>272,776</td>
</tr>
<tr>
<td>Accumulated depreciation</td>
<td>(105,529)</td>
</tr>
<tr>
<td>Property and equipment, net</td>
<td>$167,247</td>
</tr>
</tbody>
</table>

We recorded depreciation expense relating to our property and equipment of $16,640 and $35,859 for the years ended December 31, 2019 and 2018, respectively.

We review the carrying value of long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If there is an indication that the carrying value of an asset is not recoverable, we determine the amount of impairment loss, if any, by comparing the historical carrying value of the asset
to its estimated fair value. We determine estimated fair value based on input from market participants, our experience selling similar assets, market conditions and internally developed cash flow models that our assets or asset groups are expected to generate, and we consider these estimates to be a Level 3 fair value measurement. As a result of our long-lived assets impairment review, we recorded $3,148 and $387 of impairment charges to certain of our long-lived assets for the years ended December 31, 2019 and 2018, respectively. The fair values of the impaired assets were $4,520 and $362 as of December 31, 2019 and 2018, respectively. We also recorded long-lived asset impairment charges of $134 for the year ended December 31, 2019, to reduce the carrying value of five senior living communities we and DHC sold to their estimated fair value less costs to sell. For the year ended December 31, 2018, we recorded long-lived asset impairment charges of $74 to reduce the carrying value of one senior living community we and DHC sold to its estimated fair value less costs to sell. See Notes 9 and 11 for further information regarding the sales of these communities.

As of December 31, 2019 and 2018, we had $4,813 and $0, respectively, of net property and equipment classified as held for sale and presented separately on our consolidated balance sheets. See Notes 9 and 11 for more information regarding our communities classified as held for sale.

As of December 31, 2018, we had $1,863 of assets related to our leased senior living communities included in our property and equipment that we subsequently sold during the year ended December 31, 2019 to DHC for increased rent pursuant to the terms of our leases with DHC. As of January 1, 2020, pursuant to the Transaction Agreement, DHC assumed $4,813 of net property and equipment related to our leased senior living communities that were classified as held for sale as of December 31, 2019. See Note 9 for more information regarding our leases and other arrangements with DHC.

4. Other Intangible Assets

The other intangible assets balance includes management agreements, trademarks, resident agreements, liquor licenses and other intangible assets that we primarily acquired in connection with our acquisitions of senior living communities. The changes in the carrying amount of our other intangible assets for the years ended December 31, 2019 and 2018 are as follows:

```
<table>
<thead>
<tr>
<th></th>
<th>Gross Carrying Amount</th>
<th>Accumulated Amortization</th>
<th>Net</th>
<th>Gross Carrying Amount</th>
<th>Accumulated Amortization</th>
<th>Net</th>
</tr>
</thead>
<tbody>
<tr>
<td>Indefinite lived intangible assets</td>
<td>$191</td>
<td>$</td>
<td>$191</td>
<td>$191</td>
<td>$</td>
<td>$191</td>
</tr>
<tr>
<td>Definite lived intangible assets</td>
<td>3,767</td>
<td>(3,767)</td>
<td></td>
<td>3,767</td>
<td>(3,767)</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>$3,958</td>
<td>$ (3,767)</td>
<td>$191</td>
<td>$3,958</td>
<td>$ (3,767)</td>
<td>$191</td>
</tr>
</tbody>
</table>
```

In connection with the Restructuring Transactions, the indefinite lived intangible assets have been reclassified to assets held for sale as of December 31, 2019 on our consolidated balance sheets.

We amortize definite lived intangible assets using the straight-line method over the useful lives of the assets which have identifiable useful lives commencing on the date of acquisition. Total amortization expense for definite lived intangible assets for the year ended December 31, 2018 was $80. There was no amortization expense for definite lived intangible assets for the year ended December 31, 2019.
5. Income Taxes

Significant components of our deferred tax assets and liabilities at December 31, 2019 and 2018, which are included in other long-term assets on our consolidated balance sheets, were as follows:

<table>
<thead>
<tr>
<th>Non-current deferred tax assets:</th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Allowance for doubtful accounts</td>
<td>$1,204</td>
<td>$894</td>
</tr>
<tr>
<td>Deferred gains on sale and leaseback transactions</td>
<td>357</td>
<td>18,789</td>
</tr>
<tr>
<td>Insurance reserves</td>
<td>2,500</td>
<td>2,558</td>
</tr>
<tr>
<td>Tax credits</td>
<td>19,394</td>
<td>19,636</td>
</tr>
<tr>
<td>Tax loss carryforwards</td>
<td>62,098</td>
<td>57,914</td>
</tr>
<tr>
<td>Interest expense</td>
<td>958</td>
<td>801</td>
</tr>
<tr>
<td>Depreciable assets</td>
<td>5,778</td>
<td>4,831</td>
</tr>
<tr>
<td>Goodwill</td>
<td>2,536</td>
<td>2,992</td>
</tr>
<tr>
<td>Right of use lease obligation</td>
<td>5,886</td>
<td>—</td>
</tr>
<tr>
<td>Other assets</td>
<td>528</td>
<td>1,050</td>
</tr>
<tr>
<td><strong>Total non-current deferred tax assets before valuation allowance</strong></td>
<td>101,239</td>
<td>109,465</td>
</tr>
<tr>
<td>Valuation allowance</td>
<td>(87,665)</td>
<td>(101,300)</td>
</tr>
<tr>
<td><strong>Total non-current deferred tax assets</strong></td>
<td>13,574</td>
<td>8,165</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Non-current deferred tax liabilities:</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Lease expense</td>
<td>(4,914)</td>
<td>(5,434)</td>
</tr>
<tr>
<td>Employee stock grants</td>
<td>(7)</td>
<td>(35)</td>
</tr>
<tr>
<td>Right of use lease asset</td>
<td>(5,886)</td>
<td>—</td>
</tr>
<tr>
<td>Other liabilities</td>
<td>(1,818)</td>
<td>(1,374)</td>
</tr>
<tr>
<td><strong>Total non-current deferred tax liabilities</strong></td>
<td>(12,625)</td>
<td>(6,843)</td>
</tr>
<tr>
<td><strong>Net deferred tax assets</strong></td>
<td>$949</td>
<td>$1,322</td>
</tr>
</tbody>
</table>

On December 22, 2017, legislation commonly referred to as the Tax Cuts and Jobs Act of 2017, or the TCJA, became effective, enacting significant change to the United States Internal Revenue Code of 1986, as amended, or the IRC. Among other things, the TCJA reduces the corporate income tax rate from 35% to 21%, repeals the corporate alternative minimum tax, or AMT, limits various business deductions, modifies the maximum usage of net operating losses and significantly modifies various international tax provisions. The changes effected by the TCJA are generally effective for tax years ending after December 31, 2017.

In addition, the TCJA will have other impacts on us in the future. Our federal net operating losses incurred prior to December 31, 2017 will continue to have a 20-year carryforward limitation applied to them and will need to be evaluated for recoverability in the future. Federal net operating losses incurred after December 31, 2017, if any, will have an indefinite life, but their usage will be limited to 80% of taxable income in any given year. The deduction of business interest is limited for any tax year beginning after 2017 to the sum of the taxpayer’s business interest income, floor plan financing, and 30 percent of adjusted taxable income. Any disallowed interest generally may be carried forward indefinitely.

As of December 31, 2019, our federal net operating loss carryforwards, which are scheduled to begin expiring in 2027 if unused, were approximately $184,850, and our federal tax credit carryforwards, which begin expiring in 2026 if unused, were approximately $18,723. At December 31, 2019, our federal tax returns filed for the 2016, 2017, and 2018 tax years are subject to examination and our net operating loss carryforwards and tax credit carryforwards are subject to adjustment by the Internal Revenue Service. While we have significant net operating losses, due to a “change of control” under IRC Sections 382, Limitation on Net Operating Loss Carryforwards and Certain Built-In Losses Following Ownership Change, and 383, Special Limitations on Certain Excess Credits, as a result of the Share Issuances on January 1, 2020, we expect a significant annual limitation on the amount of pre-2020 net operating losses that we will be able to utilize subsequent to 2019.

Management assessed the available positive and negative evidence to estimate if sufficient future taxable income will be generated to realize the existing deferred tax assets. An important piece of objective negative evidence evaluated was the significant losses we incurred over the three-year period ending December 31, 2019. That objective negative evidence is difficult to overcome and would require a substantial amount of objectively verifiable positive evidence beyond projections of future income to support the realization of our deferred tax assets. Accordingly, on the basis of that assessment, we have
recorded a valuation allowance against the majority of our deferred tax assets and liabilities as of December 31, 2019 and 2018. In the future, if we believe that we will more likely than not realize the benefit of these deferred tax assets, we will adjust our valuation allowance and recognize an income tax benefit, which may affect our results of operations.

The changes in our valuation allowance for deferred tax assets were as follows:

<table>
<thead>
<tr>
<th></th>
<th>Balance at Beginning of Period</th>
<th>Amounts Charged to Expense</th>
<th>Amounts Charged Off, Net of Recoveries</th>
<th>Amounts Charged (Credited) to Equity</th>
<th>Balance at End of Period</th>
</tr>
</thead>
<tbody>
<tr>
<td>Year Ended December 31, 2018</td>
<td>$80,154</td>
<td></td>
<td>$21,074</td>
<td>$72</td>
<td>$101,300</td>
</tr>
<tr>
<td>Year Ended December 31, 2019</td>
<td>$101,300</td>
<td></td>
<td>$(13,341)</td>
<td>$(294)</td>
<td>$87,665</td>
</tr>
</tbody>
</table>

For the year ended December 31, 2019, we recognized a provision for income taxes from operations of $56, attributable to state income taxes.

The provision for income taxes from operations is as follows:

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current tax provision (benefit):</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Federal</td>
<td>$(561)</td>
<td>$(554)</td>
</tr>
<tr>
<td>State</td>
<td>244</td>
<td>151</td>
</tr>
<tr>
<td>Total current tax benefit</td>
<td>$(317)</td>
<td>$(403)</td>
</tr>
<tr>
<td>Deferred tax provision:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Federal</td>
<td>277</td>
<td>554</td>
</tr>
<tr>
<td>State</td>
<td>96</td>
<td>96</td>
</tr>
<tr>
<td>Total deferred tax provision</td>
<td>373</td>
<td>650</td>
</tr>
<tr>
<td>Total tax provision</td>
<td>$56</td>
<td>$247</td>
</tr>
</tbody>
</table>

The principal reasons for the difference between our effective tax rate on operations and the U.S. federal statutory income tax rate are as follows:

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Taxes at statutory U.S. federal income tax rate</td>
<td>(21.0)%</td>
<td>(21.0)%</td>
</tr>
<tr>
<td>State and local income taxes, net of federal tax benefit</td>
<td>17.2%</td>
<td>(5.8)%</td>
</tr>
<tr>
<td>Tax credits</td>
<td>(0.9)%</td>
<td>— %</td>
</tr>
<tr>
<td>Change in valuation allowance</td>
<td>(67.4)%</td>
<td>26.8 %</td>
</tr>
<tr>
<td>Deferred taxes</td>
<td>72.4%</td>
<td>— %</td>
</tr>
<tr>
<td>Other differences, net</td>
<td>— %</td>
<td>0.3 %</td>
</tr>
<tr>
<td>Effective tax rate</td>
<td>0.3%</td>
<td>0.3%</td>
</tr>
</tbody>
</table>

We utilize a two-step process for the measurement of uncertain tax positions that have been taken or are expected to be taken on a tax return. The first step is a determination of whether the tax position should be recognized in the financial statements. The second step determines the measurement of the tax position.

As of December 31, 2019 and 2018, there were no uncertain tax positions.

We recognize interest and penalties related to income taxes in income tax expense, and such amounts were not material for the years ended December 31, 2019 and 2018.

6. Earnings Per Share

We calculated EPS for the years ended December 31, 2019 and 2018 using the weighted average number of common shares outstanding during the periods. When applicable, diluted EPS reflects the more dilutive earnings per common share amount calculated using the two-class method or the treasury stock method. The years ended December 31, 2019 and 2018 had 120,718 and 140,416, respectively, of potentially dilutive restricted unvested common shares that were not included in the calculation of diluted EPS because to do so would have been antidilutive.
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7. Fair Values of Assets and Liabilities

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

Level 1 - Inputs are based on 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 based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments and quoted prices in inactive markets.

Level 3 - Inputs are generated from model-based techniques that use significant assumptions that are not observable in the market.

Recurring Fair Value Measures

The tables below present certain of our assets measured at fair value at December 31, 2019 and 2018, categorized by the level of inputs, as defined in the fair value hierarchy under U.S. generally accepted accounting principles, or GAAP, used in the valuation of each asset.

<table>
<thead>
<tr>
<th>Description</th>
<th>Total</th>
<th>Quoted Prices in Active Markets for Identical Assets (Level 1)</th>
<th>Significant Other Observable Inputs (Level 2)</th>
<th>Significant Unobservable Inputs (Level 3)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash equivalents(1)</td>
<td>$27,456</td>
<td>$27,456</td>
<td>$</td>
<td>$</td>
</tr>
<tr>
<td>Investments:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Equity investments(2)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Financial services industry</td>
<td>1,233</td>
<td>1,233</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Healthcare</td>
<td>395</td>
<td>395</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Technology</td>
<td>281</td>
<td>281</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td>4,500</td>
<td>4,500</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total equity investments</td>
<td>6,409</td>
<td>6,409</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Debt investments(3)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>International bond fund(4)</td>
<td>2,680</td>
<td></td>
<td>2,680</td>
<td></td>
</tr>
<tr>
<td>High yield fund(5)</td>
<td>2,977</td>
<td></td>
<td>2,977</td>
<td></td>
</tr>
<tr>
<td>Industrial bonds</td>
<td>1,180</td>
<td></td>
<td>1,180</td>
<td></td>
</tr>
<tr>
<td>Technology bonds</td>
<td>2,189</td>
<td></td>
<td>2,189</td>
<td></td>
</tr>
<tr>
<td>Government bonds</td>
<td>9,537</td>
<td>9,537</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Energy bonds</td>
<td>625</td>
<td></td>
<td>625</td>
<td></td>
</tr>
<tr>
<td>Financial bonds</td>
<td>1,853</td>
<td></td>
<td>1,853</td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td>725</td>
<td></td>
<td>725</td>
<td></td>
</tr>
<tr>
<td>Total debt investments</td>
<td>21,766</td>
<td>9,537</td>
<td>12,229</td>
<td></td>
</tr>
<tr>
<td>Total investments</td>
<td>28,175</td>
<td>15,946</td>
<td>12,229</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>$55,631</td>
<td>$43,402</td>
<td>$12,229</td>
<td>$</td>
</tr>
</tbody>
</table>

F-20
As of December 31, 2018

<table>
<thead>
<tr>
<th>Description</th>
<th>Total</th>
<th>Quoted Prices in Active Markets for Identical Assets (Level 1)</th>
<th>Significant Other Observable Inputs (Level 2)</th>
<th>Significant Unobservable Inputs (Level 3)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash equivalents(^{(1)})</td>
<td>$23,390</td>
<td>$23,390</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Investments:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Equity investments(^{(2)})</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Financial services industry</td>
<td>1,074</td>
<td>1,074</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Healthcare</td>
<td>291</td>
<td>291</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Technology</td>
<td>174</td>
<td>174</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Other</td>
<td>3,927</td>
<td>3,927</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Total equity investments</td>
<td>5,466</td>
<td>5,466</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Debt investments(^{(3)})</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>International bond fund(^{(4)})</td>
<td>2,537</td>
<td>—</td>
<td>2,537</td>
<td>—</td>
</tr>
<tr>
<td>High yield fund(^{(5)})</td>
<td>2,669</td>
<td>—</td>
<td>2,669</td>
<td>—</td>
</tr>
<tr>
<td>Industrial bonds</td>
<td>1,692</td>
<td>—</td>
<td>1,692</td>
<td>—</td>
</tr>
<tr>
<td>Technology bonds</td>
<td>2,375</td>
<td>—</td>
<td>2,375</td>
<td>—</td>
</tr>
<tr>
<td>Government bonds</td>
<td>9,791</td>
<td>9,791</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Energy bonds</td>
<td>595</td>
<td>—</td>
<td>595</td>
<td>—</td>
</tr>
<tr>
<td>Financial bonds</td>
<td>1,858</td>
<td>—</td>
<td>1,858</td>
<td>—</td>
</tr>
<tr>
<td>Other</td>
<td>1,268</td>
<td>—</td>
<td>1,268</td>
<td>—</td>
</tr>
<tr>
<td>Total debt investments</td>
<td>22,785</td>
<td>9,791</td>
<td>12,994</td>
<td>—</td>
</tr>
<tr>
<td>Total investments</td>
<td>28,251</td>
<td>15,257</td>
<td>12,994</td>
<td>—</td>
</tr>
<tr>
<td>Total</td>
<td>$51,641</td>
<td>$38,647</td>
<td>$12,994</td>
<td>$—</td>
</tr>
</tbody>
</table>

\(^{(1)}\) Cash equivalents consist of short-term, highly liquid investments and money market funds held primarily for obligations arising from our self-insurance programs. Cash equivalents are reported in our consolidated balance sheets as cash, cash equivalents and current and long-term restricted cash. Cash equivalents include $23,014 and $19,529 of balances that are restricted at December 31, 2019 and 2018, respectively.

\(^{(2)}\) The fair value of our equity investments is readily determinable. During the years ended December 31, 2019 and 2018, we received gross proceeds of $1,963 and $2,407, respectively, in connection with the sales of equity investments and recorded gross realized gains totaling $289 and $280, respectively, and gross realized losses totaling $80 and $72, respectively.

\(^{(3)}\) As of December 31, 2019, our debt investments, which are classified as available for sale, had a fair value of $21,766 with an amortized cost of $19,662; the difference between the fair value and amortized cost amounts resulted from unrealized gains of $2,114, net of unrealized losses of $10. As of December 31, 2018, our debt investments had a fair value of $22,785 with an amortized cost of $21,806; the difference between the fair value and amortized cost amounts resulted from unrealized gains of $1,276, net of unrealized losses of $296. Debt investments include $12,477 and $13,943 of balances that are restricted as of December 31, 2019 and 2018, respectively. At December 31, 2019, one of the debt investments we hold, with a fair value of $292, has been in a loss position for less than 12 months and we did not hold any debt investment with a fair value in a loss position for greater than 12 months. We do not believe this investment is impaired primarily because it has not been in a loss position for an extended period of time, the financial conditions of the issuer of this investment remain strong with solid fundamentals, or we intend to hold the investment until recovery, and other factors that support our conclusion that the loss is temporary. During the years ended December 31, 2019 and 2018, we received gross proceeds of $3,230 and $7,031, respectively, in connection with the sales of debt investments and recorded gross realized gains totaling $7 and $10, respectively, and gross realized losses totaling $7 and $19, respectively. We record gains and losses on the sales of these investments using the specific identification method.

\(^{(4)}\) The investment strategy of this fund is to invest principally in fixed income securities issued by non-U.S. issuers. 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.

\(^{(5)}\) 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.

Our financial assets (which include cash equivalents and investments) have been valued at the transaction price and subsequently valued, at the end of each reporting period, utilizing third party pricing services or other market observable data. During the year ended December 31, 2019, 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. Accordingly, there were no transfers of assets or liabilities between levels of the fair value hierarchy during the year ended December 31, 2019.

The carrying value of accounts receivable and accounts payable approximates fair value as of December 31, 2019 and 2018. The carrying value and fair value of our mortgage notes payable were $7,533 and $8,861, respectively, as of
December 31, 2019 and $7,872 and $8,986, respectively, as of December 31, 2018, 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.

**Non-recurring Fair Value Measures**

We review the carrying value of our long-lived assets, including our right of use assets, property and equipment and other intangible assets, for impairment whenever events or changes in circumstances indicate that the carrying value of an asset or asset group may not be recoverable. See Note 3 for more information regarding fair value measurements related to impairments of our long-lived assets we recorded.

8. **Indebtedness**

In June 2019, we entered into a second amended and restated credit agreement with Citibank, N.A., as administrative agent and lender, and a syndicate of other lenders, pursuant to which we obtained a $65,000 secured revolving credit facility. Our credit facility replaced our prior credit facility, which provided for borrowings of up to $54,000, subject to conditions, and was scheduled to mature on June 28, 2019. In June 2019, we repaid, in aggregate, approximately $51,500 of outstanding borrowings under our prior credit facility.

Our credit facility is scheduled to mature on June 12, 2021, and, subject to the payment of an extension fee and meeting other conditions, we have an option to extend the stated maturity date of our credit facility for a one year period. Other terms of our credit facility are substantially similar to those of our prior credit facility.

We paid fees of $1,271 in 2019 in connection with the replacement of our credit facility, which fees were deferred and are being amortized over the initial term of our credit facility. Our credit facility is available for general business purposes, including acquisitions, and provides for the issuance of letters of credit. We are required to pay interest at a rate of LIBOR plus a premium of 250 basis points per annum, or at a base rate, as defined in our credit agreement, plus 150 basis points per annum, on borrowings under our credit facility; the annual interest rates as of December 31, 2019 were 4.20% and 6.25%, respectively. 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. The weighted average annual interest rate for borrowings under our credit facility was 5.00% for the year ended December 31, 2019. The weighted average annual interest rate for borrowings under our prior credit facility was 4.99% and 6.29%, for the years ended December 31, 2019 and 2018, respectively. As of December 31, 2019, we had no borrowings under our credit facility, letters of credit issued in an aggregate amount of $3,238 and we had $55,856 available for borrowing under our credit facility. We incurred aggregate interest expense and other associated costs related to our credit facilities of $2,089 and $1,965 for the years ended December 31, 2019 and 2018, respectively.

Our credit facility is secured by real estate mortgages on 11 senior living communities with a combined 1,245 living units owned by certain of our subsidiaries that guarantee our obligations under our credit facility. Our credit facility is also secured by these subsidiaries’ accounts receivable and related collateral. The amount of available borrowings under our credit facility is subject to our having qualified collateral, which is primarily based on the value of the communities securing our obligations under our credit facility. Our credit facility provides for acceleration of payment of all amounts outstanding under our credit facility upon the occurrence and continuation of certain events of default, including a change of control of us, as defined in our credit agreement. Our credit agreement contains financial and other covenants, including those that restrict our ability to pay dividends or make other distributions to our stockholders in certain circumstances.

At December 31, 2019, we had seven irrevocable standby letters of credit outstanding, totaling $28,626. In 2019, we increased, from $22,700 to $25,388, one of these letters of credit which secures our workers’ compensation insurance program, and this letter of credit is currently collateralized by approximately $21,655 of cash equivalents and $7,250 of debt and equity investments. This letter of credit currently expires in June 2020 and is automatically extended for one year terms unless notice of nonrenewal is provided by the issuing bank prior to the end of the applicable term. At December 31, 2019, the cash equivalents collateralizing this letter of credit, including accumulated interest, were classified as short-term restricted cash in our consolidated balance sheets, and the debt and equity investments collateralizing this letter of credit are classified as short-term investments in our consolidated balance sheets. The remaining six irrevocable standby letters of credit outstanding at December 31, 2019, totaling $3,238, secure certain of our other obligations. These letters of credit are scheduled to mature between June 2020 and October 2020 and are required to be renewed annually. As of December 31, 2019, our obligations under these six letters of credit, totaling $3,238, remained issued and outstanding under our credit facility and we had $55,856 available for further borrowing under our credit facility.
At December 31, 2019, one of our senior living communities was encumbered by a mortgage. This mortgage contains standard mortgage covenants. We recorded a mortgage discount in connection with the assumption of this mortgage note as part of our acquisition of the community that secures this mortgage note in order to record this mortgage at its estimated fair value. We amortize this mortgage discount as an increase in interest expense until the maturity of this mortgage. This mortgage note requires payments of principal and interest monthly until maturity. The following table is a summary of this mortgage note as of December 31, 2019:

<table>
<thead>
<tr>
<th>Balance as of December 31, 2019</th>
<th>Contractual Stated Interest Rate</th>
<th>Effective Interest Rate</th>
<th>Maturity Date</th>
<th>Monthly Payment</th>
<th>Lender Type</th>
</tr>
</thead>
<tbody>
<tr>
<td>$7,786 (1)</td>
<td>6.20%</td>
<td>6.70%</td>
<td>September 2032</td>
<td>$72</td>
<td>Federal Home Loan Mortgage Corporation</td>
</tr>
</tbody>
</table>

(1) Contractual principal balance excluding unamortized discount and debt issuance costs of $253.

We incurred mortgage interest expense, net of discount amortization, of $526 and $1,053 for the years ended December 31, 2019 and 2018, respectively. Our mortgage debt requires monthly payments into escrows for taxes, insurance and property replacement funds; certain withdrawals from escrows require Federal Home Loan Mortgage Corporation approval.

In February 2018, in connection with the sale of one of our senior living communities to DHC, DHC assumed a Federal National Mortgage Association mortgage note that had a principal balance of $16,776 and required interest at the contracted rate of 6.64% per annum. In connection with DHC’s assumption of this debt, we recorded a gain of $543, which amount is included in gain on sale of senior living communities in our consolidated statements of operations.

In June 2018, in connection with the sale of two of our senior living communities to DHC, DHC assumed a commercial lender mortgage note that had a principal balance of $16,588 and required interest at the contracted rate of 5.75% per annum. In connection with DHC’s assumption of this debt, we recorded a gain of $638, which amount is included in gain on sale of senior living communities in our consolidated statements of operations.

As of December 31, 2019, the required principal payments due during the next five years and thereafter under the terms of our mortgage note are as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>Principal Payment</th>
</tr>
</thead>
<tbody>
<tr>
<td>2020</td>
<td>$387</td>
</tr>
<tr>
<td>2021</td>
<td>413</td>
</tr>
<tr>
<td>2022</td>
<td>440</td>
</tr>
<tr>
<td>2023</td>
<td>469</td>
</tr>
<tr>
<td>2024</td>
<td>498</td>
</tr>
<tr>
<td>Thereafter</td>
<td>5,579</td>
</tr>
<tr>
<td>Total</td>
<td>$7,786</td>
</tr>
</tbody>
</table>

Less: Unamortized net discount and debt issuance costs $ (253)

Total mortgage note payable $7,533

Less: Short-term portion of mortgage note payable $ (362)

Long-term portion of mortgage note payable $7,171

As of December 31, 2019, we believe we were in compliance with all applicable covenants under our credit facility and mortgage debts.

See Note 9 for information regarding the $25,000 credit facility we obtained from DHC on April 1, 2019. The DHC credit facility matured and was terminated on January 1, 2020, in connection with the completion of the Restructuring Transactions. There were no borrowings outstanding under the DHC credit facility at the time of such termination and we did not make any borrowings under the DHC credit facility during its term.
9. Leases with DHC and Healthpeak Properties, Inc and Management Agreements with DHC

As of December 31, 2019, we were DHC’s largest tenant and DHC was our largest landlord. As of December 31, 2019 and 2018, we leased 166 and 184 senior living communities from DHC, respectively. We leased these senior living communities from DHC pursuant to five master leases. As of December 31, 2019, we managed senior living communities for the account of DHC. As of December 31, 2019 and 2018, we also managed 78 and 76 senior living communities, respectively, for the account of DHC, pursuant to management and pooling agreements. Effective as of January 1, 2020, we restructured our business arrangements with DHC as further described below, and after giving effect to the Restructuring Transactions, we manage 244 senior living communities for the account of DHC pursuant to the New Management Agreements.

Restructuring our Business Arrangements with DHC. On April 1, 2019, we entered into the Transaction Agreement, pursuant to which, effective as of the Conversion Time:

- our five then existing master leases with DHC for all of DHC’s senior living communities that we then leased, as well as our then existing management and pooling agreements with DHC for DHC’s senior living communities that were then operated by us, were terminated and replaced with the New Management Agreements;
- we effected the Share Issuances pursuant to which we issued 10,268,158 of our common shares to DHC and an aggregate of 16,118,849 of our common shares to DHC’s shareholders of record as of December 13, 2019; and
- as consideration for the Share Issuances, DHC provided to us $75,000 of additional consideration by assuming certain of our working capital liabilities.

In accordance with ASC Topic 360, Property, Plant and Equipment, or ASC 360, the senior living communities under the five then existing master leases with DHC that terminated, as described above, met the conditions to be classified as held for sale in reporting periods subsequent to our entry into the Transaction Agreement. As a result, as of December 31, 2019, we have classified these senior living communities as held for sale. The carrying value of these senior living communities was $(2,990), and consisted of restricted cash of $5, prepaid and other current assets of $4,545, net property and equipment of $4,813, other intangible assets of $191, accrued real estate taxes of $10,615, and security deposits and current portion of continuing care contracts of $1,929, all of which were presented on our consolidated balance sheets as assets or liabilities held for sale. These communities, while leased by us, generated income (loss) from operations before income taxes of $46,316 and $(27,229) for the years ended December 31, 2019 and 2018, respectively.

Also pursuant to the Transaction Agreement: (1) commencing February 1, 2019, the aggregate amount of monthly minimum rent payable to DHC by us under our master leases with DHC was reduced to $11,000, as of February 1, 2019, subject to adjustment, and subsequently reduced in accordance with the Transaction Agreement as result of DHC’s subsequent sales of certain of the leased senior living communities, and no additional rent was payable to DHC by us from such date through the Conversion Time; and (2) on April 1, 2019, DHC purchased from us $49,155 of unencumbered Qualifying PP&E (as defined in the Transaction Agreement) related to DHC’s senior living communities then leased and operated by us.

In accordance with ASC Topic 842, the reduction in the monthly minimum rent payable to DHC under our then existing master leases with DHC pursuant to the Transaction Agreement was determined to be a modification of these master leases, and we reassessed the classification of these master leases based on the modified terms and determined that these master leases continued to be classified as long-term operating leases until certain contingent events were achieved. On April 1, 2019, we recorded a lease inducement of $13,840. During the period from April 1, 2019 through December 31, 2019, we amortized $1,416 of the lease inducements based on the remaining term of the master lease agreements as a reduction of rent expense. As of December 31, 2019, the remaining contingent events were achieved and accordingly, we remeasured the lease liability and right of use asset recorded in the consolidated balance sheets to zero and recognized $12,423 of a lease inducement as a reduction of rent expenses.

Pursuant to the Transaction Agreement, we agreed to expand our Board of Directors within six months of January 1, 2020 to add an Independent Director (as defined in our Bylaws) reasonably satisfactory to DHC. On February 26, 2020, our Board of Directors elected Michael E. Wagner, M.D. as an Independent Director, which satisfied our agreement with DHC to expand our Board of Directors.

Pursuant to the New Management Agreements, we will receive a management fee equal to 5% of the gross revenues realized at the applicable senior living communities plus reimbursement for our direct costs and expenses related to such communities, as well as an annual incentive fee equal to 15% of the amount by which the annual earnings before interest, taxes, depreciation and amortization, or EBITDA, of all communities on a combined basis exceeds the target EBITDA for all

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The New Management Agreements expire in 2034, subject to our right to extend for two consecutive five-year terms if we achieve certain performance targets for the combined managed communities portfolio, unless earlier terminated or timely notice of nonrenewal is delivered. The New Management Agreements also provide that DHC has, and in some cases we have, the option to terminate the agreements upon the acquisition by a person or group of more than 9.8% of the other’s voting stock and upon certain change in control events affecting the other party, as defined in the applicable agreements, including the adoption of any stockholder proposal (other than a precatory proposal) with respect to the other party, or the election to the board of directors or trustees, as applicable, of the other party of any individual, if such proposal or individual was not approved, nominated or appointed, as the case may be, by a majority of the other party’s board of directors or board of trustees, as applicable, in office immediately prior to the making of such proposal or the nomination or appointment of such individual.

The New Management Agreements also provide DHC with the right to terminate the New Management Agreement for any community that does not earn 90% of the target EBITDA for such community for two consecutive calendar years or in any two of three consecutive calendar years, with the measurement period commencing January 1, 2021 (and the first termination not possible until the beginning of calendar year 2023); provided DHC may not in any calendar year terminate communities representing more than 20% of the combined revenues for all communities for the calendar year prior to such termination. Pursuant to a guaranty agreement dated as of January 1, 2020, made by us in favor of DHC’s applicable subsidiaries, we have guaranteed the payment and performance of each of our applicable subsidiary’s obligations under the applicable New Management Agreements.

In connection with the Transaction Agreement, we entered into the DHC credit facility pursuant to which DHC extended to us a $25,000 line of credit. The DHC credit facility matured and was terminated on January 1, 2020, in connection with the completion of the Restructuring Transactions. There were no borrowings outstanding under the DHC credit facility at the time of such termination and we did not make any borrowings under the DHC credit facility during its term.

We incurred transaction costs of $11,952 related to the Transaction Agreement and the Restructuring Transactions for the year ended December 31, 2019.

**Senior Living Communities Formerly Leased from DHC.** Under our master leases with DHC, which terminated as of January 1, 2020, we paid DHC annual rent plus percentage rent equal to 4.0% of the increase in gross revenues at the applicable senior living communities over base year gross revenues as specified in the applicable lease. Our obligation to pay percentage rent under Lease No. 5 commenced in 2018. Different base years applied to those communities that pay percentage rent. The base year for a particular leased community was usually the first full calendar year after that community had become subject to that lease. As noted above, pursuant to the Transaction Agreement, we were no longer required to pay any additional rent to DHC beginning February 1, 2019.

Our total annual rent payable to DHC was $129,785 and $207,760 as of December 31, 2019 and 2018, respectively, excluding percentage rent. Our total rent expense under all our leases with DHC was $138,310 and $206,190 for the years ended December 31, 2019 and 2018, respectively, which amounts included percentage rent of $1,547 and $5,542 for the years ended December 31, 2019 and 2018, respectively. The 2019 percentage rent occurred prior to, and was adjusted by, the Transaction Agreement. Rent expense for the year ended December 31, 2018, was net of lease inducement amortization and the amortization of the deferred gain associated with the sale and leaseback transaction with DHC in June 2016. Pursuant to the Transaction Agreement, our rent payable to DHC was reduced by a total of $13,840 in aggregate for February and March 2019 and we did not pay such amount to DHC. However, as the Transaction Agreement was not entered into until April 1, 2019, our rent expense for the three months ended March 31, 2019, was not adjusted for the rent reduction for February and March 2019. Instead, the rent reduction for February and March 2019, was determined to be a lease inducement, and the $13,840 was recorded as a reduction of the right of use asset on our consolidated balance sheets and was amortized as a reduction of rent expense over the remaining terms of our master leases.

As of December 31, 2019 we had no rent outstanding to DHC. As of December 31, 2018, we had outstanding rent due and payable to DHC $18,781, which amount is included in due to related persons in our consolidated balance sheets.

As of December 31, 2019, our leases with DHC were “triple net” leases, which generally required us to pay rent and all property operating expenses, to indemnify DHC from liability which may arise by reason of its ownership of the properties, to maintain the properties at our expense, to remove and dispose of hazardous substances on the properties in compliance with applicable law and to maintain insurance on the properties for DHC’s and our benefit.
Under our leases with DHC, we had the right to request that DHC purchase certain improvements to the leased communities, and, until we entered the Transaction Agreement, in return for the purchases the annual rent payable to DHC would increase in accordance with a formula specified in the applicable lease. We sold to DHC $17,956 of improvements to communities leased from DHC for the year ended December 31, 2018. As a result, the annual rent payable by us to DHC increased by approximately $1,433. Pursuant to the Transaction Agreement, the improvements of $110,027 we sold to DHC for the communities we leased from DHC during the year ended December 31, 2019, did not result in increased rent payable by us to DHC. An increase in the annual rent payable by us to DHC of $1,547 for improvements sold to DHC in 2019 but prior to entering into the Transaction Agreement was adjusted pursuant to the terms of the Transaction Agreement.

In February 2020, DHC entered into an agreement to sell to a third party one senior living community located in California that DHC owns and we previously leased and currently manage for a sales price of approximately $2,000, excluding closing costs. This sale is subject to conditions; as a result, this sale may not occur, it may be delayed or its terms may change. The carrying value of this senior living community is classified as held for sale was $25 as of December 31, 2019, and consisted primarily of prepaid and other current assets of $11 and net property, plant and equipment of $14, and it is presented on our consolidated balance sheets as assets held for sale and is included in the results of operations above. This community, while leased by us, generated losses from operations before income taxes of $(142) and $(856) for the years ended December 31, 2019 and 2018, respectively.

In January 2020, DHC entered into an agreement to sell to a third party nine SNFs located in Colorado and Wyoming that DHC owns and we previously leased and currently manage for an aggregate sales price of approximately $74,000, excluding closing costs. This sale is subject to conditions; as a result, this sale may not occur, it may be delayed or its terms may change. The carrying value of these senior living communities was $(549) as of December 31, 2019, and consisted primarily of prepaid and other current assets of $92, net property, plant and equipment of $114 and accrued real estate taxes of $250, and it is presented on our consolidated balance sheets as assets held for sale or liabilities held for sale and is included in the results of operations above. Accrued compensation and benefits of $505, which is also presented on our consolidated balance sheets, was classified as held for sale subsequent to the balance sheet date. This community, while leased by us, generated losses from operations before income taxes of $1,062 and $5,697 for the years ended December 31, 2019 and 2018, respectively.

