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to receive an annual cash bonus and share award. There is no formulaic approach used in determining the amount of these annual cash and share awards. The cash bonus and share awards are determined on a subjective basis by our Compensation Committee and Board, as the case may be, based upon consideration of a number of factors including, but not limited to, the following for each executive officer: (1) historical bonus and share awards to the individual, (2) accomplishments achieved during the year, (3) ability to identify areas for the company's improvement and to achieve benefits from those improvements, (4) quality of decisions made, (5) ability to lead employees both in routine activities and in special projects, (6) change in performance as compared to the prior year, (7) perceived potential for future development and for assuming additional or alternative duties in the future, (8) the market demand for specific expertise possessed by the executive officer, the executive officer's value to us and the likelihood we could find a suitable replacement on a timely and cost effective basis, (9) a comparison of the executive officer's total compensation to that of other individuals within our company and the relative responsibilities, titles, roles, experiences and capabilities of such other individuals, (10) the amounts of share awards granted to persons with similar levels of responsibility, (11) the then current market prices of our shares, (12) each executive officer's relative mix of cash and noncash compensation, (13) the data about executive compensation trends and amounts that was prepared for our management by an independent compensation consulting firm, and (14) our financial position and operating performance throughout 2010. In addition, in determining cash bonus and share awards for our executive officers, our Compensation Committee and Board also consider the recommendations of the Chair of the Compensation Committee following her meeting with Mr. Portnoy and the chairs of the compensation committees of other public companies for which RMR provides services, the experiences and insights of RMR with respect to the performances of our executive officers, the evaluation provided by Mr. Mackey of Mr. Hoagland's performance and the evaluations provided by Messrs. Mackey and Hoagland of our other executive officers' performances. We currently limit the annual base salaries of our executive officers and utilize changes in annual cash bonus amounts as the primary mechanism for effecting annual compensation adjustments for our executive officers. For 2010, the increases in the annual cash bonus amounts paid to our executive officers reflect this interplay between the annual base salary limitation and annual cash bonus amounts, within the context of the other factors described above that are taken into account in determining annual cash bonus and share award amounts.

Mr. Mackey's annual bonus is determined on a subjective basis by our Compensation Committee, composed solely of Independent Directors, who base their decision upon their consideration and evaluation of his performance during the year. Considerations may include, but may not be limited to, our financial performance, our growth and our success in achieving strategic initiatives and objectives as well as the other matters noted above that our Compensation Committee considers in making this determination. For 2010, our Compensation Committee awarded Mr. Mackey a bonus of $500,000 in cash and 60,000 common shares that will vest in five equal annual installments beginning on the grant date. The shares awarded had a fair value at the grant date of $366,000 of which the vested portion was $73,200 as of the grant date. In making this cash bonus and this share award, our Compensation Committee considered Mr. Mackey's performance in leading the company through the difficult economic conditions which continued throughout 2010 in the United States, including but not limited to his continuing the integration of communities we acquired in 2008, 2009 and 2010 with our existing communities, managing capital and operating expenditures in relation to the prevailing business levels in order to conserve liquidity and increase our cash balance, maintaining the rates we charge our residents and reducing some of our operating expenses, developing new and enhancing existing marketing programs and leveraging our competitive strengths to maintain and grow our business in a slowly recovering economy and position us for future growth. Our Compensation Committee determined that the share award would vest over time to ensure a continuing commonality of interest between Mr. Mackey and our shareholders, to provide Mr. Mackey with an incentive to remain with us to earn the unvested portion of the award and to encourage a long term risk averse attitude in his decisions affecting our business.

The annual cash bonus for Mr. Hoagland was determined by our Compensation Committee after consideration of the same criteria described above with regard to Mr. Mackey as applied to Mr. Hoagland's performance and after consideration of the other matters noted above that our Compensation Committee considers in determining Mr. Hoagland's compensation. The annual cash bonuses for our other executive officers were recommended by our Compensation Committee and approved by our Board based upon the consideration and evaluation of each executive's performance and level of total compensation as well as the other matters noted above that our Compensation Committee and Board consider in making these determinations. These considerations included, but were not limited to, our financial and operating performance during 2010 and each executive officer's level of total compensation.

