

FIVE STAR QUALITY CARE INC  
Form DEF 14A  
February 21, 2013

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

**SCHEDULE 14A**

**SCHEDULE 14A INFORMATION**

Proxy Statement Pursuant to Section 14(a) of  
the Securities Exchange Act of 1934

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material under §240.14a-12

**FIVE STAR QUALITY CARE, INC.**

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(Name of Registrant as Specified In Its Charter)

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(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.
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o Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

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**FIVE STAR QUALITY CARE, INC.**  
400 Centre Street  
Newton, Massachusetts 02458

**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS  
TO BE HELD ON MAY 16, 2013**

To the Stockholders of Five Star Quality Care, Inc.:

Notice is hereby given that the annual meeting of stockholders of Five Star Quality Care, Inc., a Maryland corporation, will be held at 9:30 a.m., local time, on Thursday, May 16, 2013, at Two Newton Place, 255 Washington Street, Suite 100, Newton, Massachusetts 02458 for the following purposes:

1. To elect the nominee named in our proxy statement to our Board of Directors as the Independent Director in Group III ("proposal 1").
2. To hold an advisory vote relating to our executive compensation ("proposal 2").
3. To ratify the appointment of Ernst & Young LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2013 ("proposal 3").
4. To consider and vote upon such other matters as may properly come before the meeting and at any adjournments or postponements thereof.

OUR BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT YOU VOTE "**FOR**" THE NOMINEE FOR DIRECTOR IN PROPOSAL 1 AND "**FOR**" PROPOSALS 2 AND 3.

We encourage you to contact the firm assisting us in the solicitation of proxies, Innisfree M&A Incorporated, or Innisfree, if you have any questions or need assistance in voting your shares. Banks and brokers may call Innisfree, collect, at (212) 750-5833. Stockholders may call Innisfree, toll-free, at (877) 717-3922.

Stockholders of record at the close of business on February 19, 2013, are entitled to notice of, and to vote at, the meeting and at any adjournment or postponement thereof.

*Securities and Exchange Commission rules allow us to furnish proxy materials to our stockholders on the internet. You can now access proxy materials and authorize a proxy to vote your shares at [www.proxyvote.com](http://www.proxyvote.com). You may also authorize a proxy to vote your shares over the internet or by telephone by following the instructions on that website. In order to vote over the internet or by telephone you must have your stockholder identification number, which is set forth in the Notice Regarding the Availability of Proxy Materials mailed to you. If your shares are held in the name of a brokerage firm, bank, nominee or other institution, you should provide instructions to your broker, bank, nominee or other institution on how to vote your shares. You may also request a paper proxy card to submit your vote by mail. If you attend the meeting and vote in person, that vote will revoke any proxy you previously submitted. If you hold shares in the name of a brokerage firm, bank, nominee or other institution, you must provide a legal proxy from that institution in order to vote your shares at the meeting. Whether or not you plan to attend the meeting, please read the proxy statement and complete or authorize a proxy for your shares as soon as possible. Your vote is important, no matter how many or how few shares you own.*

By Order of the Board of Directors,

Jennifer B. Clark, Secretary

Newton, Massachusetts  
February 21, 2013

**FIVE STAR QUALITY CARE, INC.  
400 Centre Street  
Newton, Massachusetts 02458**

**PROXY STATEMENT  
FOR THE  
ANNUAL MEETING OF STOCKHOLDERS**

**To be held at 9:30 a.m. on Thursday, May 16, 2013  
at  
Two Newton Place  
255 Washington Street, Suite 100  
Newton, Massachusetts 02458**

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**INTRODUCTION**

A notice of the annual meeting of stockholders of Five Star Quality Care, Inc., a Maryland corporation, or the Company, is on the preceding page and a form of proxy solicited by our Board of Directors, or our Board, accompanies this proxy statement. This proxy statement and a form of proxy, together with our annual report to stockholders for the year ended December 31, 2012, are first being made available, and a Notice Regarding the Availability of Proxy Materials, or the Notice of Internet Availability, is first being mailed, to stockholders on or about February 21, 2013.

The annual meeting record date is February 19, 2013. Only stockholders of record at the close of business on February 19, 2013, are entitled to notice of, and to vote at, the meeting and at any postponement or adjournment thereof. We had 48,234,022 shares of common stock, \$.01 par value per share, or common shares, outstanding on the record date and entitled to vote at the meeting. Our common shares are listed on the New York Stock Exchange, or NYSE. The holders of our outstanding common shares are entitled to one vote per common share.

A quorum of stockholders is required for stockholders to take action at the meeting. The presence, in person or by proxy, of holders of common shares entitled to cast one-third of all the votes entitled to be cast at the meeting shall constitute a quorum. Common shares represented by valid proxies will count for the purpose of determining the presence of a quorum for the meeting. Abstentions and broker non-votes, if any, will be treated as shares present for purposes of determining whether a quorum is present. Failure of a quorum to be present at the meeting will necessitate adjournment of the meeting and will subject us to additional expense. Under our bylaws, the chairperson of the meeting may adjourn the meeting if less than a quorum is present at the meeting.

The nominee for election as Director in proposal 1 will be elected if he receives a plurality of all the votes cast at the meeting. The affirmative vote of a majority of the votes cast at the meeting will be necessary to approve the resolution regarding named executive officer compensation described in proposal 2 and to ratify the appointment of Ernst & Young LLP as our independent registered public accounting firm in proposal 3. Proposals 2 and 3 are nonbinding stockholder advisory votes and, if approved, would serve only as recommendations to our Board.

The individuals named as proxies on a properly completed proxy will vote in accordance with your directions as indicated thereon. If you properly complete your proxy and give no voting instructions, your shares will be voted "FOR" the nominee for Director in proposal 1 and "FOR" proposals 2 and 3.

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Stockholders of record may authorize a proxy to vote their shares over the internet or by telephone in the manner provided on the website indicated in the Notice of Internet Availability mailed to them or, if they requested and received paper or email copies of proxy materials, by completing and returning the proxy card or by attending the meeting and voting in person. Proxies submitted by mail, over the internet or by telephone must be received by 11:59 p.m. Eastern Time on Wednesday, May 15, 2013.

Broker non-votes occur in respect of shares held in street name when the broker indicates that voting instructions for a particular matter have not been received from the beneficial owners or other persons entitled to vote those shares and the broker does not have discretionary voting authority to vote those shares on that particular matter. Broker non-votes and abstentions will have no effect on the outcome of any of the proposals. A proxy marked "WITHHOLD" will have the same effect as an abstention.

The record date for the meeting will apply to any adjournment or postponement of the meeting unless our Board fixes a new record date for the adjourned or postponed meeting. If we adjourn the annual meeting, we will announce the time and place of the adjourned meeting at the original meeting, but we do not intend to deliver another notice of the meeting unless we fix a new record date for the adjourned meeting. At any subsequent reconvening of the annual meeting, all proxies will be voted in the same manner as they would have been at the original convening of the meeting (except for any proxies that have been effectively revoked or withdrawn).

