ASSISTED LIVING CONCEPTS INC
Form 10-Q
August 14, 2003

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended June 30, 2003

or

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

For the Transition period from to

Commission file number 1-13498

Assisted Living Concepts, Inc.

(Exact name of registrant as specified in its charter)

Nevada	**93-1148702**
(State or other jurisdiction of incorporation or organization)	*(IRS Employer Identification No.)*

1349 Empire Central, Suite 900
Dallas, TX 75247
(Address of principal executive offices)

(214) 424-4000
(Registrant s telephone number, including area code)

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

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

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes x No o

The Registrant had 6,431,925 shares of common stock, $.01 par value, outstanding at August 7, 2003.

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PART I FINANCIAL INFORMATION

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

ASSISTED LIVING CONCEPTS, INC.
CONSOLIDATED BALANCE SHEETS
(In Thousands, Except Share Amounts)

	December 31, 2002	June 30, 2003
		(Unaudited)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 7,165	$ 10,256
Cash restricted for resident security deposits	1,929	1,673
Accounts receivable, net of allowance for doubtful accounts of $230 at December 31, 2002 and $517 at June 30, 2003	2,715	3,420
Prepaid insurance	343	745
Prepaid expenses	991	675
Assets held for sale	9,727	
Cash restricted for workers compensation claims	4,696	4,407
Other current assets	3,193	3,150
Total current assets	30,759	24,326
Restricted cash	5,315	5,312
Property and equipment, net	177,930	183,637
Deferred income taxes		990
Other assets, net	2,036	2,349
Total assets	$216,040	$216,614
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 769	$ 633
Accrued real estate taxes	4,836	4,009
Accrued interest expense	2,174	2,024
Accrued payroll expense	5,021	4,971
Other accrued expenses	5,718	6,757
Income taxes payable		1,068
Resident security deposits	1,991	1,562
Other current liabilities	976	530
Current portion of unfavorable lease adjustment	607	583
Current portion of long-term debt and capital lease obligations	11,521	2,760
Total current liabilities	33,613	24,897
Other liabilities	463	578
Unfavorable lease adjustment, net of current portion	2,508	2,220
Long-term debt and capital lease obligations, net of current portion	109,078	108,054
Senior and Junior Secured notes	41,993	49,604
Total liabilities	187,655	185,353

Commitments and contingencies		
Shareholders equity:		
Preferred stock, $.01 par value; 3,250,000 shares authorized; none issued or outstanding		
Common stock, $.01 par value; 20,000,000 shares authorized; issued and outstanding 6,431,759 shares at December 31, 2002 and June 30, 2003 (68,241 shares to be issued upon settlement of pending claims)	65	65
Additional paid-in capital	32,734	33,816
Accumulated deficit	(4,414)	(2,620)
Total shareholders equity	28,385	31,261
Total liabilities and shareholders equity	$216,040	$216,614

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

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ASSISTED LIVING CONCEPTS, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share amounts)
(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2002	2003	2002	2003
Revenue	$ 37,813	$ 41,932	$ 74,827	$ 83,076
Operating expenses:				
Residence operating expenses	26,159	27,720	51,627	55,443
Corporate general and administrative	5,578	4,760	9,895	9,102
Building rentals	3,067	3,119	6,105	6,224
Depreciation and amortization	1,644	1,701	3,256	3,377
Total operating expenses	36,448	37,300	70,883	74,146
Operating income	1,365	4,632	3,944	8,930
Other income (expense):				
Interest expense	(3,466)	(3,429)	(7,057)	(6,858)
Interest income	52	30	106	66
Other income (expense), net	18	(67)	19	(71)
Total other expense, net	(3,396)	(3,466)	(6,932)	(6,863)
Income (loss) before debt restructure, reorganization costs, and discontinued operations	(2,031)	1,166	(2,988)	2,067
Debt restructure and reorganization costs	(219)		(666)	
Income (loss) from continuing operations before income taxes	(2,250)	1,166	(3,654)	2,067
Income tax expense		403		767
Income (loss) from continuing operations	(2,250)	763	(3,654)	1,300
Discontinued operations:				
Income (loss) from operations (including gain on sale of assets of $899 in March 2003)	(380)		(426)	830
Income tax expense				336
Income (loss) from discontinued operations	(380)		(426)	494
Net income (loss)	$ (2,630)	$ 763	$ (4,080)	$ 1,794
Basic earnings per share:				
Income (loss) from continuing operations	$ (0.34)	$ 0.12	$ (0.56)	$ 0.20
Income (loss) from discontinued operations	(0.06)		(0.07)	0.08
Net income (loss)	(0.40)	$ 0.12	$ (0.63)	$ 0.28
Diluted earnings per share:				
Income (loss) from continuing operations	$ (0.34)	$ 0.12	$ (0.56)	$ 0.20

Income (loss) from discontinued operations	(0.06)		(0.07)	0.07
Net income (loss)	$ (0.40)	$ 0.12	$ (0.63)	$ 0.27

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

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ASSISTED LIVING CONCEPTS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(unaudited)