Messrs. Mackey and Hoagland were also officers of RMR throughout all of 2010. Because at least 80% of Messrs. Mackey's and Hoagland's business time is devoted to services to us, 80% of Messrs. Mackey's and Hoagland's total cash compensation (that is, the combined cash compensation paid by us and RMR, including base salary and cash bonus) was paid by us and the remainder was paid by RMR.

No target cash bonus for 2011 has been established for our executive officers.

We made equity awards under our Share Award Plan to our executive officers and others based upon factors that our Compensation Committee considered relevant to align the interests of the persons to whom awards were made with our business objectives, which primarily relate to increasing, on a long term basis, the value of the Company by improving our prospects, our competitive position within our industry, and our profitability and cash generation from operations. In addition to the award of common shares made to Mr. Mackey during 2010, our Compensation Committee awarded common shares to each of our other executive officers who were in our employ at the grant date. These awards ranged in size and value from 15,000 shares, having a grant date value of $91,500, to 30,000 shares, having a grant date value of $183,000. In determining the size of each share award, the Compensation Committee considered the responsibilities of the executive, the relation of the size of the award to the size of the share award made to Mr. Mackey and other factors, including their past and expected future performances and possible cash bonuses, prior year share grant amounts, 2010 annual base cash salaries and the Company's improved operational results during 2010. In each case, the Compensation Committee determined that the share awards would vest in five equal annual installments beginning on the date of the grant to ensure a continuing commonality of interest between the recipients and our shareholders, to provide our executives with an incentive to remain with us to earn the unvested portion of the award and to encourage a long term risk averse attitude in their decisions affecting our business.

Perquisites and other benefits

Our executive officers are entitled to participate in our benefit plans on the same terms as our other employees. These plans include medical, dental and life insurance plans and a defined contribution retirement plan.

All other payments

The summary compensation table below includes amounts for 2010, 2009 and 2008 described as "All Other Compensation." Such amounts reflect the company paid portion of executive life insurance premiums and accidental death and disability insurance premiums.

COMPENSATION COMMITTEE REPORT

The undersigned members of the Compensation Committee have reviewed and discussed the Compensation Discussion and Analysis with our management. Based upon this review and discussion, the Compensation Committee recommended to the Board that the Compensation Discussion and Analysis be included in this proxy statement and incorporated by reference into our Annual Report on Form 10-K for the year ended December 31, 2010.

COMPENSATION COMMITTEE
Bruce M. Gans, M.D., Chair
Donna D. Fraiche
Barbara D. Gilmore

COMPENSATION TABLES

The following tables provide: (1) summary 2010, 2009 and 2008 compensation information relating to our Chief Executive Officer, Chief Financial Officer and the next two most highly compensated persons during 2010 who were executive officers of ours at December 31, 2010, and Maryann Hughes, our former Vice President and Director of Human Resources who resigned on August 11, 2010 and whose termination of employment became effective with us as of November 19, 2011; (2) information with respect to share awards made to these persons during 2010 and prior years; and (3) compensation information relating to our Directors for 2010. The compensation information for the persons included in the compensation tables are for services rendered to us and our subsidiaries and do not include information regarding compensation received by such persons for services rendered to RMR.