In December 2019, we and DHC entered into an agreement to sell to a third party one senior living community located in Nebraska that DHC owns and we previously leased and currently manage for a sales price of approximately $5,600, excluding closing costs. This sale is subject to conditions; as a result, this sale may not occur, it may be delayed or its terms may change. The carrying value of this senior living community was $(164) as of December 31, 2019, and consisted primarily of prepaid and other current assets of $16, net property, plant and equipment of $4 and accrued real estate taxes of $143, and it is presented on our consolidated balance sheets as assets held for sale and is included in the results of operations above. Accrued compensation and benefits of $41, which is also presented on our consolidated balance sheets, was classified as held for sale subsequent to the balance sheet date. This community, while leased by us, generated income (loss) from operations before income taxes of $260 and $(36) for the years ended December 31, 2019 and 2018, respectively.

During the year ended December 31, 2019, we and DHC sold to third parties 18 SNFs located in California, Kansas, Iowa and Nebraska that DHC owned and leased to us for an aggregate sales price of approximately $29,500, excluding closing costs. As a result of these sales, the annual minimum rent payable to DHC by us under our master leases with DHC was reduced in accordance with the terms of the Transaction Agreement. We recorded a loss of $749 for the year ended December 31, 2019, as a result of settling certain liabilities associated with the sale of 15 of these 18 SNFs, which amount is included in loss (gain) on sale of senior living communities in our consolidated statements of operations. We did not receive any proceeds from these sales.

In April 2019, we and DHC entered into an agreement to sell to a third party two SNFs located in Wisconsin that DHC owns and leased to us for an aggregate sales price of approximately $11,000, excluding closing costs. This sale agreement was terminated in August 2019. Previously, in accordance with ASC 360, these two SNFs met the conditions to be classified as held for sale. Despite the termination of this sale agreement, these SNFs remain classified as held for sale as of December 31, 2019, as a result of our and DHC’s agreement to terminate our five master leases with DHC pursuant to the Transaction Agreement and are included in the amounts disclosed above regarding our assets held for sale.

In June 2018, we and DHC sold to a third party one SNF located in California that DHC owned and leased to us for a sales price of approximately $6,500, excluding closing costs. Pursuant to the terms of our then lease with DHC, as a result of this sale, our annual rent payable to DHC decreased by 10.0% of the net proceeds that DHC received from this sale, in accordance with the terms of the applicable lease. We did not receive any proceeds from this sale.
Also in June 2018, DHC acquired from a third party an additional living unit at a senior living community we leased from DHC located in Florida which was added to the lease for that senior living community, and, as a result of this acquisition, our annual rent payable to DHC increased by $14 in accordance with the terms of such lease.

See Note 11 for more information regarding these transactions with DHC.

In accordance with FASB ASC Topic 840, Leases, the sale and leaseback transaction we completed in June 2016 with DHC qualified for sale-leaseback accounting and we classified the related lease as an operating lease. Accordingly, the gain generated from the sale of $82,644 was deferred and was being amortized as a reduction of rent expense over the initial term of the related lease. In accordance with our adoption of Topic 842 effective January 1, 2019, we recorded through retained earnings our total deferred gain as of that date.

**Senior Living Communities Leased from Healthpeak Properties, Inc.** As of December 31, 2019, we leased four senior living communities under one lease with Healthpeak Properties, Inc., (formerly known as HCP, Inc.), or PEAK. This lease is also a “triple net” lease which requires that we pay all costs incurred in the operation of the communities, including the cost of insurance and real estate taxes, maintaining the communities, and indemnifying the landlord for any liability which may arise from the operations during the lease term. Our lease with PEAK contains a minimum annual rent increase of 2.0%, but not greater than 4.0%, depending on increases in certain cost of living indexes, expires on April 30, 2028, and includes one ten-year renewal option. Rent expense is recognized for actual rent paid plus or minus a straight-line adjustment for the minimum rent increases, which amount is not material to our consolidated financial statements. The right of use asset balance has been decreased for the amount of accrued lease payments, which amounts are not material to our consolidated financial statements.

The following table is a summary of our leases with DHC and with PEAK as of December 31, 2019:

<table>
<thead>
<tr>
<th>Lease No. (Expiration Date)</th>
<th>Number of Properties</th>
<th>Remaining Renewal Options</th>
<th>Annual Minimum Rent as of December 31, 2019</th>
<th>Future Minimum Rents for the Twelve Months Ending December 31,</th>
<th>Lease Liability(4)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. DHC Lease No. 1 (December 31, 2024)</td>
<td>73</td>
<td>Two 15-year renewal options</td>
<td>$31,226</td>
<td>$ —</td>
<td>$ —</td>
</tr>
<tr>
<td>2. DHC Lease No. 2 (June 30, 2026)</td>
<td>39</td>
<td>Two 10-year renewal options</td>
<td>39,318</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>3. DHC Lease No. 3 (December 31, 2028)</td>
<td>17</td>
<td>Two 15-year renewal options</td>
<td>26,679</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>4. DHC Lease No. 4 (April 30, 2032)</td>
<td>28</td>
<td>Two 15-year renewal options</td>
<td>25,641</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>5. DHC Lease No. 5 (December 31, 2028)</td>
<td>9</td>
<td>Two 15-year renewal options</td>
<td>6,921</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>6. One PEAK lease (April 30, 2028)</td>
<td>4</td>
<td>One 10-year renewal option</td>
<td>2,853</td>
<td>2,910</td>
<td>2,959</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>170</strong></td>
<td><strong>$132,638</strong></td>
<td><strong>$2,910</strong></td>
<td><strong>$2,959</strong></td>
<td><strong>$3,023</strong></td>
</tr>
</tbody>
</table>

(1) Lease includes SNFs and independent and assisted living communities.
(2) Lease includes independent and assisted living communities.
(3) Lease includes assisted living communities.
(4) Total lease liability does not include the lease liability related to our headquarters of $1,446, using an IBR of 4.4%.

**Senior Living Communities Managed for the Account of DHC and its Related Entities.** As of December 31, 2019 and 2018, we managed 78 and 76 senior living communities, respectively, for the account of DHC. We earned base management fees of $15,045 and $14,464 from the senior living communities we managed for the account of DHC for the years ended December 31, 2019 and 2018, respectively. In addition, we earned incentive fees of $0 and $36 and fees for our management of capital expenditure projects at the communities we managed for the account of DHC of $842 and $684 for the years ended December 31, 2019 and 2018, respectively. These amounts are included in management fee revenue in our consolidated statements of operations. In connection with the completion of the Restructuring Transactions, effective as of January 1, 2020, we and DHC terminated these long-term management and pooling agreements and replaced them with the New Management Agreements, the terms of which are discussed above.
For the years ended December 31, 2019 and 2018, we had pooling agreements with DHC that combined most of our management agreements with DHC that included assisted living units, or our AL Management Agreements. The pooling agreements combined various calculations of revenues and expenses from the operations of the applicable communities covered by such agreements. Our AL Management Agreements and the pooling agreements generally provided that we received from DHC:

- a management fee equal to either 3.0% or 5.0% of the gross revenues realized at the applicable communities,
- reimbursement for our direct costs and expenses related to such communities,
- an annual incentive fee equal to either 35.0% or 20.0% of the annual net operating income of such communities remaining after DHC realizes an annual minimum return equal to either 8.0% or 7.0% of its invested capital, or, in the case of certain of the communities, a specified amount plus 7.0% of its invested capital since December 31, 2015, and
- a fee for our management of capital expenditure projects equal to 3.0% of amounts funded by DHC.

For AL Management Agreements that became effective from and after May 2015, our pooling agreements provided that our management fee is 5.0% of the gross revenues realized at the applicable community, and our annual incentive fee is 20.0% of the annual net operating income of the applicable community remaining after DHC realizes its requisite annual minimum return.

Our management agreements with DHC for the part of the senior living community owned by DHC and located in Yonkers, New York that is not subject to the requirements of New York healthcare licensing laws, as described elsewhere herein, and for the assisted living communities owned by DHC and located in Villa Valencia, California and Aurora, Colorado were not included in any of our pooling agreements with DHC. We also had a pooling agreement with DHC that combined our management agreements with DHC for senior living communities consisting only of independent living units.

Since January 1, 2018, we began managing the following senior living communities for the account of DHC, pursuant to our then existing management and pooling arrangements with DHC:

- in June 2018, a senior living community located in California with 98 living units
- in November 2018, a senior living community located in Colorado with 238 living units; and
- in April 2019, a senior living community located in Oregon with 318 living units.

During the first quarter of 2018, we sold to DHC two senior living communities pursuant to a transaction agreement we entered with DHC in November 2017, or the 2017 transaction agreement, for an aggregate sales price of $41,917. These two senior living communities had an aggregate carrying value of $19,425, net of mortgage debt and premiums of $17,356, of which the principal amount of $16,776 was assumed by DHC. These transactions are accounted for in accordance with ASU No. 2014-09, in particular ASC Topic 610 and related ASUs, effective with the adoption of these new ASUs on January 1, 2018. Under these new ASUs, the income recognition for real estate sales is largely based on the transfer of control rather than continuing involvement in the ownership of the real estate. We recorded a gain of $5,684 for the year ended December 31, 2018, as a result of the sale of these two senior living communities, which gain is included in loss (gain) on sale of senior living communities in our consolidated statements of operations.

In June 2018, we sold to DHC the remaining two senior living communities that we agreed to sell pursuant to the 2017 transaction agreement for an aggregate sales price of $23,300. These two senior living communities had an aggregate carrying value of $5,163, net of mortgage debt and premiums of $17,226, of which the principal amount of $16,588 was assumed by DHC. These transactions are accounted for in accordance with ASU No. 2014-09, in particular ASC Topic 610 and related ASUs, effective with our adoption of these new ASUs on January 1, 2018. We recorded a gain of $1,549 for the year ended December 31, 2018, respectively, as a result of the sale of these two senior living communities, which gain is included in loss (gain) on sale of senior living communities in our consolidated statements of operations.

Concurrent with our sales of the senior living communities to DHC pursuant to the 2017 transaction agreement, we began managing those senior living communities for DHC’s account pursuant to management and pooling agreements with DHC.
We also provide certain other services to residents at some of the senior living communities we manage for the account of DHC, such as rehabilitation services. At senior living communities we manage for the account of DHC where we provide rehabilitation services on an outpatient basis, the residents, third party payers or government programs pay us for those rehabilitation services. At senior living communities we manage for the account of DHC where we provide both inpatient and outpatient rehabilitation services, DHC generally pays us for these services and charges for such services are included in amounts charged to residents, third party payers or government programs. We earned revenues of $5,920 and $6,442 for the years ended December 31, 2019 and 2018, respectively, for rehabilitation services we provided at senior living communities we manage for the account of DHC and that are payable by DHC. These amounts are included in senior living revenue in our consolidated statements of operations. Following the completion of the Restructuring Transactions, and consistent with our historical accounting for these services at our managed communities, the revenues earned at these inpatient clinics will no longer constitute intercompany revenues and thus will not be eliminated in consolidation and will be recognized and reported as senior living revenue in our consolidated statements of operations.

D&R Yonkers LLC. In order to accommodate certain requirements of New York healthcare licensing laws, we manage a part of the senior living community that DHC owns for the subtenant entity, which is affiliated with DHC and the members of which are DHC’s president and chief operating officer and chief financial officer and treasurer. We earn a management fee equal to 3.0% of the gross revenues realized at that part of the community. The management agreement expires on August 31, 2022, and is subject to renewal for eight consecutive five-year terms, unless earlier terminated. We earned management fees of $282 and $279 for the years ended December 31, 2019 and 2018, respectively, under this management agreement, which are included in management fee revenue in our consolidated statements of operations.

10. Shareholders’ Equity

We have common shares available for issuance under the terms of our equity compensation plan adopted in 2014, or the 2014 Plan. We awarded 85,800 and 47,100 of our common shares in 2019 and 2018, respectively, to our Directors, officers and others who provide services to us. We valued these shares based upon the closing price of our common shares on The Nasdaq Stock Market LLC, or Nasdaq, on the dates the awards were made, or $376 in 2019, based on a $4.57 weighted average share price and $227 in 2018, based on a $4.80 weighted average share price. Shares awarded to Directors vest immediately; one fifth of the shares awarded to our officers and others (other than our Directors) vest on the award date and on the four succeeding anniversaries of the award date. Our unvested common shares totaled 96,482 and 81,690 as of December 31, 2019 and 2018, respectively. Share based compensation expense is recognized ratably over the vesting period and is included in general and administrative expenses in our consolidated statements of operations. We recorded share based compensation expense of $438 and $615 for the years ended December 31, 2019 and 2018, respectively. As of December 31, 2019, the estimated future stock compensation expense for unvested shares was $569 based on the award date closing share price for awards to our officers and others and non-employees. The weighted average period over which stock compensation expense will be recorded is approximately 2 years. As of December 31, 2019, 176,460 of our common shares remain available for issuance under the 2014 Plan.

In 2019 and 2018, employees and officers of us or RMR LLC who were recipients of our share awards were permitted to elect to have us withhold the number of their then vesting common shares with a fair market value sufficient to fund the minimum required tax withholding obligations with respect to their vesting share awards in satisfaction of those tax withholding obligations. During 2019 and 2018, we acquired through this share withholding process 5,724 and 3,049, respectively, common shares with an aggregate value of approximately $26 and $11, respectively, which is reflected as an increase to accumulated deficit in our consolidated balance sheets.

On January 1, 2020, in connection with the Restructuring Transactions, we effected the Share Issuances pursuant to which we issued 10,268,158 of our common shares to DHC and an aggregate of 16,118,849 of our common shares to DHC’s shareholders of record as of December 13, 2019. As consideration for the Share Issuances, DHC provided to us $75,000 of additional consideration by assuming certain of our working capital liabilities.

11. Dispositions

During 2018, we sold to DHC four senior living communities pursuant to the 2017 transaction agreement as follows:

- in January 2018, we sold one senior living community for a sales price of $19,667, excluding closing costs;
- in February 2018, we sold one senior living community for a sales price of $22,250, excluding closing costs. At the time of sale, this senior living community had mortgage debt in the principal amount of $16,776, which was assumed by DHC; and
in June 2018, we sold the remaining two senior living communities for an aggregate sales price of $23,300, excluding closing costs. At the time of sale, these senior living communities had mortgage debt in the principal amount of $16,588, which was assumed by DHC.

The senior living communities sold in 2018 were accounted for in accordance with ASU No. 2014-09, in particular ASC Topic 610 and related ASUs. Under these ASUs, the income recognition for real estate sales is largely based on the transfer of control rather than continuing involvement in the ownership of the real estate. We recorded a gain of $7,231 for the year ended December 31, 2018 as a result of the sale of the four senior living communities sold to DHC in 2018, which gain is included in loss (gain) on sale of senior living communities in our consolidated statements of operations. These senior living communities, while owned by us, generated income from operations before income taxes of $178 for the year ended December 31, 2018, excluding the gain on sale of the communities. These amounts are included in our consolidated statements of operations.

In June 2018, we and DHC sold to a third party one SNF, located in California with 97 living units that DHC owned and leased to us, for a sales price of approximately $6,500, excluding closing costs. We recorded a loss of $102 for the year ended December 31, 2018 as a result of this sale, which loss is included in loss (gain) on sale of senior living communities in our consolidated statements of operations. This community, while leased by us, generated a loss from operations before income taxes of $320 for the year ended December 31, 2018, excluding the loss on sale of the community. Pursuant to the terms of our then existing lease with DHC, as a result of this sale, our annual rent payable to DHC decreased by 10.0% of the net proceeds that DHC received from this sale. We did not receive any proceeds from this sale.

In May and September 2019, we and DHC sold to third parties 18 SNFs located in California, Kansas, Iowa and Nebraska that DHC owned and leased to us, for an aggregate sales price of approximately $29,500, excluding closing costs. We recorded a loss of $749 for the year ended December 31, 2019, as a result of settling certain liabilities associated with the sale of 15 of these 18 SNFs, which amount is included in loss (gain) on sale of senior living communities in our consolidated statements of operations. We did not receive any proceeds from these sales. These senior living communities, while leased to us, incurred losses from operations before income taxes of ($3,443) and ($2,825) for the years ended December 31, 2019 and 2018, respectively, excluding the loss on sale of the communities.

See Notes 9 and 14 for more information regarding these and other transactions with DHC.

12. Legal Proceedings and Claims

We have been, are currently, and expect in the future to be involved in claims, lawsuits, and regulatory and other government audits, investigations and proceedings arising in the ordinary course of our business, some of which may involve material amounts. Also, the defense and resolution of these claims, lawsuits, and regulatory and other government audits, investigations and proceedings may require us to incur significant expense. We account for claims and litigation losses in accordance with FASB ASC Topic 450, Contingencies. Under FASB ASC Topic 450, loss contingency provisions are recorded for probable and estimable losses at our best estimate of a loss or, when a best estimate cannot be made, at our estimate of the minimum loss. These estimates are often developed prior to knowing the amount of the ultimate loss, require the application of considerable judgment and are refined as additional information becomes known. Accordingly, we are often initially unable to develop a best estimate of loss and therefore the estimated minimum loss amount, which could be zero, is recorded; then, as information becomes known, the minimum loss amount is updated, as appropriate. A minimum or best estimate amount may be increased or decreased when events result in a changed expectation.

As previously disclosed, in July 2017, as a result of our compliance program to review records related to our Medicare billing practices, we became aware of certain potential inadequate documentation and other issues at one of our leased SNFs. This compliance review was not initiated in response to any specific complaint or allegation, but was a review of the type that we periodically undertake to test our compliance with applicable Medicare billing rules. As a result of these discoveries, we made a voluntary disclosure of deficiencies to the U.S. Department of Health and Human Services Office of the Inspector General, or the OIG, pursuant to the OIG’s Provider Self-Disclosure Protocol. We submitted supplemental disclosures related to this matter to the OIG in December 2017 and March 2018. We settled this matter with the OIG without admitting any liability in June 2019 and paid $1,139 to the OIG in exchange for a customary release. The expense associated with this matter was recorded primarily in 2017, with the exception of an adjustment of $193 that was made during the year ended December 31, 2018, to reduce the balance of the liability. We did not recognize any expenses related to this matter in 2019.
13. Business Management Agreement with RMR LLC

RMR LLC provides business management services to us pursuant to our business management agreement. These business management services may include, but are not limited to, services related to compliance with various laws and rules applicable to our status as a publicly traded company, maintenance of our senior living communities, evaluation of business opportunities, accounting and financial reporting, capital markets and financing activities, investor relations and general oversight of our daily business activities, including legal matters, human resources, insurance programs and the like.

Fees. We pay RMR LLC an annual business management fee equal to 0.6% of our revenues. Revenues are defined as our total revenues from all sources reportable under GAAP, less any revenues reportable by us with respect to communities for which we provide management services plus the gross revenues at those communities determined in accordance with GAAP. Pursuant to our business management agreement with RMR LLC, we recognized business management fees of $9,090 and $9,059 for the years ended December 31, 2019 and 2018, respectively.

Term and Termination. The current term of our business management agreement ends on December 31, 2019 and automatically renews for successive one year terms unless we or RMR LLC gives notice of nonrenewal before the end of an applicable term. RMR LLC may terminate our business management agreement upon 120 days’ written notice, and we may terminate upon 60 days’ written notice, subject to approval by a majority vote of our Independent Directors. If we terminate or elect not to renew our business management agreement other than for cause, as defined, we are obligated to pay RMR LLC a termination fee equal to 2.875 times the sum of the annual base management fee and the annual internal audit services expense, which amounts are based on averages during the 24 consecutive calendar months prior to the date of notice of nonrenewal or termination.

Expense Reimbursement. We are generally responsible for all of our operating expenses, including certain expenses incurred or arranged by RMR LLC on our behalf. Under our business management agreement, we reimburse RMR LLC for our allocable costs for our internal audit function. Our Audit Committee appoints our Director of Internal Audit and our Compensation Committee approves the costs of our internal audit function. The amounts recognized as expense for internal audit costs were $284 and $236 for the years ended December 31, 2019 and 2018, respectively. These amounts are included in general and administrative expenses in our consolidated statements of operations for these periods.

Transition Services. RMR LLC has agreed to provide certain transition services to us for 120 days following an applicable termination by us or notice of termination by RMR LLC.

Vendors. Pursuant to our management agreement with RMR LLC, RMR LLC may from time to time negotiate on our behalf with certain third party vendors and suppliers for the procurement of goods and services to us. As part of this arrangement, we may enter agreements with RMR LLC and other companies to which RMR LLC provides management services for the purpose of obtaining more favorable terms from such vendors and suppliers.

14. Related Person Transactions

We have relationships and historical and continuing transactions with DHC, RMR LLC, ABP Trust, Adam D. Portnoy and others related to them, including other companies to which RMR LLC or its subsidiaries provide management services and some of which have directors, trustees or officers who are also our Directors or officers. The Chair of our Board of Directors and one of our Managing Directors, Adam Portnoy, as the sole trustee of ABP Trust, is the controlling shareholder of The RMR Group Inc., or RMR Inc., and is a managing director and the president and chief executive officer of RMR Inc. and an officer and employee of RMR LLC. RMR Inc. is the managing member of RMR LLC. Jennifer Clark, our other Managing Director and Secretary, is a managing director and the executive vice president, general counsel and secretary of RMR Inc. and an officer and employee of RMR LLC and certain of our officers are also officers and employees of RMR LLC. Some of our Independent Directors also serve as independent trustees or independent directors of other public companies to which RMR LLC or its subsidiaries provide management services. Adam Portnoy serves as the chair of the boards of directors or boards of trustees of several of these public companies and as a managing director or managing trustee of all these companies. Other officers of RMR LLC serve as managing directors or managing trustees of certain of these companies. In addition, officers of RMR LLC and RMR Inc. serve as our officers and officers of other companies to which RMR LLC or its subsidiaries provide management services.
**DHC.** DHC is currently our largest stockholder, owning, as of January 1, 2020, 10,691,658, of our common shares, or 33.9% of our outstanding common shares. We manage for the account of DHC a substantial majority of the senior living communities we operate. RMR LLC provides management services to both us and DHC and Adam Portnoy, the Chair of our Board of Directors and one of our Managing Directors, also serves as the chair of the board of trustees and as a managing trustee of DHC. **DHC’s executive officers are officers and employees of RMR LLC. Our other Managing Director and Secretary also serve as a managing trustee and the secretary of DHC. Effective as of January 1, 2020, we completed the Restructuring Transactions, pursuant to which we restructured our existing business arrangements with DHC. See Notes 9 and 11 for more information regarding our relationships, agreements and transactions with DHC and certain parties related to it and us.**

In order to effect DHC’s distribution of our common shares to its shareholders in 2001 and to govern our relationship with DHC thereafter, we entered agreements with DHC and others, including RMR LLC. Since then, we have entered various leases, management agreements and other agreements with DHC that include provisions that confirm and modify these undertakings. Among other things, these agreements provide that:

- so long as DHC remains a real estate investment trust, or a REIT, we may not waive the share ownership restrictions in our charter that prohibit any person or group from acquiring more than 9.8% (in value or number of shares, whichever is more restrictive) of the outstanding shares of any class of our stock without DHC’s consent;
- so long as we are a tenant of, or manager for, DHC, we will not permit nor take any action that, in the reasonable judgment of DHC, might jeopardize DHC’s qualification for taxation as a REIT;
- DHC has the right to terminate our management agreements upon the acquisition by a person or group of more than 9.8% of our voting stock or other change in control events affecting us, as defined therein, including the adoption of any stockholder proposal (other than a precatory proposal) or the election to our Board of Directors of any individual, if such proposal or individual was not approved, nominated or appointed, as the case may be, by a majority of our Directors in office immediately prior to the making of such proposal or the nomination or appointment of such individual; and
- so long as we are a tenant of, or manager for, DHC or so long as we have a business management agreement with RMR LLC, we will not acquire or finance any real estate of a type then owned or financed by DHC or any other company managed by RMR LLC without first giving DHC or such company managed by RMR LLC, as applicable, the opportunity to acquire or finance that real estate.

**Senior Living Communities Leased from or Managed for DHC.** As of December 31, 2019 and 2018, we leased 166 and 184 senior living communities from DHC, respectively, pursuant to five leases, and we managed 78 and 76 senior living communities for the account of DHC, respectively, pursuant to long-term management and pooling agreements. Effective as of January 1, 2020, we restructured our business arrangements with DHC and, after giving effect to the Restructuring Transactions we manage 244 senior living communities for the account of DHC pursuant to the New Management Agreements.

We manage a part of a senior living community that DHC owns for the subtenant, which is an affiliate of DHC. See Note 9 for more information regarding these leases and management arrangements and the Restructuring Transactions.

**Our Manager, RMR LLC.** We have an agreement with RMR LLC to provide business management services to us. See Note 13 for more information regarding our relationship with RMR LLC.

**Share Awards to RMR LLC Employees.** We have historically made share awards to certain RMR LLC employees who are not also Directors, officers or employees of us under our equity compensation plans. During the years ended December 31, 2019 and 2018, we awarded to such persons annual share awards of 17,150 and 7,090 common shares, respectively, valued at $77 and $25, in aggregate, respectively, based upon the closing price of our common shares on Nasdaq on the dates the awards were made. Generally, one fifth of these awards vest on the award date and one fifth vests on each of the next four anniversaries of the award date. In certain instances, we may accelerate the vesting of an award, such as in connection with the award holder’s retirement as an officer of us or an officer or employee of RMR LLC. These awards to RMR LLC employees are in addition to the share awards to our Managing Directors, as Director compensation, and the fees we paid to RMR LLC. During the years ended December 31, 2019 and 2018, we purchased 5,724 and 3,049 common shares, at the closing price of the common shares on Nasdaq on the date of purchase, from certain of our officers and other employees of ours and RMR LLC in satisfaction of tax withholding and payment obligations in connection with the vesting of awards of our common shares. See Note 10 for further information regarding these purchases.
Retirement and Separation Arrangements. In connection with their respective retirement, we entered into retirement agreements with our former officers, Bruce J. Mackey Jr. and Richard A. Doyle. Additionally, we entered into a separation agreement with our former Senior Vice President, Senior Living Operations, R. Scott Herzig. Pursuant to these agreements, we made cash payments of $600 and $510 to Mr. Mackey and Mr. Herzig, respectively, in January 2019 and made cash payments of $260 to Mr. Doyle in each of June 2019 and January 2020. In addition, we made release payments to Mr. Mackey, in cash, in an aggregate amount of $330 during the year ended December 31, 2019 and $110 in January 2020, and made transition payments to Mr. Mackey and Mr. Doyle, in cash, in an aggregate amount of $96 and $56, respectively, during the year ended December 31, 2019. Our arrangements with Messrs. Mackey, Herzig and Doyle meet the criteria in FASB ASC Topic 420, Exit or Disposal Cost Obligations, or ASC Topic 420, and, as a result, we recorded the full severance cost for Mr. Mackey of $1,160 and for Mr. Herzig of $510 during the fourth quarter of 2018 and we recorded the full severance cost for Mr. Doyle of $581 during the second quarter of 2019.

Adam Portnoy and ABP Trust. Adam Portnoy, one of our Managing Directors, directly and indirectly through ABP Trust and its subsidiaries, beneficially owned, in aggregate, approximately 6.3% of our outstanding common shares as of January 1, 2020. Adam Portnoy is the sole trustee and an officer and the controlling shareholder of ABP Trust, which is the controlling shareholder of RMR Inc. Our Secretary is also an officer of ABP Trust.

We are party to a Consent, Standstill, Registration Rights and Lock-Up Agreement, dated October 2, 2016, with Adam Portnoy, ABP Trust and certain other related persons, or the ABP Parties, under which, among other things, the ABP Parties have each agreed not to transfer, except for certain permitted transfers as provided for therein, any of our shares of common stock acquired after October 2, 2016, but not including shares issued under our equity compensation plans, for a lock-up period that ends on the earlier of (i) the 10 year anniversary of such agreement, (ii) January 1st of the fourth calendar year after our first taxable year to which no then existing net operating loss or certain other tax benefits may be carried forward by us, but no earlier than January 1, 2022, (iii) the date that we enter into a definitive binding agreement for a transaction that, if consummated, would result in a change of control of us, (iv) the date that our Board of Directors otherwise approves and recommends that our stockholders accept a transaction that, if consummated, would result in a change of control of us and (v) the consummation of a change of control of us.

Under the Consent, Standstill, Registration Rights and Lock-Up Agreement, the ABP Parties also each agreed, for a period of 10 years, not to engage in certain activities involving us without the approval of our Board of Directors, including not to effect or seek to effect any tender or exchange offer, merger, business combination, recapitalization, restructuring, liquidation or other extraordinary transaction involving us, other than the acquisition by the ABP Parties, in aggregate, of up to 1,800,000 (after giving effect to the Reverse Stock Split) of our common shares prior to March 31, 2017, or solicit any proxies to vote any of our voting securities. These provisions do not restrict activities taken by an individual in her or his capacity as a Director, officer or employee of us.

We lease our headquarters from a subsidiary of ABP Trust. Our rent expense for our headquarters, including utilities and real estate taxes that we pay as additional rent, was $1,874 and $1,715 for the years ended December 31, 2019 and 2018, respectively. The adoption of ASC Topic 842 resulted in the recognition of a lease liability and right of use asset, which amount was $1,446 for each of the lease liability and the right of use asset as of December 31, 2019, with respect to our headquarters lease, using an IBR of 4.40%. The right of use asset balance has been reduced by the amount of accrued lease payments, which amounts are not material to our consolidated financial statements.

AIC. Until its dissolution on February 13, 2020, we, ABP Trust, DHC and four other companies to which RMR LLC provides management services owned AIC in equal amounts. Certain of our Directors and certain trustees or directors of the other AIC shareholders served on the board of directors of AIC.

We and the other AIC shareholders historically participated in a combined property insurance program arranged and insured or reinsured in part by AIC. The policies under that program expired on June 30, 2019, and we and the other AIC shareholders elected not to renew the AIC property insurance program; we have instead purchased standalone property insurance coverage from unrelated third party insurance providers.

We paid aggregate annual premiums, including taxes and fees, of $3,144 and $4,329 in connection with this insurance program for the policy year ending June 30, 2019 and 2018, respectively.

As of December 31, 2019 and 2018, our investment in AIC had a carrying value of $298 and $8,633, respectively. These amounts are presented as equity investment of an investee in our consolidated balance sheets. We recognized income of $575 and $516 related to our investment in AIC for the years ended December 31, 2019 and 2018, respectively. These amounts
are presented as equity in earnings of an investee in our consolidated statements of operations. Our other comprehensive income includes our proportionate share of unrealized gains (losses) on securities which are owned and held for sale by AIC of $90 and $(68) related to our investment in AIC for the years ended December 31, 2019 and 2018, respectively.

On February 13, 2020, AIC was dissolved and in connection with its dissolution, we and each other AIC shareholder received an initial liquidating distribution of $9,000 from AIC in December 2019.

Directors’ and Officers’ Liability Insurance. We, RMR Inc., RMR LLC and certain other companies to which RMR LLC or its subsidiaries provide management services, including DHC, participate in a combined directors’ and officers’ liability insurance policy. The current combined policy expires in September 2020. We paid aggregate premiums of $185 and $152 in 2019 and 2018, respectively, for these policies.

15. Employee Benefit Plans

Employee 401(k) Plan. We have an employee savings plan, or our 401(k) Plan, under the provisions of Section 401(k) of the IRC. All of our employees are eligible to participate in our 401(k) Plan and are entitled upon termination or retirement to receive their vested portion of our 401(k) Plan assets. We match a certain amount of employee contributions. We also pay certain expenses related to our 401(k) Plan. Our contributions and related expenses for our 401(k) Plan were $1,155 and $1,332 for the years ended December 31, 2019 and 2018, respectively, of which $1,016 and $1,155, respectively, was recorded to senior living wages and benefits in our consolidated statements of operations and $139 and $177, respectively, was recorded to general and administrative expenses in our consolidated statements of operations.

Non-Qualified Deferred Compensation Plan. In May 2018, our Board of Directors adopted a non-qualified deferred compensation plan, or our Deferred Compensation Plan, which we began offering to certain of our employees, including our executive officers, in August 2018. Participation in our Deferred Compensation Plan is limited to a group of highly compensated employees holding the position of administrator or director or a position above such levels, which group includes our named executive officers. Our Deferred Compensation Plan is an unfunded and unsecured deferred compensation arrangement. A participant may, on a pre-tax basis, elect to defer base salary and bonus up to the maximum percentages for such deferrals as described in our Deferred Compensation Plan. We may also, at our discretion, match deferrals made under our Deferred Compensation Plan, subject to a vesting schedule. Compensation deferred under our Deferred Compensation Plan was recorded in accounts payable and accrued expenses in our consolidated balance sheets as of December 31, 2019 and 2018. Expenses related to such deferred compensation were recorded in senior living wages and benefits and general and administrative expenses in our consolidated statements of operations. Compensation deferred under our Deferred Compensation Plan was not material to our consolidated balance sheets as of December 31, 2019 and 2018, or our consolidated statements of operations for the year ended December 31, 2019 and 2018.

16. Subsequent Events

We evaluated subsequent events and transactions occurring after December 31, 2019 through March 2, 2020, the date these consolidated financial statements were available to be issued.

Effective as of January 1, 2020, we completed the Restructuring Transactions pursuant to the Transaction Agreement.

The following pro forma presentation of our shareholders’ equity as of December 31, 2019, gives effect to the issuance of 26,387,007 common shares in the Share Issuances, as if, these issuances were effective at the close of business on December 31, 2019.

<table>
<thead>
<tr>
<th>December 31, 2019 (As Reported)</th>
<th>Restructuring Transaction Adjustment</th>
<th>December 31, 2019 (Pro Forma)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Common stock, par value $.01: 75,000,000 shares authorized,</td>
<td>$</td>
<td>$</td>
</tr>
<tr>
<td>$</td>
<td>52</td>
<td>264</td>
</tr>
<tr>
<td>Additional paid in capital</td>
<td>362,450</td>
<td>97,634</td>
</tr>
</tbody>
</table>

See Notes 1, 9 and 11 for more information regarding the Restructuring Transactions.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

FIVE STAR SENIOR LIVING INC.

By:  /s/ Katherine E. Potter

Katherine E. Potter
President and Chief Executive Officer

Dated: March 2, 2020

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<table>
<thead>
<tr>
<th>Signature</th>
<th>Title</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>/s/ Katherine E. Potter</td>
<td>President and Chief Executive Officer (Principal Executive Officer)</td>
<td>March 2, 2020</td>
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<tr>
<td>Katherine E. Potter</td>
<td></td>
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<tr>
<td>/s/ Jeffrey C. Leer</td>
<td>Executive Vice President, Chief Financial Officer and Treasurer (Principal Financial Officer)</td>
<td>March 2, 2020</td>
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<tr>
<td>Jeffrey C. Leer</td>
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<tr>
<td>/s/ Ellen E. Snow</td>
<td>Chief Accounting Officer (Principal Accounting Officer)</td>
<td>March 2, 2020</td>
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<tr>
<td>Ellen E. Snow</td>
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<tr>
<td>/s/ Jennifer B. Clark</td>
<td>Managing Director</td>
<td>March 2, 2020</td>
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<tr>
<td>Jennifer B. Clark</td>
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<tr>
<td>/s/ Donna D. Fraiche</td>
<td>Independent Director</td>
<td>March 2, 2020</td>
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<tr>
<td>Donna D. Fraiche</td>
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<tr>
<td>/s/ Bruce M. Gans</td>
<td>Independent Director</td>
<td>March 2, 2020</td>
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<tr>
<td>Bruce M. Gans</td>
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<tr>
<td>/s/ Barbara D. Gilmore</td>
<td>Independent Director</td>
<td>March 2, 2020</td>
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<tr>
<td>Barbara D. Gilmore</td>
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<tr>
<td>/s/ Gerard M. Martin</td>
<td>Independent Director</td>
<td>March 2, 2020</td>
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<tr>
<td>Gerard M. Martin</td>
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<tr>
<td>/s/ Adam D. Portnoy</td>
<td>Managing Director</td>
<td>March 2, 2020</td>
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<tr>
<td>Adam D. Portnoy</td>
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</tbody>
</table>
As of February 26, 2020, Five Star Senior Living Inc. (the “Company,” “we,” “us” or “our”) had one class of securities registered under Section 12 of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), common stock, $.01 par value per share (“common shares”). The common shares are listed on The Nasdaq Stock Market LLC (“Nasdaq”).

DESCRIPTION OF SHARES OF STOCK

The following description of the terms of our shares of stock is a summary only. This summary is not complete and is qualified in its entirety by reference to the Company’s charter and bylaws and applicable Maryland law. The Company’s charter and bylaws are filed as exhibits to this Annual Report on Form 10-K.

General

Our charter authorizes us to issue up to an aggregate of 76,000,000 shares of capital stock, of which 75,000,000 are currently designated as common shares and 1,000,000 are currently designated as shares of preferred stock (“preferred shares”). As of February 26, 2020, we had 31,543,711 common shares issued and outstanding and no other class or series of shares of stock has been established and is outstanding.

Our charter contains a provision permitting our Board of Directors, without any action by our stockholders, to amend our charter to increase or decrease the total number of shares of capital stock or the number of shares of any class or series that we have authority to issue. Our charter further authorizes our Board of Directors, subject to certain limitations, to reclassify any unissued shares from time to time by setting the preferences, conversion or other rights, voting powers, restrictions, limitations as to dividends or other distributions, qualifications or terms or conditions of redemption of our common shares or any new class or series of stock created by our Board of Directors.