**IMPORTANT: If your shares are held in the name of a brokerage firm, bank, nominee or other institution, you should provide instructions to your broker, bank, nominee or other institution on how to vote your shares. Please contact the person responsible for your account and give instructions for a proxy to be completed for your shares. If you have any questions or need assistance in voting your shares, please call the firm assisting us in the solicitation of proxies:**

**Innisfree M&A Incorporated  
501 Madison Avenue, 20th Floor  
New York, New York 10022  
Brokers and Banks Call Collect at (212) 750-5833  
Stockholders Call Toll-Free at (877) 717-3922**

A stockholder of record who has given a proxy may revoke it any time prior to its exercise by delivering to our Secretary at Five Star Quality Care, Inc., Two Newton Place, 255 Washington Street, Suite 300, Newton, Massachusetts 02458, a written revocation, by delivering a duly executed proxy bearing a later date, by authorizing at a later date a proxy to vote his or her common shares over the internet or by telephone in the manner provided on the website indicated in the Notice of Internet Availability or by attending the meeting and voting his or her common shares in person. If a stockholder of record wants to receive a paper or email copy of the proxy card, he or she may request one from our Secretary at Five Star Quality Care, Inc., Two Newton Place, 255 Washington Street, Suite 300, Newton, Massachusetts 02458. Proxies submitted by mail, over the internet or by telephone must be received by 11:59 p.m. Eastern Time on May 15, 2013. If your shares are held in the name of a brokerage firm, bank, nominee or other institution and you wish to change a prior instruction you gave to your brokerage firm, bank, nominee or other institution to vote your shares, you must follow the brokerage firm's, bank's, nominee's or other institution's instructions for changing your prior voting instructions. In addition, if you hold shares in the name of a brokerage firm, bank, nominee or other

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institution, you must provide a legal proxy from that institution in order to vote your shares at the meeting.

Our principal executive offices are located at 400 Centre Street, Newton, Massachusetts 02458.

Our website address is included in this proxy statement as a textual reference only, and the information in the website is not incorporated by reference into this proxy statement.

### **Notice Regarding the Availability of Proxy Materials**

From the date of mailing of the Notice of Internet Availability through the conclusion of the meeting, stockholders will be able to access all of the proxy materials on the internet at [www.proxyvote.com](http://www.proxyvote.com). The proxy materials will be available free of charge. The Notice of Internet Availability will instruct you as to how you may access and review all of the important information contained in the proxy materials (including our annual report to stockholders) over the internet or through other methods specified at the website designated in the Notice of Internet Availability. The website designated contains instructions as to how to vote over the internet or by telephone. The Notice of Internet Availability also instructs you as to how you may request a paper or email copy of the proxy card. If you received a Notice of Internet Availability and would like to receive printed copies of the proxy materials, you should follow the instructions for requesting such materials included in the Notice of Internet Availability.

### **PROPOSAL 1 ELECTION OF DIRECTOR**

The number of our Directors is fixed at five, and our Board is divided into three groups, with two Directors in Group I, two Directors in Group II and one Director in Group III. Directors in each group are elected for three year terms and serve until their successors are elected and qualify.

Our current Directors are Bruce M. Gans, M.D. in Group III with a term of office expiring at the meeting to which this proxy statement relates, Barbara D. Gilmore and Barry M. Portnoy in Group I with a term of office expiring at our 2014 annual meeting of stockholders and Donna D. Fraiche and Gerard M. Martin in Group II with a term of office expiring at our 2015 annual meeting of stockholders. The term of the Group III Director elected at the meeting to which this proxy statement relates will expire at our 2016 annual meeting of stockholders.

Our Directors are also categorized as Independent Directors and Managing Directors. Our Board is composed of three Independent Directors and two Managing Directors. Our Independent Directors are not employees of ours or Reit Management & Research LLC, or RMR, our business management and shared services provider, are not involved in our day to day activities and qualify as independent under our bylaws and the applicable rules of the NYSE and the Securities and Exchange Commission, or SEC. Our Managing Directors are Directors who are not Independent Directors and have been employees of ours or RMR or have been involved in our day to day activities for at least one year prior to their election. Ms. Fraiche, Dr. Gans and Ms. Gilmore are our Independent Directors, and Messrs. Portnoy and Martin are our Managing Directors. Biographical information relating to our Directors and other information relating to our Board appears elsewhere in this proxy statement.

Our Board has nominated Bruce M. Gans, M.D. for election as the Independent Director in Group III, whose nomination was recommended to our Board by our Nominating and Governance

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Committee. The term of the Independent Director in Group III elected at the meeting will expire at our 2016 annual meeting of stockholders. The persons named in the accompanying proxy intend to exercise properly executed and delivered proxies "FOR" the election of Dr. Gans, except to the extent that properly completed proxies indicate that the votes should not be so cast.

Dr. Gans has agreed to serve as the Independent Director in Group III if elected. If, however, Dr. Gans becomes unable or unwilling to accept election to our Board, the proxies will be voted for the election of a substitute nominee designated by our Board. Our Board has no reason to believe that Dr. Gans will be unable or unwilling to serve.

Dr. Gans will be elected as the Independent Director in Group III if he receives a plurality of all the votes cast.

**Our Board recommends you vote "FOR" the election of Dr. Gans as the Independent Director in Group III.**

### **PROPOSAL 2 ADVISORY APPROVAL RELATING TO EXECUTIVE COMPENSATION**

Pursuant to Section 14A of the Securities Exchange Act of 1934, as amended, or the Exchange Act, we are including a proposal for our stockholders to vote to approve, on a nonbinding, advisory basis, the compensation of those of our executive officers listed in the *Summary Compensation Table for 2012, 2011 and 2010* in this proxy statement, or our named executive officers, as disclosed pursuant to Item 402 of Regulation S-K in this proxy statement.

Our executive compensation is designed to reward executive performance that contributes to our success and increases stockholder value, while encouraging behavior that is in our and our stockholders' long term best interests. We urge you to read the *Compensation Discussion and Analysis, Compensation Tables* and narrative discussion in this proxy statement for information about our executive compensation program, including our compensation philosophy and objectives, and the 2012 compensation of our named executive officers.

We are asking you to vote to approve the adoption of the following resolution:

RESOLVED: That the stockholders of the Company approve, on a nonbinding, advisory basis, the compensation paid to the Company's named executive officers, as disclosed pursuant to Item 402 of Regulation S-K, including the Compensation Discussion and Analysis, Compensation Tables and narrative discussion in this proxy statement.

Our current policy is to provide stockholders with an opportunity to approve the compensation of our named executive officers each year at our annual meeting of stockholders. It is currently expected that the next such vote will occur at our 2014 annual meeting of stockholders.

The affirmative vote of a majority of the votes cast will be necessary to approve proposal 2. The stockholder vote on proposal 2 is advisory and nonbinding, and serves only as a recommendation to our Board.

**Our Board recommends you vote "FOR" proposal 2.**

**PROPOSAL 3**  
**RATIFICATION OF APPOINTMENT OF INDEPENDENT REGISTERED**  
**PUBLIC ACCOUNTING FIRM**

On February 14, 2013, our Audit Committee voted to appoint Ernst & Young LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2013 (our fiscal year being a calendar year). Ernst & Young LLP acted as our independent registered public accounting firm for 2012 and 2011. A representative of Ernst & Young LLP is expected to be present at the meeting, with the opportunity to make a statement if he or she desires to do so. This representative will be available to respond to appropriate questions from stockholders who are present at the meeting. Proposal 3 is nonbinding. If the appointment is not ratified, our Audit Committee will consider whether to appoint another independent registered public accounting firm in its discretion. If the appointment is ratified, our Audit Committee, in its discretion, may appoint a different independent registered public accounting firm at any time if it determines that such a change would be advisable.

The fees and expenses to date for services provided by Ernst & Young LLP to us for the last two fiscal years were as follows:

	2012	2011
Audit fees	\$ 871,000	\$ 921,000
Audit related fees		
Tax fees	28,000	28,000
<i>Subtotal</i>	899,000	949,000
All other fees		
Total fees	\$ 899,000	\$ 949,000

Our Audit Committee has established policies and procedures that are intended to control the services provided by our independent registered public accounting firm and to monitor their continuing independence. Under these policies, no services may be undertaken by our independent registered public accounting firm unless the engagement is specifically approved by our Audit Committee or the services are included within a category that has been approved by our Audit Committee. The maximum charge for services is established by our Audit Committee when the specific engagement or the category of services is approved. In certain circumstances, our management is required to notify our Audit Committee when approved services are undertaken and the Audit Committee or its Chair may approve amendments or modifications to the engagement or the maximum fees. Our Director of Internal Audit is responsible to report to our Audit Committee regarding compliance with these policies and procedures.