SUMMARY COMPENSATION TABLE FOR 2010, 2009, AND 2008

Name and Principal Position	Year	Salary($)	Bonus($)	Stock Awards ($)(1)	All Other Compensation ($)(2)	Total($)
Bruce J. Mackey Jr.(3)	2010	$ 300,000	$ 500,000	$ 366,000	$ 1,129	$ 1,167,129
President and Chief	2009	$ 300,000	$ 450,000	$ 185,400	$ 1,129	$ 936,529
Executive Officer	2008	$ 298,846	$ 425,000	$ 99,000	$ 970	$ 823,816
Paul V. Hoagland(4)	2010	$ 200,000	$ 160,000	$ 183,000	$ 854	$ 543,854
Treasurer and Chief Financial Officer						
Rosemary Esposito	2010	$ 300,000	$ 440,000	$ 183,000	$ 1,129	$ 924,129
Senior Vice President	2009	$ 300,000	$ 400,000	$ 92,700	$ 1,129	$ 793,829
and Chief Operating Officer	2008	$ 300,000	$ 375,000	$ 49,500	$ 970	$ 725,470
Maryann Hughes(5)	2010	$ 275,856	$ 150,000	$ 95,290	$ 123,462	$ 644,608
Vice President and	2009	$ 240,000	$ 130,000	$ 30,900	$ 1,067	$ 401,967
Director of Human Resources	2008	$ 234,769	$ 120,000	$ 16,500	$ 970	$ 372,239
Travis K. Smith	2010	$ 230,000	$ 150,000	$ 91,500	$ 1,046	$ 472,546
Vice President, General	2009	$ 220,000	$ 120,000	$ 30,900	$ 1,046	$ 371,946
Counsel and Secretary	2008	$ 209,538	$ 100,000	$ 16,500	$ 970	$ 327,008

(1) Represents the grant date fair value of the shares granted in 2010, 2009 and 2008, as applicable, compiled in accordance with FASB Accounting Standard Codification Topic 718, "Compensation-Stock Compensation," or ASC 718. No assumptions are used in this calculation.

(2) Amounts included in All Other Compensation for 2010, 2009 and 2008 reflect the company paid portion of executive officer life insurance premiums and accidental death and disability insurance premiums. In addition, the amount in All Other Compensation for 2010 for Maryann Hughes includes a severance payment of $122,500, which was accrued in 2010, of which $9,231 had been paid to Ms. Hughes as of December 31, 2010.

(3) Mr. Mackey became President and Chief Executive Officer on May 1, 2008. Prior to that time, Mr. Mackey was our Treasurer and Chief Financial Officer.

(4)

Mr. Hoagland became Treasurer and Chief Financial Officer on January 1, 2010. Prior to that time, Mr. Hoagland was our Vice President Finance.

(5)

On August 11, 2010, Maryann Hughes, our Vice President and Director of Human Resources notified us of her resignation. Her termination of employment became effective on November 19, 2010. The amount set forth under the Stock Awards column for 2010 includes the value of unvested shares awarded to Ms. Hughes in 2009 and prior years that she was allowed to retain after her separation from the company. The shares were valued for purposes of this disclosure using the share price on the date Ms. Hughes became eligible to retain such shares. No new shares were awarded to Ms. Hughes in 2010. Severance and other benefits payable to Ms. Hughes in connection with her termination are included under All Other Compensation as described above.

GRANTS OF PLAN BASED AWARDS FOR 2010

(Shares granted in 2010, including vested and unvested grants)

Name	Grant Date	All Other Stock Awards: Number of Shares of Stock or Units(#)[1]	Grant Date Fair Value of Stock and Option Awards[2]
Bruce J. Mackey Jr	11/22/10	60,000 Common Shares	$ 366,000
Paul V. Hoagland	11/22/10	30,000 Common Shares	$ 183,000
Rosemary Esposito	11/22/10	30,000 Common Shares	$ 183,000
Travis K. Smith	11/22/10	15,000 Common Shares	$ 91,500

(1)

Share awards granted by us to our executive officers provide that one fifth of each award vests on the grant date and one fifth vests on each of the next four anniversaries of the grant date. At our option, in the event a recipient granted a share award ceases to perform duties for us, RMR or any company which RMR manages or which is affiliated with RMR during the vesting period, we may repurchase all or a portion of the shares which have not yet vested for nominal consideration.

(2)

Represents the value based upon the closing price on the date of grant, which is also the grant date fair value under ASC 718. No assumptions are used in this calculation.