Common Shares

Voting rights. Subject to the provisions of our charter regarding the restriction on the transfer of shares of capital stock, each outstanding common share entitles the holder to one vote on all matters submitted to a vote of stockholders, including the election of Directors. Holders of our common shares do not have cumulative voting rights in the election of Directors.

Whenever stockholders are required or permitted to take any action by a vote, the action may be taken at a meeting of stockholders, or without a meeting only by a unanimous written consent of the stockholders entitled to vote on the matter which sets forth the action. With respect to matters brought before a meeting of stockholders other than the election of Directors, except where a different voting standard is required by any applicable law, the listing requirements of the principal securities exchange on which our common shares are listed or a specific provision of our charter, 75% of all common shares entitled to vote at the meeting shall be required to approve the matter unless such matter has been previously approved by our Board of Directors, in which case the vote required for approval is a majority of the votes cast at the meeting.

Under the MGCL, a Maryland corporation generally cannot dissolve, amend its charter, convert, merge, sell all or substantially all of its assets, engage in a share exchange or engage in similar transactions outside the ordinary course of business unless the transaction or amendment is declared advisable by the board of directors and then approved by the affirmative vote of stockholders entitled to cast at least two-thirds of the votes entitled to be cast on the matter unless a lesser percentage (but not less than a majority of all of the votes entitled to be cast on the matter) is set forth in the corporation’s charter. Our charter provides for approval of such matters when they are first declared advisable by our Board of Directors and then approved by the affirmative vote of stockholders entitled to cast a majority of the votes entitled to be cast on the matter (or if at any point Maryland law permits, by the affirmative vote of a majority of the votes cast on the matter or any such lesser proportion permitted under Maryland law).

Board of Directors. Our charter divides our Board of Directors into three classes, with stockholders electing the Directors of each class for terms expiring at the annual meeting held in the third year following the year of their election and until the election and qualification of their successors, and only one class of Directors being elected each year. The
classified board provision could have the effect of making the wholesale replacement of incumbent Directors more time consuming and difficult. At least two annual meetings of stockholders will generally be required to effect a change in a majority of our Board of Directors. Ownership of a significant number of common shares by Diversified Healthcare Trust (formerly Senior Housing Properties Trust) (“DHC”) may impact whether such change occurs.

Except as may be mandated by any applicable law or the listing requirements of the principal exchange on which our common shares are listed, and subject to the voting rights of any class or series of our shares which may be hereafter created, a plurality of all the votes cast at a meeting of stockholders duly called and at which a quorum is present shall be sufficient to elect a Director in an uncontested election and a majority of all the votes entitled to be cast for the election of a Director shall be required to elect a Director in a contested election.

In case of failure to elect Directors at an annual meeting of stockholders, the incumbent Directors will hold over and continue to direct the management of our business and affairs until they resign or their successors are elected and qualify. Any vacancy on our Board of Directors may be filled only by a majority of the remaining Directors, even if the remaining Directors do not constitute a quorum, for the remaining term of the class in which the vacancy exists and until a successor is elected and qualifies. Our charter provides that a Director may be removed only for cause by the affirmative vote of at least three-fourths of the votes entitled to be cast generally in the election of Directors. This provision precludes stockholders from removing our incumbent Directors for other than cause and then only if they can obtain the requisite affirmative vote of shares. If DHC has and retains a significant ownership in us, it may not be possible to remove our Directors unless DHC votes in favor of such removal.

**Distribution rights.** Subject to the preferential rights of any other class or series of shares then outstanding or which may be issued, and to the restrictions on transfers of common shares described in our charter and bylaws, all of our common shares are entitled to receive distributions on our common shares if, as and when authorized by our Board of Directors and declared by us out of assets legally available for distribution.

**Liquidation rights.** Subject to the preferential rights of any other class or series of shares then outstanding or which may be issued, and to the restrictions on transfers of common shares described in our charter and bylaws, all of our common shares are entitled to share ratably in our assets legally available for distribution to our stockholders in the event of our liquidation, dissolution or winding up after payment of or adequate provision for all of our known debts and liabilities.

**Registration rights.** Some of our stockholders have certain demand registration rights and piggyback and other registration rights with respect to our common shares held by them, as described from time to time in our periodic reports filed with the Securities and Exchange Commission.

**Other rights and preferences.** Holders of our common shares have no preference, conversion, exchange, sinking fund, redemption or appraisal rights, or preemptive rights to subscribe for any of our securities.

**Preferred Shares**

Pursuant to our charter, our Board of Directors, without any action by our stockholders, may issue preferred shares from time to time, in one or more classes or series, with the preferences, conversion or other rights, voting powers, restrictions, limitations as to dividends or other distributions, qualifications and terms and conditions of redemption of any preferred shares as determined by our Board of Directors from time to time. The issuance of preferred shares, the issuance of rights to purchase preferred shares or the possibility of the issuance of preferred shares or such rights could have the effect of delaying or preventing a change in our control. In addition, the rights of holders of common shares will be subject to, and may be adversely affected by, the rights of holders of any preferred shares that we have issued or may issue in the future.

**Restrictions on Transfer and Ownership of Shares**

Our charter provides that no person may own, or be deemed to own by virtue of the attribution provisions of the Internal Revenue Code of 1986, as amended (the “IRC”), more than 9.8% in value or in number, whichever is more restrictive, of shares of any class or series of our outstanding shares of capital stock. This ownership limitation in our charter is consistent with our contractual obligation with DHC to not take actions that may conflict with DHC’s qualification for taxation as a real estate investment trust (“REIT”) under the IRC. We also believe this provision promotes good orderly governance.
With the written consent of DHC, our Board of Directors, in its discretion, may grant an exemption from the ownership limitation if it is satisfied that: (1) the stockholder’s ownership will not cause us or any of our subsidiaries that are tenants of DHC or any subsidiary of DHC to be deemed a “related party tenant” with respect to DHC under the rules applicable to REITs under the IRC; (2) the stockholder’s ownership will not cause a default under any lease we have outstanding; and (3) the stockholder’s ownership is otherwise in our best interests as determined by our Board of Directors. In addition, any person who makes a request therefor shall provide to our Board of Directors such representations and undertakings as our Board of Directors or DHC may deem reasonably necessary to determine that such conditions have been and/or will continue to be satisfied. In connection with any requested exemption, our Board of Directors may require such rulings from the Internal Revenue Service or opinions of counsel as it deems advisable in order to determine or ensure DHC’s qualification for taxation as a REIT and such representations, undertakings and agreements it deems necessary or advisable in order for it to make the foregoing determinations.

If a person attempts a transfer of our shares in violation of the ownership limitations described above, then the number of shares which would cause the violation will (1) be automatically transferred to a charitable trust for the exclusive benefit of one or more charitable beneficiaries designated by us or (2) if such transfer is not effective to prevent the violation of the ownership limitations, be void ab initio. A transfer to the charitable trust will be deemed to be effective as of the close of business on the business day prior to the purported transfer or other event that results in the transfer to the charitable trust. The prohibited owner will generally not acquire any rights in these excess shares (except to the extent provided below upon a sale of the shares), will not benefit economically from ownership of any excess shares, will have no rights to distributions, will not possess any rights to vote and, to the extent permitted by law, will have no claim, cause of action or other recourse against the purported transferor of such shares. Subject to Maryland law, the trustee of the charitable trust will have the authority to rescind as void any vote cast by the prohibited owner prior to our discovery that the shares have been transferred to the trust and to recast the vote in accordance with the desires of the trustee acting for the benefit of the charitable beneficiary. However, if we have already taken irreversible corporate action, then the trustee will not have the authority to rescind and recast the vote. Any dividend or other distribution paid prior to our discovery that shares have been transferred to the trust for the charitable beneficiary will be paid by the recipient to the trustee upon demand. Any dividend or other distribution authorized but unpaid will be paid when due to the trustee. Any dividend or other distribution paid to the trustee will be held in trust for the charitable beneficiary.

Within 20 days after receiving notice from us that our shares have been transferred to a charitable trust, the trustee will sell the shares and related rights held in the charitable trust to a person designated by the trustee whose ownership of the shares will not violate the ownership limitations set forth in our charter. Upon this sale, the interest of the charitable beneficiary in the shares sold will terminate and the trustee will distribute the net proceeds of the sale to the prohibited owner and to the charitable beneficiary as follows:

- the prohibited owner will receive the lesser of:
  1. the net price paid by the prohibited owner for the shares or, if the prohibited owner did not give value for the shares in connection with the event causing the shares to be held in the charitable trust, for example, a gift, devise or other similar transaction, the market price (as defined in our charter) of the shares on the day of the event causing the shares to be transferred to the charitable trust; and
  2. the net sales proceeds received by the trustee from the sale or other disposition of the shares held in the charitable trust; and
- any net sale proceeds in excess of the amount payable to the prohibited owner shall be paid immediately to the charitable beneficiary.

If, prior to our discovery that shares have been transferred to the charitable trust, a prohibited owner sells those shares, then:

- those shares will be deemed to have been sold on behalf of the charitable trust; and
- to the extent that the prohibited owner received an amount for those shares that exceeds the amount that the prohibited owner was entitled to receive from a sale by the trustee, the prohibited owner must pay the excess to the trustee upon demand.
Also, shares held in the charitable trust will be deemed to have been offered for sale to us, or our designee, at a price per share equal to the lesser of:

- the price per share in the transaction that resulted in the transfer to the charitable trust or, in the case of a devise, gift or other similar transaction, the market price per share on the day of the event causing that transfer; and
- the market price on the date we or our designee accepts the offer.

We will have the right to accept the offer until the trustee has sold the shares held in the charitable trust. The net proceeds of the sale to us will be distributed to the prohibited owner in the amount determined pursuant to the above provisions.

Any person who acquires or attempts or intends to acquire constructive ownership of any shares that will or may violate the foregoing share ownership limitations, or any person who would have owned shares that resulted in a transfer to a charitable trust, is required to immediately give written notice to us of such event, or in the case of such a proposed or attempted transaction, give at least 15 days’ prior written notice, and to provide to us such other information as we may request.

Every owner of more than 5% of the outstanding shares of any class or series of our shares is required to give written notice to us within 30 days after the end of each taxable year stating the name and address of the owner, the number of shares of each class and series of our shares which the owner owns and a description of the manner in which those shares are held. Any such owner who holds our shares as nominee for another person who is required to include dividends on our shares in his or her gross income (the actual owner) is required to give written notice to us stating the name and address of the actual owner and the number of our shares of the actual owner with respect to whom the holder of our shares is nominee. Each such stockholder and each such actual owner is required to provide us upon demand with any additional information as we may request in order to assist us and DHC in its determination of its qualification for taxation as a REIT and to ensure compliance with the foregoing share ownership limitations.

**Net Operating Loss Ownership Limitation.** Subject to various exceptions, our bylaws provide that attempted transfers of our shares to a person, entity or group which is, or would become as a result, an owner of 5% or more of our outstanding shares would be void for transferees already owning 5% or more of our shares and, for transferees that would otherwise become owners of 5% or more of our shares, to the extent the transfer would result in such level of ownership. This ownership limitation in our bylaws is intended to help us preserve the tax treatment of our net operating losses and other tax benefits. We also believe this provision promotes good orderly governance. Shares relating to attempted transfers in violation of these bylaw provisions may be subject to transfer to a charitable trust in accordance with the provisions of our charter, as described above. However, with respect to stockholders who held in excess of 5% of our shares outstanding prior to November 10, 2009, none of such stockholders’ shares were deemed to be excess securities subject to automatic transfer to a charitable trust. Such stockholders will not be permitted to acquire additional shares while owning 5% or more of our outstanding shares or thereafter to the extent any such subsequent acquisition would result in them owning 5% or more of our outstanding shares. Our Board of Directors or an authorized committee may approve transfers otherwise prohibited by these bylaw provisions.

The restrictions in our charter and bylaws described above will not preclude the settlement of any transaction entered into through the facilities of any national securities exchange or automated interdealer quotation system. Our charter and bylaws provide, however, that the fact that the settlement of any transaction occurs will not negate the effect of any of the foregoing limitations and any transferee in this kind of transaction will be subject to all of the provisions and limitations described above.

All certificates representing our shares and any share statements for our uncertificated shares may bear legends referring to the foregoing restrictions.

**Business Combinations**

The Maryland General Corporation Law (“MGCL”) contains a provision which regulates business combinations with interested stockholders. Under the MGCL, business combinations such as mergers, consolidations, share exchanges, or, in circumstances specified in the statute, an asset transfer or issuance or reclassification of equity securities between a Maryland corporation and an interested stockholder or an affiliate of an interested stockholder are prohibited for five
years after the most recent date on which the interested stockholder becomes an interested stockholder. Under the MGCL the following persons are deemed to be interested stockholders:

• any person who beneficially owns, directly or indirectly, 10% or more of the voting power of the corporation’s outstanding voting shares; or

• an affiliate or associate of the corporation who, at any time within the two year period immediately prior to the date in question, was the beneficial owner, directly or indirectly, of 10% or more of the voting power of the then outstanding voting shares of the corporation.

After the five year prohibition period has ended, a business combination between a corporation and an interested stockholder generally must be recommended by the board of directors of the corporation and must receive the following stockholder approvals:

• the affirmative vote of at least 80% of the votes entitled to be cast by holders of outstanding voting shares of the corporation; and

• the affirmative vote of at least two thirds of the votes entitled to be cast by holders of voting shares other than shares held by the interested stockholder with whom or with whose affiliate or associate the business combination is to be effected or held by an affiliate or associate of the interested stockholder.

The stockholder approvals discussed above are not required if the corporation’s stockholders receive the minimum price set forth in the MGCL for their shares and the consideration is received in cash or in the same form as previously paid by the interested stockholder for its shares.

The foregoing provisions of the MGCL do not apply, however, to business combinations that are approved or exempted by our Board of Directors prior to the time that the interested stockholder becomes an interested stockholder. A person is not an interested stockholder under the statute if the board of directors approves in advance the transaction by which that stockholder otherwise would have become an interested stockholder. Our Board of Directors has adopted a resolution that any business combination between us and any other person is exempted from the provisions of the MGCL described in the preceding paragraphs, provided that the business combination is first approved by our Board of Directors, including the approval of a majority of the members of our Board of Directors who are not affiliates or associates of the interested stockholder. This resolution, however, may be altered or repealed in whole or in part at any time.

Control Share Acquisitions

The MGCL contains a provision which regulates control share acquisitions. The MGCL provides that control shares of a Maryland corporation acquired in a control share acquisition have no voting rights except to the extent that the acquisition is approved by a vote of two thirds of the votes entitled to be cast on the matter, excluding shares owned by the acquiror, by officers or by directors who are employees of the corporation. Control shares are voting shares, which, if aggregated with all other such shares previously acquired by the acquiror, or in respect of which the acquiror is able to exercise or direct the exercise of voting power (except solely by virtue of a revocable proxy), would entitle the acquiror to exercise voting power in electing directors within one of the following ranges of voting power:

• one tenth or more but less than one third;

• one third or more but less than a majority; or

• a majority or more of all voting power.

An acquiror must obtain the necessary stockholder approval each time it acquires control shares in an amount sufficient to cross one of the thresholds noted above.

Control shares do not include shares which the acquiring person is entitled to vote as a result of having previously obtained stockholder approval or shares acquired directly from the company. The MGCL provides for certain exceptions from the definition of control share acquisition.

A person who has made or proposes to make a control share acquisition, upon satisfaction of the conditions set forth in the statute, including an undertaking to pay the expenses of the meeting, may compel the board of directors of the
corporation to call a special meeting of stockholders to be held within 50 days of demand to consider the voting rights of the shares. If no request for a meeting is made, the corporation may itself present the matter at any stockholders meeting.

If voting rights are not approved at the meeting or if the acquiring person does not deliver an acquiring person statement as required by the MGCL, then the corporation may redeem for fair value any or all of the control shares, except those for which voting rights have previously been approved. The right of the corporation to redeem control shares is subject to conditions and limitations. Fair value is determined, without regard to the absence of voting rights for the control shares, as of the date of the last control share acquisition by the acquiror or of any meeting of stockholders at which the voting rights of the shares are considered and not approved. If voting rights for control shares are approved at a stockholders meeting and the acquiror becomes entitled to vote a majority of the shares entitled to vote, all other stockholders may exercise appraisal rights. The fair value of the shares as determined for purposes of appraisal rights may not be less than the highest price per share paid by the acquiror in the control share acquisition.

The control share acquisition statute of the MGCL does not apply to the following:

- shares acquired in a merger, consolidation or share exchange if the corporation is a party to the transaction; or
- acquisitions approved or exempted by a provision in the charter or bylaws of the corporation adopted before the acquisition of shares.

Our bylaws contain a provision exempting any and all acquisitions by any person of our shares from the control share acquisition statute. This provision may be amended or eliminated at any time in the future.

Anti-Takeover Effect of Maryland Law, of Our Charter and Bylaws and of Certain of Our Agreements

The following provisions in our charter and bylaws and in the MGCL could delay or prevent a change in our control:

- the prohibition in our charter and in our bylaws of any stockholder from owning more than 9.8% or 5%, respectively, in number or value of any shares of any class or series of our outstanding shares;
- the division of our Directors into three classes, with the term of one class expiring each year;
- stockholder voting rights and standards for the election of Directors and other matters which generally require larger majorities for approval of actions which are not approved by our Directors, or for the election of Directors in contested elections, than for actions which are approved by our Directors, or for the election of Directors in uncontested elections;
- the authority of our Board of Directors, and not our stockholders, to adopt, amend or repeal our bylaws and to fill vacancies on our Board of Directors;
- the fact that special meetings of stockholders may only be called by a majority of our Board of Directors or our President, or, subject to the satisfaction of certain procedural and informational requirements in our bylaws, upon the written request of stockholders entitled to cast not less than a majority of all the votes entitled to be cast at that meeting;
- required qualifications for an individual to serve as a Director and a requirement that certain of our Directors be “Managing Directors” (as defined in our bylaws) and other Directors be “Independent Directors” (as defined in our bylaws);
- limitations on the ability of, and various requirements that must be satisfied in order for, our stockholders to propose nominees for election to our Board of Directors and propose other business to be considered at a meeting of our stockholders;
- limitations on the ability of our stockholders to remove our Directors;
• the authority of our Board of Directors to adopt certain amendments to our charter without stockholder approval, including the authority to increase or decrease the number of authorized shares, to create new classes or series of shares (including a class or series of shares that could delay or prevent a transaction or a change in our control that might involve a premium for our shares or otherwise be in the best interests of our stockholders), to increase or decrease the number of shares of any class or series, and to classify or reclassify any unissued shares from time to time by setting or changing the preferences, conversion or other rights, voting powers, restrictions, limitations as to distributions, qualifications or terms or conditions of redemption of our shares or any new class or series of shares created by our Board of Directors;

• the business combination provisions of the MGCL, if the applicable resolution of our Board of Directors is rescinded or if our Board’s approval of a combination is not obtained; and

• the control share acquisition provisions of the MGCL, if the provision in our bylaws exempting acquisitions of our shares from such provisions is amended or eliminated.

In addition, the agreements governing our credit facilities, our management agreements with DHC and certain of our other agreements also contain change in control provisions, and our business management agreement with The RMR Group LLC contains a provision that allows for termination but requires the payment of a termination fee, as further described in that agreement.

For all of these reasons, among others, our stockholders may be unable to realize a change of control premium for any of our shares they own or otherwise effect a change of our policies.

Transfer Agent and Registrar

The transfer agent and registrar for our common shares is Equiniti Trust Company.

Listing

Our common shares are listed on Nasdaq under the symbol “FVE.”
FIVE STAR SENIOR LIVING INC.
FORM OF [AMENDED AND RESTATED] INDEMNIFICATION AGREEMENT

THIS [AMENDED AND RESTATED] INDEMNIFICATION AGREEMENT (this “Agreement”), effective as of [DATE] (the “Effective Date”), by and between Five Star Senior Living Inc., a Maryland corporation (the “Company”), and [DIRECTOR/OFFICER] (“Indemnitee”).

WHEREAS, Indemnitee currently serves as a director and/or officer of the Company and may, in connection therewith, be subjected to claims, suits or proceedings arising from such service; and

WHEREAS, as an inducement to Indemnitee to continue to serve as such, the Company has agreed to indemnify and to advance expenses and costs incurred by Indemnitee in connection with any such claims, suits or proceedings, to the maximum extent permitted by law as hereinafter provided; and

WHEREAS, the parties [are currently parties to an Indemnification Agreement dated as of [DATE] (the “Prior Indemnification Agreement”) and] desire [amend and restate the Prior Indemnification Agreement and] set forth their agreement regarding indemnification and advancement of expenses [as reflected herein];

NOW, THEREFORE, in consideration of the premises and the covenants contained herein, the Company and Indemnitee do hereby covenant and agree as follows:

Section 1. Definitions. For purposes of this Agreement:

(a) “Board” means the board of directors of the Company.

(b) “Bylaws” means the bylaws of the Company, as they may be amended from time to time.

(c) “Change in Control” means a change in control of the Company occurring after the Effective Date of a nature that would be required to be reported in response to Item 6(e) of Schedule 14A of Regulation 14A (or in response to any similar item on any similar schedule or form) promulgated under the Securities Exchange Act of 1934, as amended (the “Act”), whether or not the Company is then subject to such reporting requirement; provided, however, that, without limitation, such a Change in Control shall be deemed to have occurred if after the Effective Date:

(i) any “person” (as such term is used in Sections 13(d) and 14(d) of the Act) is or becomes the “beneficial owner” (as defined in Rule 13d-3 under the Act), directly or indirectly, of securities of the Company representing 10% or more of the combined voting power of all the Company’s then outstanding securities entitled to vote generally in the election of directors without the prior approval of at least two-thirds of the members of the Board in office immediately prior to such person attaining such percentage interest;

(ii) there occurs a proxy contest, or the Company is a party to a merger, consolidation, sale of assets, plan of liquidation or other reorganization not approved by at least two-thirds of the members of the Board then in office, as a consequence of which members of the Board in office immediately prior to such transaction or event constitute less than a majority of the Board thereafter; or

1 Bracketed text to be included for directors and officers with existing agreements. Bracketed text would not be included for persons who are first elected as a director or appointed as an officer after this form is adopted.
(iii) during any period of two consecutive years, other than as a result of an event described in clause (a)(ii) of this Section 1, individuals who at the beginning of such period constituted the Board (including for this purpose any new director whose election or nomination for election by the Company’s stockholders was approved by a vote of at least two-thirds of the directors then still in office who were directors at the beginning of such period) cease for any reason to constitute at least a majority of the Board.

(d) “Charter” means the charter (as defined in the MGCL), of the Company, as it may be in effect from time to time.

(e) “Company Status” means the status of a Person who is or was a director, trustee, manager, officer, partner, employee, agent or fiduciary of the Company or any of its predecessor of the Company or any of their majority owned subsidiaries or the status of a Person who, while a director, trustee, manager, officer, partner, employee, agent or fiduciary of the Company or any predecessor of the Company or any of their majority owned subsidiaries, is or was serving at the request of the Company or any predecessor of the Company or any of their majority owned subsidiaries as a director, trustee, manager, officer, partner, employee, agent or fiduciary of another corporation, real estate investment trust, partnership, limited liability company, joint venture, trust, employee benefit plan or any other Enterprise.

(f) “control” of an entity, shall mean the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of such entity, whether through ownership of voting securities, by contract or otherwise.

(g) “Disinterested Director” means a director of the Company who is not and was not a party to the Proceeding in respect of which indemnification or advance of Expenses is sought by Indemnitee.

(h) “Enterprise” shall mean the Company and any other corporation, real estate investment trust, partnership, limited liability company, joint venture, trust, employee benefit plan or other enterprise that Indemnitee is or was serving at the express written request of the Company as a director, trustee, manager, officer, partner, employee, agent or fiduciary.

(i) “Expenses” means all expenses, including, but not limited to, all attorneys’ fees and costs, retainers, court or arbitration costs, transcript costs, fees of experts, witness fees, travel expenses, duplicating costs, printing and binding costs, telephone charges, postage, delivery service fees, and all other disbursements or expenses of the types customarily incurred in connection with prosecuting, defending, preparing to prosecute or defend, investigating, participating, or being or preparing to be a witness in a Proceeding, or responding to, or objecting to, a request to provide discovery in any Proceeding. Expenses also shall include Expenses incurred in connection with any appeal resulting from any Proceeding, including without limitation the premium, security for, and other costs relating to any cost bond or other appeal bond or its equivalent.

(j) “Independent Counsel” means a law firm, or a member of a law firm, selected by the Company and acceptable to Indemnitee, that is experienced in matters of business law. If, within twenty (20) days after submission by Indemnitee of a written demand for indemnification pursuant to Section 7(a) hereof, no Independent Counsel shall have been selected and agreed to by Indemnitee, either the Company or Indemnitee may petition a Chosen Court (as defined in Section 18) for the appointment as Independent Counsel of a person selected by the court or by such other person as the court shall designate, and the person so appointed shall act as Independent Counsel hereunder.

(k) “MGCL” means the Maryland General Corporation Law.

(l) “Person” means an individual, a corporation, a general or limited partnership, an association, a limited liability company, a governmental entity, a trust, a joint venture, a joint stock company or another entity or organization.
(m) “Proceeding” means any threatened, pending or completed claim, demand, action, suit, arbitration, alternate dispute resolution mechanism, investigation, inquiry, administrative hearing or any other proceeding, whether civil, criminal, administrative or investigatory (including on appeal), whether or not by or in the right of the Company, except one initiated by an Indemnitee pursuant to Section 9.

Section 2. Indemnification - General. The Company shall indemnify, and advance Expenses to, Indemnitee (a) as provided in this Agreement and (b) otherwise to the maximum extent permitted by Maryland law in effect on the Effective Date and as amended from time to time; provided, however, that no change in Maryland law shall have the effect of reducing the benefits available to Indemnitee hereunder based on Maryland law as in effect on the Effective Date. The rights of Indemnitee provided in this Section 2 shall include, without limitation, the rights set forth in the other sections of this Agreement, including any additional indemnification permitted by Section 2-418(g) of the MGCL, the Charter or the Bylaws.

Section 3. Proceedings Other Than Derivative Proceedings by or in the Right of the Company. Indemnitee shall be entitled to the rights of indemnification provided in this Section 3 if, by reason of Indemnitee’s Company Status, Indemnitee is, or is threatened to be, made a party to any Proceeding, other than a derivative Proceeding by or in the right of the Company (or, if applicable, such other Enterprise at which Indemnitee is or was serving at the request of the Company or a predecessor of the Company or any of their majority owned subsidiaries). Pursuant to this Section 3, Indemnitee shall be indemnified against all judgments, penalties, fines and amounts paid in settlement and all Expenses incurred by Indemnitee or on Indemnitee’s behalf in connection with a Proceeding by reason of Indemnitee’s Company Status unless it is finally determined that such indemnification is not permitted by the MGCL, the Charter or the Bylaws.

Section 4. Derivative Proceedings by or in the Right of the Company. Indemnitee shall be entitled to the rights of indemnification provided in this Section 4 if, by reason of Indemnitee’s Company Status, Indemnitee is, or is threatened to be, made a party to any derivative Proceeding brought by or in the right of the Company (or, if applicable, such other Enterprise at which Indemnitee is or was serving at the request of the Company or a predecessor of the Company or any of their majority owned subsidiaries). Pursuant to this Section 4, Indemnitee shall be indemnified against all judgments, penalties, fines and amounts paid in settlement and all Expenses incurred by Indemnitee or on Indemnitee’s behalf in connection with such Proceeding unless it is finally determined that such indemnification is not permitted by the MGCL, the Charter or the Bylaws.

Section 5. Indemnification for Expenses of a Party Who is Partly Successful. Without limitation on Section 3 or Section 4, if Indemnitee is not wholly successful in any Proceeding covered by this Agreement, but is successful, on the merits or otherwise, as to one or more but less than all claims, issues or matters in such Proceeding, the Company shall indemnify Indemnitee under this Section 5 for all Expenses incurred by Indemnitee or on Indemnitee’s behalf in connection with each successfully resolved claim, issue or matter, allocated on a reasonable and proportionate basis. For purposes of this Section 5 and without limitation, the termination of any claim, issue or matter in such a Proceeding by dismissal, with or without prejudice, shall be deemed to be a successful result as to such claim, issue or matter.

Section 6. Advancement of Expenses. The Company, without requiring a preliminary determination of Indemnitee’s ultimate entitlement to indemnification hereunder, shall advance all Expenses incurred by or on behalf of Indemnitee in connection with any Proceeding in which Indemnitee may be involved, or is threatened to be involved, including as a party, a witness or otherwise, by reason of Indemnitee’s Company Status, within ten (10) days after the receipt by the Company of a statement or statements from Indemnitee requesting such advance or advances from time to time, whether prior to or after final disposition of such Proceeding. Such statement or statements shall reasonably evidence the Expenses incurred by Indemnitee and shall be preceded or accompanied by a written affirmation by Indemnitee of Indemnitee’s good faith belief that the standard of conduct necessary for indemnification by the Company as authorized by the MGCL, the Charter and the Bylaws has been met and a written undertaking by or on behalf of Indemnitee, in substantially the form of Exhibit A hereto or in such other form as may be required under applicable law as in effect at the time of the execution thereof, to reimburse the portion of any Expenses advanced to Indemnitee relating to any claims, issues or matters in the Proceeding as to which it shall be finally determined that the standard of conduct has not been met and which have not been successfully resolved as described in Section 5. For the avoidance of doubt, the Company shall advance Expenses incurred by Indemnitee or on Indemnitee’s behalf in
connection with such a Proceeding pursuant to this Section 6 until it is finally determined that Indemnitee is not entitled to indemnification under the MGCL, the Charter or the Bylaws in respect of such Proceeding. To the extent that Expenses advanced to Indemnitee do not relate to a specific claim, issue or matter in the Proceeding, such Expenses shall be allocated on a reasonable and proportionate basis. The undertaking required by this Section 6 shall be an unlimited general obligation by or on behalf of Indemnitee and shall be accepted without reference to Indemnitee’s financial ability to repay such advanced Expenses and without any requirement to post security therefor. At Indemnitee’s request, advancement of any such Expense shall be made by the Company’s direct payment of such Expense instead of reimbursement of Indemnitee’s payment of such Expense.

Section 7. Procedure for Determination of Entitlement to Indemnification.

(a) To obtain indemnification under this Agreement, Indemnitee shall submit to the Company a written demand therefor. The Secretary of the Company shall, promptly upon receipt of such a demand for indemnification, provide copies of the demand to the Board.

(b) Upon written request by Indemnitee for indemnification pursuant to the first sentence of Section 7(a), a determination, if required by applicable law, with respect to Indemnitee’s entitlement thereto shall promptly be made in the specific case: (i) if a Change in Control shall have occurred, by Independent Counsel in a written opinion to the Board, a copy of which shall be delivered to Indemnitee; or (ii) if a Change in Control shall not have occurred or if, after a Change in Control, Indemnitee shall so request, (A) by the Board (or a duly authorized committee thereof) by a majority vote of a quorum consisting of Disinterested Directors, or (B) if a quorum of the Board consisting of Disinterested Directors is not obtainable or, even if obtainable, such quorum of Disinterested Directors so directs, by Independent Counsel in a written opinion to the Board, a copy of which shall be delivered to Indemnitee, or (C) if so directed by a majority of the members of the Board, by the stockholders of the Company; and, if it is so determined that Indemnitee is entitled to indemnification, payment to Indemnitee shall be made within ten (10) days after such determination. Any Independent Counsel, member of the Board or stockholder of the Company shall act reasonably and in good faith in making a determination regarding Indemnitee’s entitlement to indemnification under this Agreement.

(c) The Company shall pay the fees and expenses of Independent Counsel, if one is appointed, and shall agree to fully indemnify such Independent Counsel against any and all expenses, claims, liabilities and damages arising out of or relating to this Agreement or the Independent Counsel’s engagement as such pursuant hereto.

Section 8. Presumptions and Effect of Certain Proceedings.

(a) In making a determination with respect to entitlement to indemnification hereunder, the Person or Persons making such determination shall presume that Indemnitee is entitled to indemnification under this Agreement. Anyone seeking to overcome this presumption shall have the burden of proof and the burden of persuasion by clear and convincing evidence.

(b) It shall be presumed that Indemnitee has at all times acted in good faith and in a manner Indemnitee reasonably believed to be in or not opposed to the best interests of the Company. Anyone seeking to overcome this presumption shall have the burden of proof and the burden of persuasion by clear and convincing evidence. Without limitation of the foregoing, Indemnitee shall be deemed to have acted in good faith if Indemnitee’s action is based on the records or books of account of the Enterprise, including financial statements, or on information supplied to Indemnitee by officers of the Enterprise in the course of their duties, or on the advice of legal counsel for the Enterprise or on information or records given or reports made to the Enterprise by an independent certified public accountant or by an appraiser or other expert selected with reasonable care by the Enterprise. In addition, the knowledge or actions, or failure to act, of any director, trustee, manager, officer, partner, employee, agent or fiduciary of the Enterprise shall not be imputed to Indemnitee for purposes of determining the right to indemnification under this Agreement.

(c) Neither the failure to make a determination pursuant to Section 7(b) as to whether indemnification is proper in the circumstances because Indemnitee has met any particular standard of conduct, nor an
actual determination by the Company (including by the Board or Independent Counsel) pursuant to Section 7(b) that Indemnitee has not met such standard of conduct, shall be a defense to Indemnitee’s claim that indemnification is proper in the circumstances or create a presumption that Indemnitee has not met any particular standard of conduct.

(d) The termination of any Proceeding by judgment, order, settlement, conviction, a plea of nolo contendere or its equivalent, or an entry of an order of probation prior to judgment, shall not in and of itself adversely affect the right of Indemnitee to indemnification or create a presumption that Indemnitee did not meet the standard of conduct required for indemnification. The Company acknowledges that a settlement or other disposition short of final judgment may be successful if it permits a party to avoid expense, delay, distraction, disruption and uncertainty. In the event that any Proceeding to which Indemnitee is a party is resolved in any manner other than by adverse judgment against Indemnitee (including, without limitation, settlement of such action, claim or proceeding with or without payment of money or other consideration), it shall be presumed that Indemnitee has been successful on the merits or otherwise in such Proceeding. Anyone seeking to overcome this presumption shall have the burden of proof and the burden of persuasion by clear and convincing evidence.

Section 9. Remedies of Indemnitee.

(a) If (i) a determination is made pursuant to Section 7(b) that Indemnitee is not entitled to indemnification under this Agreement, (ii) advance of Expenses is not timely made pursuant to Section 6, (iii) no determination of entitlement to indemnification shall have been made pursuant to Section 7(b) within thirty (30) days after receipt by the Company of the request for indemnification, (iv) payment of indemnification is not made pursuant to Section 5 within ten (10) days after receipt by the Company of a written request therefor, or (v) payment of indemnification is not made within ten (10) days after a determination has been made that Indemnitee is entitled to indemnification, Indemnitee shall (A) unless the Company demands arbitration as provided by Section 17, be entitled to an adjudication in a Chosen Court or (B) be entitled to seek an award in arbitration as provided by Section 17, in each case of Indemnitee’s entitlement to such indemnification or advance of Expenses.

(b) In any judicial proceeding or arbitration commenced pursuant to this Section 9, the Company shall have the burden of proving that Indemnitee is not entitled to indemnification or advance of Expenses, as the case may be. In the event that a determination shall have been made pursuant to Section 7(b) that Indemnitee is not entitled to indemnification, any judicial proceeding or arbitration commenced pursuant to this Section 9 shall be conducted in all respects as a de novo trial on the merits, and Indemnitee shall not be prejudiced by reason of the adverse determination under Section 7(b).

(c) If a determination shall have been made pursuant to Section 7(b) that Indemnitee is entitled to indemnification, the Company shall be bound by such determination in any judicial proceeding or arbitration commenced pursuant to this Section 9, absent a misstatement by Indemnitee of a material fact, or an omission of a material fact necessary to make Indemnitee’s statement not materially misleading, in connection with the demand for indemnification.

(d) In the event that Indemnitee, pursuant to this Section 9, seeks a judicial adjudication of or an award in arbitration as provided by Section 17 to enforce Indemnitee’s rights under, or to recover damages for breach of, this Agreement by the Company, or to recover under any directors’ and officers’ liability insurance policies maintained by the Company, the Company shall indemnify Indemnitee against any and all Expenses incurred by Indemnitee in such judicial adjudication or arbitration and, if requested by Indemnitee, the Company shall (within ten (10) days after receipt by the Company of a written demand therefor) advance, to the extent not prohibited by law, the Charter or the Bylaws, any and all such Expenses.

(e) The Company shall be precluded from asserting in any judicial proceeding or arbitration commenced pursuant to this Section 9 that the procedures and presumptions of this Agreement are not valid, binding and enforceable and shall stipulate in any such judicial proceeding or arbitration that the Company is bound by all the provisions of this Agreement.
To the extent requested by Indemnitee and approved by the Board, the Company may at any time and from time to time provide security to Indemnitee for the Company’s obligations hereunder through an irrevocable bank line of credit, funded trust or other collateral. Any such security, once provided to Indemnitee, may not be revoked or released without the prior written consent of Indemnitee.