Our Audit Committee will not approve engagements of our independent registered public accounting firm to perform non-audit services for us if doing so will cause our independent registered public accounting firm to cease to be independent within the meaning of applicable SEC or NYSE rules. In other circumstances, our Audit Committee considers, among other things, whether our independent registered public accounting firm is able to provide the required services in a more or less effective and efficient manner than other available service providers and whether the services are consistent with the Public Company Accounting Oversight Board Rules.



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All services for which we engaged our independent registered public accounting firm in 2012 and 2011 were approved by our Audit Committee. The total fees for audit and non-audit services provided by Ernst & Young LLP in 2012 and 2011 are set forth above. The tax fees charged by Ernst & Young LLP during 2012 and 2011 were for services involved in reviewing our tax reporting and tax compliance procedures related to our income tax returns for the fiscal years ended December 31, 2011 and 2010, respectively. Our Audit Committee approved the engagement of Ernst & Young LLP to provide these non-audit services because it determined that Ernst & Young LLP providing these services would not compromise its independence and that its familiarity with our record keeping and accounting systems would permit it to provide these services with equal or higher quality, more quickly and at a lower cost than we could obtain these services from other providers.

The affirmative vote of a majority of the votes cast will be necessary for the ratification of the appointment of Ernst & Young LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2013. The stockholder vote on proposal 3 is advisory and nonbinding and serves only as a recommendation to our Board.

**Our Board recommends you vote "FOR" the ratification of the appointment of Ernst & Young LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2013.**

### SOLICITATION OF PROXIES

Proxies may be solicited, without additional compensation, by our Directors, officers and employees, and by RMR and its directors, officers and employees, by mail, telephone or other electronic means or in person. We are paying the costs of this solicitation, including the preparation, printing, mailing and website hosting of proxy materials. We will request banks, brokers and other custodians, nominees and fiduciaries to forward proxy materials to the beneficial owners of our common shares and to obtain their voting instructions. We will reimburse those firms for their expenses. In addition, we have retained Innisfree to assist in the solicitation of proxies for a fee of \$15,000 plus reimbursement of expenses. We have agreed to indemnify Innisfree against certain liabilities arising out of our agreement with Innisfree.

### DIRECTORS AND EXECUTIVE OFFICERS

The following are the ages and recent principal occupations, as of February 20, 2013, of our nominees, Directors and executive officers. Unless otherwise specified, the business address of our nominees, Directors and executive officers is c/o Five Star Quality Care, Inc., 400 Centre Street, Newton, Massachusetts 02458.

#### **Independent Director Nominee for a Term Expiring in 2016**

##### **BRUCE M. GANS, M.D., Age: 66**

Dr. Gans has been one of our Independent Directors since 2001. Dr. Gans has been Executive Vice President and Chief Medical Officer at the Kessler Institute for Rehabilitation since 2001. He is also a Professor of Physical Medicine and Rehabilitation at University of Medicine and Dentistry of New Jersey New Jersey Medical School. Previously, Dr. Gans served as President and Chief Executive Officer of the Rehabilitation Institute of Michigan. In Dr. Gans's extensive academic career, he has served as professor of physical medicine and rehabilitation at a number of universities, in addition to

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his current position at the University of Medicine and Dentistry in New Jersey New Jersey Medical School. Dr. Gans is editor of a standard medical textbook on physical medicine and rehabilitation, which is now in its 5th edition, and he has written or co-authored more than 40 articles in peer-reviewed publications and 28 abstracts and has served on editorial boards for many medical journals, including serving currently as Associate Editor of the American Journal of Physical Medicine and Rehabilitation. Dr. Gans has testified before the congressional committee on Veterans' Affairs and has been called on to serve on technical panels and to advise the Medicare Payment Advisory Commission, the independent congressional agency established in 1997 to advise the U.S. Congress on issues affecting the Medicare program. Dr. Gans has also served as President of the American Academy of Physical Medicine and Rehabilitation, a medical society with more than 7,500 members, and as a leader in numerous other professional organizations. Dr. Gans has been an Independent Trustee of Hospitality Properties Trust, or HPT, since 2009.

Our Board concluded that Dr. Gans is qualified to serve as one of our Independent Directors based upon, among other things, his demonstrated leadership capability, including through his service in many healthcare management, professional, academic and civic leadership positions, his business experience as the chief executive of a large medical organization, his extensive experience in and knowledge of the health care industry, his work on public company boards and board committees, his many academic and professional achievements, his extensive experience with healthcare public policy matters, his institutional knowledge gained through service on our Board for 12 years and his qualifying as an Independent Director in accordance with the requirements of the NYSE, the SEC and our bylaws. Dr. Gans is an Independent Director in Group III and, if elected, his term will expire at our 2016 annual meeting of stockholders.

### **Independent Directors Continuing in Office**

#### **BARBARA D. GILMORE, R.N., Age: 62**

Ms. Gilmore has been one of our Independent Directors since 2004. Ms. Gilmore has served as a professional law clerk at the United States Bankruptcy Court, Central Division of the District of Massachusetts, since 2001. Ms. Gilmore was a partner of the law firm of Sullivan & Worcester LLP from 1993 to 2000, during which time she was appointed and served as a trustee or examiner in various cases involving business finance matters. Ms. Gilmore is also a registered nurse and practiced and taught nursing for several years before attending law school and her practice at Sullivan & Worcester LLP included representation of businesses in the healthcare sector. Ms. Gilmore has been an Independent Director of TravelCenters of America LLC, or TA, since 2007 and an Independent Trustee of Government Properties Income Trust, or GOV, since 2009.

Our Board concluded that Ms. Gilmore is qualified to serve as one of our Independent Directors based upon, among other things, her experience in and knowledge of the health care industry, her professional skills and experience in legal, business finance and healthcare regulatory matters and nursing, her work on public company boards and board committees, her institutional knowledge gained through service on our Board for nine years and her qualifying as an Independent Director in accordance with the requirements of the NYSE, the SEC and our bylaws. Ms. Gilmore is an Independent Director in Group I, and her term expires at our 2014 annual meeting of stockholders.

**DONNA D. FRAICHE, Age: 61**

Ms. Fraiche has been one of our Independent Directors since 2010. Ms. Fraiche is a shareholder in, and serves on the nominating and governance committee of, Baker, Donelson, Bearman, Caldwell & Berkowitz, PC and has practiced law in the Health Law and Public Policy departments of that firm since 2004. Previously, Ms. Fraiche practiced law with the firm now known as Locke Lord LLP in New Orleans. Ms. Fraiche is Chair of the Louisiana Health Care Commission and has previously served as President of the organization now known as the American Health Lawyers Association, Chair of the Long Term Community Planning Task Force and Health Care Committee of the Louisiana Recovery Authority, delegate of the Louisiana Recovery Authority to the Louisiana Health Care Redesign Collaborative, Chair of the Louisiana Office of State Planning Task Force and Chair of the Board of Trustees of Loyola University, among numerous other business and civic responsibilities. Ms. Fraiche has testified before Congressional and Senate committees on the structure of the hospital industry and the Gulf Coast's reconstruction efforts after hurricanes Katrina and Rita. Ms. Fraiche has also served on the adjunct faculty of Tulane University's School of Public Health and Administration and as a preceptor for its residency program in health management systems and has been widely published on the topics of health care and the Gulf Coast's reconstruction efforts. Ms. Fraiche also serves as Honorary Consul General for Japan in New Orleans. Ms. Fraiche has been an Independent Trustee of Select Income REIT, or SIR, since 2012.