OUTSTANDING EQUITY AWARDS AT FISCAL YEAR END FOR 2010

(Shares granted in 2010 and prior years that have not yet vested)

		Stock Awards	
Name	Year Granted	Number of Shares or Units of Stock That Have Not Vested(#)(1)	Market Value of Shares or Units of Stock That Have Not Vested($)(2)
Bruce J. Mackey Jr.	2010	48,000	$ 339,360
Bruce J. Mackey Jr.	2009	36,000	$ 254,520
Bruce J. Mackey Jr.	2008	36,000	$ 254,520
Bruce J. Mackey Jr.	2007	3,000	$ 21,210
Paul V. Hoagland	2010	24,000	$ 169,680
Rosemary Esposito	2010	24,000	$ 169,680
Rosemary Esposito	2009	18,000	$ 127,260
Rosemary Esposito	2008	18,000	$ 127,260
Rosemary Esposito	2007	3,000	$ 21,210
Travis K. Smith	2010	12,000	$ 84,840
Travis K. Smith	2009	6,000	$ 42,420
Travis K. Smith	2008	6,000	$ 42,420
Travis K. Smith	2007	1,000	$ 7,070

(1) Share awards granted by us to our executive officers provide that one fifth of each award vests on the grant date and one fifth vests on each of the next four anniversaries of the grant date. The shares granted in 2010 were granted November 22, 2010; the shares granted in 2009 were granted on November 19, 2009; the shares granted in 2008 were granted on November 24, 2008; and the shares granted in 2007 were granted on November 19, 2007. At our option, in the event a recipient granted a share award ceases to perform duties for us, RMR or any company which RMR manages or which is affiliated with RMR during the vesting period, the recipient shall forfeit or we may repurchase all or a portion of the shares which have not yet vested.

(2) Represents the value based upon the closing price of our shares on December 31, 2010.

STOCK VESTED FOR 2010

(Share grants which vested in 2010, including shares granted in prior years)

	Stock Awards	
Name	Number of Shares Acquired on Vesting(#)	Value Realized on Vesting($)(1)
Bruce J. Mackey Jr.	45,000	$ 277,590
Paul V. Hoagland	6,000	$ 36,600
Rosemary Esposito	24,000	$ 148,110
Maryann Hughes(2)	19,000	$ 132,460
Travis K. Smith	9,000	$ 55,470

(1) Represents the value based upon the closing price of our shares on the 2010 dates of vesting of grants made in 2010 and prior years.

(2)
On August 11, 2010, Maryann Hughes, our Vice President and Director of Human Resources notified us of her resignation. Her termination of employment became effective on November 19, 2010. The number of shares acquired on vesting includes unvested shares awarded to Ms. Hughes in 2009 and prior years that she was allowed to retain after her separation from the company. The shares were valued for purposes of this disclosure using the share price on the date Ms. Hughes became eligible to retain such shares. No shares were awarded to Ms. Hughes in 2010.

POTENTIAL PAYMENTS UPON TERMINATION OR CHANGE IN CONTROL

In the past, we have entered arrangements with our former executive officers in connection with the termination of their employment with us, providing for the acceleration of vesting of restricted shares previously granted to the former officer under our Share Award Plan and, in certain instances, payments for future services to us as a consultant or part time employee and continuation of health care and other benefits. Although we have no formal policy, plan or arrangement for payments to our executive officers in connection with their termination of employment with us, we may in the future provide on a discretionary basis for similar payments depending on various factors we then consider relevant and if we believe it is in the Company's best interests to do so.

On August 11, 2010, Maryann Hughes, our Vice President and Director of Human Resources notified us of her resignation. Her termination of employment became effective on November 19, 2010. Pursuant to Separation and Accelerated Vesting Agreements we executed with Ms. Hughes on December 14, 2010, in connection with her termination and in exchange for non-solicitation, confidentiality and other covenants in those agreements, Ms. Hughes was paid severance and other benefits and was allowed to retain unvested shares awarded to her in 2009 and prior years.

DIRECTOR COMPENSATION FOR 2010

(2010 compensation; all share grants to Directors vest at the time of grant)

Name	Fees Earned or Paid in Cash($)	Stock Awards($)(1)	Total($)
Donna D. Fraiche	$ 16,629	$ 67,100	$ 83,729
Bruce M. Gans, M.D.	$ 63,750	$ 34,870	$ 98,620
Barbara D. Gilmore	$ 54,503	$ 34,870	$ 89,373
Arthur G. Koumantzelis(2)	$ 54,500	$ 34,870	$ 89,370
Gerard M. Martin(3)	$	$ 34,870	$ 34,870
Barry M. Portnoy(3)	$	$ 34,870	$ 34,870

(1)
Represents the value based upon the closing price of our shares on the date of grant. This is also the compensation cost recognized by us for financial reporting purposes pursuant to ASC 718. No assumptions are used in this calculation.