(g) Interest shall be paid by the Company to Indemnitee at the maximum rate allowed to be charged for judgments under the Courts and Judicial Proceedings Article of the Annotated Code of Maryland for amounts which the Company pays or is obligated to pay for the period (i) commencing with either the tenth (10th) day after the date on which the Company was requested to advance Expenses in accordance with Section 6 of this Agreement or the thirtieth (30th) day after the date on which the Company was requested to make the determination of entitlement to indemnification under Section 7(b) of this Agreement, as applicable, and (ii) ending on the date such payment is made to Indemnitee by the Company.

Section 10. Defense of the Underlying Proceeding.

(a) Indemnitee shall notify the Company promptly upon being served with or receiving any summons, citation, subpoena, complaint, indictment, information, notice, request or other document relating to any Proceeding which may result in the right to indemnification or the advance of Expenses hereunder; provided, however, that the failure to give any such notice shall not disqualify Indemnitee from the right, or otherwise affect in any manner any right of Indemnitee, to indemnification or the advance of Expenses under this Agreement unless the Company’s ability to defend in such Proceeding or to obtain proceeds under any insurance policy is materially and adversely prejudiced thereby, and then only to the extent the Company is thereby actually so prejudiced.

(b) Subject to the provisions of the last sentence of this Section 10(b) and of Section 10(c) below, the Company shall have the right to defend Indemnitee in any Proceeding which may give rise to indemnification hereunder; provided, however, that the Company shall notify Indemnitee of any such decision to defend within fifteen (15) days following receipt of notice of any such Proceeding under Section 10(a) above, and the counsel selected by the Company shall be reasonably satisfactory to Indemnitee. The Company shall not, without the prior written consent of Indemnitee, consent to the entry of any judgment against Indemnitee or enter into any settlement or compromise which (i) includes an admission of fault of Indemnitee, (ii) does not include, as an unconditional term thereof, the full release of Indemnitee from all liability in respect of such Proceeding, which release shall be in form and substance reasonably satisfactory to Indemnitee or (iii) has the actual or purported effect of extinguishing, limiting or impairing Indemnitee’s rights hereunder. This Section 10(b) shall not apply to a Proceeding brought by Indemnitee under Section 9 above or Section 15.

(c) Notwithstanding the provisions of Section 10(b), if in a Proceeding to which Indemnitee is a party by reason of Indemnitee’s Company Status, (i) Indemnitee reasonably concludes, based upon an opinion of counsel approved by the Company, which approval shall not be unreasonably withheld, that Indemnitee may have separate defenses or counterclaims to assert with respect to any issue which may not be consistent with other defendants in such Proceeding, (ii) Indemnitee reasonably concludes, based upon an opinion of counsel approved by the Company, which approval shall not be unreasonably withheld, that an actual or apparent conflict of interest or potential conflict of interest exists between Indemnitee and the Company, or (iii) the Company fails to assume the defense of such Proceeding in a timely manner, Indemnitee shall be entitled to be represented by separate legal counsel of Indemnitee’s choice, subject to the prior approval of the Company, which shall not be unreasonably withheld, at the expense of the Company. In addition, if the Company fails to comply with any of its obligations under this Agreement or in the event that the Company or any other Person takes any action to declare this Agreement void or unenforceable, or institutes any Proceeding to deny or to recover from Indemnitee the benefits intended to be provided to Indemnitee hereunder, Indemnitee shall have the right to retain counsel of Indemnitee’s choice, at the expense of the Company (subject to Section 9(d)), to represent Indemnitee in connection with any such matter.

Section 11. Liability Insurance.

(a) To the extent the Company maintains an insurance policy or policies providing liability insurance for any of its directors or officers, Indemnitee shall be covered by such policy or policies, in accordance with its or their terms, to the maximum extent of the coverage available for any Company director or officer.
during Indemnitee’s tenure as a director or officer and, following a termination of Indemnitee’s service in connection with a Change in Control, for a period of six (6) years thereafter.

(b) If, at the time of the receipt of a notice of a claim pursuant to the terms hereof, the Company has directors’ and officers’ liability insurance in effect, the Company shall give prompt notice of the commencement of such proceeding to the insurers in accordance with the procedures set forth in the respective policies. The Company shall thereafter take all necessary or desirable action to cause such insurers to pay, on behalf of Indemnitee, all amounts payable as a result of such proceeding in accordance with the terms of such policies.

(c) In the event of any payment by the Company under this Agreement the Company shall be subrogated to the extent of such payment to all of the rights of recovery of Indemnitee with respect to any insurance policy. Indemnitee shall take all action necessary to secure the Company to bring suit to enforce such rights in accordance with the terms of such insurance policy. The Company shall pay or reimburse all expenses actually and reasonably incurred by Indemnitee in connection with such subrogation.

Section 12. Non-Exclusivity; Survival of Rights.

(a) The rights of indemnification and advance of Expenses as provided by this Agreement shall not be deemed exclusive of any other rights to which Indemnitee may at any time be entitled under applicable law, the Charter or the Bylaws, any agreement or a resolution of the stockholders entitled to vote generally in the election of directors or of the Board, or otherwise. No amendment, alteration or repeal of this Agreement or of any provision hereof shall limit or restrict any right of Indemnitee under this Agreement in respect of any action taken or omitted by Indemnitee in Indemnitee’s Company Status prior to such amendment, alteration or repeal. To the extent that a change in the MGCL permits greater indemnification to Indemnitee than would be afforded currently under the MGCL, it is the intent of the parties hereto that Indemnitee shall enjoy by this Agreement the greater benefits so afforded by such change if permitted by the MGCL. No right or remedy herein conferred is intended to be exclusive of any other right or remedy, and every other right and remedy shall be cumulative and in addition to every other right and remedy given hereunder or now or hereafter existing at law or in equity or otherwise. The assertion or employment of any right or remedy hereunder, or otherwise, shall not prevent the concurrent assertion or employment of any other right or remedy.

(b) The Company shall not be liable under this Agreement to make any payment of amounts otherwise indemnifiable or payable or reimbursable as Expenses hereunder if and to the extent that Indemnitee has otherwise actually received such payment under any insurance policy, contract, agreement or otherwise.

Section 13. Binding Effect.

(a) The indemnification and advance of Expenses provided by, or granted pursuant to, this Agreement shall be binding upon and be enforceable by the parties hereto and their respective successors and assigns (including any direct or indirect successor by purchase, merger, consolidation or otherwise to all or substantially all of the business or assets of the Company), shall continue as to an Indemnitee who has ceased to be a director, trustee, manager, officer, partner, employee, agent or fiduciary of the Company or a director, trustee, manager, officer, partner, employee, agent or fiduciary of another Enterprise which such Person is or was serving at the request of the Company or a predecessor of the Company or any of their majority owned subsidiaries, and shall inure to the benefit of Indemnitee and Indemnitee’s spouse, assigns, heirs, devisees, executors and administrators and other legal representatives.

(b) Any successor of the Company (whether direct or indirect by purchase, merger, consolidation or otherwise) to all, substantially all, or a substantial part of, the business or assets of the Company shall be automatically deemed to have assumed and agreed to perform this Agreement in the same manner and to the same extent that the Company would be required to perform if no such succession had taken place, provided that no such assumption shall relieve the Company of its obligations hereunder. To the extent required by applicable law to give effect to the foregoing sentence and to the extent requested by Indemnitee, the Company shall require and cause any such successor to expressly assume and agree to perform this Agreement by written agreement in form and substance satisfactory to Indemnitee.
Section 14. **Severability.** If any provision or provisions of this Agreement shall be held to be invalid, illegal or unenforceable for any reason whatsoever:
(a) the validity, legality and enforceability of the remaining provisions of this Agreement (including, without limitation, each portion of any section of this Agreement containing any such provision held to be invalid, illegal or unenforceable that is not itself invalid, illegal or unenforceable) shall not in any way be affected or impaired thereby; and (b) to the fullest extent possible, the provisions of this Agreement (including, without limitation, each portion of any section of this Agreement containing any such provision held to be invalid, illegal or unenforceable, that is not itself invalid, illegal or unenforceable) shall be construed so as to give effect to the intent manifested thereby.

Section 15. **Limitation and Exception to Right of Indemnification or Advance of Expenses.** Notwithstanding any other provision of this Agreement, (a) any indemnification or advance of Expenses to which Indemnitee is otherwise entitled under the terms of this Agreement shall be made only to the extent such indemnification or advance of Expenses does not conflict with applicable Maryland law and (b) Indemnitee shall not be entitled to indemnification or advance of Expenses under this Agreement with respect to any Proceeding brought by Indemnitee, unless (i) the Proceeding is brought to enforce rights under this Agreement, the Charter, the Bylaws, liability insurance policy or policies, if any, or otherwise or (ii) the Charter, the Bylaws, a resolution of the stockholders entitled to vote generally in the election of directors or of the Board or an agreement approved by the Board to which the Company is a party expressly provides otherwise. Notwithstanding any other provision of this Agreement, a court of appropriate jurisdiction, upon application of Indemnitee and such notice as the court shall require, may order indemnification of Indemnitee by the Company in the following circumstances: (a) if such court determines that Indemnitee is entitled to reimbursement under Section 2-418(d)(1) of the MGCL, the court shall order indemnification, in which case Indemnitee shall be entitled to recover the Expenses of securing such reimbursement; or (b) if such court determines that Indemnitee is fairly and reasonably entitled to indemnification in view of all the relevant circumstances, whether or not Indemnitee (i) has met the standard of conduct set forth in Section 2-418(b) of the MGCL or (ii) has been adjudged liable for receipt of an improper personal benefit under Section 2-418(c) of the MGCL, the court may order such indemnification as the court shall deem proper without regard to any limitation on such court-ordered indemnification contemplated by Section 2-418(d)(2)(ii) of the MGCL.

Section 16. **Specific Performance, Etc.** The parties hereto recognize that if any provision of this Agreement is violated by the Company, Indemnitee may be without an adequate remedy at law. Accordingly, in the event of any such violation, Indemnitee shall be entitled, if Indemnitee so elects, to institute proceedings, either in law or at equity, to obtain damages, to enforce specific performance, to enjoin such violation, or to obtain any relief or any combination of the foregoing as Indemnitee may elect to pursue.

Section 17. **Arbitration.**

(a) Any disputes, claims or controversies regarding Indemnitee’s entitlement to indemnification or advancement of Expenses hereunder or otherwise arising out of or relating to this Agreement, including any disputes, claims or controversies brought by or on behalf of a party hereto or any holder of equity interests (which, for purposes of this Section 17, shall mean any holder of record or any beneficial owner of equity interests or any former holder of record or beneficial owner of equity interests) of a party, either on his, her or its own behalf, on behalf of a party or on behalf of any series or class of equity interests of a party or holders of equity interests of a party against a party or any of their respective trustees, directors, members, officers, managers, agents or employees, including any disputes, claims or controversies relating to the meaning, interpretation, effect, validity, performance or enforcement of this Agreement, including this Section 17 or the governing documents of a party (all of which are referred to as “Disputes”), or relating in any way to such a Dispute or Disputes, shall, on the demand of any party to such Dispute or Disputes, be resolved through binding and final arbitration in accordance with the Commercial Arbitration Rules (the “Rules”) of the American Arbitration Association (“AAA”) then in effect, except as those Rules may be modified in this Section 17. For the avoidance of doubt, and not as a limitation, Disputes are intended to include derivative actions against the trustees, directors, officers or managers of a party and class actions by a holder of equity interests against those individuals or entities and a party. For the avoidance of doubt, a Dispute shall include a Dispute made derivatively on behalf of one party against another party. For purposes of this Section 17, the term “equity interest” shall mean (i) in respect of the Company, shares of beneficial interest of the Company, (ii) shares of “membership interests” in an entity that is a limited liability company, (iii) general partnership interests in an entity that
is a partnership, (iv) shares of capital stock of an entity that is a corporation and (v) similar equity ownership interests in other entities.

(b) There shall be three (3) arbitrators. If there are only two (2) parties to the Dispute, each party shall select one (1) arbitrator within fifteen (15) days after receipt by respondent of a copy of the demand for arbitration. The arbitrators may be affiliated or interested persons of the parties. If there are more than two (2) parties to the Dispute, all claimants, on the one hand, and all respondents, on the other hand, shall select, by the vote of a majority of the claimants or the respondents, as the case may be, one (1) arbitrator within fifteen (15) days after receipt of the demand for arbitration. The arbitrators may be affiliated or interested persons of the claimants or the respondents, as the case may be. If either a claimant (or all claimants) or a respondent (or all respondents) fail(s) to timely select an arbitrator then the party (or parties) who has selected an arbitrator may request AAA to provide a list of three (3) proposed arbitrators in accordance with the Rules (each of whom shall be neutral, impartial and unaffiliated with any party) and the party (or parties) that failed to timely appoint an arbitrator shall have ten (10) days from the date AAA provides the list to select one (1) of the three (3) arbitrators proposed by AAA. If the party (or parties) fail(s) to select the second (2nd) arbitrator by that time, the party (or parties) who have appointed the first (1st) arbitrator shall then have ten (10) days to select one (1) of the three (3) arbitrators proposed by AAA to be the second (2nd) arbitrator; and, if he/she/they should fail to select the second (2nd) arbitrator by such time, AAA shall select, within fifteen (15) days thereafter, one (1) of the three (3) arbitrators it had proposed as the second (2nd) arbitrator. The two (2) arbitrators so appointed shall jointly appoint the third (3rd) and presiding arbitrator (who shall be neutral, impartial and unaffiliated with any party) within fifteen (15) days of the appointment of the second (2nd) arbitrator. If the third (3rd) arbitrator has not been appointed within the time limit specified herein, then AAA shall provide a list of proposed arbitrators in accordance with the Rules, and the arbitrator shall be appointed by AAA in accordance with a listing, striking and ranking procedure, with each party having a limited number of strikes, excluding strikes for cause.

(c) The place of arbitration shall be Boston, Massachusetts unless otherwise agreed by the parties.

(d) There shall be only limited documentary discovery of documents directly related to the issues in dispute, as may be ordered by the arbitrators. For the avoidance of doubt, it is intended that there shall be no depositions and no other discovery other than limited documentary discovery as described in the preceding sentence.

(e) In rendering an award or decision (an “Award”), the arbitrators shall be required to follow the laws of the State of Maryland without regard to principles of conflicts of law. Any arbitration proceedings or award rendered hereunder and the validity, effect and interpretation of this arbitration agreement shall be governed by the Federal Arbitration Act, 9 U.S.C. §1 et seq. An Award shall be in writing and shall state the findings of fact and conclusions of law on which it is based. Any monetary Award shall be made and payable in U.S. dollars free of any tax, deduction or offset. Subject to Section 17(g), each party against which an Award assesses a monetary obligation shall pay that obligation on or before the thirtieth (30th) day following the date of such Award or such other date as the Award may provide.

(f) Except to the extent expressly provided by this Agreement or as otherwise agreed by the parties hereto, each party and each Person acting or seeking to act in a representative capacity (such Person, a “Named Representative”) involved in a Dispute shall bear its own costs and expenses (including attorneys’ fees), and the arbitrators shall not render an Award that would include shifting of any such costs or expenses (including attorneys’ fees) or, in a derivative case or class action, award any portion of a party’s award to its attorneys, a Named Representative or any attorney of a Named Representative. Each party (or, if there are more than two (2) parties to the Dispute, all claimants, on the one hand, and all respondents, on the other hand, respectively) shall bear the costs and expenses of its (or their) selected arbitrator and the parties (or, if there are more than two (2) parties to the Dispute, all claimants, on the one hand, and all respondents, on the other hand) shall equally bear the costs and expenses of the third (3rd) appointed arbitrator.

(g) Notwithstanding any language to the contrary in this Agreement, an Award, including but not limited to any interim Award, may be appealed pursuant to the AAA’s Optional Appellate Arbitration Rules (the “Appellate Rules”). An Award shall not be considered final until after the time for filing the notice of appeal pursuant to the Appellate Rules has expired. Appeals must be initiated within thirty (30) days of receipt of an Award by filing a
notice of appeal with any AAA office. Following the appeal process, the decision rendered by the appeal tribunal may be entered in any court having jurisdiction thereof. For the avoidance of doubt, and despite any contrary provision of the Appellate Rules, Section 17(f) shall apply to any appeal pursuant to this Section 17 and the appeal tribunal shall not render an Award that would include shifting of any costs or expenses (including attorneys’ fees) of any party or Named Representative or the payment of such costs and expenses, and all costs and expenses of a party or Named Representative shall be its sole responsibility.

(b) Following the expiration of the time for filing the notice of appeal, or the conclusion of the appeal process set forth in Section 17(g), an Award shall be final and binding upon the parties thereto and shall be the sole and exclusive remedy between those parties relating to the Dispute, including any claims, counterclaims, issues or accounting presented to the arbitrators. Judgment upon an Award may be entered in any court having jurisdiction. To the fullest extent permitted by law, no application or appeal to any court of competent jurisdiction may be made in connection with any question of law arising in the course of arbitration or with respect to any award made except for actions relating to enforcement of this agreement to arbitrate or any arbitral award issued hereunder and except for actions seeking interim or other provisional relief in aid of arbitration proceedings in any court of competent jurisdiction.

(i) This Section 17 is intended to benefit and be enforceable by the parties hereto and their respective holders of equity interests, trustees, directors, officers, managers, agents or employees, and their respective successors and assigns, and shall be binding upon all such parties and their respective holders of equity interests, and be in addition to, and not in substitution for, any other rights to indemnification or contribution that such individuals or entities may have by contract or otherwise.

Section 18. Venue. Each party hereto agrees that it shall bring any Proceeding in respect of any claim arising out of or related to this Agreement exclusively in the courts of the State of Maryland and the Federal courts of the United States, in each case, located in the City of Baltimore (the “Chosen Courts”). Solely in connection with claims arising under this Agreement, each party irrevocably and unconditionally (i) submits to the exclusive jurisdiction of the Chosen Courts, (ii) agrees not to commence any such Proceeding except in such courts, (iii) waives, to the fullest extent it may legally and effectively do so, any objection which it may now or hereafter have to the laying of venue of any such Proceeding in the Chosen Courts, (iv) waives, to the fullest extent permitted by law, the defense of an inconvenient forum to the maintenance of such Proceeding, (v) agrees that service of process upon such party in any such Proceeding shall be effective if notice is given in accordance with Section 24 and (vi) agrees to request and/or consent to the assignment of any dispute arising out of this Agreement or the transactions contemplated by this Agreement to the Chosen Courts’ Business and Technology Case Management Program, or similar program. Nothing in this Agreement will affect the right of any party hereto to serve process in any other manner permitted by law. A final judgment in any such Proceeding shall be conclusive and may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by law. EACH PARTY HERETO IRREVOCABLY WAIVES ANY AND ALL RIGHT TO TRIAL BY JURY IN ANY LEGAL PROCEEDING ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE TRANSACTIONS. Notwithstanding anything herein to the contrary, if a demand for arbitration of a Dispute is made pursuant to Section 17, this Section 18 shall not preempt resolution of the Dispute pursuant to Section 17.

Section 19. Adverse Settlement. The Company shall not seek, nor shall it agree to or support, or agree not to contest any settlement or other resolution of any matter that has the actual or purported effect of extinguishing, limiting or impairing Indemnitee’s rights hereunder, including without limitation the entry of any bar order or other order, decree or stipulation, pursuant to 15 U.S.C. § 78u-4 (the Private Securities Litigation Reform Act), or any similar foreign, federal or state statute, regulation, rule or law.

Section 20. Period of Limitations. To the fullest extent permitted by law, no legal action shall be brought, and no cause of action shall be asserted, by or on behalf of the Company or any controlled affiliate of the Company against Indemnitee, Indemnitee’s spouse, heirs, executors or personal or legal representatives after the expiration of two years from the date of accrual of such cause of action, and any claim or cause of action of the Company or its controlled affiliate shall be extinguished and deemed released unless asserted by the timely filing of a legal action within such two-year period; provided, however, if any shorter period of limitations is otherwise applicable to any such cause of action, such shorter period shall govern.
Section 21. Counterparts. This Agreement may be executed in any number of counterparts, all of which shall be considered one and the same agreement and shall become effective when counterparts have been signed by each of the parties hereto and delivered to the other party (including via facsimile or other electronic transmission), it being understood that each party hereto need not sign the same counterpart.

Section 22. Delivery by Electronic Transmission. This Agreement and any signed agreement or instrument entered into in connection with this Agreement or contemplated hereby, and any amendments hereto or thereto, to the extent signed and delivered by means of an electronic transmission, including by a facsimile machine or via email, shall be treated in all manner and respects as an original agreement or instrument and shall be considered to have the same binding legal effect as if it were the original signed version thereof delivered in person. At the request of any party hereto or to any such agreement or instrument, each other party hereto or thereto shall re-execute original forms thereof and deliver them to the other parties. No party hereto or to any such agreement or instrument shall raise the use of electronic transmission by a facsimile machine or via email to deliver a signature or the fact that any signature or agreement or instrument was transmitted or communicated through electronic transmission as a defense to the formation of a contract and each such party forever waives any such defense.

Section 23. Modification and Waiver. No supplement, modification or amendment of this Agreement shall be binding unless executed in writing by both of the parties hereto. No waiver of any of the provisions of this Agreement shall be deemed to, or shall, constitute a waiver of any other provisions hereof (whether or not similar) nor shall such waiver constitute a continuing waiver.

Section 24. Notices. Any notice, report or other communication required or permitted to be given hereunder shall be in writing unless some other method of giving such notice, report or other communication is accepted by the party to whom it is given, and shall be given by being delivered at the following addresses to the parties hereto:

(a) If to Indemnitee, to: The address set forth on the signature page hereto.

(b) If to the Company to:

Five Star Senior Living Inc.
400 Centre Street
Newton, Massachusetts 02458-2094
Attn: Secretary

or to such other address as may have been furnished to Indemnitee by the Company or to the Company by Indemnitee, as the case may be.

Section 25. Governing Law. The provisions of this Agreement and any Dispute, whether in contract, tort or otherwise, shall be governed by and construed in accordance with the laws of the State of Maryland without regard to its conflicts of laws rules.

Section 26. Interpretation.

(a) Generally. Unless the context otherwise requires, as used in this Agreement: (a) words defined in the singular have the parallel meaning in the plural and vice versa; (b) “Articles,” “Sections,” and “Exhibits” refer to Articles, Sections and Exhibits of this Agreement unless otherwise specified; and (c) “hereto” and “hereunder” and words of like import used in this Agreement shall refer to this Agreement as a whole and not to any particular provision of this Agreement.

(b) Additional Interpretive Provisions. The headings in this Agreement are for reference purposes only and shall not in any way affect the meaning or interpretation of this Agreement. Any capitalized term used in any Exhibit to this Agreement, but not otherwise defined therein, shall have the meaning as defined in this Agreement. References to any statute shall be deemed to refer to such statute as amended from time to time and to any rules or regulations promulgated thereunder and any successor statute or statutory provision. References to any
agreement are to that agreement as amended, modified or supplemented from time to time in accordance with the terms hereof and thereof. References to any Person include the successors and permitted assigns of that Person. Reference to any agreement, document or instrument means the agreement, document or instrument as amended or otherwise modified from time to time in accordance with the terms thereof, and if applicable hereof.

(c) [Expansion of Indemnification. This amendment and restatement of the Prior Indemnification Agreement is intended to expand, and not to limit, the scope of indemnification provided to Indemnitee under the Prior Indemnification Agreement, and this Agreement shall be interpreted consistent with such intent.]

[Signature Page Follows]
IN WITNESS WHEREOF, the undersigned have executed or caused to be executed on their behalf this Agreement as of the date first written above.

FIVE STAR SENIOR LIVING INC.

By: 
Name: 
Title: 

[INDEMNITEE]

Indemnitee’s Address:

[ ]

[Signature Page to [Amended and Restated] Indemnification Agreement]
To the Board of Directors of Five Star Senior Living Inc.:

This affirmation and undertaking is being provided pursuant to that certain [Amended and Restated] Indemnification Agreement dated , 20   (the “Indemnification Agreement”), by and between Five Star Senior Living Inc., a Maryland corporation (the “Company”), and the undersigned Indemnitee, pursuant to which Indemnitee is entitled to advancement of expenses in connection with [Description of Claims/Proceeding] (together, the “Claims”). Terms used, and not otherwise defined, herein shall have the meanings specified in the Indemnification Agreement.

Indemnitee is subject to the Claims by reason of Indemnitee’s Company Status or by reason of alleged actions or omissions by Indemnitee in such capacity.

Indemnitee hereby affirms Indemnitee’s good faith belief that the standard of conduct necessary for Indemnitee’s indemnification has been met.

In consideration of the advancement of Expenses by the Company for attorneys’ fees and related expenses incurred by Indemnitee in connection with the Claims (the “Advanced Expenses”), Indemnitee hereby agrees that if, in connection with a proceeding regarding the Claim, it is ultimately determined that Indemnitee is not entitled to indemnification under law, the Charter, the Bylaws or the Indemnification Agreement with respect to an act or omission by Indemnitee, then Indemnitee shall promptly reimburse the portion of the Advanced Expenses relating to the Claim(s) as to which the foregoing findings have been established and which have not been successfully resolved as described in Section 5 of the Indemnification Agreement. To the extent that Advanced Expenses do not relate to specific Claims, Indemnitee agrees that such Advanced Expenses may be allocated on a reasonable and proportionate basis.

IN WITNESS WHEREOF, the undersigned Indemnitee has executed this Affirmation and Undertaking to Repay Expenses Advanced on , .

WITNESS:

__________________________________________  ________________________________________
Print name of witness  Print name of Indemnitee
Schedule to Exhibit 10.5

The following directors and executive officers of Five Star Senior Living Inc., or FVE, are parties to Indemnification Agreements with FVE which are substantially identical in all material respects to the representative Indemnification Agreement filed herewith and are dated as of the respective dates listed below. The other Indemnification Agreements are omitted pursuant to Instruction 2 to Item 601 of Regulation S-K.

<table>
<thead>
<tr>
<th>Name of Signatory</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jennifer B. Clark</td>
<td>May 17, 2018</td>
</tr>
<tr>
<td>Donna D. Fraiche</td>
<td>May 17, 2018</td>
</tr>
<tr>
<td>Bruce M. Gans</td>
<td>May 17, 2018</td>
</tr>
<tr>
<td>Barbara D. Gilmore</td>
<td>May 17, 2018</td>
</tr>
<tr>
<td>Jeffrey C. Leer</td>
<td>June 1, 2019</td>
</tr>
<tr>
<td>Gerard M. Martin</td>
<td>May 17, 2018</td>
</tr>
<tr>
<td>Adam D. Portnoy</td>
<td>May 17, 2018</td>
</tr>
<tr>
<td>Katherine E. Potter</td>
<td>May 17, 2018</td>
</tr>
<tr>
<td>Michael E. Wagner</td>
<td>February 26, 2020</td>
</tr>
<tr>
<td>Margaret S. Wigglesworth</td>
<td>August 12, 2019</td>
</tr>
</tbody>
</table>
THIS OMNIBUS AGREEMENT is made as of January 1, 2020 (the “Effective Date”), by and among the parties identified herein as the FVE Parties and the parties identified herein as the SNH Parties.

RECITALS:

The FVE Parties manage real properties and improvements owned by the SNH Parties and their Affiliates, which are operated as senior living communities.

The SNH Parties and the FVE Parties wish to memorialize certain agreements with respect to the senior living communities managed, or to be managed, by the FVE Parties, on the terms and conditions of this Agreement.

NOW, THEREFORE, the parties agree as follows:

ARTICLE I
DEFINED TERMS

1.01. Definitions. The following capitalized terms as used in this Agreement shall have the meanings set forth below:

(1) “Affiliate” means, with respect to any Person, (a) any Person who directly or indirectly through one or more intermediaries controls, is controlled by or is under common control with a Person or (b) any Person of which a Person is the beneficial owner of a 25% or greater interest or (c) any Person who acquires all or substantially all of the assets of a Person. A Person shall be deemed to control another Person if such Person, directly or indirectly, has the power to direct the management, operations or business of such Person. The term “beneficial owner” for this and other definitions, having the meaning given such term in Rule 13d-3 under the Securities Exchange Act of 1934, as amended. Notwithstanding the foregoing, in no event shall any SNH Party be considered an Affiliate of any FVE Party, and in no event shall any FVE Party be considered an Affiliate of any SNH Party, for purposes of this Agreement.

(2) “Agreement” means this Omnibus Agreement as amended from time to time.

(3) “Approved Budget” means the Approved Budget as defined in and as determined pursuant to each Management Agreement.

(4) “Business Day” means any day other than Saturday, Sunday, or any other day on which banking institutions in The Commonwealth of Massachusetts are authorized by Law or executive action to close.

(5) “Change in Control” means (a) the acquisition by any Person, or two or more Persons acting in concert, of beneficial ownership (within the meaning of Rule 13d-3 of the Securities
and Exchange Commission) of 9.8% or more, or rights, options or warrants to acquire 9.8% or more, of the outstanding shares of voting stock or other voting interests of another Person (a “Relevant Person”) or of any direct or indirect parent of a Relevant Person (“Parent”), or the power to direct the management and policies of a Relevant Person or Parent, directly or indirectly, (b) the merger or consolidation of a Relevant Person or Parent with and into any Person or the merger or consolidation of any Person with and into a Relevant Person or any Parent (other than the merger or consolidation of any Person into a Relevant Person or Parent that does not result in a Change in Control of a Relevant Person or Parent under clauses (a), (c), (d), (e) or (f) of this definition), (c) any one or more sales, conveyances, dividends or distributions to any Person of all or any material portion of the assets (including capital stock or other equity interests) or business of a Relevant Person or Parent, whether or not otherwise a Change in Control, (d) the cessation, for any reason, of the individuals who at the beginning of any 24 consecutive month period (commencing on the date hereof) constituted the board of directors of a Relevant Person or any Parent (together with any new directors whose election by such board or whose nomination for election by the shareholders of a Relevant Person or any Parent was approved by a vote of a majority of the directors then still in office who were either directors at the beginning of any such period or whose election or nomination for election was previously so approved, but excluding any individual whose initial nomination for, or assumption of, office as a member of such board of directors occurs as a result of an actual or threatened solicitation of proxies or consents for the election or removal of one or more directors by any Person other than a solicitation for the election of one or more directors by or on behalf of the board of directors) to constitute a majority of the board of directors of a Relevant Person or any Parent then in office, or (e) the adoption of any proposal (other than a precatory proposal) by a Relevant Person or any Parent not approved by vote of a majority of the directors of such Relevant Person or Parent, as the case may be, in office immediately prior to the making of such proposal, or (f) the election to the board of directors of a Relevant Person or any Parent of any individual not nominated or appointed by vote of a majority of the directors of such Relevant Person or Parent in office immediately prior to the nomination or appointment of such individual.


(7) “Community” has the meaning ascribed to such term in the applicable Management Agreement.

(8) “Effective Date” is defined in the preamble to this Agreement.

(9) “Extension Conditions” means (a) no Event of Default as defined under the Management Agreements by any FVE Party shall have occurred and be continuing, and (b) the FVE Parties shall have simultaneously exercised their rights to extend the terms of all Management Agreements on similar terms and in accordance with their terms.

(10) “FVE” means Five Star Senior Living Inc., a Maryland corporation.

(12) “FVE Parties” means, collectively, FVE, FVE Managers, and any other subsidiary of FVE that is a party to a Management Agreement.

(13) “GAAP” means generally accepted accounting principles in the United States applied on a consistent basis.

(14) “Liquidity” means, as of any determination date, the amount of (a) unencumbered cash and cash equivalents of FVE, and (b) FVE’s available borrowing capacity under its revolving credit facilities or similar on-demand sources of liquidity.

(15) “Management Agreements” means, collectively, each management agreement pursuant to which an FVE Party manages an independent living/assisted living/memory care/skilled nursing community or any other type of senior living community, in each case owned by SNH or any of its Affiliates, whether in existence as of the Effective Date or entered into after the Effective Date.

(16) “Non-Performing Asset” means a Non-Performing Asset as defined in and as determined pursuant to the Management Agreements.

(17) “Person” means any natural person, corporation, limited liability company, trust, joint venture, partnership or other entity.

(18) “Portfolio EBITDA” means, with respect to any calendar year, the sum of the EBITDAs of the Communities as defined and calculated under the Management Agreements for such calendar year. For the avoidance of doubt, if any Management Agreement is terminated or entered into during a calendar year, only the EBITDA for the Community under such Management Agreement for the period that such Management Agreement was in effect during such calendar year will be taken into account in determining Portfolio EBITDA.

(19) “Portfolio Expenses” means, with respect to any calendar year, the sum of the amounts described in Sections 5.01(a) and 5.01(b) of the Management Agreements for such calendar year.

(20) “Portfolio Gross Revenues” means, with respect to any calendar year, the sum of the Gross Revenues of the Communities as defined and calculated under the Management Agreements for such calendar year. For the avoidance of doubt, if any Management Agreement is terminated or entered into during a calendar year, only the Gross Revenues for the Community under such Management Agreement for the period that such Management Agreement was in effect during such calendar year will be taken into account in determining Portfolio Gross Revenues.

(21) “Portfolio Incentive Fee” means, with respect to any calendar year, an amount equal to 15% of the amount by which the Portfolio EBITDA (prior to the payment of the Portfolio Incentive Fee) for such calendar year exceeds the Portfolio Target EBITDA for such calendar year; provided, however, in no event will the Portfolio Incentive Fee for any calendar year exceed the lesser of (a) 1.5% of Portfolio Gross Revenues for such calendar year, and (b) the amount by which Portfolio Gross Revenues for such calendar year exceeds Portfolio Expenses for such calendar year.
The Portfolio Incentive Fee will be determined based upon the annual financial statements for such calendar year required under the Management Agreements, with additional adjustments being made on an annual basis based upon any audits conducted pursuant to any Management Agreement.

(22) “Portfolio Target EBITDA” means, with respect to any calendar year, the sum of the Target EBITDAs for the Communities as defined and calculated under the Management Agreements for such calendar year; provided, if any Management Agreement is terminated during a calendar year, then Portfolio Target EBITDA for that calendar year will be reduced by a pro rata portion of the Target EBITDA for the Community under such Management Agreement for such calendar year based on the portion of such calendar year that such Management Agreement was not in effect, and if any Management Agreement is entered into during a calendar year, then Portfolio Target EBITDA for that calendar year will be increased by a pro rata portion of the full calendar year Target EBITDA for the Community under such Management Agreement for such calendar year based on the portion of such calendar year that such Management Agreement was in effect.

(23) “Restricted Payment” means the declaration or payment of any dividend or other distribution of assets, properties, cash, rights, obligations or securities to any person on account of the capital stock of FVE or the purchase, redemption or other acquisition for value of any shares of capital stock of FVE, whether now or hereafter outstanding.

(24) “SNF Community” means a Community which is operated exclusively as a standalone skilled nursing facility.

(25) “SNH” means Senior Housing Properties Trust, a Maryland real estate investment trust.

(26) “SNH Parties” means any subsidiary of SNH that is a party to a Management Agreement.

(27) “Tangible Net Worth” means as to a particular Person and date, the excess of total assets over total liabilities of such Person on such date, each as determined in accordance with GAAP, excluding, however, from total assets: (a) goodwill, organizational expenses, research and development expenses, trademarks, trade names, copyrights, patents, patent applications, licenses and rights thereof, and other similar intangibles, (b) all deferred charges or unamortized debt discount and expense, (c) all reserves carried and not deducted from assets, (d) treasury stock and capital stock, obligations or other securities of, or capital contributions to, or investments in, any subsidiary, (e) deferred gain, and (f) any items not included in clauses (a) through (e) above that are treated as intangibles in conformity with GAAP.

(28) “Transaction Agreement” means that certain Transaction Agreement, dated as of April 1, 2019, between FVE and SNH.
ARTICLE II
INCENTIVE FEES

2.01. Portfolio Incentive Fee. Commencing with the 2021 calendar year, the SNH Parties that are parties to the Management Agreements shall pay to the FVE Parties that are parties to the Management Agreements the Portfolio Incentive Fee for each calendar year during the term of this Agreement. Payment of the Portfolio Incentive Fee shall be made on the last Business Day of the January following the end of each calendar year, in arrears.

2.02. Allocation of Incentive Fees. The SNH Parties that are parties to the Management Agreements shall determine among themselves which portion of the Portfolio Incentive Fee shall be allocable to which Communities provided that all such allocable shares shall equal the Portfolio Incentive Fee.

2.03. Termination Fee. In addition to any termination fee owed under the applicable Management Agreement, in the event any FVE Party terminates any Management Agreement as a result of an “Event of Default” by any SNH Party under such Management Agreement, such SNH Party shall pay to such FVE Party, within 30 days of the effective date of such termination, an amount equal to the present value of the portion of the annual payments of the Portfolio Incentive Fee that would have been allocated to the Community that is subject to such terminated Management Agreement during the period from the date of termination to the scheduled expiration date of the initial term of such Management Agreement (not including any extension of the term, but not for a period in excess of 10 years in any event) assuming the annual allocated portion of Portfolio Incentive Fee during such period was equal to the average of the portion of the Portfolio Incentive Fee allocated to such Community in each of the 3 calendar years ended prior to such termination, discounted at an annual rate equal to the Discount Rate (as defined in such Management Agreement).