Our Board concluded that Ms. Fraiche is qualified to serve as one of our Independent Directors based upon, among other things, her extensive experience in and knowledge of the health care industry, her professional legal skills, her many leadership roles and experiences, including her service in numerous public policy and civic leadership roles and her qualifying as an Independent Director in accordance with the requirements of the NYSE, the SEC and our bylaws. Ms. Fraiche is an Independent Director in Group II, and her term expires at our 2015 annual meeting of stockholders.

**Managing Directors Continuing in Office**

**BARRY M. PORTNOY, Age: 67**

Mr. Barry M. Portnoy has been one of our Managing Directors since 2001. Mr. Portnoy has been a Managing Trustee of Commonwealth REIT, or CWH, HPT, Senior Housing Properties Trust, or SNH, GOV and SIR since 1986, 1995, 1999, 2009 and 2011, respectively. He has been a Managing Director of TA since 2006. Mr. Portnoy is an owner of RMR and of RMR Advisors, Inc., or RMR Advisors, an SEC registered investment advisor. Mr. Portnoy has been an owner and a Director of RMR (and its predecessor) since its founding in 1986, a full time employee of RMR since 1997, the Chairman of RMR since 1998 and a Director and Vice President of RMR Advisors since 2002. Mr. Portnoy has been an Interested Trustee of RMR Real Estate Income Fund, or RIF, and its predecessor funds since shortly after their formation (the earliest of which was in 2002) and was an Interested Trustee of RMR Funds Series Trust from shortly after its formation in 2007 until its dissolution in 2009.<sup>(1)</sup> Mr. Portnoy practiced law for many years as a partner in, and chairman of, a law firm until 1997.

Our Board concluded that Mr. Portnoy is qualified to serve as one of our Managing Directors based upon, among other things, his demonstrated leadership capability, his extensive experience in and knowledge of the commercial real estate and senior living industries, his leadership position with RMR,

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(1) RIF, its predecessor funds and RMR Funds Series Trust are collectively referred to herein as the "RMR Funds."

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his extensive public company director service, his professional skills and expertise in, among other things, legal and regulatory matters, his institutional knowledge earned through prior service on our Board and in key leadership positions with our manager and his qualifying as a Managing Director in accordance with the requirements of our bylaws. Mr. Portnoy is a Managing Director in Group I, and his term expires at our 2014 annual meeting of stockholders.

### **GERARD M. MARTIN, Age: 78**

Mr. Martin has been one of our Managing Directors since 2001. Mr. Martin was the founder and Chairman of Greenery Rehabilitation Group, Inc., a company in the business of owning and operating nursing homes and health rehabilitation facilities, which was publicly owned and first listed on Nasdaq and then the NYSE between 1985 and 1993. Mr. Martin is the owner and Treasurer of North Atlantic Medical Services, Inc., a private company in the business of providing diagnostic cardiac, respiratory and oxygen services, equipment and products for the care of patients in their homes or medical facilities. Mr. Martin has also been a Director and Vice President of RMR Advisors since 2002 and a Director of RMR and its predecessors since 1986. Mr. Martin was also an Interested Trustee of the RMR Funds from shortly after their formation (the earliest of which was in 2002) until 2009. Mr. Martin was a Managing Trustee of SNH from 1999 until 2007, a Managing Trustee of CWH from 1986 until 2006 and a Managing Trustee of HPT from 1995 until 2007. Mr. Martin was a 50% owner of RMR and of RMR Advisors until 2005 and ceased to own any equity interest in those respective entities as of such time.

Our Board concluded that Mr. Martin is qualified to serve as one of our Managing Directors based upon, among other things, his extensive experience in and knowledge of our industry, his experience as an operator of nursing facilities, his extensive public company director service, his institutional knowledge earned through prior service on our Board and in key leadership positions with our manager and his qualifying as a Managing Director in accordance with the requirements of our bylaws. Mr. Martin is a Managing Director in Group II, and his term expires at our 2015 annual meeting of stockholders.

### **Executive Officers**

### **BRUCE J. MACKEY JR., Age: 42**

Mr. Mackey has been our President and Chief Executive Officer since 2008. From 2001 until 2008, Mr. Mackey was our Treasurer and Chief Financial Officer. Mr. Mackey has been an Executive Vice President of RMR since 2011, a Senior Vice President of RMR from 2006 to 2011 and was Vice President of RMR from 2001 to 2006. Prior to 2001, he served in various capacities for RMR and its affiliates. Mr. Mackey is a certified public accountant.

### **PAUL V. HOAGLAND, Age: 60**

Mr. Hoagland has been our Treasurer and Chief Financial Officer since 2010. Mr. Hoagland has been a Senior Vice President of RMR since 2010. Mr. Hoagland was our Vice President Finance from 2009 to 2010. Prior to that time, he served as Executive Vice President of Administration, Chief Financial Officer and Treasurer of Friendly's Corporation from 2003 until 2008.

**R. SCOTT HERZIG, Age: 44**

Mr. Herzig has been our Senior Vice President and Chief Operating Officer since 2012. Previously, Mr. Herzig served as our Divisional Vice President for our Western Division from 2007 to 2012, and prior to that served as one of our regional directors of operations from 2000 to 2007.

**KATHERINE E. POTTER, Age: 37**

Ms. Potter joined us as Vice President, General Counsel and Assistant Secretary in 2012. Previously, Ms. Potter practiced law for over 10 years, specializing in corporate, securities, mergers and acquisitions, corporate governance and other transactional matters. Ms. Potter was an associate at the law firm of Sullivan & Worcester LLP from 2005 to 2011, and was an attorney at the law firm of Burns & Levinson LLP from 2011 to 2012.

There are no family relationships among any of our Directors or executive officers. Our executive officers serve at the discretion of our Board.

RMR, RMR Advisors, CWH, GOV, HPT, SIR, SNH, TA and the RMR Funds may be considered to be affiliates of us. RMR is a privately owned company that provides management services to public and private companies, including us, CWH, GOV, HPT, SIR, SNH and TA. CWH is a publicly traded real estate investment trust, or REIT, that primarily owns office buildings and industrial properties. GOV is a publicly traded REIT that primarily invests in properties that are majority leased to government tenants. HPT is a publicly traded REIT that primarily owns hotels and travel centers. SIR is a publicly traded REIT that primarily owns single tenant, net leased properties. SNH is a publicly traded REIT that primarily owns senior living properties and medical office buildings. TA is a publicly traded real estate based operating company in the travel center business. The RMR Funds are or were investment companies registered under the Investment Company Act of 1940, as amended. RMR Advisors is an SEC registered investment adviser to the RMR Funds.

**BOARD OF DIRECTORS**

Our business is conducted under the general direction of our Board as provided by our charter, our bylaws and the laws of the State of Maryland, the state in which we were reincorporated on September 17, 2001.

Three of our Directors, Donna D. Fraiche, Bruce M. Gans, M.D. and Barbara D. Gilmore, are our Independent Directors within the meaning of our bylaws. Two of our Directors, Messrs. Martin and Portnoy, are our Managing Directors within the meaning of our bylaws.

Our bylaws require that a majority of our Board be Independent Directors. In determining the status of those Directors who qualify as Independent Directors, each year our Board affirmatively determines whether the Directors have a direct or indirect material relationship with us, including our subsidiaries, other than serving as our Directors. When assessing a Director's relationship with us, our Board considers all relevant facts and circumstances, not merely from the Director's standpoint, but also from that of the persons or organizations with which the Director has an affiliation.

