



## **Five Star Announces Settlement with UBS Concerning Auction Rate Securities**

NEWTON, Mass.--Five Star Quality Care, Inc. (NYSE Alternext US: FVE) today announced that it has entered a settlement with UBS AG and its affiliates ("UBS") regarding Five Star's investments in auction rate securities made through UBS.

Under the terms of the settlement, UBS will purchase 100% of Five Star's \$74.8 million (face amount) of investments in student loan auction rate securities at par value (including accrued and unpaid interest, if any) at Five Star's request anytime between June 30, 2010 and July 2, 2012. In certain circumstances, UBS has the right to purchase these securities earlier. UBS also agreed to provide Five Star with a non-recourse credit facility secured by Five Star's investments in these auction rate securities. The credit line is available to Five Star effective immediately. The availability under the credit facility is currently approximately \$41.2 million, which is equivalent to 60% of the fair market value of Five Star's auction rate securities as of September 30, 2008. The amount available under this credit facility will vary according to a formula tied to the market value of the securities which are collateral for the loan. The interest rate under the credit facility will vary depending on the interest payable to Five Star on the auction rate securities which is not expected to exceed LIBOR plus 50 basis points.

Five Star expects to reconsider its policies regarding mark to market valuations of its investments in the affected auction rate securities and to re-evaluate the losses that it previously recognized from its investments in auction rate securities at the time it reports its financial results for the current period ending December 31, 2008. Through September 30, 2008, Five Star has previously recognized losses of \$6.1 million, or \$0.15 per fully diluted share, from marking the value of these investments to market values.

Five Star Quality Care, Inc. is a healthcare and senior living services provider that currently operates independent and assisted living facilities, skilled nursing facilities, rehabilitation hospitals, as well as institutional pharmacies and outpatient rehabilitation services clinics. Five Star is headquartered in Newton, MA.

### **WARNING REGARDING FORWARD LOOKING STATEMENTS**

THIS PRESS RELEASE CONTAINS FORWARD LOOKING STATEMENTS WITHIN THE MEANING OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995 AND OTHER SECURITIES LAWS. THESE FORWARD LOOKING STATEMENTS AND THEIR IMPLICATIONS ARE BASED UPON FIVE STAR'S PRESENT BELIEFS AND EXPECTATIONS, BUT THEY ARE NOT GUARANTEED TO OCCUR AND THEY MAY NOT OCCUR FOR VARIOUS REASONS, INCLUDING SOME REASONS WHICH ARE BEYOND FIVE STAR'S CONTROL. FOR EXAMPLE:

- THIS PRESS RELEASE STATES THAT UBS WILL PURCHASE FIVE STAR'S OWNED AUCTION RATE SECURITIES AT 100% OF PAR VALUE IF FIVE STAR REQUESTS UBS TO DO SO BETWEEN JUNE 30, 2010 AND JULY 2, 2012 AND THAT UBS WILL MAKE A LOAN SECURED BY THE AUCTION RATE SECURITIES AVAILABLE TO FIVE STAR. UBS'S ABILITY TO MEET ITS OBLIGATIONS UNDER THE SETTLEMENT ANNOUNCED IN THIS PRESS RELEASE IS DEPENDENT UPON UBS'S FINANCIAL CAPACITY. UBS HAS RECENTLY REPORTED SIGNIFICANT LOSSES; AND UBS'S FINANCIAL CAPACITY WILL DEPEND UPON EVENTS AND CIRCUMSTANCES BEYOND FIVE STAR'S CONTROL. FIVE STAR DOES NOT INTEND TO IMPLY ANY ASSURANCES REGARDING UBS'S FINANCIAL CAPACITY.
- THIS PRESS RELEASE STATES THAT FIVE STAR WILL RECONSIDER ITS POLICIES REGARDING MARK TO MARKET VALUATION OF ITS INVESTMENTS IN AUCTION RATE SECURITIES AND TO RE-EVALUATE ITS HISTORICAL LOSSES ARISING FROM ITS INVESTMENTS IN AUCTION RATE SECURITIES WHEN IT REPORTS ITS FINANCIAL RESULTS FOR THE PERIOD ENDING DECEMBER 31, 2008. THE IMPLICATIONS OF THIS STATEMENT MAY BE THAT FIVE STAR WILL STOP REPORTING MARK TO MARKET ADJUSTMENTS AFFECTING ITS OWNERSHIP OF AUCTION RATE SECURITIES OR THAT FIVE STAR MAY REVERSE THE LOSSES IT HAS PREVIOUSLY RECOGNIZED. THE ACCOUNTING RULES APPLICABLE TO MARK TO MARKET VALUATIONS FOR INVESTMENT SECURITIES AND THE EFFECT OF SALES CONTRACTS SUCH AS THE AGREEMENT FIVE STAR HAS ENTERED WITH UBS ARE COMPLEX; MOREOVER, THERE HAVE BEEN RECENT PROPOSALS MADE TO CHANGE THESE RULES. AT THIS TIME FIVE STAR DOES NOT KNOW IF IT WILL CONTINUE TO MARK TO MARKET THE VALUE OF ITS OWNED AUCTION RATE SECURITIES UNTIL THEY ARE SOLD OR IF IT REVERSES ANY PREVIOUSLY RECOGNIZED LOSSES ARISING FROM ITS OWNERSHIP OF THESE SECURITIES.

FOR THESE REASONS, AMONG OTHERS, INVESTORS ARE CAUTIONED NOT TO PLACE UNDUE RELIANCE UPON FORWARD LOOKING STATEMENTS IN THIS PRESS RELEASE.

EXCEPT AS MAY BE REQUIRED BY APPLICABLE LAW, FIVE STAR ASSUMES NO RESPONSIBILITY TO UPDATE THE

MATTERS STATED IN THIS PRESS RELEASE.

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