ARTICLE III
TERM AND TERMINATION

3.01. Term. This Agreement shall continue and remain in effect until all Management Agreements terminate or expire for any reason. Notwithstanding anything in the Management Agreements to the contrary, the right of any FVE Party to extend the term of any Management Agreement pursuant to the provisions of such Management Agreement is conditioned on the Extension Conditions having been satisfied at the time such FVE Party exercises such extension option, provided, however, the exercise of such extension option shall not be effective if, in any 2 calendar years out of the 3 calendar years ending December 31st of the calendar year that is 1 year prior to the expiration of the then current term, the Portfolio EBITDA for such calendar year does not equal at least 97% of the sum of the EBITDAs of the Communities budgeted for such calendar year as identified in the Approved Budgets for the Communities for such calendar year, in which event the Management Agreements shall expire at the end of their then current term in accordance with the provisions of the Management Agreements.

3.02. Early Termination Rights.
(1) Notwithstanding anything in the Management Agreements to the contrary, and in addition to any termination rights set forth therein, the SNH Parties shall have the right at any time, without the consent of the FVE Parties or the payment of any termination or other incremental fees to the FVE Parties, to terminate (a) any or all Management Agreements if FVE has made a Restricted Payment such that, after giving effect to such Restricted Payment, (i) FVE’s Tangible Net Worth would be less than $100,000,000, or (ii) FVE’s Liquidity would be less than $20,000,000; and (b) any Management Agreement for (i) any SNF Community, and (ii) any other Community (which Communities shall be selected by the SNH Parties in their sole discretion) in connection with the sale of such Community, provided the aggregate gross sale proceeds for Communities for which the Management Agreements are terminated pursuant to this clause (b)(ii), together with any senior living communities sold by SNH, directly or through one or more of its subsidiaries, pursuant to Section 2.1(6) of the Transaction Agreement, shall not exceed $775,000,000.

(2) Notwithstanding anything in the Management Agreements to the contrary, an SNH Party may not terminate a Management Agreement as a result of the applicable Community being a Non-Performing Asset if such termination would result in the SNH Parties having terminated Management Agreements in the current calendar year as a result of the applicable Communities being Non-Performing Assets representing, in the aggregate, more than 20% of the Portfolio Gross Revenues for the calendar year prior to such termination.

ARTICLE IV
ADDITIONAL COVENANTS

4.01. Restricted Payments. From and after the Effective Date, FVE shall not make any Restricted Payment if, after giving effect to such Restricted Payment, (a) SNH would own more than 34.5% of the outstanding FVE Common Shares determined without taking into account any unvested FVE Common Shares or options for or other securities convertible into FVE Common Shares held by persons other than SNH, or (b) FVE Managers would cease to qualify as an “eligible independent contractor” of SNH within the meaning of Section 856(d)(9)(A) of the Code. In no event shall FVE effect a redemption or repurchase of any FVE Common Shares held by SNH without SNH’s prior written consent.

4.02. Additional Independent Director of FVE. Following the Effective Date, but in any event not later than six months after the Effective Date, FVE shall expand its board of directors to add one additional “Independent Director”, as such term is defined in FVE’s Amended and Restated Bylaws (the “Additional Director”). The Additional Director shall have a background and experience that complements the existing FVE board and shall be reasonably satisfactory to SNH. Following the Effective Date, FVE will provide the SNH board of directors with the resumes of and other information provided to the FVE board with respect to the candidates being considered by the FVE board for the position of the Additional Director and a reasonable opportunity to interview such candidates. The Additional Director, upon his or her appointment or election, as applicable, will be subject to nomination, re-election and removal as provided with respect to the Independent Directors of FVE in accordance with FVE’s organizational documents and other governance requirements; provided, for so long as any
Management Agreement is in effect, FVE will not reduce the number of Independent Directors to less than four.

4.03. **Financial Statements and Reports.** In addition to the financial statements and reports that the FVE Parties are required to provide to the SNH Parties pursuant to the Management Agreements, promptly upon request by an SNH Party the FVE Parties shall provide to SNH and the SNH Parties, any additional information or reports relating to the business, condition (financial or otherwise), operations, performance, properties or prospects of any Community, any FVE Party or any of their Affiliates as SNH or any SNH Party may reasonably request, including, without limitation, a Liquidity forecast for FVE.

4.04. **Acquisitions, Financings and Sales.** At no time during the term of this Agreement may FVE or any subsidiary thereof, directly or indirectly, own, finance or sell, or participate in the ownership, financing or sale of, any real estate property (collectively, the “Properties”) of a type then owned or financed by SNH; provided that if FVE or such subsidiary proposes to enter into any transaction involving the ownership, financing or sale of a Property prohibited by this Section 4.04 (a “Proposed Transaction”), it shall provide notice of the Proposed Transaction to SNH describing the Proposed Transaction in sufficient detail and offer SNH the right to acquire or finance the acquisition of the Property and negotiate in good faith with SNH. If, after 10 Business Days, FVE and SNH have not reached agreement on the terms of the acquisition, financing or sale, FVE (or such subsidiary) shall be free to acquire, finance or sell such Property itself or with others, free of the restrictions of this Section 4.04. FVE agrees that irreparable damage would occur if any of the provisions of this Section 4.04 were not performed in accordance with their terms and that SNH’s remedy at law for FVE’s or its subsidiary’s breach of its obligations under this Section 4.04 would be inadequate. Upon any such breach, SNH shall be entitled (in addition to any other rights or remedies it may have at law) to seek an injunction enjoining and restraining FVE or such subsidiary from continuing such breach. FVE agrees that the period of restriction and the geographical area of restriction imposed upon FVE are fair and reasonable. If the provisions of this Section 4.04 relating to the period or the area of restriction are determined to exceed the maximum period or areas which a court having jurisdiction over the matter would deem enforceable, such period or area shall, for purposes of this Agreement, be deemed to be the maximum period or area which such court determines valid and enforceable.

4.05. **Restrictions on Ownership; REIT Compliance.** During the term of this Agreement, (a) FVE will not permit the occurrence of any Change in Control of any FVE Party, (b) FVE will not take any action that, in the reasonable judgment of SNH, might reasonably be expected to have an adverse impact on the ability of SNH to qualify as a “real estate investment trust” under the Code, and (c) the FVE Parties will use reasonable efforts to take, or cause to be taken, all appropriate action, as SNH or the SNH Parties may reasonably deem necessary or desirable in connection for SNH to maintain its qualification for taxation as a “real estate investment trust” under the Code.

4.06. **Third Party Beneficiary.** The FVE Parties acknowledge and agree that SNH is an express third party beneficiary of the provisions contained in this Article IV.
ARTICLE V
MISCELLANEOUS PROVISIONS

5.01. **Conflicts with Loan Documentation.** The terms and conditions of this Agreement are subject to the requirements set forth in any mortgage or other loan documentation applicable to any Community and to applicable law (collectively, “Other Requirements”). To the extent there is any conflict between the terms and conditions of this Agreement and any Other Requirements, the provisions of the Other Requirements shall control with respect to the applicable Community and Management Agreement and neither any FVE Party nor any SNH Party shall take, or be required to take as a result of this Agreement, any action that would cause the relevant FVE Party or the relevant SNH Party to be in breach of such Other Requirement. The SNH Parties will provide to the FVE Parties notice of any loan documents applicable to a Community, which notice will be given prior to such loan documents becoming applicable to the extent practicable.

5.02. **Addition and Removal of SNH Parties and FVE Parties.** At any time and from time to time, if any new Management Agreement is entered into with a SNH Party or FVE Party that has not executed this Agreement, upon the request of the FVE Parties or the SNH Parties, as applicable, such new SNH Party or FVE Party shall execute an accession agreement confirming the applicability of this Agreement to such new Management Agreement and such new SNH Party or FVE Party. At any time and from time to time all Management Agreements pursuant to which a SNH Party or FVE Party is a party to this Agreement are terminated, the FVE Parties or the SNH Parties, as applicable, shall execute a release releasing such SNH Party or FVE Party, as applicable, from all obligations under this Agreement relating to periods from and after the effective date of the termination of the last of such Management Agreements.

5.03. **Notices.**

(1) All notices required or permitted to be sent hereunder shall be deemed to have been given for all purposes of this Agreement upon the date of electronic confirmation of delivery sent by the sender’s computer, in the case of a notice by electronic mail, and, in all other cases, upon the date of receipt or refusal, except that whenever under this Agreement a notice is either received on a day which is not a Business Day or is required to be delivered on or before a specific day which is not a Business Day, the day of receipt or required delivery shall automatically be extended to the next Business Day.

(2) All such notices shall be addressed,

if to any FVE Party, to:

Five Star Senior Living Inc.
400 Centre Street
Newton, Massachusetts 02458
Attn: Katherine E. Potter, President
E-Mail: kpotter@5ssl.com
If to any SNH Party, to:

Senior Housing Properties Trust  
Two Newton Place, Suite 300  
255 Washington Street  
Newton, Massachusetts 02458  
Attn: Jennifer F. Francis, President  
E-Mail: JFrancis@rmrgroup.com

(3) By notice given as herein provided, the parties and their respective successors and assigns shall have the right from time to time and at any time during the term of this Agreement to change their respective addresses effective upon receipt by the other parties of such notice.

5.01. Applicable Law; Arbitration. This Agreement shall be interpreted, construed, applied and enforced in accordance with the laws of the State of Maryland, with regard to its “choice of law” rules. Any “Dispute” (as such term is defined in the Management Agreements) under this Agreement shall be resolved through final and binding arbitration conducted in accordance with the procedures and with the effect of, arbitration as provided for in the Management Agreements.

5.02. Severability. If any term or provision of this Agreement or the application thereof in any circumstance is held invalid, illegal or unenforceable in any respect for any reason, the validity, legality and enforceability of any such provision in every other respect and of the remaining provisions hereof shall not be in any way impaired, unless the provisions held invalid, illegal or unenforceable shall substantially impair the benefits of the remaining provisions hereof.

5.03. Counterparts, Etc. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

5.04. Section and Other Headings; Interpretation. The headings contained in this Agreement are for reference purposes only and shall not in any way affect the meaning or interpretation of this Agreement. The words “hereof”, “herein” and “hereunder” and words of similar import when used in this Agreement shall refer to this Agreement as a whole and not to any particular provision of this Agreement; and Section references are to this Agreement, unless otherwise specified. The singular and plural use of a defined term shall have the correlative meaning. The words “including” and “include” shall be deemed to be followed by the words “without limitation.”

5.05. Assignment. Any SNH Party may assign this Agreement to any Affiliate (but only as such term is defined in Section 1.01(1)(a) or (c)) of such SNH Party without the consent of the FVE Parties. No FVE Party shall assign or transfer its interest in this Agreement without the prior written consent of the SNH Parties which may be withheld in the sole and absolute discretion of the SNH Parties. If the SNH Parties consent to an assignment of this Agreement by any FVE Party, no further assignment shall be made without the express consent in writing of the SNH Parties.
5.06. **Entire Agreement.** This Agreement, together with the Transaction Agreement and the Management Agreements, constitute the entire agreement of the parties hereto with respect to the subject matter hereof and thereof and supersedes all previous contracts and understandings between the parties with respect to the subject matter hereof and thereof.

[Signatures page follows]
IN WITNESS WHEREOF, the parties hereto have executed and delivered this Agreement with the intention of creating an instrument under seal.

**FIVE PARTIES:**

**FIVE STAR SENIOR LIVING INC., and**  
**FVE MANAGERS, INC.**

By:  

/s/ Katherine E. Potter  
Katherine E. Potter  
President and Chief Executive Officer of each of the foregoing entities

[Signature Page to Omnibus Agreement]
SNH PARTIES:

SNH AL AIMO TENANT, INC.,
SNH AL AIMO TENANT II, INC.,
SNH AL CRIMSON TENANT INC.,
SNH AL CUMMING TENANT LLC,
SNH AL GEORGIA TENANT LLC,
SNH AL TRS, INC.,
SNH AL WILMINGTON TENANT INC.,
SNH AZ TENANT LLC,
SNH BAMA TENANT LLC,
SNH BRFL TENANT LLC,
SNH CAL TENANT LLC,
SNH CALI TENANT LLC,
SNH CCMD TENANT LLC,
SNH CO TENANT LLC,
SNH DEL TENANT LLC,
SNH DERBY TENANT LLC,
SNH FLA TENANT LLC,
SNH GEORGIA TENANT LLC,
SNH GRANITE GATE TENANT LLC,
SNH GRANITE GATE LANDS TENANT LLC,
SNH GROVE PARK TENANT LLC,
SNH INDY TENANT LLC,
SNH LINCOLN TENANT LLC,
SNH LONGHORN TENANT LLC,
SNH MASS TENANT LLC,
SNH MD TENANT LLC,
SNH MO TENANT LLC,
SNH NC TENANT LLC,
SNH NEB TENANT LLC,
SNH NJ TENANT LLC,
SNH NORTHWOODS TENANT LLC,
SNH NM TENANT LLC,
SNH OHIO TENANT LLC,
SNH OMISS TENANT LLC,
SNH PARK PLACE TENANT I LLC,
SNH PARK PLACE TENANT II LLC,
SNH PENN TENANT LLC,

[Signature Page to Omnibus Agreement]
SNH PLFL TENANT LLC,
SNH SC TENANT LLC,
SNH SE ASHLEY RIVER TENANT LLC,
SNH SE BARRINGTON BOYNTON TENANT LLC,
SNH SE BURLINGTON TENANT LLC,
SNH SE DANIEL ISLAND TENANT LLC,
SNH SE HABERSHAM SAVANNAH TENANT LLC,
SNH SE HOLLY HILL TENANT LLC,
SNH SE KINGS MTN TENANT LLC,
SNH SE MOORESVILLE TENANT LLC,
SNH SE N. MYRTLE BEACH TENANT LLC,
SNH SE SG TENANT LLC,
SNH SE TENANT TRS, INC.,
SNH TEANECK TENANT LLC,
SNH TELLICO TENANT LLC,
SNH TENN TENANT LLC,
SNH TOTO TENANT LLC,
SNH VA TENANT LLC,
SNH VIKING TENANT LLC,
SNH WIS TENANT LLC,
SNH WY TENANT LLC, and
SNH YONKERS TENANT INC.

By: /s/ Jennifer F. Francis

Jennifer F. Francis
President and Chief Operating Officer of each of the foregoing entities

[Signature Page to Omnibus Agreement]
GUARANTY AGREEMENT

THIS GUARANTY AGREEMENT (this “Guaranty”) is entered into as of January 1, 2020, by FIVE STAR SENIOR LIVING INC., a Maryland corporation (“Guarantor”), for the benefit of the parties identified as the SNH Parties on Schedule 1 attached hereto and made a part hereof (each an “SNH Party”).

WITNESSETH:

WHEREAS, Guarantor and Senior Housing Properties Trust (“SNH”), the ultimate corporate parent of each SNH Party, have entered into that certain Transaction Agreement, dated as of April 1, 2019 (as amended from time to time, the “Transaction Agreement”); and

WHEREAS, pursuant to the Transaction Agreement, FVE Managers, Inc. (“Manager”), a wholly owned subsidiary of Guarantor, and each SNH Party have entered into one or more Management Agreements as further identified on Schedule 2 attached hereto and made a part hereof (together with any additional management agreements contemplated by Section 22 and as amended from time to time, each a “Management Agreement” and, collectively, the “Management Agreements”); and

WHEREAS, the transactions contemplated by the Transaction Agreement and the Management Agreements are of direct material benefit to the Guarantor; and

WHEREAS, pursuant to the Transaction Agreement, Guarantor has agreed to guarantee the payment and performance of Manager’s obligations to each SNH Party under the applicable Management Agreements, subject to the terms and provisions of this Guaranty;

NOW, THEREFORE, in consideration of the foregoing and for other good and valuable consideration, the mutual receipt and legal sufficiency of which are hereby acknowledged, Guarantor hereby agrees as follows:

1. Certain Terms. Capitalized terms used and not otherwise defined in this Guaranty shall have the meanings ascribed to such terms in the Management Agreements.

2. Guaranteed Obligations. For purposes of this Guaranty the term “Guaranteed Obligations” shall mean the payment and performance of each and every obligation of Manager to each SNH Party under each Management Agreement or relating thereto, whether now existing or hereafter arising.

3. Representations and Covenants. Guarantor represents, warrants, covenants, and agrees that:
(a) **Performance of Covenants and Agreements.** Guarantor shall take all lawful action in its power to cause Manager duly and punctually to perform all of its covenants and agreements set forth in the Management Agreements.

(b) **Validity of Agreement.** Guarantor has duly and validly executed and delivered this Guaranty; this Guaranty constitutes the legal, valid and binding obligation of Guarantor, enforceable against Guarantor in accordance with its terms, except as the enforceability thereof may be subject to bankruptcy, fraudulent conveyance, insolvency, reorganization, moratorium and other laws relating to or affecting creditors’ rights generally and subject to general equitable principles, regardless of whether enforceability is considered in a proceeding at law or in equity; and the execution, delivery and performance of this Guaranty have been duly authorized by all requisite action of Guarantor and such execution, delivery and performance by Guarantor will not result in any breach of the terms, conditions or provisions of, or conflict with or constitute a default under, or result in the creation of any lien, charge or encumbrance upon any of the property or assets of Guarantor pursuant to the terms of, any indenture, mortgage, deed of trust, note, other evidence of indebtedness, agreement or other instrument to which it may be a party or by which it or any of its property or assets may be bound, or violate any provision of law, or any applicable order, writ, injunction, judgment or decree of any court or any order or other public regulation of any governmental commission, bureau or administrative agency.

(c) **Payment of Expenses.** Guarantor agrees, as principal obligor and not as guarantor only, to pay to each SNH Party forthwith, upon demand, in immediately available federal funds, all costs and expenses (including reasonable attorneys’ fees and disbursements) incurred or expended by such SNH Party in connection with the enforcement of this Guaranty, together with interest on amounts recoverable under this Guaranty from the time such amounts become due until payment at the Interest Rate. Guarantor’s covenants and agreements set forth in this Section 3(c) shall survive the termination of this Guaranty.

(d) **Notices.** Guarantor shall promptly give notice to each SNH Party of any event known to it which might reasonably result in a material adverse change in its financial condition.

(e) **Books and Records.** Guarantor shall at all times keep proper books of record and account in which full, true and correct entries shall be made of its transactions in accordance with GAAP and shall set aside on its books from its earnings for each fiscal year all such proper reserves, including reserves for depreciation, depletion, obsolescence and amortization of its properties during such fiscal year, as shall be required in accordance with generally accepted accounting principles, consistently applied, in connection with its business. Guarantor shall permit access by each SNH Party and its agents to the books and records maintained by Guarantor during normal business hours and upon reasonable notice. Any proprietary information obtained by any SNH Party with respect to Guarantor pursuant to the provisions of this Guaranty shall be treated as confidential, except that such information may be disclosed or used, subject to appropriate confidentiality safeguards, pursuant to any court order or in any litigation between the parties and except further that each SNH Party may disclose such
information to its prospective lenders, provided that such SNH Party shall direct such lenders to maintain such information as confidential.

(f) **Taxes, Etc.** Guarantor shall pay and discharge promptly as they become due and payable all taxes, assessments and other governmental charges or levies imposed upon Guarantor or the income of Guarantor or upon any of the property, real, personal or mixed, of Guarantor, or upon any part thereof, as well as all claims of any kind (including claims for labor, materials and supplies) which, if unpaid, might by law become a lien or charge upon any property and result in a material adverse change in the financial condition of Guarantor; provided, however, that Guarantor shall not be required to pay any such tax, assessment, charge, levy or claim if the amount, applicability or validity thereof shall currently be contested in good faith by appropriate proceedings or other appropriate actions promptly initiated and diligently conducted and if Guarantor shall have set aside on its books such reserves of Guarantor, if any, with respect thereto as are required by generally accepted accounting principles.

(g) **Legal Existence of Guarantor.** Guarantor shall do or cause to be done all things necessary to preserve and keep in full force and effect its legal existence.

(h) **Compliance.** Guarantor shall use reasonable business efforts to comply in all material respects with all applicable statutes, rules, regulations and orders of, and all applicable restrictions imposed by, all governmental authorities in respect of the conduct of its business and the ownership of its property (including, without limitation, applicable statutes, rules, regulations, orders and restrictions relating to environmental, safety and other similar standards or controls).

(i) **Insurance.** Guarantor shall maintain, with financially sound and reputable insurers, insurance with respect to its properties and business against loss or damage of the kinds customarily insured against by owners of established reputation engaged in the same or similar businesses and similarly situated, in such amounts and by such methods as shall be customary for such owners and deemed adequate by Guarantor.

(j) **No Change in Control.** Guarantor shall not permit the occurrence of any direct or indirect Change in Control of Manager or Guarantor without the consent of SNH, which consent shall be deemed granted if SNH votes any of its shares in Guarantor in favor of any action or transaction that would constitute a Change in Control.

4. **Guarantee.** Guarantor hereby unconditionally guarantees that the Guaranteed Obligations which are monetary obligations shall be paid in full when due and payable, whether upon demand, at the stated or accelerated maturity thereof pursuant to any Management Agreement, or otherwise, and that the Guaranteed Obligations which are performance obligations shall be fully performed at the times and in the manner such performance is required by the Management Agreements. With respect to the Guaranteed Obligations which are monetary obligations, this guarantee is a guarantee of payment and not of collectability and is absolute and in no way conditional or contingent. In case any part of the Guaranteed Obligations shall not have been paid when due and payable or performed at the time performance is required, Guarantor shall, in the case of monetary obligations, within five (5) Business Days after receipt
of notice from any SNH Party, pay or cause to be paid to such SNH Party the amount thereof as is then due and payable and unpaid (including interest and other charges, if any, due thereon through the date of payment in accordance with the applicable provisions of the Management Agreements) or, in the case of non-monetary obligations, perform or cause to be performed such obligations in accordance with the Management Agreements.

5. **Set-Off.** Guarantor hereby authorizes SNH and each SNH Party, at any time and without notice, to set off the whole or any portion or portions of any or all sums credited by or due from SNH or such SNH Party to it against amounts payable under this Guaranty. SNH and each SNH Party shall promptly notify Guarantor of any such set-off made by SNH or such SNH Party and the application made by SNH or such SNH Party of the proceeds thereof.

6. **Unenforceability of Guaranteed Obligations, Etc.** If Manager is for any reason under no legal obligation to discharge any of the Guaranteed Obligations (other than because the same have been previously discharged in accordance with the terms of the applicable Management Agreements), or if any other moneys included in the Guaranteed Obligations have become unrecoverable from Manager by operation of law or for any other reason, including, without limitation, the invalidity or irregularity in whole or in part of any Guaranteed Obligation or any limitation on the liability of Manager thereunder not contemplated by the Management Agreements or any limitation on the method or terms of payment thereunder which may now or hereafter be caused or imposed in any manner whatsoever, the guarantees contained in this Guaranty shall nevertheless remain in full force and effect and shall be binding upon Guarantor to the same extent as if Guarantor at all times had been the principal debtor on all such Guaranteed Obligations.

7. **Additional Guarantees.** This Guaranty shall be in addition to any other guarantee or other security for the Guaranteed Obligations and it shall not be prejudiced or rendered unenforceable by the invalidity of any such other guarantee or security or by any waiver, amendment, release or modification thereof.

8. **Consents and Waivers, Etc.** Guarantor hereby acknowledges receipt of correct and complete copies of each Management Agreement set forth on Schedule 2, and consents to all of the terms and provisions thereof, as the same may be from time to time hereafter amended or changed in accordance with the terms and conditions thereof, and, except as otherwise provided herein, to the maximum extent permitted by applicable law, waives (a) presentment, demand for payment, and protest of nonpayment, of any principal of or interest on any of the Guaranteed Obligations, (b) notice of acceptance of this Guaranty and of diligence, presentment, demand and protest, (c) notice of any default hereunder and any default, breach or nonperformance or Event of Default under any of the Guaranteed Obligations or the Management Agreements, (d) notice of the terms, time and place of any private or public sale of any collateral held as security for the Guaranteed Obligations, (e) demand for performance or observance of, and any enforcement of any provision of, or any pursuit or exhaustion of rights or remedies against Manager or any other guarantor of the Guaranteed Obligations, under or pursuant to any Management Agreement, or any agreement directly or indirectly relating thereto and any requirements of diligence or promptness on the part of the holders of the Guaranteed Obligations in connection therewith, and
(f) to the extent Guarantor lawfully may do so, any and all demands and notices of every kind and description with respect to the foregoing or which may be required to be given by any statute or rule of law and any defense of any kind which it may now or hereafter have with respect to this Guaranty, or any Management Agreement or the Guaranteed Obligations (other than that the same have been discharged in accordance with the Management Agreements).

9. **No Impairment, Etc.** The obligations, covenants, agreements and duties of Guarantor under this Guaranty shall not be affected or impaired by any assignment or transfer in whole or in part of any of the Guaranteed Obligations without notice to Guarantor, or any waiver by any SNH Party or any holder of any of the Guaranteed Obligations or by the holders of all of the Guaranteed Obligations of the performance or observance by Manager or any other guarantor of any of the agreements, covenants, terms or conditions contained in the Guaranteed Obligations or the Management Agreements or any indulgence in or the extension of the time for payment by Manager or any other guarantor of any amounts payable under or in connection with the Guaranteed Obligations or the Management Agreements or any other instrument or agreement relating to the Guaranteed Obligations or of the time for performance by Manager or any other guarantor of any other obligations under or arising out of any of the foregoing or the extension or renewal thereof (except that with respect to any extension of time for payment or performance of any of the Guaranteed Obligations granted by any SNH Party or any other holder of such Guaranteed Obligations to Manager, Guarantor’s obligations to pay or perform such Guaranteed Obligation shall be subject to the same extension of time for performance), or the modification or amendment (whether material or otherwise) of any duty, agreement or obligation of Manager or any other guarantor set forth in any of the foregoing, or the voluntary or involuntary sale or other disposition of all or substantially all of the assets of Manager or any other guarantor or insolvency, bankruptcy, or other similar proceedings affecting Manager or any other guarantor or any assets of Manager or any such other guarantor, or the release or discharge of Manager or any such other guarantor from the performance or observance of any agreement, covenant, term or condition contained in any of the foregoing without the consent of the holders of the Guaranteed Obligations by operation of law, or any other cause, whether similar or dissimilar to the foregoing.

10. **Reimbursement, Subrogation, Etc.** Guarantor hereby covenants and agrees that it will not enforce or otherwise exercise any rights of reimbursement, subrogation, contribution or other similar rights against Manager (or any other person against whom any SNH Party may proceed) with respect to the Guaranteed Obligations prior to the payment in full of all amounts owing with respect to the Management Agreements, and until all indebtedness of Manager to each SNH Party shall have been paid in full, Guarantor shall not have any right of subrogation, and Guarantor waives any defense it may have based upon any election of remedies by any SNH Party which destroys its subrogation rights or its rights to proceed against Manager for reimbursement, including, without limitation, any loss of rights Guarantor may suffer by reason of any rights, powers or remedies of Manager in connection with any anti-deficiency laws or any other laws limiting, qualifying or discharging the indebtedness to any SNH Party. Until all obligations of Manager pursuant to the Management Agreements shall have been paid and satisfied in full, Guarantor further waives any right to enforce any remedy which any SNH Party now has or may in the future have against Manager, any other guarantor or any other person and
any benefit of, or any right to participate in, any security whatsoever now or in the future held by any SNH Party.

11. **DeFeasance.** This Guaranty shall terminate at such time as the Guaranteed Obligations have been paid and performed in full and all other obligations of Guarantor to each SNH Party under this Guaranty have been satisfied in full; provided, however, if at any time, all or any part of any payment applied on account of the Guaranteed Obligations is or must be rescinded or returned for any reason whatsoever (including, without limitation, the insolvency, bankruptcy or reorganization of Manager), this Guaranty, to the extent such payment is or must be rescinded or returned, shall be deemed to have continued in existence notwithstanding any such termination.

12. **Notices.**

   (a) **Methods of Delivery.** Any and all notices, demands, consents, approvals, offers, elections and other communications required or permitted under this Guaranty shall be deemed adequately given if in writing and the same shall be delivered either in hand, by e-mail with written acknowledgment of receipt, or by mail or Federal Express or similar expedited commercial carrier, addressed to the recipient of the notice, postpaid and registered or certified with return receipt requested (if by mail), or with all freight charges prepaid (if by Federal Express or similar carrier). Any notice sent by or delivered to any SNH Party shall automatically be deemed to have been simultaneously sent by or delivered to each SNH Party.

   (b) **Timing of Delivery.** All notices required or permitted to be sent hereunder shall be deemed to have been given for all purposes of this Guaranty upon the date of acknowledged receipt, in the case of a notice by e-mail, and, in all other cases, upon the date of receipt or refusal, except that whenever under this Guaranty a notice is either received on a day which is not a Business Day or is required to be delivered on or before a specific day which is not a Business Day, the day of receipt or required delivery shall automatically be extended to the next Business Day.

   (c) **Addresses.** All such notices shall be addressed,

   if to any SNH Party to:

   c/o Senior Housing Properties Trust
   Two Newton Place
   255 Washington Street, Suite 300
   Newton, Massachusetts 02458
   Attn: Ms. Jennifer F. Francis
   e-mail: jfrancis@rmrgroup.com
if to Guarantor to:

Five Star Senior Living Inc.
400 Centre Street
Newton, Massachusetts 02458
Attn: Ms. Katherine E. Potter
e-mail: kpotter@5ssl.com

(d) Change of Addresses. By notice given as herein provided, the parties hereto and their respective successors and assigns shall have the right from time to time and at any time during the term of this Guaranty to change their respective addresses effective upon receipt by the other parties of such notice and each shall have the right to specify as its address any other address within the United States of America.

13. Successors and Assigns. Whenever in this Guaranty any of the parties hereto is referred to, such reference shall be deemed to include the successors and assigns of such party, including without limitation the holders, from time to time, of the Guaranteed Obligations; and all representations, warranties, covenants and agreements by or on behalf of Guarantor which are contained in this Guaranty shall inure to the benefit of each SNH Party’s successors and assigns, including without limitation said holders, whether so expressed or not.

14. Applicable Law. Except as to matters regarding the internal affairs of any SNH Party and issues of or limitations on any personal liability of the shareholders of any SNH Party for obligations of such SNH Party, as to which the laws of the state of such SNH Party’s organization shall govern, this Guaranty shall be interpreted, construed, applied and enforced in accordance with the laws of the State of Maryland applicable to contracts between residents of Maryland which are to be performed entirely within Maryland, regardless of (a) where any such instrument is executed or delivered; or (b) where any payment or other performance required by any such instrument is made or required to be made; or (c) where any breach of any provision of any such instrument occurs, or any cause of action otherwise accrues; or (d) where any action or other proceeding is instituted or pending; or (e) the nationality, citizenship, domicile, principal place of business, or jurisdiction of organization or domestication of any party; or (f) whether the laws of the forum jurisdiction otherwise would apply the laws of a jurisdiction other than the State of Maryland; or (g) any combination of the foregoing.

15. Disputes.

(a) Disputes. Any disputes, claims or controversies between the parties (i) arising out of or relating to this Guaranty, or (ii) brought by or on behalf of any shareholder of any party or a direct or indirect parent of a party (which, for purposes of this Section 15, shall mean any shareholder of record or any beneficial owner of shares of any party, or any former shareholder of record or beneficial owner of shares of any party), either on his, her or its own behalf, on behalf of any party or on behalf of any series or class of shares of any party or shareholders of any party against any party or any member, trustee, director, officer, manager (including The RMR Group LLC or its successor), agent or employee of any party, including disputes, claims or controversies relating to the meaning, interpretation, effect, validity, performance or enforcement of this Guaranty,
including this arbitration provision, or the declarations of trust, limited liability company agreements, charters, bylaws or other
governing documents of any party hereto (all of which are referred to as “Disputes”), or relating in any way to such a Dispute or
Disputes shall, on the demand of any party to such Dispute be resolved through binding and final arbitration in accordance with the
Commercial Arbitration Rules (the “Rules”) of the American Arbitration Association (“AAA”) then in effect, except as those Rules
may be modified in this Section 15. For the avoidance of doubt, and not as a limitation, Disputes are intended to include derivative
actions against trustees, directors, officers or managers of any party and class actions by a shareholder against those individuals or
entities and any party. For the avoidance of doubt, a Dispute shall include a Dispute made derivatively on behalf of one party against
another party. For purposes of this Section 15, the term “party” shall include any direct or indirect parent of a party.

(b) Selection of Arbitrators. There shall be three (3) arbitrators. If there are only two (2) parties to the Dispute, each
party shall select one arbitrator within fifteen (15) days after receipt of a demand for arbitration. Such arbitrators may be affiliated or
interested persons of such parties. If there are more than two (2) parties to the Dispute, all claimants, on the one hand, and all
respondents, on the other hand, shall each select, by the vote of a majority of the claimants or the respondents, as the case may be,
one arbitrator within fifteen (15) days after receipt of a demand for arbitration. Such arbitrators may be affiliated or interested
persons of the claimants or the respondents, as the case may be. If either a claimant (or all claimants) or a respondent (or all
respondents) fail to timely select an arbitrator, then the party (or parties) who has selected an arbitrator may request the AAA to
provide a list of three (3) proposed arbitrators in accordance with the Rules (each of whom shall be neutral, impartial and unaffiliated
with any party) and the party (or parties) that failed to timely appoint an arbitrator shall have ten (10) days from the date the AAA
provides such list to select one of the three (3) arbitrators proposed by AAA. If such party (or parties) fail to select such arbitrator by
such time, the party (or parties) who have appointed the first arbitrator shall then have ten (10) days to select one of the three (3)
arbitrators proposed by AAA to be the second arbitrator; and, if he/they should fail to select such arbitrator by such time, the AAA
shall select, within fifteen (15) days thereafter, one of the three (3) arbitrators it had proposed as the second arbitrator. The two (2)
arbitrators so appointed shall jointly appoint the third and presiding arbitrator (who shall be neutral, impartial and unaffiliated with
any party) within fifteen (15) days of the appointment of the second arbitrator. If the third arbitrator has not been appointed within
the time limit specified herein, then the AAA shall provide a list of proposed arbitrators in accordance with the Rules, and the
arbitrator shall be appointed by the AAA in accordance with a listing, striking and ranking procedure, with each party having a
limited number of strikes, excluding strikes for cause.

(c) Location of Arbitration. The place of arbitration shall be Boston, Massachusetts unless otherwise agreed by the
parties.

(d) Scope of Discovery. There shall be only limited documentary discovery of documents directly related to the
issues in dispute, as may be ordered by the arbitrators. For the avoidance of doubt, it is intended that there shall be no depositions
and no other discovery other than limited documentary discovery as described in the preceding sentence.
(c) **Arbitration Award.** In rendering an award or decision (the “Arbitration Award”), the arbitrators shall be required to follow the laws of the State of Maryland. Any arbitration proceedings or Arbitration Award rendered hereunder and the validity, effect and interpretation of this arbitration provision shall be governed by the Federal Arbitration Act, 9 U.S.C. §1 et seq. The Arbitration Award shall be in writing and may, but shall not be required to, briefly state the findings of fact and conclusions of law on which it is based. Any monetary Arbitration Award shall be made and payable in U.S. dollars free of any tax, deduction or offset. Subject to Section 15(h), each party against which an Arbitration Award assesses a monetary obligation shall pay that obligation on or before the thirtieth (30th) day following the date of such Arbitration Award or such other date as such Arbitration Award may provide.

(f) **Costs.** Except to the extent expressly provided by this Guaranty or as otherwise agreed by the parties, to the maximum extent permitted by Maryland law, each party involved in a Dispute shall bear its own costs and expenses (including attorneys’ fees), and the arbitrators shall not render an Arbitration Award that would include shifting of any such costs or expenses (including attorneys’ fees) or, in a derivative case or class action, award any portion of a party’s Arbitration Award to the claimant or the claimant’s attorneys. Each party (or, if there are more than two (2) parties to the Dispute, all claimants, on the one hand, and all respondents, on the other hand, respectively) shall bear the costs and expenses of its (or their) selected arbitrator and the parties (or, if there are more than two (2) parties to the Dispute, all claimants, on the one hand, and all respondents, on the other hand) shall equally bear the costs and expenses of the third (3rd) appointed arbitrator.

(g) **Appeals.** Notwithstanding any language to the contrary in this Agreement, any Arbitration Award, including but not limited to any interim Arbitration Award, may be appealed pursuant to the AAA’s Optional Appellate Arbitration Rules (“Appellate Rules”). An Arbitration Award shall not be considered final until after the time for filing the notice of appeal pursuant to the Appellate Rules has expired. Appeals must be initiated within thirty (30) days of receipt of an Arbitration Award by filing a notice of appeal with any AAA office. Following the appeal process, the decision rendered by the appeal tribunal may be entered in any court having jurisdiction thereof. For the avoidance of doubt, and despite any contrary provision of the Appellate Rules, the above paragraph relating to costs and expenses shall apply to any appeal pursuant to this Section 15(g) and the appeal tribunal shall not render an Arbitration Award that would include shifting of any costs or expenses (including attorneys’ fees) of any party.