Our Board has determined that Ms. Fraiche, Dr. Gans and Ms. Gilmore currently qualify as independent directors under applicable NYSE rules and are Independent Directors under our bylaws. In making these determinations, our Board considered Ms. Fraiche's position as a minority shareholder of the law firm Baker, Donelson, Bearman, Caldwell & Berkowitz, which a subsidiary of TA engaged in

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2012 to handle licensing and other matters and that RMR provides management services to both us and TA. The total fees and costs received by Baker, Donelson, Bearman, Caldwell & Berkowitz in 2012 for those services were \$21,084. In addition, our Board considered the fact that Dr. Gans served on the board of SNH, our largest landlord and largest stockholder, from 1999 to 2001. Our Board also considered each of these three Directors' service in other enterprises and on the boards of other companies to which RMR and its affiliates provide management services. Our Board has concluded that none of these three Directors possessed or currently possesses any relationship that could impair his or her judgment in connection with his or her duties and responsibilities as a Director or that could otherwise be a direct or indirect material relationship under applicable NYSE standards.

During 2012, our Board held six meetings, our Audit Committee held seven meetings, our Compensation Committee held four meetings, our Nominating and Governance Committee held two meetings and our Quality of Care Committee held four meetings. During 2012, each Director attended 75% or more of the total number of meetings of our Board and any committee of which he or she was a member during the time in which he or she served on our Board or such committee. All of our Directors attended last year's annual meeting of stockholders.

Pursuant to our Governance Guidelines, our Independent Directors meet at least once each year without management. The presiding Director at these meetings is the Chair of our Audit Committee, unless the Independent Directors in attendance select another Independent Director to preside.

We do not maintain directors' and officers' liability insurance for our Directors and officers. Subject to certain limitations, separate indemnification agreements that we have entered into require that we indemnify our Directors and officers.

### **Board Leadership Structure**

Our Board is comprised of both Independent Directors and Managing Directors, with a majority being Independent Directors. Our Independent Directors are not employees of ours or of RMR, are not involved in our day to day activities and are persons who qualify as independent under our bylaws and the applicable rules of the NYSE and SEC. Our Managing Directors are not Independent Directors and have been employees of ours or RMR or have been involved in our day to day activities for at least one year. Our Board is composed of three Independent Directors and two Managing Directors. Our President and Chief Executive Officer, our Treasurer and Chief Financial Officer and our Vice President and General Counsel are not members of our Board, but they regularly attend Board meetings, as does our Director of Internal Audit. Other officers of ours may also attend Board meetings as, on occasion, may officers of RMR, in each case at the invitation of our Board.

Our Audit, Compensation and Nominating and Governance Committees are comprised solely of our Independent Directors, and an Independent Director serves as Chair of each such committee. Our Quality of Care Committee includes two Independent Directors and a Managing Director. These standing committees have responsibilities related to our leadership and governance, including among other things: (1) our Audit Committee reviews our financial reports, oversees our accounting and financial reporting processes, selects our independent accountants, determines the fees paid to our independent accountants and assists our Board with its oversight of our internal audit function, our risk management and our compliance with legal and regulatory requirements; (2) our Compensation Committee annually determines the compensation we pay to our Chief Executive Officer, Chief Financial Officer and any other senior executive of ours who is also a senior executive of RMR,

recommends to our Board the compensation that we pay to our other executive officers, administers our equity compensation plan, or Share Award Plan, including the making of grants of restricted share awards under the Share Award Plan, evaluates the performance of our Director of Internal Audit and approves the compensation we pay to him, reviews our business management and shared services agreement with RMR, or our business management agreement, evaluates RMR's performance under that agreement, approves the fees and certain other costs that we pay under that agreement and determines whether that agreement will be renewed, amended, terminated or allowed to expire; (3) our Nominating and Governance Committee considers nominees to serve on our Board, recommends to our Board nominees for election to our Board, assesses our Board's performance and reviews and assesses our Board leadership structure and Governance Guidelines and recommends to the Board any changes it determines appropriate; and (4) our Quality of Care Committee reviews our clinical operations policies, procedures and plans to maintain the quality of healthcare and senior living services we provide to our customers and reports regularly to our Board. The Chairs of our Audit, Compensation, Nominating and Governance and Quality of Care Committees set the agenda for their respective committee meetings, but committee members, our Managing Directors or members of our management may suggest agenda items to be considered by these committees.

We do not have a Chairman of our Board or a lead Independent Director. Special meetings of the Board may be called at any time by any Managing Director, our President and Chief Executive Officer or on the request of any two of the Directors then in office. Our Managing Directors, in consultation with our President and Chief Executive Officer, Treasurer and Chief Financial Officer, Senior Vice President and Chief Operating Officer and Director of Internal Audit, set the agenda for our Board meetings, and any Independent Director may place an item on an agenda by providing notice to a Managing Director or one of our executive officers. Discussions at Board meetings are led by the Managing Director or Independent Director who is most knowledgeable on a subject. Our Board is small, which facilitates informal discussions and communication from management to the Board and among Directors. Our Independent Directors meet to consider Company business without the attendance of our Managing Directors or our officers, and they meet separately with our officers, with our Director of Internal Audit and with our outside accountants. In such meetings of our Independent Directors, the Chair of the Audit Committee presides unless the Independent Directors determine otherwise.

In light of the size of our Board and the oversight provided by and involvement of our Independent Directors and Board committees in the leadership of our Company, our Board considers that our current leadership structure and conduct combines appropriate leadership with the ability to conduct our business efficiently and with appropriate care and attention.

#### **Risk Oversight**

Our Board oversees risk as part of its general oversight of our Company, and oversight of risk is addressed as part of various Board and Board committee activities and through regular and special Board and Board committee meetings. The actual day to day business of our Company is conducted by our management, and our management implements risk management in its activities. RMR provides us advice and assistance with our risk management function. In discharging their oversight responsibilities, our Board and Board committees regularly review a wide range of reports provided to them by our management, RMR and other service providers, including reports on market and industry conditions, operating and compliance reports, reports on our clinical operations, financial reports, reports on risk

management activities, regulatory and legislative updates that may impact us, legal proceedings updates and reports on other business related matters, and discusses such matters among themselves and with our management, representatives of RMR, counsel and our independent accountants. Our Audit Committee, which meets at least quarterly and reports its findings to our Board, performs a lead role in helping our Board fulfill its responsibilities for oversight of our financial reporting, internal audit function, risk management and our compliance with legal and regulatory requirements. Our Board and Audit Committee review periodic reports from our independent registered public accounting firm regarding potential risks, including risks related to our internal controls. Our Audit Committee also annually reviews, approves and oversees an internal audit plan developed by our Director of Internal Audit with the goal of helping our Company systematically evaluate the effectiveness of our risk management, control and governance processes, and periodically meets with our Director of Internal Audit to review the results of our internal audits, and directs or recommends to the Board actions or changes it determines appropriate to enhance or improve the effectiveness of our risk management. Our Quality of Care Committee reviews management reports on our clinical operations and directs or recommends to management and the Board actions or changes it determines appropriate to improve our clinical operations. Our Compensation Committee also evaluates the performance of our Director of Internal Audit and RMR's performance under our business management agreement. Also, our Compensation Committee and our Board consider the fact that we have a share grant program that requires share grants to vest over a period of years, rather than a stock option program such as is employed by many other publicly owned companies. We believe that the use of share grants vesting over time rather than stock options mitigates the incentives for our management to undertake undue risks and encourages our management to make longer term, less risk prone decisions.