(2)
Mr. Koumantzelis resigned as Independent Director on November 22, 2010.

(3)
Our Managing Directors do not receive cash compensation for their services as Directors.

Each Independent Director receives an annual fee of $30,000 for services as a Director, plus a fee of $750 for each meeting attended. Up to two $750 fees are paid if a Board meeting and one or more Board committee meetings are held on the same date. The Chairs of our Quality of Care, Audit Committee, Compensation Committee and Nominating and Governance Committee receive an additional $15,000, $12,500, $4,500 and $4,500, respectively, each year. In addition, each Director received a grant of 11,000 of our common shares in 2010. We generally reimburse all our Directors for travel expenses incurred in connection with their duties as Directors.

Our Board believes it is important to align the interests of Directors with those of our shareholders and for Directors to hold equity ownership positions in us. Accordingly, our Board believes that a portion of each Director's compensation should be paid in shares. In determining the amount and composition of such compensation, our Board considers the compensation of directors of other comparable enterprises, both with respect to size and industry, including the compensation of directors and trustees of other companies managed by RMR.

In 2010 our Board reviewed the compensation paid to our Directors and determined the amount of the Directors' cash compensation and our Compensation Committee determined the amount of the equity based awards granted to our Directors under our Share Award Plan. Our Managing Directors do not receive any cash compensation for their services as Directors, but they do receive common share grants equal to the share grants awarded to our Independent Directors.

AUDIT COMMITTEE REPORT

In the course of our oversight of the Company's financial reporting process, we have: (i) reviewed and discussed with management the audited financial statements for the year ended December 31, 2010; (ii) discussed with Ernst & Young LLP, the Company's independent registered public accounting firm, the matters required to be discussed by the Statement on Auditing Standards No. 61, as amended (AICPA, *Professional Standards*, Vol. 1, AU section 380), as adopted by the Public Company Accounting Oversight Board in rule 3200T; (iii) received the written disclosures and the letter from the independent registered public accounting firm required by applicable requirements of the Public Company Accounting Oversight Board regarding the independent accountant's communications with the audit committee concerning independence; (iv) discussed with the independent registered public accounting firm its independence; and (v) considered whether the provision of non-audit services by the independent registered public accounting firm is compatible with maintaining its independence and concluded that it is compatible at this time.

Based on the foregoing review and discussions, the Audit Committee recommended to the Board that the audited financial statements be included in the Company's Annual Report on Form 10-K for the year ended December 31, 2010, for filing with the SEC.

AUDIT COMMITTEE
Barbara D. Gilmore, Chair
Donna D. Fraiche
Bruce M. Gans, M.D.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Unless otherwise indicated, the information set forth below is as of February 18, 2011. The following table sets forth information regarding the beneficial ownership of our common shares (excluding any fractional shares which may be beneficially owned by such persons) by: (1) each person or entity known to us to be the beneficial owner of more than 5% of our outstanding common shares; (2) each of our Directors, nominees and the persons listed in the summary compensation table found elsewhere in this proxy statement; and (3) our Directors and executive officers as a group. Unless otherwise indicated, we believe that each owner named below has sole voting and investment power for all our common shares shown to be beneficially owned by that person or entity. As of the date first set forth in this paragraph, we do not know of any outstanding rights to acquire our shares of the type specified in Rule 13d-3(d)(1) under the Exchange Act.