(h) **Final Judgment.** Following the expiration of the time for filing the notice of appeal, or the conclusion of the appeal process set forth in Section 15(g), an Arbitration Award shall be final and binding upon the parties thereto and shall be the sole and exclusive remedy between those parties relating to the Dispute, including any claims, counterclaims, issues or accounting presented to the arbitrators. Judgment upon an Arbitration Award may be entered in any court having jurisdiction. To the fullest extent permitted by law, no application or appeal to any court of competent jurisdiction may be made in connection with any question of law arising in the course of arbitration or with respect to any Arbitration Award made, except for actions relating to enforcement of this Section 15 or any arbitral award issued hereunder, and except for actions seeking
interim or other provisional relief in aid of arbitration proceedings in any court of competent jurisdiction.

(i) **Intended Beneficiaries.** This Section 15 is intended to benefit and be enforceable by the parties and their respective shareholders, members, direct and indirect parents, trustees, directors, officers, managers (including The RMR Group Inc. and The RMR Group LLC), agents or employees of any party and their respective successors and assigns and shall be binding on the shareholders of any party and the parties, as applicable, and shall be in addition to, and not in substitution for, any other rights to indemnification or contribution that such individuals or entities may have by contract or otherwise.

16. **Modification of Agreement.** No modification or waiver of any provision of this Guaranty, nor any consent to any departure by Guarantor therefrom, shall in any event be effective unless the same shall be in writing and signed by any SNH Party against whom enforcement of such modification, waiver or consent is sought, and such modification, waiver or consent shall be effective only in the specific instances and for the purpose for which given. No notice to or demand on Guarantor in any case shall entitle Guarantor to any other or further notice or demand in the same, similar or other circumstances. This Guaranty may not be amended except by an instrument in writing executed by or on behalf of the party against whom enforcement of such amendment is sought.

17. **Waiver of Rights by SNH Parties.** Neither any failure nor any delay on any SNH Party’s part in exercising any right, power or privilege under this Guaranty shall operate as a waiver thereof, nor shall a single or partial exercise thereof preclude any other or further exercise or the exercise of any other right, power or privilege.

18. **Severability.** In case any one or more of the provisions contained in this Guaranty should be invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained herein shall not in any way be affected or impaired thereby, but this Guaranty shall be reformed and construed and enforced to the maximum extent permitted by applicable law.

19. **Entire Contract.** This Guaranty constitutes the entire agreement between the parties hereto with respect to the subject matter hereof and shall supersede and take the place of any other instruments purporting to be an agreement of the parties hereto relating to the subject matter hereof.

20. **Headings; Counterparts.** Headings in this Guaranty are for purposes of reference only and shall not limit or otherwise affect the meaning hereof. This Guaranty may be executed in any number of counterparts, each of which shall be an original, but all of which together shall constitute one instrument, and in pleading or proving any provision of this Guaranty, it shall not be necessary to produce more than one of such counterparts.

21. **Remedies Cumulative.** No remedy herein conferred upon any SNH Party is intended to be exclusive of any other remedy, and each and every remedy shall be cumulative.
22. **Additional Management Agreements.** Except as otherwise expressly agreed by the parties hereto, if Manager (or any other Affiliate of Guarantor) and any SNH Party (or any other Affiliate of SNH) shall enter into a new management agreement with respect to any senior living facility after the date of this Guaranty, then (a) such management agreement shall automatically be deemed to be a Management Agreement under this Guaranty, (b) the manager under such management agreement shall automatically be deemed a Manager under this Guaranty (if it is not already a Manager), (c) the SNH Party or other Affiliate of SNH shall automatically be deemed an SNH Party under this Agreement (if it is not already an SNH Party) and (d) the Guaranteed Obligations shall include all obligations of such Manager to such SNH Party under such Management Agreement. Furthermore, upon the request of any SNH Party, Guarantor shall execute an amended and restated Schedule 1 or Schedule 2 to this Guaranty to reflect such additional parties and/or Management Agreements, but Guarantor’s failure to execute any such amended and restated Schedules shall not diminish or impair the automatic application of this Section 22.

[Remainder of page intentionally left blank.]
WITNESS the execution hereof under seal as of the date above first written.

GUARANTOR:

FIVE STAR SENIOR LIVING INC.,
a Maryland corporation

By: /s/ Katherine E. Potter
   Katherine E. Potter
   President and Chief Executive Officer

[Signature Page to Guaranty Agreement]
SCHEDULE 1

SNH PARTIES

SNH AL AIMO TENANT, INC.
SNH AL AIMO TENANT II, INC.
SNH AL CRIMSON TENANT INC.
SNH AL CUMMING TENANT LLC
SNH AL GEORGIA TENANT LLC
SNH AL TRS, INC.
SNH AL WILMINGTON TENANT INC.
SNH AZ TENANT LLC
SNH BAMA TENANT LLC
SNH BRFL TENANT LLC
SNH CAL TENANT LLC
SNH CALI TENANT LLC
SNH CCMD TENANT LLC
SNH CO TENANT LLC
SNH DEL TENANT LLC
SNH DERBY TENANT LLC
SNH FLA TENANT LLC
SNH GEORGIA TENANT LLC
SNH GRANITE GATE TENANT LLC
SNH GRANITE GATE LANDS TENANT LLC
SNH GROVE PARK TENANT LLC
SNH INDY TENANT LLC
SNH LINCOLN TENANT LLC
SNH LONGHORN TENANT LLC
SNH MASS TENANT LLC
SNH MD TENANT LLC
SNH MO TENANT LLC
SNH NC TENANT LLC
SNH NEB TENANT LLC
SNH NJ TENANT LLC
SNH NORTHWOODS TENANT LLC
SNH NM TENANT LLC
SNH OHIO TENANT LLC
SNH OMISS TENANT LLC
SNH PARK PLACE TENANT I LLC
SNH PARK PLACE TENANT II LLC
SNH PENN TENANT LLC
SNH PLFL TENANT LLC
SNH SC TENANT LLC
SNH SE ASHLEY RIVER TENANT LLC
SNH SE BARRINGTON BOYNTON TENANT LLC

Schedule 1-1
SNH SE BURLINGTON TENANT LLC
SNH SE DANIEL ISLAND TENANT LLC
SNH SE HABERSHAM SAVANNAH TENANT LLC
SNH SE HOLLY HILL TENANT LLC
SNH SE KINGS MTN TENANT LLC
SNH SE MOORESVILLE TENANT LLC
SNH SE N. MYRTLE BEACH TENANT LLC
SNH SE SG TENANT LLC
SNH SE TENANT TRS, INC.
SNH TEANECK TENANT LLC
SNH TELLICO TENANT LLC
SNH TENN TENANT LLC
SNH TOTO TENANT LLC
SNH VA TENANT LLC
SNH VIKING TENANT LLC
SNH WIS TENANT LLC
SNH WY TENANT LLC
SNH YONKERS TENANT INC.

Schedule 1-2
SCHEDULE 2

MANAGEMENT AGREEMENTS

1. Management Agreement for Morningside of Nevada, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH AL AIMO Tenant II, Inc.

2. Management Agreement for Morningside of Fayetteville, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH AL AIMO Tenant, Inc.

3. Management Agreement for Morningside of Springdale, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH AL AIMO Tenant, Inc.

4. Management Agreement for Morningside of Pekin, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH AL AIMO Tenant, Inc.

5. Management Agreement for Morningside of Sterling, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH AL AIMO Tenant, Inc.

6. Management Agreement for Morningside of Branson, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH AL AIMO Tenant, Inc.

7. Management Agreement for Morningside of Springfield, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH AL AIMO Tenant, Inc.

8. Management Agreement for Morningside of Jonesboro, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH AL AIMO Tenant, Inc.


10. Management Agreement for Morningside of Chesterfield Village, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH AL AIMO Tenant, Inc.

11. Management Agreement for Morningside of Vestavia Hills, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH AL Crimson Tenant Inc.

12. Management Agreement for Gardens of Shiloh Point, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH AL Cumming Tenant LLC.

13. Management Agreement for Morningside of Alpharetta, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH AL Georgia Tenant LLC.

14. Management Agreement for Eagles Landing Senior Living, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH AL Georgia Tenant LLC.

Schedule 2-1
15. Management Agreement for Gardens of Fayetteville, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH AL Georgia Tenant LLC.

16. Management Agreement for Gardens of Gainesville, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH AL Georgia Tenant LLC.

17. Management Agreement for Amber Ridge Memory Care, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH AL TRS, Inc.

18. Management Agreement for The Lodge Assisted Living and Memory Care, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH AL TRS, Inc.

19. Management Agreement for Morningside of Godfrey, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH AL TRS, Inc.

20. Management Agreement for Amber Ridge Assisted Living, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH AL TRS, Inc.

21. Management Agreement for Five Star Residences of Dayton Place, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH AL TRS, Inc.

22. Management Agreement for The Forum at Town Center, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH AL TRS, Inc.

23. Management Agreement for Morningside of Wilmington, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH AL Wilmington Tenant Inc.

24. Management Agreement for The Forum at Desert Harbor, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH AZ Tenant LLC.

25. Management Agreement for The Forum at Tucson, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH AZ Tenant LLC.

26. Management Agreement for The Forum at Pueblo Norte (including Pueblo Norte Senior Living Community and Forum Pueblo Norte Assisted Living), dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH AZ Tenant LLC.

27. Management Agreement for Morningside of Cullman, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH BAMA Tenant LLC.

28. Management Agreement for Morningside of Madison, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH BAMA Tenant LLC.

29. Management Agreement for Morningside of Sheffield, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH BAMA Tenant LLC.
30. Management Agreement for Morningside of Riverchase (f/k/a. Ashton Gables in Riverchase), dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH BAMA Tenant LLC.

31. Management Agreement for Lakeview Estates, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH BAMA Tenant LLC.

32. Management Agreement for Five Star Premier Residences of Boca Raton, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH BRFL Tenant LLC.

33. Management Agreement for Somerford Place - Encinitas, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH CAL Tenant LLC.

34. Management Agreement for Leisure Pointe, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH CAL Tenant LLC.

35. Management Agreement for Somerford Place - Fresno, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH CAL Tenant LLC.

36. Management Agreement for Somerford Place - Redlands, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH CAL Tenant LLC.

37. Management Agreement for Somerford Place - Roseville, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH CAL Tenant LLC.

38. Management Agreement for Rio Las Palmas, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH CAL Tenant LLC.

39. Management Agreement for Remington Club (including Remington Club I & II and Remington Club Health Center), dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH CAL Tenant LLC.

40. Management Agreement for Somerford Place - Stockton, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH CAL Tenant LLC.

41. Management Agreement for Tiffany Court, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH CALI Tenant LLC.

42. Management Agreement for Somerford Place of Northridge, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH CALI Tenant LLC.

43. Management Agreement for Five Star Premier Residences of Chevy Chase, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH CCMD Tenant LLC.

44. Management Agreement for Mantey Heights Rehabilitation and Care Center, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH CO Tenant LLC.

Schedule 2-3
45. Management Agreement for Cherrelyn Healthcare Center, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH CO Tenant LLC.
46. Management Agreement for Skyline Ridge Nursing and Rehabilitation Center, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH CO Tenant LLC.
47. Management Agreement for Willow Tree Care Center, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH CO Tenant LLC.
48. Management Agreement for Cedars Healthcare Center, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH CO Tenant LLC.
49. Management Agreement for Springs Village Care Center, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH CO Tenant LLC.
50. Management Agreement for La Villa Grande Care Center, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH CO Tenant LLC.
51. Management Agreement for Somerford House and Place of Newark (including Somerford House and Somerford Place), dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH DEL Tenant LLC.
52. Management Agreement for Millcroft (including Millcroft Retirement Community), dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH DEL Tenant LLC.
53. Management Agreement for Shipley Manor, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH DEL Tenant LLC.
54. Management Agreement for Forwood Manor, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH DEL Tenant LLC.
55. Management Agreement for Foulk Manor South, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH DEL Tenant LLC.
56. Management Agreement for Foulk Manor North, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH DEL Tenant LLC.
57. Management Agreement for Ashwood Place, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH Derby Tenant LLC.
58. Management Agreement for Morningside of Bowling Green, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH Derby Tenant LLC.
59. Management Agreement for Morningside of Paducah, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH Derby Tenant LLC.

Schedule 2-4
60. Management Agreement for Morningside of Hopkinsville, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH Derby Tenant LLC.

61. Management Agreement for Lafayette at Country Place, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH Derby Tenant LLC.

62. Management Agreement for Lexington Country Place, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH Derby Tenant LLC.

63. Management Agreement for The Forum at Brookside, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH Derby Tenant LLC.

64. Management Agreement for Morningside of Mayfield, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH Derby Tenant LLC.

65. Management Agreement for The Neighborhood of Somerset, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH Derby Tenant LLC.

66. Management Agreement for Tuscany Villa of Naples, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH FLA Tenant LLC.

67. Management Agreement for Park Summit at Coral Springs, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH FLA Tenant LLC.

68. Management Agreement for The Palms of St. Lucie West, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH FLA Tenant LLC.

69. Management Agreement for Fountainview, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH FLA Tenant LLC.

70. Management Agreement for Forum at Deer Creek, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH FLA Tenant LLC.

71. Management Agreement for Springwood Court, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH FLA Tenant LLC.

72. Management Agreement for Coral Oaks, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH FLA Tenant LLC.

73. Management Agreement for The Court at Palm Aire, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH FLA Tenant LLC.

74. Management Agreement for Eastside Gardens, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH Georgia Tenant LLC.

75. Management Agreement for Morningside of Columbus, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH Georgia Tenant LLC.

Schedule 2-5
76. Management Agreement for Morningside of Dalton, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH Georgia Tenant LLC.

77. Management Agreement for Morningside of Evans, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH Georgia Tenant LLC.

78. Management Agreement for Morningside of Conyers, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH Georgia Tenant LLC.

79. Management Agreement for Morningside of Gainesville, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH Georgia Tenant LLC.

80. Management Agreement for Morningside of Macon, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH Georgia Tenant LLC.

81. Management Agreement for Morningside of Savannah, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH Georgia Tenant LLC.

82. Management Agreement for Morningside of Athens, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH Georgia Tenant LLC.

83. Management Agreement for Northlake Gardens, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH Georgia Tenant LLC.

84. Management Agreement for Savannah Square (including Savannah Square Health Center and Palmetto Inn), dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH Georgia Tenant LLC.

85. Amended and Restated Management Agreement for Granite Gate Senior Living, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH Granite Gate Tenant LLC.

86. Management Agreement for Granite Gate Lands, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH Granite Gate Lands Tenant LLC.

87. Management Agreement for Terrace at Grove Park, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH Grove Park Tenant LLC.

88. Management Agreement for Fox Ridge Manor, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH INDY Tenant LLC.

89. Management Agreement for Jefferson Manor, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH INDY Tenant LLC.

90. Management Agreement for McKay Manor, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH INDY Tenant LLC.

Schedule 2-6
Management Agreement for Northwood Manor, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH INDY Tenant LLC.

Management Agreement for Oak Woods Manor, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH INDY Tenant LLC.

Management Agreement for Park Square Manor, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH INDY Tenant LLC.

Management Agreement for Smith Farm Manor, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH INDY Tenant LLC.

Management Agreement for Sycamore Manor, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH INDY Tenant LLC.

Management Agreement for Meadowood Retirement Community (including Meadowood Health Pavilion), dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH INDY Tenant LLC.

Management Agreement for Forum at the Crossing, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH INDY Tenant LLC.

Management Agreement for Crimson Pointe, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH Lincoln Tenant LLC.

Management Agreement for Brenden Gardens, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH Lincoln Tenant LLC.

Management Agreement for Morningside of Shiloh, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH Lincoln Tenant LLC.

Management Agreement for Morningside of Troy, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH Lincoln Tenant LLC.

Management Agreement for The Haven and The Laurels in Stone Oak, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH Longhorn Tenant LLC.

Management Agreement for The Forum at Memorial Woods (including The Forum at Memorial Woods Healthcare Center), dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH Longhorn Tenant LLC.

Management Agreement for Heritage Place at Boerne, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH Longhorn Tenant LLC.

Management Agreement for Heritage Place at Fredericksburg, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH Longhorn Tenant LLC.
106. Management Agreement for The Forum at Park Lane (including Healthcare Center at the Forum at Park Lane), dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH Longhorn Tenant LLC.

107. Management Agreement for The Forum at Lincoln Heights, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH Longhorn Tenant LLC.

108. Management Agreement for The Forum at the Woodlands, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH Longhorn Tenant LLC.

109. Management Agreement for The Montevista at Coronado, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH Longhorn Tenant LLC.

110. Management Agreement for Five Star Premier Residences of Dallas, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH Longhorn Tenant LLC.

111. Management Agreement for Overture at Plano, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH Longhorn Tenant LLC.

112. Management Agreement for The Gables at Winchester, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH MASS Tenant LLC.

113. Management Agreement for Somerford Place - Annapolis, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH MD Tenant LLC.

114. Management Agreement for Somerford Place - Columbia, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH MD Tenant LLC.

115. Management Agreement for Aspenwood, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH MD Tenant LLC.

116. Management Agreement for HeartFields at Easton, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH MD Tenant LLC.

117. Management Agreement for Somerford Place and Somerford House - Frederick (including Somerford House - Frederick), dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH MD Tenant LLC.

118. Management Agreement for Somerford Place and Somerford House - Hagerstown (including Somerford House - Hagerstown), dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH MD Tenant LLC.

119. Management Agreement for HeartFields at Bowie, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH MD Tenant LLC.

120. Management Agreement for HeartFields at Frederick, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH MD Tenant LLC.

Schedule 2-8
121. Management Agreement for Heartlands Senior Living Village at Ellicott City, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH MD Tenant LLC.

122. Management Agreement for Heartlands at Severna Park, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH MD Tenant LLC.

123. Management Agreement for College View Manor Retirement Residence, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH MO Tenant LLC.

124. Management Agreement for The Haven in Highland Creek, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH NC Tenant LLC.

125. Management Agreement for The Laurels in Highland Creek, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH NC Tenant LLC.

126. Management Agreement for The Haven in the Village at Carolina Place, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH NC Tenant LLC.

127. Management Agreement for The Laurels in the Village at Carolina Place, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH NC Tenant LLC.

128. Management Agreement for Landing at Parkwood, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH NC Tenant LLC.

129. Management Agreement for Parkwood Village, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH NC Tenant LLC.

130. Management Agreement for HeartFields at Cary, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH NC Tenant LLC.

131. Management Agreement for McCarthy Court II, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH NC Tenant LLC.

132. Management Agreement for Home Place of New Bern, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH NC Tenant LLC.

133. Management Agreement for McCarthy Court I, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH NC Tenant LLC.

134. Management Agreement for Morningside of Concord, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH NC Tenant LLC.

135. Management Agreement for Morningside of Gastonia, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH NC Tenant LLC.

136. Management Agreement for Morningside of Raleigh, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH NC Tenant LLC.

Schedule 2-9
137. Management Agreement for Westgate Assisted Living, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH Neb Tenant LLC.

138. Management Agreement for Centennial Park Retirement Village, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH Neb Tenant LLC.

139. Management Agreement for Leisure Park (including Brighton Gardens of Leisure Park, Leisure Park Health Center and Leisure Park Special Care Center), dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH NJ Tenant LLC.

140. Management Agreement for Cherry Hill Senior Living, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH NJ Tenant LLC.

141. Management Agreement for Mt Arlington Senior Living, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH NJ Tenant LLC.

142. Management Agreement for The Montebello on Academy, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH NM Tenant LLC.

143. Management Agreement for Five Star Residences of North Woods, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH Northwoods Tenant LLC.

144. Management Agreement for Forum at Knightsbridge (including Healthcare Center at the Forum), dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH OHIO Tenant LLC.

145. Management Agreement for Hermitage Gardens at Oxford, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH OMISS Tenant LLC.

146. Management Agreement for Hermitage Gardens at Southaven, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH OMISS Tenant LLC.

147. Amended and Restated Management Agreement for Park Place of Fountain City, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH Park Place Tenant I LLC.

148. Amended and Restated Management Agreement for Park Place of West Knoxville, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH Park Place Tenant II LLC.

149. Management Agreement for Mount Vernon of South Park, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH Penn Tenant LLC.

150. Management Agreement for Overlook Green, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH Penn Tenant LLC.

Schedule 2-10
151. Management Agreement for Franciscan Manor, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH Penn Tenant LLC.

152. Management Agreement for Mount Vernon of Elizabeth, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH Penn Tenant LLC.

153. Management Agreement for Clarks Summit Senior Living, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH Penn Tenant LLC.

154. Management Agreement for Glen Mills Senior Living, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH Penn Tenant LLC.

155. Management Agreement for Exton Senior Living, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH Penn Tenant LLC.

156. Management Agreement for Tiffany Court at Kingston, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH Penn Tenant LLC.

157. Management Agreement for NewSeasons at New Britain, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH Penn Tenant LLC.

158. Management Agreement for Five Star Premier Residences of Plantation, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH PLFL Tenant LLC.

159. Management Agreement for The Haven in the Summit, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH SC Tenant LLC.

160. Management Agreement for The Haven in the Village at Chanticleer, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH SC Tenant LLC.

161. Management Agreement for Morningside of Beaufort, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH SC Tenant LLC.

162. Management Agreement for Morningside of Camden, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH SC Tenant LLC.

163. Management Agreement for Morningside of Hartsville, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH SC Tenant LLC.

164. Management Agreement for Morningside of Lexington, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH SC Tenant LLC.

165. Management Agreement for Morningside of Orangeburg, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH SC Tenant LLC.

166. Management Agreement for Morningside of Seneca, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH SC Tenant LLC.

Schedule 2-11
167. Management Agreement for Myrtle Beach Manor, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH SC Tenant LLC.

168. Management Agreement for Morningside of Anderson, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH SC Tenant LLC.

169. Management Agreement for Morningside of Greenwood, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH SC Tenant LLC.

170. Management Agreement for Sweetgrass Court (including Sweetgrass Court Senior Living Community), dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH SC Tenant LLC.

171. Management Agreement for Sweetgrass Village (including Sweetgrass Village Assisted Living Community), dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH SC Tenant LLC.

172. Management Agreement for Ashley River Plantation, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH SE Ashley River Tenant LLC.

173. Management Agreement for Barrington Terrace at Boynton Beach, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH SE Barrington Boynton Tenant LLC.

174. Management Agreement for Home Place of Burlington, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH SE Burlington Tenant LLC.

175. Management Agreement for Summit Place of Daniel Island, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH SE Daniel Island Tenant LLC.

176. Management Agreement for Habersham House, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH SE Habersham Savannah Tenant LLC.

177. Management Agreement for Riviera, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH SE Holly Hill Tenant LLC.

178. Management Agreement for Summit Place of Kings Mountain, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH SE Kings Mtn Tenant LLC.

179. Management Agreement for Summit Place of Mooresville, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH SE Mooresville Tenant LLC.

180. Management Agreement for Summit Place of North Myrtle Beach, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH SE N. Myrtle Beach Tenant LLC.

181. Management Agreement for The Palms of Mt. Pleasant, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH SE SG Tenant LLC.

Schedule 2-12
182. Management Agreement for Seasons at Southpoint, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH SE Tenant TRS, Inc.

183. Management Agreement for Summit Place of South Park, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH SE Tenant TRS, Inc.

184. Management Agreement for Summit Place of Beaufort, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH SE Tenant TRS, Inc.

185. Management Agreement for Palms of Lake Spivey, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH SE Tenant TRS, Inc.

186. Management Agreement for Lexington Manor, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH SE Tenant TRS, Inc.


189. Management Agreement for Five Star Premier Residences of Reno, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH SE Tenant TRS, Inc.

190. Management Agreement for The Terrace at Priceville, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH SE Tenant TRS, Inc.

191. Management Agreement for The Gardens of Scottsdale, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH SE Tenant TRS, Inc.

192. Management Agreement for The Gardens of Sun City, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH SE Tenant TRS, Inc.

193. Management Agreement for The Gardens of Virginia Beach, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH SE Tenant TRS, Inc.

194. Management Agreement for Calusa Harbor, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH SE Tenant TRS, Inc.

195. Management Agreement for The Gardens of Port St. Lucie, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH SE Tenant TRS, Inc.

196. Management Agreement for The Gardens of Bellaire, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH SE Tenant TRS, Inc.

197. Management Agreement for The Horizon Club, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH SE Tenant TRS, Inc.

Schedule 2-13
198. Management Agreement for Stratford Court of Palm Harbor, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH SE Tenant TRS, Inc.

199. Management Agreement for Church Creek, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH SE Tenant TRS, Inc.

200. Management Agreement for Fieldstone Place, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH SE Tenant TRS, Inc.

201. Management Agreement for Gateway Gardens and Villa, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH SE Tenant TRS, Inc.

202. Management Agreement for Gracemont Assisted Living and Memory Care and The Villas at Willow Lake, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH SE Tenant TRS, Inc.

203. Management Agreement for Cameron Hall (Canton), dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH SE Tenant TRS, Inc.

204. Management Agreement for Cameron Hall (Ellijay), dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH SE Tenant TRS, Inc.

205. Management Agreement for Chandler House, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH SE Tenant TRS, Inc.

206. Management Agreement for Willow Pointe, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH SE Tenant TRS, Inc.

207. Management Agreement for Coventry Village, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH SE Tenant TRS, Inc.

208. Management Agreement for Jackson Crossings, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH SE Tenant TRS, Inc.

209. Management Agreement for Overlook at Cedarcrest, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH SE Tenant TRS, Inc.


211. Management Agreement for Five Star Premier Residences of Teaneck, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH Teaneck Tenant LLC.

212. Management Agreement for The Neighborhood at Tellico Village, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH Tellico Tenant LLC.

Schedule 2-14
213. Management Agreement for Walking Horse Meadow, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH TENN Tenant LLC.

214. Management Agreement for Morningside of Belmont, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH TENN Tenant LLC.

215. Management Agreement for Morningside of Gallatin, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH TENN Tenant LLC.

216. Management Agreement for Morningside of Cleveland, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH TENN Tenant LLC.

217. Management Agreement for Morningside of Cookeville, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH TENN Tenant LLC.

218. Management Agreement for Morningside of Franklin, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH TENN Tenant LLC.

219. Management Agreement for Morningside of Jackson, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH TENN Tenant LLC.

220. Management Agreement for Williamsburg Villas, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH TENN Tenant LLC.

221. Management Agreement for Morningside of Paris, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH TENN Tenant LLC.

222. Management Agreement for The Forum at Overland Park, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH Toto Tenant LLC.

223. Management Agreement for Overland Park Place, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH Toto Tenant LLC.

224. Management Agreement for Brandon Woods at Alvamar, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH Toto Tenant LLC.

225. Management Agreement for Dominion Village of Chesapeake, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH VA Tenant LLC.

226. Management Agreement for Dominion Village of Williamsburg, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH VA Tenant LLC.

227. Management Agreement for Talbot Park, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH VA Tenant LLC.

228. Management Agreement for The Reserve at Greenbrier, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH VA Tenant LLC.

Schedule 2-15
229. Management Agreement for HeartFields at Fredericksburg, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH VA Tenant LLC.

230. Management Agreement for Morningside of Charlottesville, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH VA Tenant LLC.

231. Management Agreement for Morningside of Newport News, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH VA Tenant LLC.

232. Management Agreement for Morningside of Bellgrade, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH VA Tenant LLC.

233. Management Agreement for Dominion Village of Poquoson, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH VA Tenant LLC.

234. Management Agreement for Morningside in the West End (including Morningside at Skipwith (West End)), dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH VA Tenant LLC.

235. Management Agreement for Morningside of Williamsburg, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH VA Tenant LLC.

236. Management Agreement for Wellstead of Rogers and Diamondcrest Senior Living, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH Viking Tenant LLC.

237. Management Agreement for Brookfield Rehabilitation and Specialty Care Center, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH WIS Tenant LLC.

238. Management Agreement for Meadowmere-Madison Assisted Living (including Meadowmre-Madison), dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH WIS Tenant LLC.

239. Management Agreement for Meadowmere-Southport Assisted Living (including Meadowmere-Southport), dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH WIS Tenant LLC.

240. Management Agreement for Meadowmere and Mitchell Manor West Allis (including Meadowmere West Allis, Mitchell Manor and Mitchell Manor – West Allis), dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH WIS Tenant LLC.

241. Management Agreement for Manorpointe-Oak Creek Independent Senior Apartments and Meadowmere/Mitchell Manor-Oak Creek Assisted Living (including Manorpointe Apartments, Meadowmre – Oak Creek and Mitchell Manor Oak Creek), dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH WIS Tenant LLC.

242. Management Agreement for Virginia Health and Rehabilitation Center, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH WIS Tenant LLC.

Schedule 2-16
243. Management Agreement for Meadowmere-Northshore Assisted Living (including Meadowmere-Northshore), dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH WIS Tenant LLC.

244. Management Agreement for Laramie Care Center, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH WY Tenant LLC.

245. Management Agreement for Worland Healthcare and Rehabilitation Center, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH WY Tenant LLC.

246. Management Agreement for Five Star Premier Residences of Yonkers, dated as of January 1, 2020, by and between FVE Managers, Inc. and SNH Yonkers Tenant Inc.

Schedule 2-17
CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the Registration Statements (No. 333-208288) on Form S-3 and (No. 333-201203) on Form S-8 of Five Star Senior Living Inc. (“the Company”) of our report dated March 2, 2020, relating to the consolidated financial statements of the Company, appearing in this Annual Report on Form 10-K of the Company for the year ended December 31, 2019.

/s/ RSM US LLP

Boston, Massachusetts
March 2, 2020
CERTIFICATION PURSUANT TO EXCHANGE ACT RULES 13a-14(a) AND 15d-14(a)

I, Katherine E. Potter, certify that:

1. I have reviewed this Annual Report on Form 10-K of Five Star Senior Living Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c. Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d. Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

/s/ Katherine E. Potter
President and Chief Executive Officer

Date: March 2, 2020
CERTIFICATION PURSUANT TO EXCHANGE ACT RULES 13a-14(a) AND 15d-14(a)

I, Jeffrey C. Leer, certify that:

1. I have reviewed this Annual Report on Form 10-K of Five Star Senior Living Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c. Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d. Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

/s/ Jeffrey C. Leer

Date: March 2, 2020

Jeffrey C. Leer
Executive Vice President, Chief Financial Officer and Treasurer
Exhibit 32.1

CERTIFICATION PURSUANT TO 18 U.S.C. SEC. 1350

In connection with the filing by Five Star Senior Living Inc. (the “Company”) of the Annual Report on Form 10-K for the year ended December 31, 2019 (the “Report”), each of the undersigned hereby certifies, to the best of her or his knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Katherine E. Potter
Katherine E. Potter
President and Chief Executive Officer

/s/ Jeffrey C. Leer
Jeffrey C. Leer
Executive Vice President, Chief Financial Officer and Treasurer

Date: March 2, 2020
MANAGEMENT AGREEMENT

FOR

MORNINGSIDE OF FAYETTEVILLE
4461 N. CROSSOVER ROAD
FAYETTEVILLE, AR 72703

JANUARY 1, 2020
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MANAGEMENT AGREEMENT

THIS MANAGEMENT AGREEMENT is entered into as of January 1, 2020, by and between FVE Managers, Inc., a Maryland corporation ("Manager"), and SNH AL AIMO Tenant, Inc., a Maryland corporation ("Company").

RECITALS:

WHEREAS, SNH AL AIMO, Inc. ("Owner") owns certain real property and improvements thereon described in Exhibit A attached hereto (collectively, the "Community"), which Owner leases to Company and which is operated as a senior living community; and

WHEREAS, Company wishes to appoint Manager as manager of the Community and Manager desires to accept such appointment and manage the Community, all on the terms and conditions herein provided;

NOW, THEREFORE, the parties hereto agree as follows:

ARTICLE I
DEFINITIONS

The following terms shall have the following meanings when used in this Agreement:

Section 1.01. "AAA" is defined in Section 15.02(a).

Section 1.02. "Accountants" means RSM US LLP or such other firm of independent certified public accountants as may be approved by Company and Manager.

Section 1.03. "Adverse Regulatory Event" is defined in Section 8.04(b).

Section 1.04. "Affiliate" means with respect to any Person, (a) any Person who directly or indirectly through one or more intermediaries controls, is controlled by or is under common control with a Person or (b) any Person of which a Person is the beneficial owner of a twenty-five percent (25%) or greater interest or (c) any Person who acquires all or substantially all of the assets of a Person. A Person shall be deemed to control another Person if such Person, directly or indirectly, has the power to direct the management, operations or business of such Person. The term "beneficial owner" for this and other definitions, having the meaning given such term in Rule 13d-3 under the Securities Exchange Act of 1934, as amended. Notwithstanding the foregoing, in no event shall Manager or Guarantor be considered an Affiliate of Company, Owner or SNH, and in no event shall Company, Owner or SNH be considered an Affiliate of Manager or Guarantor, for purposes of this Agreement.

Section 1.05. "Agreement" means this Management Agreement as amended from time to time.

Section 1.06. "Annual Operating Budget" is defined in Section 7.01.
Section 1.07. “Appellate Rules” is defined in Section 15.02(g).

Section 1.08. “Approved Budget” is defined in Section 7.01.

Section 1.09. “Award” is defined in Section 15.02(e).

Section 1.10. “Bankruptcy” means, with reference to either party:

(a) the filing by a party of a voluntary petition in bankruptcy or insolvency or a petition for reorganization under any bankruptcy law, or the admission by a party that it is unable to pay its debts as they become due, or the institution of any proceeding by a party for its dissolution;

(b) the consent by a party to an involuntary petition in bankruptcy or the party’s failure to vacate, within ninety (90) days from the date of entry thereof, any order approving an involuntary petition with respect to such party; or

(c) the entering of an order, judgment or decree by any court of competent jurisdiction, on the application of a creditor, adjudicating a party as bankrupt or insolvent or approving a petition seeking reorganization or appointing a receiver, trustee, or liquidator of all or a substantial part of a party’s assets, and such order, judgment or decree’s continuing unstayed and in effect for an aggregate of sixty (60) days (whether or not consecutive) in any twelve (12) month period.

Section 1.11. “Base Invested Capital” means $100,500.

Section 1.12. “Base Fee” is defined in Section 3.01(a).

Section 1.13. “Base Target EBITDA” means the EBITDA budgeted for calendar year 2021 as identified in the Approved Budget for calendar year 2021.

Section 1.14. “Business Day” means any day other than a Saturday, Sunday or other day on which commercial banks in the Commonwealth of Massachusetts are authorized to close.

Section 1.15. “Capital Replacements” means replacements and renewals of FF&E at the Community and such repairs, maintenance, alterations, improvements, renewals and replacements to the Community building and its mechanical systems which are classified as capital expenditures under GAAP.

Section 1.16. “Change in Control” means (a) the acquisition by any Person, or two or more Persons acting in concert, of beneficial ownership (within the meaning of Rule 13d-3 of the Securities and Exchange Commission) of 9.8% or more, or rights, options or warrants to acquire 9.8% or more, of the outstanding shares of voting stock or other voting interests of another Person (a “Relevant Person”) or of any direct or indirect parent of a Relevant Person (“Parent”), or the power to direct the management and policies of a Relevant Person or Parent, directly or indirectly, (b) the merger or consolidation of a Relevant Person or Parent with and into any Person or the merger or consolidation of any Person with and into a Relevant Person or any Parent (other than the merger or consolidation of any Person into a Relevant Person or Parent that does not result in a Change in
Control of a Relevant Person or Parent under clauses (a), (c), (d), (e) or (f) of this definition), (c) any one or more sales, conveyances, dividends or distributions to any Person of all or any material portion of the assets (including capital stock or other equity interests) or business of a Relevant Person or Parent, whether or not otherwise a Change in Control, (d) the cessation, for any reason, of the individuals who at the beginning of any twenty-four (24) consecutive month period (commencing on the date hereof) constituted the board of directors of a Relevant Person or any Parent (together with any new directors whose election by such board or whose nomination for election by the shareholders of a Relevant Person or any Parent was approved by a vote of a majority of the directors then still in office who were either directors at the beginning of any such period or whose election or nomination for election was previously so approved, but excluding any individual whose initial nomination for, or assumption of, office as a member of such board of directors occurs as a result of an actual or threatened solicitation of proxies or consents for the election or removal of one or more directors by any Person other than a solicitation for the election of one or more directors by or on behalf of the board of directors) to constitute a majority of the board of directors of a Relevant Person or any Parent then in office, or (e) the adoption of any proposal (other than a precatory proposal) by a Relevant Person or any Parent not approved by vote of a majority of the directors of such Relevant Person or Parent, as the case may be, in office immediately prior to the making of such proposal, or (f) the election to the board of directors of a Relevant Person or any Parent of any individual not nominated or appointed by vote of a majority of the directors of such Relevant Person or Parent in office immediately prior to the nomination or appointment of such individual.

Section 1.17. “Code” means the U.S. Internal Revenue Code of 1986, as amended from time to time, and the regulations promulgated and rulings issued thereunder.

Section 1.18. “Community” is defined in the recitals to this Agreement.