While a number of risk management functions are performed, it is not possible to identify all of the risks that may affect us or to develop processes and controls to eliminate all risks and their possible effects, and processes and controls employed to address risks may be limited in their effectiveness. Moreover, it is necessary for our Company to bear certain risks to achieve our objectives. As a result of the foregoing and other factors, our Company's ability to manage risk is subject to substantial limitations.

#### **BOARD COMMITTEES**

We have a standing Audit Committee, Compensation Committee, Nominating and Governance Committee and Quality of Care Committee, each of which has a written charter. With the exception of the Quality of Care Committee, each of the above committees is currently comprised of Ms. Fraiche, Dr. Gans and Ms. Gilmore, who are independent under applicable NYSE listing standards, each committee's respective charter and, in the case of our Audit Committee, the applicable independence requirements of the SEC. Dr. Gans, Ms. Gilmore and Mr. Martin currently constitute our Quality of Care Committee. Our Audit Committee, Compensation Committee, Nominating and Governance Committee and Quality of Care Committee are delegated the powers of our Board necessary to carry out their responsibilities.

Our Audit Committee was established in accordance with Section 3(a)(58)(A) of the Exchange Act. The primary function of our Audit Committee is to assist our Board in fulfilling its responsibilities for oversight of: (1) the integrity of our financial statements; (2) our compliance with legal and regulatory requirements; (3) our independent registered public accounting firm's qualifications and independence; and (4) the performance of our internal audit function and independent registered



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public accounting firm. Our Board has determined that Ms. Gilmore is our Audit Committee financial expert and is "independent" as defined by the rules of the SEC and the NYSE. Our Board's determination that Ms. Gilmore is our Audit Committee financial expert was based upon her experience as (i) a member of our Audit Committee and the audit committees of GOV and TA, (ii) a professional bankruptcy court law clerk and (iii) a trustee or examiner in various bankruptcy cases involving business finance matters. Under its charter, our Audit Committee has the final authority and responsibility to select our independent registered public accounting firm.

Our Compensation Committee's primary responsibilities include: (1) reviewing and determining the compensation paid by us to our President and Chief Executive Officer, our Treasurer and Chief Financial Officer and other senior executives of ours who are also senior executives of RMR; (2) recommending to our Board the cash compensation paid by us to individuals who serve as our executive officers other than our Chief Executive Officer and Chief Financial Officer; (3) administering and making grants under our Share Award Plan; (4) reviewing our business management agreement, evaluating RMR's performance under that agreement and approving the fees and certain other costs that we are required to pay under that agreement; (5) evaluating the performance of our Director of Internal Audit and determining the compensation payable to him; and (6) reviewing and considering the incentives and risks associated with our compensation policies and practices.

The responsibilities of our Nominating and Governance Committee include: (1) identification of individuals qualified to become members of our Board and recommending to our Board the nominees for Director for each annual meeting of stockholders or when Board vacancies occur; (2) development and recommendation to our Board of governance guidelines; and (3) evaluation of the performance of our Board.

The primary function of our Quality of Care Committee is to review the quality of healthcare and senior living services we provide to our customers.

The charter of each of our standing committees provides that the committee may form and delegate authority to subcommittees of one or more members when appropriate. Subcommittees are subject to the provisions of the applicable committee's charter.

Our policy with respect to Board members' attendance at our annual meetings of stockholders can be found in our Governance Guidelines, the full text of which appears at our website at [www.fivestarseniorliving.com](http://www.fivestarseniorliving.com). In addition to our Governance Guidelines, copies of the charters of our Audit, Compensation, Nominating and Governance and Quality of Care Committees, as well as our Code of Business Conduct and Ethics, may be obtained free of charge at our website, [www.fivestarseniorliving.com](http://www.fivestarseniorliving.com), or by writing to our Secretary, Five Star Quality Care, Inc., Two Newton Place, 255 Washington Street, Suite 300, Newton, Massachusetts 02458.

## COMMUNICATIONS WITH DIRECTORS

Any stockholder or other interested person who desires to communicate with our Independent Directors or any Directors, individually or as a group, may do so by filling out a report at our website, [www.fivestarseniorliving.com](http://www.fivestarseniorliving.com), by calling our toll-free confidential message system at (866) 230-1286 or by writing to the party for whom the communication is intended, c/o Director of Internal Audit, Five Star Quality Care, Inc., Two Newton Place, 255 Washington Street, Suite 300, Newton, Massachusetts 02458. Our Director of Internal Audit will then deliver any communication to the appropriate party or parties.

## SELECTION OF CANDIDATES FOR DIRECTORS; STOCKHOLDER RECOMMENDATIONS, NOMINATIONS AND OTHER PROPOSALS

Our Board has established Governance Guidelines which, together with our bylaws, set forth the qualifications for service on our Board. Our Governance Guidelines may be changed from time to time by our Board upon the recommendation of our Nominating and Governance Committee. Our Board makes nominations of persons to be elected by stockholders as Directors. Our Board also elects Directors to fill Board vacancies that may occur from time to time. In both of these circumstances, our Board will act upon recommendations made by our Nominating and Governance Committee.

In considering candidates to serve as Directors, our Nominating and Governance Committee seeks individuals who have qualities that the Committee believes will be effective in serving our long term best interests. Among the characteristics that the Committee considers are the following: integrity, experience, achievements, judgment, intelligence, competence, personal character, ability to make independent analytical inquiries, willingness to devote adequate time to Board duties, likelihood that a candidate will be able to serve on our Board for an extended period and other matters that our Nominating and Governance Committee deems appropriate. While our Board does not have a specific diversity policy in connection with the selection of nominees for Director, due consideration is given to our Board's desire for an overall balance of diversity of perspectives, backgrounds and experiences. Our Board does not consider gender, sexual orientation, race, religion, ethnicity, national origin or citizenship to be relevant considerations and does not discriminate on the basis of such criteria. When considering candidates, our Nominating and Governance Committee will also assist our Board in determining the desired mix of experience, skills, attributes and other criteria that will strengthen our Board in a way that best serves the long term interests of our Company and complement the experience, skills, attributes and qualifications of existing Directors. Depending on whether the position to be filled is that of an Independent Director or a Managing Director, the qualifications of the candidate to meet the criteria for each such category of Director is considered. In seeking candidates for Director who have not previously served as one of our Directors, the Nominating and Governance Committee may use the business, professional and personal contacts of its members, it may accept recommendations from other Board members and, if it considers it appropriate, the Nominating and Governance Committee may engage a professional search firm. In addition to other criteria, our bylaws require that nominees submit any additional information required in connection with our license or regulation by state insurance or healthcare regulatory authorities.

In 2012, we did not pay any third party to identify or to assist in the evaluation of any candidate for election to our Board. We did not receive any stockholder recommendations or nominations for our Board for the 2013 annual meeting of stockholders, except the nomination made by our Board and

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recommendation by our Nominating and Governance Committee, each of which includes Board members who are stockholders of record.

*Stockholder Recommendations for Nominees.* A responsibility of our Nominating and Governance Committee is to consider candidates for election as Directors who are properly recommended by stockholders. To be considered by our Nominating and Governance Committee, a stockholder recommendation for a nominee must be made by such stockholder's written notice to the Chair of our Nominating and Governance Committee and our Secretary, which notice should contain or be accompanied by the information and documents with respect to the recommended nominee and recommending stockholder that the recommending stockholder believes to be relevant or helpful to our Nominating and Governance Committee's deliberations. Our Nominating and Governance Committee may request additional information about the stockholder recommended nominee or about the stockholder recommending the nominee. Any recommended nominee will be considered by our Nominating and Governance Committee in its discretion using the same criteria as other candidates considered by it.