Name and Address of Beneficial Owner(1)	Amount and Nature of Beneficial Ownership(2)	Percent of Share Class(2)
Beneficial Owners of More Than 5% of our Common Shares		
SNH(3)	3,235,000	9.0%
Dimensional Fund Advisors LP(4)	1,813,042	5.0%
Directors, Nominees and Executive Officers		
Bruce J. Mackey Jr.	291,017	*
Barry M. Portnoy(3)	179,122	*
Gerard M. Martin(5)	179,121	*
Rosemary Esposito	160,000	*
Barbara D. Gilmore(6)	50,751	*
Maryann Hughes**	48,000	*
Bruce M. Gans, M.D.	41,940	*
Travis K. Smith	45,000	*
Paul V. Hoagland	35,000	*
Donna D. Fraiche	11,000	*
All Directors, nominees and executive officers as a group (nine persons)(5)(6)	992,951	2.8%

* Less than 1% of our common shares.

** Our former Vice President and Director of Human Resources. On August 11, 2010, Ms. Hughes notified us of her resignation. Her termination of employment became effective on November 19, 2010.

(1) Unless otherwise indicated, the address of each identified person or entity is c/o Five Star Quality Care, Inc., 400 Centre Street, Newton, Massachusetts 02458.

(2) Our charter places restrictions on the ability of any person or group to acquire beneficial ownership of more than 9.8% of any class of our equity shares. Additionally, the terms of our leases with SNH and our agreement with RMR contain provisions whereby our rights under these agreements may be cancelled by SNH and RMR, respectively, upon the acquisition by any person or group of more than 9.8% of our voting stock or upon other change in control events, as defined. If the violation of these ownership limitations causes a lease or contract default,

shareholders causing the default may become liable to us or to other shareholders for damages. In addition, in order to help us preserve the tax treatment of our net operating losses and other tax benefits, our bylaws generally provide that transfers of our shares to a person, entity or group which is then, or would become as a result, an owner of 5% or more of our outstanding shares would be void in total for transferees then 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 so result in such level of ownership by the proposed transferee. The percentages indicated are based upon the number of shares shown divided by the 36,019,864 of our common shares outstanding as of February 18, 2011.

(3)

This information is as of December 31, 2010 and is based solely on a Schedule 13G/A filed with the SEC on February 4, 2011. Based on the information provided in that Schedule 13G/A, the address of SNH is 400 Centre Street, Newton, Massachusetts 02458, which we understand has since changed to Two Newton Place, 255 Washington Street, Suite 300, Newton, Massachusetts 02458. In that Schedule 13G/A, RMR and Reit Management & Research Trust, or RMR Trust, reported that they do not hold any of our common shares, but RMR, as manager of SNH, and RMR Trust, as the sole member of RMR, may, under applicable regulatory definitions, be deemed to beneficially own (and have shared voting and dispositive power over) the 3,235,000 shares beneficially owned by SNH. In that same Schedule 13G/A, RMR and RMR Trust each disclaimed such beneficial ownership. In addition, in that same Schedule 13G/A, Mr. Barry Portnoy reported that he beneficially owns 179,122 of our common shares, and Mr. Adam D. Portnoy reported that he beneficially owns 43,000 of our common shares. In that same Schedule 13G/A, Mr. Barry Portnoy and Mr. Adam Portnoy reported that in their respective positions as Chairman and a director of RMR and Chairman, majority beneficial owner and a trustee of RMR Trust, the sole member of RMR, and as President and Chief Executive Officer and a director of RMR, and President, Chief Executive Officer a beneficial owner and a trustee of RMR Trust, the sole member of RMR, they may also be deemed to beneficially own (and have shared voting and dispositive power over) the 3,235,000 shares beneficially owned by SNH. In that same Schedule 13G/A, Mr. Barry Portnoy and Mr. Adam Portnoy each disclaimed such beneficial ownership. None of the 3,235,000 shares beneficially owned by SNH are included in the shares listed as beneficially owned by Mr. Barry Portnoy in the above table.