Section 1.19. “Community Expenses” means all costs and expenses related to the maintenance, operation, repair, renovation, replacement and staffing of the Community that are normally charged as operating expense under GAAP, including: (a) costs of inventory and supplies (including Household Replacements) used in the operation of the Community; (b) amounts payable to third parties or expenses otherwise incurred with respect to the marketing, advertising, leasing, use, repair or maintenance of the Community and any expense incurred in order to obtain or maintain any operating permits, licenses, approvals or certifications, including any licensing or registration fees and expenses associated therewith; (c) amounts payable to third parties for billing and collections of amounts due for goods and services provided to Residents, including for the collection of delinquent rentals and other costs required in connection with the enforcement of any lease or resident agreement; (d) amounts payable to third parties under service contracts; (e) amounts payable to third parties for auditing (including any audits that may be required pursuant to Section 6.03), tax preparation, accounting and risk management services and legal fees; (f) all Personnel Costs incurred by Manager for all personnel employed, and independent contractors who provide services, at the Community or whose services are entirely allocable to the Community (or a pro rata share of such Personnel Costs in the case of services provided by a regional business manager or a Shared Employee (defined below)); (g) costs of all utilities serving the Community; (h) costs of insurance premiums for insurance at the Community; (i) the Base Fee payable to Manager; (j) costs incurred
by Manager for electronic data processing equipment, systems, software or services used at the Community; (k) all Impositions and all related costs (subject to the requirements of Section 5.05); (l) all expenses, including settlement payments, penalties, fines, repayments, consultant or legal fees and any other costs incurred, related to audits, investigations, inquiries or reviews of the Community or Company or Owner by a Governmental Authority, accreditation body or a contractor of a Governmental Authority; (m) any other recoupments, repayments, adjustments, reconciliations or other payments made or returned to Residents or third party payors of the Community and any related consultant and legal fees; (n) costs payable to prevent, cure or correct any violation of Legal Requirements with respect to the Community or Company or Owner; and (o) costs incurred to litigate, negotiate and/or settle any civil claim, action or litigation, including any amounts payable pursuant to a settlement, judgment or damages award and related legal fees.

If any Community Expenses (e.g., advertising, information technology, reporting and other systems for the operation of the Community and personnel training), but not including Personnel Costs, are shared with other senior housing communities managed or operated by Manager or its Affiliates (the “Shared Expenses”), whether owned by Company or its Affiliates or other parties, Manager shall identify such Shared Expenses in the Annual Operating Budget and the basis for allocation. In addition, Manager may allocate as a Community Expense a pro rata share of the Personnel Costs Manager incurs with respect to any employee or independent contractor, including for Home Office Personnel to the extent allowed by Section 4.03, who provides services at the Community and at other senior housing communities managed or operated by Manager (a “Shared Employee”) in accordance with an allocation formula approved by Company, which approval shall not be unreasonably withheld, conditioned or delayed.

Community Expenses shall not include, unless otherwise approved by Company: costs for Home Office Personnel (except as allowed by Section 4.03), costs for Manager’s in-house accounting and reporting systems, software or services to the extent used exclusively at Manager’s home office, other home office and corporate level expenses and travel expenses of personnel assigned to work exclusively at the Community, except for such Community related travel expenses as are generally reimbursed or paid pursuant to the Community’s policies and procedures.

Section 1.20. “Company” is defined in the initial paragraph to this Agreement.

Section 1.21. “Condemnation” means a taking by Governmental Authority in an eminent domain, condemnation, compulsory acquisition or similar proceeding for any public or quasi-public use or purpose.

Section 1.22. “Consumer Price Index” means the Consumer Price Index for Urban Wage Earners and Clerical Workers, 1982-1984=100. The Consumer Price Index is presently published by the Bureau of Labor Statistics of the United States Department of Labor. In the event publication of the Consumer Price Index ceases, the computations under this Agreement with respect to which the Consumer Price Index is to be applied shall be computed upon the basis of whatever index published by the United States Department of Labor at that time is most nearly comparable as a measure of general changes in price levels. In the event that the Consumer Price Index ceases to use 1982-84=100 as the basis of calculation, then the Consumer Price Index shall be converted to
the amount(s) that would have resulted had the manner of calculating the Consumer Price Index in effect at the date of this Agreement not been altered.

Section 1.23. “Construction Supervision Fee” means an amount equal to three percent (3%) of amounts funded for Capital Replacements less the amount of any construction supervision (or similar) fees paid to any third party.

Section 1.24. “Discount Rate” means the yield reported as of 10:00 A.M. on the Business Day prior to the date of termination of this Agreement on the display designated as “Page PX1” (or such other display as may replace Page PX1 on Bloomberg Financial Markets (“Bloomberg”) or, if Page PX1 (or its successor screen on Bloomberg) is unavailable, the Telerate Access Service screen which corresponds most closely to Page PX1) for the most recently issued actively traded U.S. Treasury securities having a maturity equal to the number of years between the date of termination and the scheduled expiration date of the Term (including any extension of the Term, but not in excess of twenty (20) years in any event), plus 300 basis points, or if such yields shall not be reported as of such time or the yields reported as of such time shall not be ascertainable (including by way of interpolation), the Treasury Constant Maturity Series Yields reported for the latest day for which such yields shall have been so reported as of the Business Day prior to the date of termination of this Agreement in Federal Reserve Statistical Release H.15 (519) (or any comparable successor publication) for actively traded U.S. Treasury securities having the same maturity, plus 300 basis points. If necessary, U.S. Treasury bill quotations shall be converted to bond equivalent yields in accordance with accepted financial practice and interpolating linearly between reported yields.

Section 1.25. “Disputes” is defined in Section 15.02(a).

Section 1.26. “EBITDA” means for any period, the net income of the Community before interest, income taxes, depreciation and amortization allocated to such Community, determined in accordance with GAAP applied on a consistent basis. To the extent the Term commences or ends on a day other than the first day of the calendar year or the last day of the calendar year, as applicable, for the purposes of the calculations required under this Agreement, EBITDA will be adjusted on a pro rata basis for such partial calendar year.

Section 1.27. “Event of Default” is defined in Section 14.01, as to Manager, and in Section 14.02, as to Company.

Section 1.28. “Excess Invested Capital” means, with respect to any calendar year, the amount by which Invested Capital paid in such calendar year exceeds Target Invested Capital for such calendar year.

Section 1.29. “FF&E” means furniture, fixtures, furnishings, soft goods, case goods, vehicles, systems and equipment.

Section 1.30. “GAAP” means generally accepted accounting principles in the United States applied on a consistent basis.
Section 1.31. “Governmental Authority” means any United States federal, state or local government or political subdivision thereof, or any court, administrative agency or commission or other quasi-governmental authority or instrumentality or any subdivision thereof.

Section 1.32. “Gross Revenues” means all revenues derived from operating the Community, determined in accordance with GAAP, including: income (from both cash and credit transactions, net of any fee therefor and net of any contractual allowances granted to third party payors) from community fees, monthly occupancy fees, health care fees, third party reimbursement or payments and any and all other fees and payments received from or on behalf of Residents; income from food and beverage and catering sales; income from vending machines, and proceeds, if any, from business interruption insurance and all other revenues from the operation of the Community; provided that, Gross Revenues shall not include: (a) gratuities to employees at the Community, (b) federal, state or municipal excise, sales or use taxes or similar taxes imposed at the point of sale and collected directly from Residents or guests of the Community or included as part of the sales price of any goods or services, (c) proceeds from the sale of FF&E and any other capital asset, (d) interest received or accrued with respect to the monies in any accounts referred to in Section 5.04, (e) proceeds of any financing or refinancing of the Community, (f) proceeds of any insurance policy (except business interruption insurance) or condemnation or other taking, (g) any cash refunds, rebates or discounts to Residents of the Community, cash discounts and credits of a similar nature, given, paid or returned in the course of obtaining Gross Revenues or components thereof to the extent not reflected in contractual allowances, (h) proceeds from any sale of the Community or any other capital transaction, (i) Resident funds on deposit or security deposits until such time and to the extent as the same are applied to current fees due for services rendered, (j) awards of damages, settlement proceeds and other payments received by Company in respect of any litigation other than litigation to collect fees due for services rendered at the Community and (k) payments under any policy of title insurance. Any community fees or deposits that are refunded to a Resident shall be deducted from Gross Revenues during the month in which such refunds are made, if previously included in Gross Revenues.

Section 1.33. “Guarantor” means Five Star Senior Living Inc., a Maryland corporation.

Section 1.34. “Guaranty” means that certain Guaranty Agreement, dated as of the date hereof, made by Guarantor in favor of Company and certain of its Affiliates, pursuant to which Guarantor guarantees, among other things, the obligations of Manager to Company under this Agreement, and any amendments thereto.

Section 1.35. “Home Office Personnel” is defined in Section 4.03.

Section 1.36. “Household Replacements” means supply items including linen, china, glassware, silver, uniforms, and similar items.

Section 1.37. “Impositions” means all levies, assessments and similar charges, including: all water, sewer or similar fees, rents, rates, charges, excises or levies, vault license fees or rentals; license and regulatory approval fees; inspection fees and other authorization fees and other governmental charges of any kind or nature whatsoever (and all interest and penalties thereon), which at any time during or in respect of the Term may be assessed, levied, confirmed or imposed.
on the Community, Company or Manager with respect to the Community or the operation thereof, or otherwise in respect of or be a lien upon the Community (including, on any of the inventories or Household Replacements now or hereafter located therein). Impositions shall not include (a) any income or franchise taxes payable by Company or Manager or (b) any franchise, corporate, capital levy or transfer tax imposed on Company or Manager.

Section 1.38. “Intellectual Property” means (a) all software developed and owned by Manager or an Affiliate of Manager; and (b) all written manuals, instructions, policies, procedures and directives issued by Manager to its employees at the Community regarding the procedures and techniques to be used in operation of the Community.

Section 1.39. “Interest Rate” means an annual rate of 8%, but not higher than the highest rate permitted by law.

Section 1.40. “Invested Capital” means any amounts paid by Company, or Owner, for Capital Replacements (and excluding amounts funded by Company for Working Capital) as reflected on the books and records of Owner and Company, less any amounts representing proceeds from the sale of Capital Replacements or any other capital asset, and in all events, subject to adjustment based on any audit conducted pursuant to Section 6.03(b).

Section 1.41. “Lease” is defined in Section 8.02(a).

Section 1.42. “Legal Requirements” means any permit, license, certificate, law, code, rule, ordinance, regulation or order of any Governmental Authority, Board of Fire Underwriters or any body similar to any of the foregoing having jurisdiction over the business or operation of the Community or the matters which are the subject of this Agreement, including any Resident care or health care, building, zoning or use laws, ordinances, regulations or orders, environmental protection laws and fire department rules.

Section 1.43. “Manager” is defined in the initial paragraph of this Agreement.

Section 1.44. “Mortgage” means any mortgage or deed of trust recorded against the Community.

Section 1.45. “Multiplier” means the greater of (a) two percent (2%), or (b) a fraction, the numerator of which shall be the difference between the Consumer Price Index for the immediately preceding December and the Consumer Price Index for the December that is twelve (12) months prior thereto, and the denominator of which shall be the Consumer Price Index for such prior December.

Section 1.46. “Non-Performing Asset” means the Community if, commencing with the 2021 calendar year, in any two (2) consecutive calendar years, or in any two (2) calendar years out of any three (3) consecutive calendar years during the Term, the EBITDA for such calendar year does not equal at least ninety percent (90%) of the Target EBITDA for such calendar year; provided, however, for purposes of this calculation, in no event shall Target EBITDA be less than $0.
Section 1.47. “Owner” is defined in the Recitals to this Agreement.

Section 1.48. “Person” means any natural person, corporation, limited liability company, trust, joint venture, partnership, Governmental Authority or other entity.

Section 1.49. “Personnel Costs” means total cash compensation, costs of training programs, hiring expenses, severance payments, payroll taxes, workers’ compensation, travel expenses, incentive programs (e.g., workers’ compensation and risk management related incentive programs) and employee fringe benefits payable to such personnel.

Section 1.50. “Proprietary Marks” means all trademarks, trade names, symbols, logos, slogans, designs, insignia, emblems, devices and service marks which are used by Manager to identify the Community, whether they are now or hereafter owned by Manager or any of its Affiliates, and whether or not they are registered under the laws of the United States.

Section 1.51. “Residents” means the individuals residing at the Community.

Section 1.52. “Rules” is defined in Section 15.02(a).

Section 1.53. “SNH” means Senior Housing Properties Trust, a Maryland real estate investment trust.

Section 1.54. “State” means the state in which the Community is located and any regulatory agencies within the State with overview authority or other authority over the Community, and any other state that asserts regulatory authority over the Community or with respect to its Residents, to the extent thereof.

Section 1.55. “Target EBITDA” means (a) with respect to calendar year 2021, the Base Target EBITDA, and (b) with respect to each subsequent calendar year, the sum of (i) the amount of the prior calendar year’s Target EBITDA increased by the absolute value of the product of (A) the prior calendar year’s Target EBITDA, multiplied by (B) the Multiplier, plus (ii) six percent (6%) of any Excess Invested Capital made in the prior calendar year. To the extent the Term commences or ends on a day other than the first day of the calendar year or the last day of the calendar year, as applicable, Target EBITDA will be adjusted on a pro rata basis for such partial year.

Section 1.56. “Target Invested Capital” means (a) with respect to calendar year 2021, the Base Invested Capital increased by the product of (i) the Base Invested Capital, multiplied by (ii) the Multiplier, and (b) with respect to each subsequent calendar year, the amount of the prior calendar year’s Target Invested Capital increased by the product of (i) the prior calendar year’s Target Invested Capital, multiplied by (ii) the Multiplier; provided, however, the Target Invested Capital for any calendar year shall increase or decrease on a per unit pro rata basis to the extent the number of units at the Community in such calendar year increases or decreases from the number of units at the Community in the prior calendar year, in each case as identified in the Approved Budget for such applicable calendar year.

Section 1.57. “Term” is defined in Section 12.01.
Section 1.58. “Termination Fee” means an amount equal to the present value of the payments that would have been made to Manager between the date of termination and the scheduled expiration date of the initial Term (not including any extension of the Term, but not for a period in excess of ten (10) years in any event) as Base Fees if this Agreement had not been terminated, calculated based upon the average of the Base Fees earned in each of the three (3) calendar years ended prior to the Termination Date, discounted at an annual rate equal to the Discount Rate.

Section 1.59. “Unsuitable for Use” means, as a result of damage, destruction or partial Condemnation, the Community cannot be reasonably expected to be restored to its prior condition within nine (9) months and/or, in the good faith judgment of Company, after restoration or partial Condemnation the Community cannot be operated on a commercially practicable basis.

Section 1.60. “Working Capital” means funds used in the day-to-day operation of the Community.

ARTICLE II
APPOINTMENT OF MANAGER

Section 2.01. Appointment of Manager. Company hereby appoints Manager as the sole and exclusive Manager for the daily operation and management of the Community. Manager accepts such appointment and further agrees to:

(a) perform the duties of Manager under this Agreement in compliance with this Agreement, including Section 4.06;

(b) (i) supervise and direct the management and operation of the Community in a financially sound, cost-effective and efficient manner; and (ii) establish and maintain programs to promote the most effective utilization of the Community’s services and maximize occupancy and Gross Revenues;

(c) provide quality services to Residents in a manner complying with all Legal Requirements and the form of resident agreement in use at the Community;

(d) establish appropriate marketing programs;

(e) maintain well trained, quality staff, in sufficient number, at the Community;

(f) institute (i) a sound financial accounting system for the Community, (ii) adequate internal fiscal controls through proper budgeting, accountant procedures and timely financial performance and (iii) sound billing and collection procedures and methods; and

(g) diligently monitor and assure physical plant maintenance and housekeeping consistent with the Approved Budget.
ARTICLE III
PAYMENTS TO MANAGER; WORKING CAPITAL; CAPITAL REPLACEMENTS; INSUFFICIENT FUNDS

Section 3.01. Management Fees.

(a) As compensation for the services to be rendered by Manager under this Agreement, Manager shall receive a management fee (“Base Fee”) during the Term equal to five percent (5%) of the Gross Revenues of the Community.

(b) In consideration of Manager’s management of Capital Replacements, Company shall pay Manager a Construction Supervision Fee for any Capital Replacements made in accordance with the Approved Budget. Such Construction Supervision Fee will be paid monthly in arrears based on Capital Replacements made in such month.

(c) No amount paid hereunder is intended to be, nor shall it be construed to be, an inducement or payment for referral of Residents by either party or any of its Affiliates to the other party or any of its Affiliates.

ARTICLE IV
MANAGEMENT SERVICES

Section 4.01. Authority of Manager and Management Services. Subject to the terms of this Agreement and the Company’s responsibilities as licensee, Manager shall have discretion and control in all matters relating to the day-to-day management and operation of the Community consistent with the Approved Budget. Such discretion and control shall include the authority to negotiate and execute contracts in its own name, in the name of and on behalf of Company and/or the Community, in each case, subject to the terms of this Agreement. Manager shall implement all aspects of the operation of the Community in accordance with the terms of this Agreement, and shall have responsibility and commensurate authority for all such activities. Without limiting the generality of the foregoing, in addition to any other services set forth in this Agreement, Manager shall, consistent with the Approved Budget:

(a) enter into all contracts, leases and agreements required in the ordinary course of business for the supply, operation, maintenance of and provision of services to the Community (including food procurement, building services (including cleaning, trash removal, snow plowing, landscaping, carpet cleaning and pest control), utilities and licenses and concessions for commercial space in the Community); provided that, unless specifically set forth in the Approved Budget, Manager shall obtain the written consent of Company before entering into any contract, lease or agreement not terminable on ninety (90) days notice without payment of premium or penalty;

(b) purchase such inventories, provisions, food, supplies, Household Replacements and other expendable items as are necessary to operate and maintain the Community in the manner required pursuant to this Agreement;
(c) provide care to Residents in compliance with Legal Requirements and the resident agreements in use at the Community and set all Resident fees and charges including those for accommodation, food services and care services;

(d) in its own name and on behalf of and, with the consent of Company, in the name of Company, to institute and/or defend, as the case may be, any and all legal actions or proceedings relating to the management and operation of the Community;

(e) prepare a marketing plan and direct all the marketing efforts; and

(f) oversee, manage and direct all day-to-day operations.

Section 4.02. **Hiring and Training of Staff.** Manager shall have in its employ or under contract at all times a sufficient number of capable employees or independent contractors meeting all Legal Requirements, to enable it to properly, adequately, safely and economically manage, operate, maintain and account for the Community. All matters pertaining to the retention, employment, supervision, compensation, training, promotion and discharge of such employees or independent contractors are the responsibility of Manager. All such individuals shall be employees or independent contractors of Manager. Manager shall comply with all applicable Legal Requirements having to do with employers including, worker’s compensation, unemployment insurance, hours of labor, wages, working conditions and withholding of taxes from employee wages. Manager shall have the power to hire, dismiss or transfer the executive director at the Community, provided Manager shall keep Company informed with respect to Manager’s intentions to transfer or terminate the executive director and shall consult with Company with respect to the hiring of a replacement, it being understood that any final decision shall be made by Manager. If Company becomes dissatisfied with the performance of any executive director, Company shall have the right to confer with representatives of Manager to discuss the replacement of the executive director or other action, which shall be within the discretion of Manager.

Section 4.03. **Manager’s Home Office Personnel.** Manager may, in its discretion, provide its services under this Agreement through its Home Office Personnel, provided that the Personnel Costs for such Home Office Personnel shall not be a Community Expense unless agreed to in advance by Company. Manager shall further make its Home Office Personnel available for consultation and advice related to the Community without charge other than its Base Fee. If Company requests a type, form or level of service from Manager’s Home Office Personnel of a nature that would otherwise be a Community Expense, Manager shall provide such services by Home Office Personnel for an additional cost to be agreed to in advance by Manager and Company, which shall be a Community Expense. The term “Home Office Personnel” shall include Manager’s home office staff with experience in areas such as accounting, budgeting, finance, legal, human resources, construction, development, marketing, food service and purchasing, among other areas.

Section 4.04. **Resident Agreements.** Manager shall give Company notice of any material changes to any forms of resident agreements or other occupancy agreements used in conjunction with the Community for Company’s approval before they are used. Manager shall act as an authorized representative of Company in executing resident agreements and occupancy agreements,
but Manager shall not enter into such agreements for a duration of more than one year without the prior consent of Company.

Section 4.05. Contracts with Affiliates. Manager shall not engage or pay any compensation to any Affiliate of Manager for the provision of services in connection with this Agreement unless (a) such party is fully qualified and experienced to provide the required services, (b) both the scope of services and the compensation payable to such Affiliate for the services are consistent with then current market standards or comparable arm’s-length transactions, and (c) Manager discloses such engagement to Company as a transaction with an Affiliate of Manager.

Section 4.06. Legal Requirements.

(a) Subject to Company’s discharge of its obligations under Section 4.06(b), Manager shall obtain and maintain on behalf of and in the name of the Community and/or Company (as applicable) all permits, licenses and certificates required by any Governmental Authority for the use, operation or management of the Community as currently licensed or as may be required from time to time.

(b) Company agrees: (i) to sign promptly all applications for permits, licenses, and certificates necessary for the use, operation and management of the Community required by any Governmental Authority and all cost reports and other submissions for reimbursement or other payments related to the goods and services furnished to Residents at the Community and (ii) to provide promptly such information and perform such acts as are required in order for Manager to complete any such application and/or obtain and/or maintain any such permits, licenses, or certificates and/or prepare, complete and/or file any such cost reports or other submissions for payments related to the goods and services furnished to Residents at the Community.

(c) Manager shall cause all things to be done in and about the Community as may be reasonably necessary to comply with all applicable Legal Requirements respecting the use, operation and management of the Community. Manager shall keep its corporate organization in good standing in the State and shall maintain all corporate permits and licenses required by the State.

(d) If either party receives any written notice, report or other correspondence from a Governmental Authority which asserts a deficiency relating to the operation of the Community or otherwise relates to the actual or threatened suspension, revocation, or any other action adverse to any permit, license or certificate required or necessary to use, operate or maintain the Community, such party shall give the other party prompt notice thereof.

ARTICLE V
COLLECTIONS AND PAYMENTS

Section 5.01. Collection and Priorities for Distribution of Gross Revenues. Manager shall collect all Gross Revenues and shall apply the Gross Revenues in the following order of priority:

(a) First, to pay all Community Expenses (excluding the Base Fee),
Second, to Manager, to pay the Base Fee and any interest that may have accrued pursuant to Section 5.02,

Third, to Company, the balance.

Section 5.02. **Timing of Payments.** Payment of the Community Expenses, excluding the Base Fee, shall be made in the ordinary course of business to the extent of available Gross Revenues and Working Capital. The Base Fee and accrued interest, if any, shall be paid on the first Business Day of each calendar month, in advance, based upon Manager’s then estimate of the prior month’s Gross Revenues. The Base Fee shall be subject to adjustment by increasing or decreasing the payment due in the following month based upon the Gross Revenues reflected in the monthly financial statements. If the Base Fee is not paid in full for any calendar year, the unpaid amount shall bear interest at the Interest Rate and such unpaid amount and accrued interest shall continue to be payable pursuant to clause (b) of Section 5.01 in subsequent years until paid in full. Amounts payable pursuant to clause (c) of Section 5.01 shall be paid monthly in arrears within ten (10) Business Days after the end of each calendar month, and shall be based upon the monthly financial statements for such calendar month prepared and delivered in accordance with Section 6.02. Additional adjustments to all payments will be made on an annual basis based upon any audits conducted pursuant to Section 6.03.

Section 5.03. **Credits and Collections.** Manager shall adopt credit and collection policies and procedures. Manager shall institute monthly billing by the Community and take all steps necessary to collect accounts and monies owed to the Community, which may include the institution of legal proceedings.

Section 5.04. **Depositories for Funds.** Manager shall maintain one or more accounts in the name of Company in one or more banks selected by Manager and approved by Company and shall deposit therein all Gross Revenues and other funds collected or received by Manager and due to Company as owner of the Community. Manager shall be authorized to access the accounts without the approval of Company, subject to any limitation on the maximum amount of any check, if any, established between Manager and Company as part of the Annual Operating Budget. Company shall be a signatory on all accounts maintained with respect to the Community, and Company shall have the right to require that Company’s signature be required on all checks/withdrawals after the occurrence of an Event of Default by Manager under this Agreement. Company shall provide such instructions to the applicable bank(s) as are necessary to permit Manager to implement Manager’s rights and obligations under this Agreement, provided the failure of Company to provide such instructions shall relieve Manager of its obligations hereunder until such time as such failure is cured.

Section 5.05. **Impositions.** All Impositions which accrue during the Term (or are properly allocable to such Term under GAAP) shall be paid by Manager before any fine, penalty or interest is added thereto or lien placed upon the Community or this Agreement, unless payment thereof is stayed. Company shall promptly furnish to Manager any invoice, bill, assessment, notice or other correspondence relating to any Imposition. Either Company or Manager may initiate proceedings to contest any Imposition (in which case each party agrees to sign the required applications and otherwise cooperate with the other party in expediting the matter). Unless part of the Approved
Budget, incurrence of all costs by Manager of any negotiations or proceedings with respect to any such contest shall be subject to Company’s prior consent. Nothing in this Agreement is intended to modify the respective responsibility that the parties would otherwise have to pay such Impositions as may be due and payable.

ARTICLE VI
ACCOUNTING; FINANCIAL STATEMENTS; AUDIT

Section 6.01. **Accounting.** Manager shall establish and administer accounting procedures and controls and systems for the development, preparation and safekeeping of records and books of accounting relating to the business and financial affairs of the Community, including payroll, accounts receivable and accounts payable.

Section 6.02. **Financial Statements and Reports.** Not later than ten (10) Business Days after the end of each calendar month, Manager shall prepare and deliver to Company a balance sheet and related statement of income and expense for such calendar month and for the then current calendar year to date, certified by Manager’s Controller on a monthly basis and by Manager’s Chief Financial Officer on a quarterly basis as being true and correct to the best of his/her knowledge, with a comparison to the Approved Budget. Promptly thereafter, Manager shall provide Company with an explanation of any variances to the Approved Budget.

The monthly financial statements shall be in such format as Company may reasonably require. Manager shall provide such other financial statements as Company may from time to time reasonably request. In addition, at the request of Company, any or all of the financial statements shall be audited by the Accountants as soon as practicable after such request.

Upon request, Manager shall also provide Company with information relating to the Community, Manager and its Affiliates that (a) may be required in order for Company or its Affiliates to prepare financial statements and to comply with any applicable tax and securities laws and regulations, (b) may be required in order for Company or any of its Affiliates to prepare federal, state, provincial or local tax returns or (c) is of the type that Manager customarily prepares for other owners of communities it manages, and such other or special reports as Manager may from time to time determine are necessary or as Company may reasonably request.

Section 6.03. **Audit Rights.**

(a) Company and its representatives shall have the right at all reasonable times during usual business hours to audit, examine, and make copies of books of account (including copying any records contained in electronic media) maintained by Manager with respect to the Community, which audit or examination may cover any time period during the Term at Company’s discretion. Such right may be exercised through any agent or employee designated by Company or by an independent public accountant designated by Company.

(b) Manager and its representatives shall have the right at all reasonable times during usual business hours to audit, examine, and make copies of books of account (including copying any records contained in electronic media) maintained by Company with respect to the
Invested Capital and Capital Replacements, which audit or examination may cover any time period during the Term at Manager’s discretion. Such right may be exercised through any agent or employee designated by Manager or by an independent public accountant designated by Manager.

ARTICLE VII
ANNUAL OPERATING BUDGET

Section 7.01. **Annual Operating Budget** Manager shall, on or before November 20 in each calendar year during the Term, deliver to Company for Company’s approval, an annual operating budget for the Community for the next calendar year (the “Annual Operating Budget”) which shall include separate line items for Capital Replacements and set forth an estimate, on a monthly basis, of Gross Revenues and Community Expenses, as well as an estimate of EBITDA for such calendar year, together with an explanation of anticipated changes to Resident charges, payroll rates and positions, non-wage cost increases, the proposed methodology and formula employed by Manager in allocating shared Community Expenses, and all other factors differing from the then current calendar year. The Annual Operating Budget shall be accompanied by a narrative description of operating objectives and assumptions. If Company does not approve an Annual Operating Budget or any portion thereof, it shall do so, to the extent practicable, on a line item basis. Manager and Company shall cooperate to resolve disputed items, provided if the Annual Operating Budget is not approved by Company, Manager shall operate under the expired Annual Operating Budget until a new Annual Operating Budget is approved, provided that line items for Impositions, insurance premiums and utilities shall be the amounts actually incurred for such items. If agreement on the Annual Operating Budget cannot be reached within forty-five (45) days of Company’s receipt (which time may be extended upon mutual agreement of the parties), the matter shall be resolved by arbitration. The Annual Operating Budget as approved by Company, or as resolved by arbitration, will be the “Approved Budget” for the applicable calendar year. Except for expenditures incurred to remedy any emergency threatening the safety of the Community or its Residents, invitees or employees or imminent material physical damage to the Community (for which Manager shall provide Company an accounting promptly after remedying such emergency), Manager will obtain Company’s prior approval for any expenditure which will, or is reasonably expected to, result in a variance equal to or greater than five percent (5%) of the Approved Budget.

Section 7.02. **Working Capital; Insufficient Funds** Manager may, from time to time, request Company to fund additional amounts as Working Capital to pay Community Expenses identified in the Approved Budget and if the parties do not agree on such additional amounts, the matter shall be referred to arbitration. If at any time available Working Capital is insufficient to pay Community Expenses identified in the Approved Budget and Company has not timely funded additional amounts for such purpose or Company has not timely funded Capital Replacements, Manager shall have no obligation to advance its own funds therefor. If Manager does advance its own funds, at such time as Company advances funds to reimburse Manager, whether by agreement or pursuant to an Award, Company shall pay Manager interest on such amounts at the Interest Rate from the date of Manager’s advance of funds to the date of reimbursement. If the Award includes interest, Company shall be entitled to offset such interest against its obligation under this Section 7.02.
ARTICLE VIII
TAX MATTERS; REIT QUALIFICATION

Section 8.01. **Tax Matters.** Manager shall use commercially reasonable efforts to operate the Community in a manner to best assure that Company and the Community receive all benefits of applicable tax exemptions and/or credits available thereto from any Governmental Authority. Manager will prepare or cause to be prepared all tax returns required in the operation of the Community, which include payroll, sales and use tax returns, personal property tax returns and business, professional and occupational license tax returns. Manager shall timely file or cause to be filed such returns as required by the State; provided that, Company shall promptly provide all relevant information to Manager upon request, and any late fees or penalties resulting from delays caused by Company shall be borne by Company. Manager shall not be responsible for the preparation of Company’s federal or state income tax returns, provided Manager shall cooperate fully with Company as may be necessary to enable Company to file such federal or state income tax returns, including by preparing data reasonably requested by Company and submitting it to Company as soon as reasonably practicable following such request.

Section 8.02. **REIT Qualification.**

(a) Manager shall take all commercially reasonable actions reasonably requested by Company or Owner for the purpose of qualifying Owner’s rental income from Company under the lease between Owner and Company for the Community (“Lease”) as “rents from real property” pursuant to Sections 856(d)(1), 856(d)(2), 856(d)(8)(B) and 856(d)(9) of the Code. Manager shall not be liable if such reasonably requested actions, once implemented, fail to have the desired result of qualifying Owner’s rental income from Company under the Lease as “rents from real property” pursuant to Sections 856(d)(1), 856(d)(2), 856(d)(8)(B) and 856(d)(9) of the Code. This Section 8.02 shall not apply in situations where an Adverse Regulatory Event has occurred; instead, Section 8.04 shall apply.

(b) If Company or Owner wish to invoke the terms of Section 8.02(a), Company or Owner (as appropriate) shall contact Manager and the parties shall meet with each other to discuss the relevant issues and to develop a mutually-agreed upon plan for implementing such reasonably requested actions.

(c) Any additional out-of-pocket costs or expenses incurred by Manager in complying with such a request shall be borne by Company (and shall not be a Community Expense). Company shall reimburse Manager for such expense or cost promptly, but not later than five (5) Business Days after such expense or cost is incurred.

Section 8.03. **Further Compliance with Section 856(d) of the Code.** Commencing with the date of this Agreement and continuing throughout the Term, Manager intends to qualify as an “eligible independent contractor” as defined in Section 856(d)(9)(A) of the Code, and:

(a) Manager shall use commercially reasonable efforts not to cause the Community to fail to qualify as “qualified health care property” as defined in Section 856(e)(6)(D)(i) for purposes of Section 856(d)(8)(B) and Section 856(d)(9) of the Code;
(b) Manager shall not own, directly or indirectly or constructively (within the meaning of Section 856(d)(5) of the Code), more than thirty-five percent (35%) of the shares of SNH, whether by vote, value or number of shares, and Manager shall otherwise comply with any regulations or other administrative or judicial guidance existing under said Section 856(d)(5) of the Code with respect to such ownership limits; Manager shall cause its ultimate Parent to enforce the restrictions in its charter documents regarding five percent (5%) or greater owners;

(c) Manager shall be actively engaged (or shall, within the meaning of Section 856(d)(9)(F) of the Code, be related to a person that is so actively engaged) in the trade or business of operating “qualified health care property” (defined below) for a person who is not a “related person” within the meaning of Section 856(d)(9)(F) of the Code with respect to Owner or Company. For these purposes, the parties agree that the activities, as of the date of this Agreement, of Manager’s affiliate, FSQ, Inc., a Delaware corporation and a related person as to Manager within the meaning of Section 856(d)(9)(F) of the Code, including in particular the management contracts pursuant to which FSQ, Inc. has been and is formally engaged as manager by other affiliates (but not subsidiaries) of Manager, render Manager in compliance with the previous sentence. Manager, without the prior consent of Company, shall not permit or suffer FSQ, Inc.’s level of management activity in respect of “qualified health care properties” to be materially less than its level of such activity on the date of this Agreement;

(d) A “qualified health care property” is defined by reference to Section 856(e)(6)(D)(i) of the Code and means any real property, and any personal property incident to such real property, which is a “health care facility” described in Section 856(e)(6)(D)(ii) of the Code or is necessary or incidental to the use of a health care facility. A “health care facility” means: a hospital; a nursing facility; an assisted living facility; a congregate care facility; a qualified continuing care facility; or another licensed facility which extends medical or nursing or ancillary services to patients and which is operated by a provider of such services eligible for participation in the Medicare program under title XVIII of the Social Security Act with respect to such facility; and

(c) Manager, without the prior consent of Company, which consent shall not be unreasonably withheld, conditioned or delayed, shall not permit or suffer:

(i) Manager to fail to continue as a corporation under state law and taxable under the Code as an association;

(ii) Manager’s affiliate, FSQ, Inc., a Delaware corporation, to fail to be a corporation under state law and taxable under the Code as an association; or

(iii) for so long as Owner or Company or any Affiliate of Owner or Company shall seek to qualify as a “real estate investment trust” under the Code, Manager to be reorganized, restructured, combined, merged or amalgamated with any Affiliate (as to Manager) in such manner that any such Affiliate would, or could, be expected to adversely affect (including, e.g., by application of any Person’s actual “disregarded entity” status under the Code) the status that Manager has as a Code Section 856(d)(9)(A) “eligible independent contractor” at a “qualified health care property” owned or leased by Owner or Company.
Section 8.04. **Adverse Regulatory Event.**

(a) In the event of an Adverse Regulatory Event arising from or in connection with this Agreement, Company and Manager shall work together in good faith to amend this Agreement to eliminate the impact of such Adverse Regulatory Event; provided, however, Manager shall have no obligation to materially reduce its rights or materially increase its obligations under this Agreement, all taken as a whole, or to bear any out-of-pocket costs or expenses under this Section 8.04. Manager shall not be liable if any such amendment, once operative, fails to have the desired result of eliminating the impact of an Adverse Regulatory Event.

(b) For purposes of this Agreement, the term “**Adverse Regulatory Event**” means any time that a new law, statute, ordinance, code, rule, regulation or an administrative or judicial ruling imposes, or could impose in Owner’s or Company’s reasonable opinion, any material threat to SNH’s qualification for taxation as a “real estate investment trust” under the Code or to the treatment of amounts paid to Owner under the Lease as “rents from real property” under Section 856(d) of the Code.

(c) Company shall promptly inform Manager of any Adverse Regulatory Event of which it is aware and which it believes likely to impair compliance with respect to Section 856(d) of the Code.

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**ARTICLE IX**

**FINANCING; INSPECTION**

Section 9.01. **Financing of the Community.** Manager shall cooperate with Owner and Company in connection with any financing by Owner of the Community.

Section 9.02. **Company’s Right To Inspect.** Company or its employees, representatives, lenders or agents shall have access to the Community and the files, books, accounts, and records of Manager related to the Community at any and all reasonable times during usual business hours for the purpose of inspection or showing the Community to prospective purchasers, investors, Residents or mortgagees.