The preceding paragraph applies only to stockholder recommendations for nominees to our Nominating and Governance Committee. A stockholder nomination must be made in accordance with the provisions of our bylaws, including the procedures discussed below, and applicable state and federal laws.

*2014 Annual Meeting Deadlines for Stockholder Proposals Pursuant to Rule 14a-8 under the Exchange Act.* Stockholder proposals intended to be presented pursuant to Rule 14a-8 under the Exchange Act at our 2014 annual meeting of stockholders must be received at our principal executive offices on or before October 24, 2013, in order to be considered for inclusion in our proxy statement for our 2014 annual meeting of stockholders, provided that if we hold our 2014 annual meeting on a date that is more than 30 days before or after May 16, 2014, stockholders must submit proposals for inclusion in our 2014 proxy statement within a reasonable time before we begin to print our proxy materials. Under Rule 14a-8, we are not required to include stockholder proposals in our proxy materials unless conditions specified in the rule are met.

*2014 Annual Meeting Deadlines for Stockholder Nominations and Stockholder Proposals Not Made Pursuant to Rule 14a-8 under the Exchange Act.* In order for one or more stockholders properly to propose a nominee for election to our Board or propose business outside of Rule 14a-8 under the Exchange Act, the stockholder(s) must comply in all respects with the advance notice and other provisions set forth in our bylaws, which currently include, among other things, requirements as to the stockholder's timely delivery of advance notice, share ownership and submission of specified information. For example, our bylaws provide that to nominate a Director for election to our Board at our annual meeting, the stockholder(s) must, among other things: (1) at the date such stockholder gives its advance notice, hold individually or in the aggregate at least 3% of our shares entitled to vote at the meeting on such election, must have held such shares continuously for at least three years and must continuously hold such shares through and including the time of the annual meeting (including any adjournment or postponement thereof); (2) be a stockholder of record at the time of giving notice through and including the time of the annual meeting (including any adjournment or postponement thereof); (3) be entitled to make nominations and to vote at the meeting on such election; (4) hold a certificate or certificates for all shares of beneficial interest of the Company owned by such stockholder during all times described in clause (1); and (5) comply with the advance notice procedures and

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requirements as to such nomination. The advance notice must set forth detailed specified information about the nominee and the nominee's affiliates and associates, the stockholder making the nomination and affiliates and associates of that stockholder and provide to the extent known by the stockholder giving the notice, the name and address of any other stockholder supporting the stockholder's nomination.

As a further example, to propose other business to be considered by the stockholders at our annual meeting (other than the nomination of individuals for election to our Board), our bylaws provide that the stockholder must: (1) have continuously held at least \$2,000 in market value, or 1% of our shares entitled to vote at the meeting on the proposal for such business for at least one year from the date the stockholder gives its advance notice and continuously hold such shares through and including the time of the annual meeting (including any adjournment or postponement thereof); (2) be a stockholder of record at the time of giving notice through and including the time of the annual meeting (including any adjournment or postponement thereof); (3) be entitled to propose such business and to vote at the meeting on the proposal for such business; (4) hold a certificate or certificates for all shares of beneficial interest of the Company owned by such stockholder during all times described in clause (1); and (5) comply with the advance notice procedures and requirements as to such business. The advance notice must set forth a description of such business, the reasons for proposing such business at the meeting and any material interest in such business of the stockholder, a description of all agreements, arrangements and understandings involving the stockholder in connection with the proposal of such business and a representation that the stockholder intends to appear in person or by proxy at the meeting to bring the business before the meeting.

In addition, at the same time as the submission of a stockholder nomination or proposal for consideration at a meeting of our stockholders that, if elected or approved and implemented by us, would cause us to be in breach of any covenant in or in default under any debt instrument or agreement or other material agreement of ours or any subsidiary of ours, our bylaws provide that the stockholder must submit to our Secretary (i) evidence satisfactory to our Board of the lender's or contracting party's willingness to waive the breach of covenant or default, or (ii) a detailed plan for repayment of the applicable indebtedness or curing the contractual breach or default and satisfying any resulting damage, specifically identifying the actions to be taken or the source of funds, which plan must be satisfactory to our Board in its discretion, and evidence of the availability to us of substitute credit or contractual arrangements similar to the credit or contractual arrangements which are implicated by the stockholder nomination or other proposal that are at least as favorable to us, as determined by our Board in its discretion. Additionally, if (i) the submission of a stockholder nomination or proposal of other business to be considered at a stockholders meeting could not be considered or, if elected or approved, implemented by us without our or any subsidiary of ours, or the proponent stockholder, the nominee, the holder of proxies or their respective affiliates or associates filing with or otherwise notifying or obtaining the consent, approval or other action of any governmental or regulatory body, or a governmental action, or (ii) such stockholder's ownership of our shares or any solicitation of proxies or votes or holding or exercising proxies by such stockholder, the nominee or their respective affiliates or associates would require governmental action, then, at the same time as the submission of the stockholder nomination or proposal of other business, our bylaws provide that the proponent stockholder shall submit to our Secretary (x) evidence satisfactory to our Board that any and all governmental action has been given or obtained, including, without limitation, such evidence as our Board may require so that any nominee may be determined to satisfy any suitability or other requirements or (y) if such evidence was not obtainable from a governmental or

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regulatory body by such time despite the stockholder's diligent and best efforts, a detailed plan for making or obtaining the governmental action prior to the election of the nominee or the implementation of the proposal for other business, which plan must be satisfactory to our Board in its discretion.

Our bylaws require that stockholder nominations and proposals intended to be made outside of Rule 14a-8 under the Exchange Act at our 2014 annual meeting of stockholders must be submitted, in accordance with the requirements of our bylaws, not later than 5:00 p.m. Eastern Time on October 24, 2013 (which is also the date, after which, stockholder nominations and proposals made outside of Rule 14a-8 under the Exchange Act would be considered "untimely" within the meaning of Rule 14a-4(c) under the Exchange Act) and not earlier than September 24, 2013; provided, that, if our 2014 annual meeting is called for a date that is more than 30 days earlier or later than May 16, 2014, then a stockholder's notice must be so delivered not later than 5:00 p.m. Eastern Time on the tenth day following the earlier of the day on which (1) notice of the date of our 2014 annual meeting is mailed or otherwise made available or (2) public announcement of the date of our 2014 annual meeting is first made by us.

The foregoing description of the procedures for a stockholder to propose a nomination for election to our Board or other business for consideration at an annual meeting is only a summary and is not a complete listing of all requirements. Copies of our bylaws, including the provisions that concern stockholder recommendations and the requirements for stockholder nominations and other proposals, may be obtained by writing to our Secretary at Five Star Quality Care, Inc., Two Newton Place, 255 Washington Street, Suite 300, Newton, Massachusetts 02458, or from the SEC's website at [www.sec.gov](http://www.sec.gov). Any stockholder considering making a nomination or other proposal should carefully review and comply with those provisions. Under our bylaws, a stockholder is obligated to indemnify us for costs and expenses we incur arising from the stockholder's breach or failure to fully comply with any covenant, condition or provision of our charter or our bylaws, including costs and expenses we may incur as a result of the stockholder's failure to comply with the requirements to make nominations and proposals.