(4)

This information is as of December 31, 2010 and is based solely on a Schedule 13G filed with the SEC on February 11, 2011. Based on the information provided in that Schedule 13G, the address of Dimensional Fund Advisors LP, or Dimensional, is Palisades West, Building One, 6300 Bee Cave Road, Austin, Texas 78746. According to that same Schedule 13G, Dimensional beneficially owns and has sole dispositive power over 1,813,042 shares and sole voting power over 1,729,640 shares. Also according to that Schedule 13G, Dimensional is an investment advisor registered under Section 203 of the Investment Advisors Act of 1940, furnishes investment advice to four investment companies registered under the Investment Company Act of 1940 and serves as an investment manager to certain investment companies, other commingled group trusts and separate accounts. According to that Schedule 13G, subsidiaries of Dimensional may, in certain cases, act as an adviser or sub-adviser to certain other investment companies, commingled group trusts and separate accounts. In its role as investment adviser, sub-adviser and/or manager, neither Dimensional nor its subsidiaries possess voting and/or investment power over our shares that are held by certain of the investment companies, other commingled group trusts and separate accounts and may be deemed to be the beneficial owner of our shares held by certain of the investment companies, other commingled group trusts and separate accounts. In that Schedule 13G, Dimensional states that all securities reported in that same Schedule 13G are owned by certain of the investment companies, other commingled group trusts and separate accounts, and Dimensional disclaims beneficial ownership of such securities. In that Schedule 13G, Dimensional reports that the filing of that same Schedule 13G should not be construed as an admission that Dimensional or any of its affiliates is the beneficial owner of any securities covered by the Schedule 13G for any purposes other than Section 13(d) of the Exchange Act.

(5) Includes 166,750 shares owned directly by Mr. Martin and 12,371 common shares owned by a corporation of which Mr. Martin is the president and in that position exercises voting and investment power over those 12,371 shares.

(6) Includes 10,000 common shares owned by Ms. Gilmore's husband. Ms. Gilmore disclaims beneficial ownership of these shares, except to the extent of her pecuniary interest in the shares.

RELATED PERSON TRANSACTIONS AND COMPANY REVIEW OF SUCH TRANSACTIONS

We have adopted written Governance Guidelines which address, among other things, the consideration and approval of any related person transactions. Under these Governance Guidelines, we may not enter into any transaction in which any Director or executive officer, any member of the immediate family of any Director or executive officer or any other related person, has or will have a direct or indirect material interest unless that transaction has been disclosed or made known to our Board and our Board reviews, authorizes and approves or ratifies the transaction by the affirmative vote of a majority of the disinterested Directors, even if the disinterested Directors constitute less than a quorum. If there are no disinterested Directors, the transaction shall be reviewed, authorized and approved or ratified by both (1) the affirmative vote of a majority of our entire Board and (2) the affirmative vote of a majority of our Independent Directors. The Governance Guidelines further provide that, in determining whether to approve or ratify a transaction, our Board, or disinterested Directors or Independent Directors, as the case may be, shall act in accordance with any applicable provisions of our charter, consider all of the relevant facts and circumstances, and approve only those transactions that are fair and reasonable to us. All related person transactions described below were reviewed and approved or ratified by a majority of the disinterested Directors or otherwise in accordance with our policies described above. In the case of any transaction with us in which any other employee of ours who is subject to our Code of Business Conduct and Ethics and who has a direct or indirect material interest in the transaction, the employee must seek approval from an executive officer who has no interest in the matter for which approval is being requested.

We were a 100% owned subsidiary of SNH before December 31, 2001, SNH is our largest landlord and SNH is our largest shareholder. On December 31, 2001, SNH distributed substantially all of our then outstanding shares of common stock to its shareholders. At the time of our spin off from SNH, all of the persons serving as our Directors were trustees of SNH. In order to effect this spin off and to govern relations after the spin off, we entered into agreements with SNH and others, including RMR, CWH and HPT. Since then we have entered into various leases with SNH and other agreements which include provisions that confirm and modify these undertakings. Among other matters, these agreements provide that:

- so long as SNH remains a REIT, we may not waive the share ownership restrictions in our charter on the ability of any person or group to acquire more than 9.8% of any class of our equity shares without the consent of SNH;

- so long as we are a tenant of SNH, we will not permit nor take any action that, in the reasonable judgment of SNH, might jeopardize the tax status of SNH as a REIT;