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**ARTICLE X**

**REPAIRS AND MAINTENANCE**

Section 10.01. **Repairs, Maintenance and Capital Replacements.** Manager shall maintain the Community in good, orderly, clean and safe repair and condition consistent with first rate standards for similar senior living communities, and in conformity with Legal Requirements. Manager shall make such routine and preventive maintenance, repairs and minor alterations, the cost of which can be expensed under GAAP, as it, from time to time, deems necessary for such purposes, consistent with the Approved Budget. The cost of such maintenance, repairs and alterations shall be paid from Gross Revenues. Manager shall make such Capital Replacements as are contemplated by the Approved Budget and funded by Company.
Section 10.02. **Emergency Repairs.** If either party has actual knowledge of, or receives a written order or notice from a Governmental Authority, pertaining to a violation or potential violation of any Legal Requirement relating to the physical condition of the Community or the continued safe operation of the Community, such party shall give the other party prompt notice thereof. Manager shall recommend appropriate remedial action to Company and subject to Company’s consent (which shall not be unreasonably withheld, conditioned or delayed), take such remedial action, provided Manager shall be authorized to take appropriate remedial action consisting of repairs or maintenance to the Community without receiving Company’s prior consent: (a) in an emergency threatening the safety of such Community or its Residents, invitees or employees or imminent material physical damage to the Community, or (b) if the continuation of the given condition will subject Manager and/or Company to regulatory, civil, or criminal liability or result in the suspension or revocation of a material permit, license or certificate. Any disagreement regarding the necessity of taking such remedial action and/or the funding of the cost thereof that is not resolved by the parties within ten (10) Business Days shall be resolved by arbitration.

Section 10.03. **Liens.** Manager shall use commercially reasonable efforts to prevent any liens from being filed against the Community which arise from any maintenance, repairs, alterations, improvements, renewals or replacements in or to the Community. Manager shall not file any lien against the Community.

Section 10.04. **Ownership.** All repairs, replacements, alterations and additions shall be the property of Owner or Company, as may be provided in the Lease.

Section 10.05. **Casualty or Condemnation.** If, during the Term, the Community is (a) totally destroyed by fire or other casualty or there is a Condemnation or (b) partially destroyed by fire or other casualty or there is a partial Condemnation and as a result the Community is Unsuitable for Use, either Manager or Company may terminate this Agreement by sixty (60) days’ notice to the other and Company and/or Owner shall be entitled to retain the insurance proceeds or Condemnation award, as the case may be.

If, as a result of partial destruction or partial Condemnation, the Community is not rendered Unsuitable for Use, Company shall (or shall cause the Owner to) make the insurance proceeds or award received by Company and/or Owner available to Manager as necessary to repair or restore the destroyed or untaken portion of the Community to the same condition as existed previously, provided Manager shall have the right to discontinue operating all or a portion of the Community pending completion of the repairs or restoration as necessary to comply with Legal Requirements or for the safe and orderly operation of the Community.

If the cost of repair or restoration is less than the insurance proceeds or award received by Company and/or Owner, Company shall (or shall cause the Owner to) make available the funds necessary to permit the Community or the untaken portion to be repaired and restored. If the cost of the repair or restoration exceeds the amount of insurance proceeds or award, Manager shall give notice to Company and Owner setting forth in reasonable detail the nature of such deficiency, and Company and Owner shall promptly advise Manager whether Company and/or Owner will fund the deficiency. If neither Company nor Owner elect to fund the deficiency, Manager may terminate this Agreement by notice to Company.
Any obligation of Company and/or Owner to make funds available to Manager to repair or restore the Community is subject to the requirements of any Mortgage.

Notwithstanding any provisions of this Section 10.05 to the contrary, if partial destruction or a partial Condemnation occurs during the last twelve (12) months of the Term (including any renewal) and if full repair and restoration would not reasonably be expected to be completed prior to the date that is nine (9) months prior to the end of the Term (including any renewal), the provisions of this Section 10.05 shall apply as if the Community had been rendered Unsuitable for Use.

ARTICLE XI
INSURANCE

Section 11.01. **General Insurance Requirements.** Manager shall, at all times during the Term, keep (or cause to be kept) the Community and all property located therein or thereon, insured against the risks and in such amounts as is against such risks and in such amounts as Company shall reasonably require and as may be commercially reasonable. Any disputes regarding such matters not resolved by the parties within ten (10) Business Days (which period may be extended upon mutual agreement of the parties) shall be resolved by arbitration.

Section 11.02. **Waiver of Subrogation.** Company and Manager agree that (insofar as and to the extent that such agreement may be effective without invalidating or making it impossible to secure insurance coverage from responsible insurance companies doing business in the State) with respect to any property loss which is covered by insurance then being carried by Company or Manager, the party carrying such insurance and suffering said loss releases the others of and from any and all claims with respect to such loss; and they further agree that their respective insurance companies (and, if Company or Manager shall self insure in accordance with the terms hereof, Company or Manager, as the case may be) shall have no right of subrogation against the other on account thereof, even though extra premium may result therefrom. If any extra premium is payable by Manager as a result of this provision, Company shall not be liable for reimbursement to Manager for such extra premium.

Section 11.03. **Risk Management.** Manager shall be responsible for the provision of risk management oversight at the Community.

ARTICLE XII
TERM AND TERMINATION

Section 12.01. **Term.** The Term of this Agreement shall begin on the date hereof and end December 31, 2034 ("Term"). Unless sooner terminated as provided in this Agreement, Manager shall have the right to extend the Term for up to two (2) consecutive periods of five (5) years each by providing notice of such renewal to Company at least twenty-four (24), but not more than thirty (30), months prior to the end of the then current Term.

Section 12.02. **Early Termination.** At any time during the Term and without limitation of any of the other terms and conditions of this Agreement, Company shall have the right to terminate this Agreement if the Community becomes a Non-Performing Asset by providing notice to Manager.
of such termination within six (6) months after the end of any calendar year in which the Community qualifies as a Non-Performing Asset, which termination shall be effective as of the date set forth in Company’s notice but not earlier than ninety (90) days after delivery of such notice to Manager.

ARTICLE XIII
TRANSITION ON TERMINATION

Section 13.01. Termination. Upon any termination of this Agreement, except as otherwise provided in Section 14.04, Manager shall be compensated for its services only through the date of termination and all amounts remaining in any accounts maintained by Manager pursuant to Section 5.04, after payment of such amounts as may be due to Manager hereunder, shall be distributed to Company. In the event of any termination, both parties shall fully cooperate with one another to ensure a smooth transition of management. Upon termination, Manager will deliver to Company the following:

(a) a final accounting, reflecting the balance of income and expenses of the Community as of the date of termination, to be delivered as soon as reasonably possible but not later than sixty (60) days after such termination,

(b) after payment of any amounts as may be due to Manager hereunder, any balance of monies of Company or Resident deposits, or both, held by Manager with respect to the Community, to be delivered as soon as reasonably possible, but not later than sixty (60) days after such termination,

(c) all records, contracts, leases, resident agreements, tenant correspondence, files, receipts for deposits, unpaid bills and other papers, documents, software, data or information which pertain in any way to the Community to be delivered as soon as reasonably possible, but not later than sixty (60) days after such termination, and

(d) Manager shall cooperate reasonably in all respects to achieve a transfer of any license and/or certificate (or to obtain a new license and/or certificate, if necessary) required in connection with the operation of the Community, but shall not be required to incur any monetary expenditures in connection therewith (unless Company agrees to reimburse Manager therefor).

ARTICLE XIV
DEFAULTS

Section 14.01. Default by Manager. An Event of Default with respect to Manager shall occur in the event of any of the following:

(a) the Bankruptcy of Manager,

(b) the gross negligence or willful misconduct of Manager with respect to its duties and obligations under this Agreement,

(c) Manager’s failure to keep, observe or perform any material covenant, agreement, term or provision of this Agreement to be kept, observed or performed by Manager,
which failure shall continue (i) for a period of five (5) Business Days after Manager receives notice from Company in case of monetary defaults or (ii) for a period of twenty (20) Business Days after Manager receives notice from Company in the case of non-monetary defaults, in each case, specifying the default; provided, however, that if such non-monetary default cannot be cured within such twenty (20) Business Day period, then Manager shall be entitled to such additional time as shall be reasonable, provided the default is curable and Manager has promptly proceeded to commence cure of such default within said period, and thereafter diligently prosecutes the cure to completion; provided, however, that in no event shall such additional time exceed ninety (90) days,

(d) a Change in Control of Manager or Guarantor to which Company or SNH does not consent, provided that, to the extent SNH votes in its capacity as a shareholder of Guarantor in favor of a Change in Control of Manager or Guarantor, such vote shall constitute consent to such Change in Control, or

(e) a default by Manager, Guarantor or any Affiliate of Manager or Guarantor under the Guaranty or any other agreement between Manager, Guarantor or an Affiliate of Manager or Guarantor and Company or an Affiliate of Company, which continues beyond any applicable notice and cure period.

Section 14.02. Default by Company. An Event of Default with respect to Company shall occur in the event of any of the following:

(a) the Bankruptcy of Company,

(b) the gross negligence or willful misconduct of Company with respect to its obligations under this Agreement, or

(c) Company shall fail to (i) timely fund Working Capital or to fund Capital Replacements pursuant to the Approved Budget and such failure shall continue for a period of ten (10) Business Days after notice thereof by Manager or (ii) keep, observe or perform any other material covenant, agreement, term or provision of this Agreement to be kept, observed or performed by Company and such failure shall continue (A) for a period of five (5) Business Days after Company receives notice from Manager in case of monetary defaults or (B) for a period of twenty (20) Business Days after Company receives notice from Manager in the case of non-monetary defaults, in each case specifying the default; provided, however, if such default cannot be cured within such twenty (20) Business Day period, then Company shall be entitled to such additional time as shall be reasonable, provided the default is curable, Company has promptly proceeded to commence cure of such non-monetary default within said period, and thereafter diligently prosecutes the cure to completion; provided, however, that in no event shall such additional time to cure non-monetary defaults exceed ninety (90) days.

Section 14.03. Remedies of Company. Upon the occurrence of an Event of Default by Manager, Company may terminate this Agreement immediately upon notice and shall be entitled to exercise any other rights at law or in equity.
Section 14.04. **Remedies of Manager.** Upon the occurrence of an Event of Default by Company, Manager may terminate this Agreement on thirty (30) days’ notice to Company and Company shall pay Manager the Termination Fee within thirty (30) days of the effective date of termination as liquidated damages and in lieu of any other remedy of Manager at law or in equity, as well as any accrued but unpaid fees owed to Manager pursuant to Section 5.01.

Section 14.05. **No Waiver of Default.** The failure by Company or Manager to insist upon the strict performance of any one of the terms or conditions of this Agreement or to exercise any right, remedy or election herein contained or permitted by law shall not constitute or be construed as a waiver or relinquishment for the future of such term, condition, right, remedy or election, but the same shall continue and remain in full force and effect. All rights and remedies that Company or Manager may have at law, in equity or otherwise for any breach of any term or condition of this Agreement shall be distinct, separate and cumulative rights and remedies and no one of them, whether or not exercised by Company or Manager, shall be deemed to be in exclusion of any right or remedy of Company or Manager.

**ARTICLE XV**

**GOVERNING LAW, ARBITRATION, LIABILITY OF MANAGER AND INDEMNITY**

Section 15.01. **Governing Law, Etc.** This Agreement shall be interpreted, construed, applied and enforced in accordance with the laws of the State of Maryland applicable to contracts between residents of Maryland which are to be performed entirely within Maryland, regardless of (a) where this Agreement is executed or delivered; or (b) where any payment or other performance required by this Agreement is made or required to be made; or (c) where any breach of any provision of this Agreement occurs, or any cause of action otherwise accrues; or (d) where any action or other proceeding is instituted or pending; or (e) the nationality, citizenship, domicile, principal place of business, or jurisdiction of organization or domestication of any party; or (f) whether the laws of the forum jurisdiction otherwise would apply the laws of a jurisdiction other than Maryland; or (g) any combination of the foregoing.

Section 15.02. **Arbitration.**

(a) Any disputes, claims or controversies between the parties (i) arising out of or relating to this Agreement, or (ii) brought by or on behalf of any shareholder of any party or a direct or indirect parent of a party (which, for purposes of this Section 15.02, shall mean any shareholder of record or any beneficial owner of shares of any party, or any former shareholder of record or beneficial owner of shares of any party), either on his, her or its own behalf, on behalf of any party or on behalf of any series or class of shares of any party or shareholders of any party against any party or any member, trustee, director, officer, manager (including The RMR Group LLC or its successor), agent or employee of any party, including disputes, claims or controversies relating to the meaning, interpretation, effect, validity, performance or enforcement of this Agreement, including this arbitration provision, or the declarations of trust, limited liability company agreements, charters, bylaws or other governing documents of any party hereto (all of which are referred to as "Disputes"), or relating in any way to such a Dispute or Disputes shall, on the demand of any party to such Dispute be resolved through binding and final arbitration in accordance with the Commercial Arbitration Rules (the “Rules”) of the American Arbitration Association (“AAA”).
then in effect, except as those Rules may be modified in this Section 15.02. For the avoidance of doubt, and not as a limitation, Disputes are intended to include derivative actions against trustees, directors, officers or managers of any party and class actions by a shareholder against those individuals or entities and any party. For the avoidance of doubt, a Dispute shall include a Dispute made derivatively on behalf of one party against another party. For purposes of this Section 15.02, the term “party” shall include any direct or indirect parent of a party.

(b) There shall be three (3) arbitrators. If there are only two (2) parties to the Dispute, each party shall select one arbitrator within fifteen (15) days after receipt of a demand for arbitration. Such arbitrators may be affiliated or interested persons of such parties. If there are more than two (2) parties to the Dispute, all claimants, on the one hand, and all respondents, on the other hand, shall each select, by the vote of a majority of the claimants or the respondents, as the case may be, one arbitrator within fifteen (15) days after receipt of a demand for arbitration. Such arbitrators may be affiliated or interested persons of the claimants or the respondents, as the case may be. If either a claimant (or all claimants) or a respondent (or all respondents) fail to timely select an arbitrator, then the party (or parties) who has selected an arbitrator may request the AAA to provide a list of three (3) proposed arbitrators in accordance with the Rules (each of whom shall be neutral, impartial and unaffiliated with any party) and the party (or parties) that failed to timely appoint an arbitrator shall have ten (10) days from the date the AAA provides such list to select one of the three (3) arbitrators proposed by AAA. If such party (or parties) fail to select such arbitrator by such time, the party (or parties) who have appointed the first arbitrator shall then have ten (10) days to select one of the three (3) arbitrators proposed by AAA to be the second arbitrator; and, if he/they should fail to select such arbitrator by such time, the AAA shall select, within fifteen (15) days thereafter, one of the three (3) arbitrators it had proposed as the second arbitrator. The two (2) arbitrators so appointed shall jointly appoint the third and presiding arbitrator (who shall be neutral, impartial and unaffiliated with any party) within fifteen (15) days of the appointment of the second arbitrator. If the third arbitrator has not been appointed within the time limit specified herein, then the AAA shall provide a list of proposed arbitrators in accordance with the Rules, and the arbitrator shall be appointed by the AAA in accordance with a listing, striking and ranking procedure, with each party having a limited number of strikes, excluding strikes for cause.

(c) The place of arbitration shall be Boston, Massachusetts unless otherwise agreed by the parties.

(d) There shall be only limited documentary discovery of documents directly related to the issues in dispute, as may be ordered by the arbitrators. For the avoidance of doubt, it is intended that there shall be no depositions and no other discovery other than limited documentary discovery as described in the preceding sentence.

(e) In rendering an award or decision (the “Award”), the arbitrators shall be required to follow the laws of the State of Maryland. Any arbitration proceedings or Award rendered hereunder and the validity, effect and interpretation of this arbitration provision shall be governed by the Federal Arbitration Act, 9 U.S.C. §1 et seq. The Award shall be in writing and may, but shall not be required to, briefly state the findings of fact and conclusions of law on which it is based. Any monetary Award shall be made and payable in U.S. dollars free of any
tax, deduction or offset. Subject to Section 15.02(h), each party against which an Award assesses a monetary obligation shall pay that obligation on or before the thirtieth (30th) day following the date of such Award or such other date as such Award may provide.

(f) Except to the extent expressly provided by this Agreement or as otherwise agreed by the parties, to the maximum extent permitted by Maryland law, each party involved in a Dispute shall bear its own costs and expenses (including attorneys’ fees), and the arbitrators shall not render an Award that would include shifting of any such costs or expenses (including attorneys’ fees) or, in a derivative case or class action, award any portion of a party’s Award to the claimant or the claimant’s attorneys. Each party (or, if there are more than two (2) parties to the Dispute, all claimants, on the one hand, and all respondents, on the other hand, respectively) shall bear the costs and expenses of its (or their) selected arbitrator and the parties (or, if there are more than two (2) parties to the Dispute, all claimants, on the one hand, and all respondents, on the other hand) shall equally bear the costs and expenses of the third (3rd) appointed arbitrator.

(g) Notwithstanding any language to the contrary in this Agreement, any Award, including but not limited to any interim Award, may be appealed pursuant to the AAA’s Optional Appellate Arbitration Rules (“Appellate Rules”). An Award shall not be considered final until after the time for filing the notice of appeal pursuant to the Appellate Rules has expired. Appeals must be initiated within thirty (30) days of receipt of an Award by filing a notice of appeal with any AAA office. Following the appeal process, the decision rendered by the appeal tribunal may be entered in any court having jurisdiction thereof. For the avoidance of doubt, and despite any contrary provision of the Appellate Rules, the above paragraph relating to costs and expenses shall apply to any appeal pursuant to this Section 15.02(g) and the appeal tribunal shall not render an Award that would include shifting of any costs or expenses (including attorneys’ fees) of any party.

(h) Following the expiration of the time for filing the notice of appeal, or the conclusion of the appeal process set forth in Section 15.02(g), an Award shall be final and binding upon the parties thereto and shall be the sole and exclusive remedy between those parties relating to the Dispute, including any claims, counterclaims, issues or accounting presented to the arbitrators. Judgment upon an Award may be entered in any court having jurisdiction. To the fullest extent permitted by law, no application or appeal to any court of competent jurisdiction may be made in connection with any question of law arising in the course of arbitration or with respect to any Award made, except for actions relating to enforcement of this Section 15.02 or any arbitral award issued hereunder, and except for actions seeking interim or other provisional relief in aid of arbitration proceedings in any court of competent jurisdiction.

(i) This Section 15.02 is intended to benefit and be enforceable by the parties and their respective shareholders, members, direct and indirect parents, trustees, directors, officers, managers (including The RMR Group Inc. and The RMR Group LLC), agents or employees of any party and their respective successors and assigns and shall be binding on the shareholders of any party and the parties, as applicable, and shall be in addition to, and not in substitution for, any other rights to indemnification or contribution that such individuals or entities may have by contract or otherwise.
Section 15.03. **Consent to Jurisdiction and Forum.** This Section 15.03 is subject to, and shall not in any way limit the application of, Section 15.02; in case of any conflict between this Section 15.03 and Section 15.02, Section 15.02 shall govern. Notwithstanding anything to the contrary in Section 15.02, the exclusive jurisdiction and venue in any action brought by any party hereto pursuant to this Agreement shall lie in any federal or state court located in Boston, Massachusetts. By execution and delivery of this Agreement, each party hereto irrevocably submits to the jurisdiction of such courts for itself and in respect of its property with respect to such action. The parties irrevocably agree that venue would be proper in such court, and hereby waive any objection that such court is an improper or inconvenient forum for the resolution of such action. The parties further agree and consent to the service of any process required by any such court by delivery of a copy thereof in accordance with Section 17.01 and that any such delivery shall constitute valid and lawful service of process against it, without necessity for service by any other means provided by statute or rule of court.

Section 15.04. **Standard of Care.** Manager shall discharge its duties in good faith, and agrees to exercise, with respect to all services provided by Manager under this Agreement, a standard of care, skill, prudence and diligence under the circumstances then existing as is consistent with prevailing industry practices.

Section 15.05. **Indemnity.** In any action, proceeding or claim brought or asserted by a third party, Manager will defend, indemnify and hold Company (and any of its Affiliates, their respective directors, trustees, officers, shareholders, employees and agents) harmless from and against any claims, losses, expenses, costs, suits, actions, proceedings, demands or liabilities that are asserted against, or sustained or incurred by them because of Manager’s breach of any material term of this Agreement, or arising from Manager’s failure to act or not act in accordance with Company’s reasonable instructions or gross negligence, fraud, or willful misconduct, except to the extent caused by Company’s breach of any material term of this Agreement, gross negligence, fraud or willful misconduct. Company will defend, indemnify, and hold Manager (and any of its Affiliates, their respective directors, trustees, officers, shareholders, employees and agents) harmless, from and against any and all claims, expenses, costs, suits, actions, proceedings, demands, or liabilities that are asserted against, or sustained or incurred by them in connection with the performance of Manager’s duties under this Agreement or otherwise while acting within the scope of the agency established by the parties to this Agreement and in accordance with Section 15.04, or in the case of an action, proceeding or claim brought or asserted by a third party against any of them as a result of Company’s breach of any material term of this Agreement, violation of Legal Requirements, instructions to Manager to act or not act with respect to the relevant matter or gross negligence, fraud or willful misconduct, except to the extent caused by Manager’s breach of any material term of this Agreement, failure to act or not act in accordance with Company’s reasonable instructions, gross negligence, fraud or willful misconduct. The scope of the foregoing indemnities includes any and all costs and expenses properly incurred in connection with any proceedings to defend any indemnified claim, or to enforce the indemnity, or both. Recovery upon an indemnity contained in this Agreement shall be reduced dollar-for-dollar by any applicable insurance collected by the indemnified party with respect to the claims covered by such indemnity.
Section 15.06. **Limitation of Liability.** To the maximum extent permitted by applicable law, no shareholder, member, officer, director, trustee, employee or agent of any party to this Agreement (and of any Affiliate of such party that is not a party to this Agreement) shall have any personal liability with respect to the liabilities or obligations of such party under this Agreement or any document executed by such party pursuant to this Agreement.

**ARTICLE XVI**

**PROPRIETARY MARKS; INTELLECTUAL PROPERTY**

Section 16.01. **Proprietary Marks.** During the Term of this Agreement, the Community shall be known as a “Five Star Senior Living” community, with such additional identification as may be necessary and agreed to by Company and Manager to provide local identification or to comply with local licensing or consumer protection laws.

Section 16.02. **Ownership of Proprietary Marks.** The Proprietary Marks shall in all events remain the exclusive property of Manager, and except as expressly set forth in this Agreement, nothing contained herein shall confer on Company the right to use the Proprietary Marks. Except as provided below in this section, upon termination, any use of or right to use the Proprietary Marks by Company shall cease forthwith, and Company shall promptly remove, at Manager’s expense, from the Community any signs or similar items that contain the Proprietary Marks. Upon termination, Company shall have the right to use any inventory or Household Replacement items marked with the Proprietary Marks exclusively in connection with the Community until they are consumed.

Section 16.03. **Intellectual Property.** All Intellectual Property shall at all times be proprietary to Manager or its Affiliates, and shall be the exclusive property of Manager or its Affiliates. During the Term, Manager shall be entitled to take all reasonable steps to ensure that the Intellectual Property remains confidential. Upon termination, all Intellectual Property shall be removed from the Community by Manager, without compensation to Company.

**ARTICLE XVII**

**MISCELLANEOUS PROVISIONS**

Section 17.01. **Notices.** All notices, demands, consents, approvals, and requests given by either party to the other hereunder shall be in writing and shall be deemed to have been duly given when delivered in person, upon confirmation of receipt when transmitted by e-mail, or on the next business day if transmitted by nationally recognized overnight courier, to the parties at the following addresses:

SNH AL AIMO Tenant, Inc.  
c/o Senior Housing Properties Trust  
Two Newton Place  
255 Washington Street, Suite 300  
Newton, Massachusetts 02458  
Attn: Jennifer F. Francis  
Telephone: (617) 796-8350
Section 17.02. Severability. If any term or provision of this Agreement or the application thereof in any circumstance is held invalid, illegal or unenforceable in any respect for any reason, the validity, legality and enforceability of any such provision in every other respect and of the remaining provisions hereof shall not be in any way impaired, unless the provisions held invalid, illegal or unenforceable shall substantially impair the benefits of the remaining provisions hereof.

Section 17.03. Gender and Number. Whenever the context of this Agreement requires, the gender of all words herein shall include the masculine, feminine, and neuter, and the number of all words herein shall include the singular and plural.

Section 17.04. Headings and Interpretation. The descriptive headings in this Agreement are for convenience of reference only and shall not affect in any way the meaning or interpretation of this Agreement. References to “Section” in this Agreement shall be a reference to a Section of this Agreement unless otherwise indicated. Whenever the words “include,” “includes” or “including” are used in this Agreement they shall be deemed to be followed by “without limitation.” The words “hereof,” “herein,” “hereby,” and “hereunder,” when used in this Agreement shall refer to this Agreement as a whole and not to any particular provision unless otherwise indicated. The word “or” shall not be exclusive. This Agreement shall be construed without regard to any presumption or rule requiring construction or interpretation against the party drafting.

Section 17.05. Estoppel Certificates. Each party to this Agreement shall at any time and from time to time, upon not less than thirty (30) day’s prior notice from the other party, execute, acknowledge and deliver to such other party, or to any third party specified by such other party, a statement in writing: (a) certifying that this Agreement is unmodified and in full force and effect (or if there have been modifications, that the same, as modified, is in full force and effect and stating the modifications); (b) stating whether or not to the best knowledge of the certifying party: (i) there is a continuing default by the non-certifying party in the performance or observation of any covenant, agreement or condition contained in this Agreement; or (ii) there shall have occurred any event which, with the giving of Notice or the passage of time or both, would become such a default, and, if so, specifying such default or occurrence of which the certifying party may have knowledge; and (c) stating such other information as the non-certifying party may reasonably request. Such statement shall be binding upon the certifying party and may be relied upon by the non-certifying party and/or such third party specified by the non-certifying party as aforesaid. The obligations set forth in this Section 17.05 shall survive termination (that is, each party shall, on request, within the time
period described above, execute and deliver to the non-certifying party and to any such third party a statement certifying that this Agreement has been terminated).

Section 17.06. **Confidentiality of Business Information.** Manager and Company agree to keep confidential and not to use or to disclose to others, any of their respective secrets or confidential or proprietary information, customer lists, or trade secrets, or any matter or items relating to this Agreement, the management of the Community or their association with each other except (a) to their respective Affiliates, which may in turn disclose to any holder of a Mortgage, any prospective lender, purchaser or prospective purchaser of the Community, (b) to any rating agencies, lenders, stock analysts, accountants, lawyers and other like professionals, (c) as expressly consented to in writing by the other party, (d) as required by law or the rules of any national securities exchange or automated quotation system to which Company or Manager, or any Affiliate of either, is or becomes subject, or (e) as required by law or the applicable regulators with respect to any initial, renewal or other required application for licensure, Medicare or Medicaid participation or other approval or certification of the Community.

Section 17.07. **Confidentiality of Patient Information.** The parties shall only use or disclose patient information, including Protected Health Information (as such term is defined by the Standards for Privacy of Individually Identifiable Health Information, 45 C.F.R. Part 160 and Subparts A and E of Part 164, as promulgated from time to time by the Department of Health and Human Services (the “Privacy Standards”)), in compliance with the Privacy Standards and other applicable law. The parties shall further reasonably safeguard the confidentiality, integrity and availability of patient information, including Protected Health Information, as required by applicable law, including the Privacy Standards and the Security Standards (45 C.F.R. Part 160 and Subparts A and E of Part 164). In the event that patient information (including Protected Health Information) is disclosed by a party or its agents to the other party, its employees, contractors, subcontractors or agents, such other party agrees to take reasonable steps to maintain, and to require its employees, contractors, subcontractors and agents receiving such information to maintain, the privacy and confidentiality of such information consistent with applicable law. In connection with Manager’s services hereunder, the parties shall enter into a Business Associate Agreement in a form acceptable to both parties.

Section 17.08. **Assignment.** Company may assign this Agreement to any Affiliate (but only as such term is defined in Section 1.04(a) or (c)) of Company without Manager’s consent. Manager shall not assign or transfer its interest in this Agreement without the prior written consent of Company which may be withheld in Company’s sole and absolute discretion. If Company consents to an assignment of this Agreement by Manager, no further assignment shall be made without the express consent in writing of Company.

Section 17.09. **Amendment.** This Agreement may not be modified, altered or amended in any manner except by an amendment in writing, duly executed by the parties hereto.

Section 17.10. **Third Party Beneficiaries.** The terms and conditions of this Agreement shall inure to the benefit of, and be binding upon, the respective successors, heirs, legal representatives or permitted assigns of each of the parties hereto and except for Owner, which is an intended third
party beneficiary, and as otherwise provided in Section 15.05, no Person other than the parties hereto and their successors and permitted assigns is intended to be a beneficiary of this Agreement.

Section 17.11. **Survival.** The following provisions shall survive termination or expiration of this Agreement: Sections 11.02, 13.01, 14.03, 14.04 and 14.05, Article XV and Article XVII.

Section 17.12. **Relationship Between the Parties.** The relationship between Company and Manager pursuant to this Agreement shall not be one of general agency, but shall be that of an independent contractor relationship, provided with respect to those specific and limited circumstances in which (a) Manager is holding funds for the account of Company or (b) Manager is required or authorized to act as authorized representative for Company with respect to agreements with Residents, filings with and applications to governmental bodies or pursuant to licenses or Legal Requirements, the relationship between Company and Manager shall be that of trustee and authorized representative (with limited agency), respectively. Neither this Agreement nor any agreements, instruments, documents or transactions contemplated hereby shall in any respect be interpreted, deemed or construed as making Company a partner or joint venturer with Manager or as creating any similar relationship or entity, and each party agrees that it will not make any contrary assertion, contention, claim or counterclaim in any action, suit or other legal proceeding involving the other.

[Signature Page Follows]
IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed under seal by their duly authorized officers, all as of the day and year first above written.

**Manager:**

FVE Managers, Inc.

By: /s/ Jeffrey C. Leer
    Jeffrey C. Leer
    Executive Vice President, Chief Financial Officer and Treasurer

**Company:**

SNH AL AIMO Tenant, Inc.

By: /s/ Richard W. Siedel, Jr.
    Richard W. Siedel, Jr.
    Chief Financial Officer and Treasurer

[Signature Page to Management Agreement for Morningside of Fayetteville]
Exhibit A

Community

Morningside of Fayetteville
4461 N. Crossover Road
Fayetteville, AR 72703
There are 246 management agreements with FVE Managers, Inc., a representative form of which is filed herewith. The other management agreements, with the respective entity and applicable to the respective community owned by the respective owner and reflecting the respective base invested capital listed below, are substantially identical in all material respects to the representative form of management agreement filed herewith.

<table>
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<th>Entity</th>
<th>Community</th>
<th>Owner</th>
<th>Base Invested Capital</th>
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8220 Snowden River Parkway
Columbia, MD 21401
SNH Somerford Properties Trust $96,000

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2100 Whittier Drive
Frederick, MD 21702
SNH Somerford Properties Trust $147,000

SNH MD Tenant LLC
Somerford Place and Somerford House - Hagerstown (including Somerford House - Hagerstown)
10114 & 10116 Sharpsburg Pike
Hagerstown, MD 21740
SNH Somerford Properties Trust $151,500

SNH MO Tenant LLC
College View Manor Retirement Residence
3828 College View Drive
Joplin, MO 64801
SNH IL Joplin Inc. $130,500

SNH NC Tenant LLC
HeartFields at Cary
1050 Crescent Green Drive
Cary, NC 27511-8100
SNH FM Financing LLC $135,000

SNH NC Tenant LLC
Home Place of New Bern
1309 McCarthy Boulevard
New Bern, NC 28562-2035
SNH/LTA SE Home Place New Bern LLC $90,000

SNH NC Tenant LLC
Landing at Parkwood
1720 Parkwood Boulevard
Wilson, NC 27893-2167
SNH/LTA Properties Trust $87,000

SNH NC Tenant LLC
McCarthy Court I
1321 McCarthy Boulevard
New Bern, NC 28562
SNH/LTA SE McCarthy New Bern LLC $82,500

SNH NC Tenant LLC
McCarthy Court II
1325 McCarthy Boulevard
New Bern, NC 28562
SNH/LTA Properties Trust $45,000

SNH NC Tenant LLC
Morningside of Concord
500 Penny Lane, N.E.
Concord, NC 28025
SNH/LTA Properties Trust $139,500

SNH NC Tenant LLC
Morningside of Gastonia
2755 Union Road
Gastonia, NC 28054
SNH/LTA Properties Trust $139,500

SNH NC Tenant LLC
Morningside of Raleigh
801 Dixie Trail
Raleigh, NC 27607
SNH/LTA Properties Trust $135,000

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Parkwood Village
1730 Parkwood Boulevard
Wilson, NC 27893-3564
SNH/LTA SE Wilson LLC $102,000
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<td>SNH SE Mooresville Tenant LLC</td>
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<td>SNH SE N. Myrtle Beach Tenant LLC</td>
<td>Summit Place of North Myrtle Beach 491 Highway 17 Little River, SC 29566</td>
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<td>SNH SE SG Tenant LLC</td>
<td>The Palms of Mt. Pleasant 937 Bowman Road Mount Pleasant, SC 29464</td>
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<td>SNH SE Tenant TRS, Inc.</td>
<td>Calusa Harbor 2525 East First Street Fort Meyers, FL 33901</td>
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<td>SNH SE Tenant TRS, Inc.</td>
<td>Cameron Hall (Canton) 240 Marietta Highway Canton, GA 30114</td>
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<td>Cameron Hall (Ellijay) 114 Penland Street Ellijay, GA 30540</td>
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<td>SNH SE Tenant TRS, Inc.</td>
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<td>SNH SE Tenant TRS, Inc.</td>
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<td>SNH SE Tenant TRS, Inc.</td>
<td>Gateway Gardens and Villa</td>
<td>605 Gateway Central and 601 Steve Hawkins Parkway Marble Falls, TX 78654</td>
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<td>The Gardens of Port St. Lucie</td>
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<td>The Gardens of Sun City</td>
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<td>The Gardens of Virginia Beach</td>
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<td>The Neighborhood at Tellico Village</td>
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SNH TENN Tenant LLC
Morningside of Cookeville
1010 East Spring Street
Cookeville, TN 38501
MSD Pool 1 LLC
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SNH TENN Tenant LLC
Morningside of Franklin
105 Sunrise Circle
Franklin, TN 37067
MSD Pool 2 LLC
$60,000

SNH TENN Tenant LLC
Morningside of Gallatin
1085 Hartsville Pike
Gallatin, TN 37066
SNH/LTA Properties Trust
$63,000

SNH TENN Tenant LLC
Morningside of Jackson
1200 North Parkway
Jackson, TN 38305
MSD Pool 2 LLC
$91,500

SNH TENN Tenant LLC
Morningside of Paris
350 Volunteer Drive
Paris, TN 38242
SNH/LTA Properties Trust
$112,500

SNH TENN Tenant LLC
Walking Horse Meadow
207 Uffelman Drive
Clarksville, TN 37043
SNH/LTA Properties Trust
$84,000

SNH TENN Tenant LLC
Williamsburg Villas
3020 Heatherton Way
Knoxville, TN 37920
MSD Pool 2 LLC
$127,500

SNH Toto Tenant LLC
Brandon Woods at Alvamar
1501 Inverness Drive
Lawrence, KS 66047
SNH CHS Properties Trust
$328,500

SNH Toto Tenant LLC
Overland Park Place
6555 West 75th Street
Overland Park, KS 66204
SNH CHS Properties Trust
$201,000

SNH Toto Tenant LLC
The Forum at Overland Park
3501 West 95th Street
Overland Park, KS 66206
SNH FM Financing LLC
$306,000

SNH VA Tenant LLC
Dominion Village of Chesapeake
2856 Forehand Drive
Chesapeake, VA 23323
SNH CHS Properties Trust
$57,000

SNH VA Tenant LLC
Dominion Village of Poquoson
531 Wythe Creek Road
Poquoson, VA 23662
SNH CHS Properties Trust
$61,500

SNH VA Tenant LLC
Dominion Village of Williamsburg
4132 Longhill Road
Williamsburg, VA 23188
SNH CHS Properties Trust
$78,000

SNH VA Tenant LLC
HeartFields at Fredericksburg
20 HeartFields Lane
Fredericksburg, VA 22405-2368
SNH FM Financing LLC
$121,500
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<td>Morningside of Charlottesville</td>
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<td>Morningside of Newport News</td>
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<td>Talbot Park</td>
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<td>The Reserve at Greenbrier</td>
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<td>Wellstead of Rogers and Diamondcrest Senior Living</td>
<td>20500 &amp; 20600 S. Diamond Lake Road Rogers, MN 55374</td>
<td>SNH Viking Tenant LLC</td>
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<td>Brookfield Rehabilitation and Specialty Care Center</td>
<td>18740 W. Bluemound Road Brookfield, WI 53045</td>
<td>SNH WIS Tenant LLC</td>
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<td>Manorpointe-Oak Creek Independent Senior Apartments and Meadowmere/Mitchell Manor-Oak Creek Assisted Living (including Manorpointe Apartments, Meadowmere – Oak Creek and Mitchell Manor Oak Creek)</td>
<td>700 East Stonegate Drive, 701 East Pueltz Road &amp; 8740 S. Oak Park Drive Oak Creek, WI 53154</td>
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<td>Meadowmere and Mitchell Manor West Allis (including Meadowmere West Allis, Mitchell Manor and Mitchell Manor – West Allis)</td>
<td>2330 S. 54th Street &amp; 5301 West Lincoln Avenue West Allis, WI 53219</td>
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