### COMPENSATION DISCUSSION AND ANALYSIS

There were several changes in our executive officers during 2012. On November 22, 2011 we entered into a letter agreement, dated November 18, 2011, with Rosemary Esposito, our Senior Vice President, Chief Operating Officer and Chief Clinical Officer, whereby we agreed with Ms. Esposito that she would resign from such positions effective December 31, 2012, subject to her earlier resignation, and provided that we would be able to transition her role to a consultant any time after June 30, 2012. The letter agreement provides Ms. Esposito with paid severance and other benefits, as well as the acceleration of unvested shares in exchange for consulting services, non-solicitation, confidentiality and other covenants. On August 8, 2012, our Board determined that, effective September 4, 2012, Ms. Esposito's role would be transitioned to that of a consultant pursuant to the letter agreement. On March 1, 2012, Vern D. Larkin, who had been our Vice President, General Counsel and Secretary, became our Director of Internal Audit. On February 27, 2012, Katherine Potter became our Vice President and General Counsel. On August 8, 2012, our Board elected R. Scott Herzig as our Senior Vice President and Chief Operating Officer, effective September 4, 2012. At December 31, 2012, we had four executive officers: Bruce J. Mackey Jr., President and Chief Executive Officer; Paul V. Hoagland, Treasurer and Chief Financial Officer; Scott Herzig, Senior Vice President

and Chief Operating Officer; and Katherine Potter, Vice President and General Counsel. Additional biographical information about our executive officers appears elsewhere in this proxy statement.

***Compensation Philosophy and Process***

Our compensation program is designed to help us achieve our business objectives, which include, but are not limited to, increasing, on a long term basis, the value of the Company by improving our prospects, our competitive position within our industry and our financial and operating performance, as well as achieving strategic initiatives and objectives. Individual performance is an important factor in determining each element of compensation. Our Compensation Committee determines the compensation of our Chief Executive Officer and Chief Financial Officer, and the amount of share grants to all of our executive officers. Our Compensation Committee recommends to our Board and the Board determines all compensation, other than share grants, for our executive officers other than our Chief Executive Officer and Chief Financial Officer. There is no formulaic approach to the determinations of an executive officer's compensation as it is in the discretion of our Compensation Committee and our Board, and determinations of an executive officer's compensation are not made as a result of benchmarking compensation against that of other companies. We believe it is important to align the interests of our executive officers with those of our stockholders and therefore have determined that a significant portion of an executive officer's annual compensation will be paid in the form of restricted share awards that vest over a period of at least four years. We also believe that performance and retention of our executive officers is improved by paying a substantial portion of each executive officer's cash compensation as an annual bonus. 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 2012, compensation we paid to Ms. Esposito was pursuant to our contractual obligations under our letter agreement with her, dated November 18, 2011.

In evaluating our compensation process for 2012, our Compensation Committee generally considered the results of the 2012 advisory vote of our stockholders on the compensation of the executive officers named in our 2012 proxy statement. Our Compensation Committee noted that more than 92% of votes cast approved of the compensation of those executive officers as described in our 2012 proxy statement. Our Compensation Committee considered these voting results as supportive of the Committee's general executive compensation practices. In making their discretionary compensation determinations each year, our Compensation Committee's and Board's qualitative and subjective considerations of an executive's performance generally include, but are not limited to, the executive officer's:

historical compensation;

accomplishments achieved during the year;

ability to identify areas for the Company's improvement and to achieve benefits from those improvements;

quality of decisions made;

ability to lead employees both in routine activities and in special projects;

change in performance as compared to the prior year;

perceived potential for future development and for assuming additional or alternative duties in the future;

background, training, education and experience;

specific areas of expertise and value to us, and the likelihood we could find a suitable replacement on a timely and cost effective basis; and

compensation compared to that of other individuals within our Company and the relative responsibilities, titles, roles, experiences and capabilities of such other individuals.

In addition to the consideration of the various factors described in the preceding paragraphs, our Compensation Committee and our Board consider data regarding historical pay and available compensation data for public companies that are engaged in businesses similar to our business or that possess size or other characteristics that are similar to ours. In order to obtain a general understanding of current trends in compensation practices and ranges of amounts being awarded by other public companies, we compiled and reviewed comparative data regarding compensation paid by a group of public companies in our industry.<sup>(2)</sup> Our Compensation Committee did not engage compensation consultants to participate in the determination or recommendation of the amount or form of compensation for our executive officers.

In September 2012, Dr. Gans, the Chair of our Compensation Committee, met with Mr. Barry Portnoy, our Managing Director who is not also one of our executive officers, Mr. Adam Portnoy, President and Chief Executive Officer of RMR, and the chairs of the compensation committees of other public companies for which RMR provides services. The purpose of this meeting was to discuss compensation philosophy regarding potential share grants to be made by us and to consider the compensation payable to our Director of Internal Audit who provides services to us and to other companies managed by RMR and its affiliates, as well as the allocation of internal audit costs among those companies.

At a Compensation Committee meeting in November 2012 our Compensation Committee conducted a review of executive and employee compensation and considered recommendations arising from the September 2012 meeting, recommendations provided by management and other factors such as: (1) the amounts and value of historical share awards made to each executive officer; (2) the amounts of share awards granted to persons with similar levels of responsibility; (3) the then current market prices of our shares; (4) the performance of each executive officer during 2012; (5) each executive officer's expected future contributions to us; (6) each executive officer's relative mix of cash and noncash compensation; (7) the data about executive compensation trends and amounts that was prepared for our management by an independent compensation consulting firm; and (8) our financial position and operating performance in the past year and our perceived future prospects. There was no formulaic approach to the use of these various factors in determining the number of shares to award to each executive officer. The share amounts were determined on a subjective basis using the various factors at our Compensation Committee's sole discretion. Messrs. Mackey, Hoagland and Potter participated in the Compensation Committee meeting with regard to consideration of compensation

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(2)

This group of companies was comprised of: Kindred Healthcare, Inc.; Sun Healthcare Group, Inc.; Emeritus Corporation; Assisted Living Concepts, Inc.; Capital Senior Living Corporation; Sunrise Senior Living, Inc.; National HealthCare Corporation; Brookdale Living Communities, Inc.; and Extendicare REIT.

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generally and to our other executive officers, but they left that meeting and did not participate in the Compensation Committee's determination and recommendation of their compensation. For bonus amounts paid to our executive officers for 2012, there were no bonus targets established. In addition, no bonus targets have been established for purposes of bonus amounts that may be paid to our executive officers in 2013. In keeping with our Compensation Committee's desire to reduce the incentives for management to take excessive risk for short term benefit, our Compensation Committee considers historical levels of compensation and gradual increases thereof to be among the most important factors in determining compensation, but certainly not the sole factor.

### *Compensation Components*

The mix of base salary, cash bonus and equity compensation that we pay to our executive officers varies depending on the executive officer's position and responsibilities with us. Our Compensation Committee does not follow a set formula or specific guidelines in determining how to allocate among the compensation components. For 2012, compensation we paid to Ms. Esposito was pursuant to our contractual obligations under our letter agreement with her, dated November 18, 2011.

The components of the compensation packages of our executive officers are as follows:

#### *Base Salary*

Base salaries are reviewed annually and adjusted, if appropriate, on a subjective basis based upon consideration of a number of factors including, but not limited to, the following for each executive officer: (1) historical compensation; (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 executive officer's background, training, education and experience; (9) 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; (10) a comparison of the executive officer's pay to that of other individuals within our Company and the relative responsibilities, titles, roles, experiences and capabilities of such other individuals; (11) the data about executive compensation trends and amounts that was prepared for our management by an independent compensation consulting firm; and (12) our financial position and operating performance throughout 2012. Currently, we limit the annual base salaries of our executive officers to a maximum of \$300,000. Subject to the limits we have on annual base salaries, we also adjust base salaries, as warranted, for promotions and other changes in the executive officer's role that may occur from time to time.

#### *Annual Bonus and Share Award Plan*

Each of our executive officers, including our Chief Executive Officer, is eligible 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;