- SNH has the option to cancel all of our rights under the leases we have with SNH upon the acquisition by a person or group of more than 9.8% of our voting stock and upon other change in control events affecting us, as defined in those documents, including the adoption of any shareholder proposal (other than a precatory proposal) or the election to our Board of any individual if such proposal or individual was not approved, nominated or appointed, as the case may be, by vote of a majority of our Directors in office immediately prior to the making of such proposal or the nomination or appointment of such individual;

- the resolution of disputes, claims and controversies arising from our leases with SNH may be referred to binding arbitration proceedings; and

- so long as we are a tenant of SNH or so long as we have a business management agreement with RMR we will not acquire or finance any real estate of a type then owned or financed by SNH or any other company managed by RMR without first giving SNH or the other company managed by RMR, as applicable, the opportunity to acquire or finance real estate investments of the type in which SNH or the other company managed by RMR, respectively, invests.

As of February 23, 2011, SNH owned 3.2 million shares of our common stock, which represented approximately 9.0% of our outstanding shares of common stock.

RMR provides management services to both us and SNH; Mr. Barry Portnoy is one of our Managing Directors and is a Managing Trustee of SNH. Mr. Portnoy's son, Mr. Adam Portnoy, is also a Managing Trustee of SNH. All of SNH's officers, our President and Chief Executive Officer and our Treasurer and Chief Financial Officer are employees of RMR. Accordingly, the lease transactions between us and SNH described herein were approved by our Independent Directors and SNH's Independent Trustees who are not trustees or directors of the other company.

As of December 31 2010, we leased 186 of our 216 senior living communities (including four that we report as discontinued operations) and two rehabilitation hospitals from SNH. Under our leases with SNH, we pay SNH rent set at minimum annual amounts ($186.8 million as of December 31, 2010) plus percentage rent based on increases in gross revenues at certain properties. For the year ended December 31, 2010, our rent expense under our leases with SNH was $188.8 million, net of amortization of a lease inducement from SNH of $0.9 million.

During 2010, we engaged in additional transactions with SNH, including:

- Pursuant to the terms of our leases with SNH, we sold approximately $31.9 million of improvements made to our properties leased from SNH, and, as a result, our annual rent payable to SNH increased by approximately $2.6 million in aggregate for the affected leases.

In August 2010, at our request, SNH sold four skilled nursing facilities in Nebraska with an aggregate 196 living units that we leased from SNH for total consideration of $1.5 million and our rent to SNH decreased by approximately $145,000 per year.

In November 2010, at our request, SNH agreed to sell three skilled nursing facilities in Georgia with an aggregate of 329 living units that are leased to us and we expect our annual rent to SNH to decrease by approximately $1.8 million if and after this sale closes. The sale of these properties is contingent upon the buyer's completion of diligence and other customary closing conditions. We can provide no assurance that the closing of SNH's sale of these properties will be completed.

In November 2010, at our request, SNH agreed to sell one assisted living community in Pennsylvania with 70 living units that are leased to us and we expect our annual rent to SNH to decrease by approximately $72,000 if and after the sale closes. The sale of this property is contingent upon the buyer's completion of diligence and other customary closing conditions. We can provide no assurance that the closing of SNH's sale of this property will be completed.

At the time we became a separate publicly owned company as a result of the distribution of our shares to SNH's shareholders, we entered a management and shared services agreement, or our business management agreement, with RMR. One of our Managing Directors, Mr. Barry Portnoy, is Chairman and majority owner of RMR. Our other Managing Director, Mr. Martin, is a Director of RMR. Mr. Mackey, our President and Chief Executive Officer, and Mr. Hoagland, our Treasurer and Chief Financial Officer, are both Senior Vice Presidents of RMR. Mr. Portnoy's son, Mr. Adam Portnoy, is an owner, President, Chief Executive Officer and a Director of RMR and serves as a Managing Trustee of SNH. Additionally, Mr. Barry Portnoy's son-in-law, who is Mr. Adam Portnoy's brother-in-law, is an officer of RMR. Messrs. Mackey and Hoagland devote a substantial majority of their business time to our affairs and the remainder to RMR's business, which is separate from our business. Becaus