	Six Months Ended June 30,	
	2002	**2003**
Operating Activities:		
Net income (loss)	$(4,080)	$ 1,794
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	3,359	3,377
Stock-based compensation expense		93
Amortization of debt issuance costs	52	55
Amortization of fair value adjustment to building rentals	(306)	(312)
Amortization of fair market adjustment to long-term debt	213	184
Amortization of discount on long-term debt	211	271
Straight line adjustment to building rentals	188	115
Interest paid-in-kind	610	660
Provision for doubtful accounts	132	456
(Gain) loss on sale or disposal of assets	443	(833)
Changes in assets and liabilities:		
Accounts receivable	(136)	(1,162)
Prepaid expenses	(1,202)	(86)
Other current assets	172	43
Other assets	(299)	(368)
Accounts payable	(218)	(136)
Accrued expenses	1,443	82
Other current liabilities	294	123
Net cash provided by operating activities	876	4,356
Investing Activities:		
Decrease (increase) in restricted cash	(2,680)	548
Purchases of property and equipment	(1,333)	(1,093)
Sales of properties		2,569
Net cash provided by (used in) investing activities	(4,013)	2,024
Financing Activities:		
Proceeds from long-term debt	3,400	
Payments on long-term debt and capital lease obligations	(725)	(3,289)
Debt issuance costs	(79)	
Net cash provided by (used in) financing activities	2,596	(3,289)
Net increase (decrease) in cash and cash equivalents	(541)	3,091
Cash and cash equivalents, beginning of period	6,077	7,165
Cash and cash equivalents, end of period	$ 5,536	$10,256
Supplemental disclosure of cash flow information:		
Cash payments for interest	$ 5,422	$ 6,109

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

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ASSISTED LIVING CONCEPTS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. The Company

Assisted Living Concepts, Inc., (the Company) owns, leases and operates assisted living residences which provide housing to older persons who need help with the activities of daily living such as bathing and dressing. The Company provides personal care and support services and makes available routine health care services, as permitted by applicable law, designed to meet the needs of its residents.

2. Basis of Presentation

The condensed consolidated financial statements included herein have been prepared by the Company without audit and in the opinion of management include all adjustments (all of which are normal and recurring) necessary for a fair presentation of the results of operations for each of the three and six month periods ended June 30, 2002 and 2003, pursuant to the rules and regulations of the Securities and Exchange Commission. The accompanying condensed consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation. Certain reclassifications have been made to the prior period financial statements to conform to the current period presentation. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such rules and regulations; however the Company believes that the disclosures in the accompanying financial statements are adequate to make the information presented not misleading.

The accompanying condensed consolidated financial statements should be read in conjunction with the Company s annual report on Form 10-K for the fiscal year ended December 31, 2002 filed with the Securities and Exchange Commission. The results of operations for the three and six month periods ended June 30, 2003 are not necessarily indicative of the results for a full year.

The results of operations for the three and six month periods ended June 30, 2002 and 2003 reflect the continuing operations of 177 residences. Results of operations for five residences sold on September 30, 2002 and two residences sold in March 2003 are included in discontinued operations in the accompanying financial statements. (See Note 5).

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3. Long-Term Debt

As of December 31, 2002 and June 30, 2003, long-term debt consists of the following (in thousands):

	December 31, 2002		June 30, 2003	
	Carrying Amount	Principal Amount	Carrying Amount	Principal Amount
Trust Deed Notes, payable to the State of Oregon Housing and Community Services Department (OHCS) due 2028	$ 9,688	$ 9,585	$ 9,603	$ 9,499
Variable Rate Multifamily Revenue Bonds, payable to the Washington State Housing Finance Commission Department due 2028	7,217	7,295	7,220	7,295
Variable Rate Demand Housing Revenue Bonds, Series 1997, payable to the Idaho Housing and Finance Association due 2017	6,277	6,345	6,280	6,345
Variable Rate Demand Housing Revenue Bonds, Series A-1 and A-2 payable to the State of Ohio Housing Finance Agency due 2018	11,451	11,575	10,455	10,575
Housing and Urban Development Insured Mortgages due 2035	7,329	7,410	7,305	7,385
New Senior Secured Notes due 2009	35,750	35,750	34,350	34,350
New Junior Secured Notes due 2012	13,925	16,225	15,254	17,154
Mortgages payable due 2008	27,995	27,948	27,674	27,675
G.E. Capital (Previously Heller Healthcare Finance, Inc.) Credit Facility due 2005	42,691	43,516	42,277	42,991
Capital lease obligations	269	269		
Total long-term debt	162,592	$ 165,918	160,418	$ 163,269
Less current portion	11,521		2,760	
Long-term debt	$ 151,071		$ 157,658	

The Trust Deed Notes payable to OHCS are secured by buildings, land, furniture and fixtures of six Oregon residences. The notes are payable in monthly installments including interest at effective rates ranging from 7.375% to 9.0%.

The Variable Rate Multifamily Revenue Bonds are payable to the Washington State Housing Finance Commission Department and at June 30, 2003 are secured by a $7.4 million letter of credit and by buildings, land, furniture and fixtures of the five Washington residences and had an interest rate of 1.2% at June 30, 2003. The letter of credit expires in January 2004 and had an interest rate of 1.2% at June 30, 2003.

The Variable Rate Demand Housing Revenue Bonds, Series 1997 are payable to the State of Idaho Housing and Finance Association and at June 30, 2003 are secured by a $6.5 million letter of credit and by buildings, land, furniture and fixtures of four Idaho residences and had an interest rate of 1.2% at June 30, 2003. The letter of credit expires in July 2004 and had an interest rate of 1.5% at June 30, 2003.

The Variable Rate Demand Housing Revenue Bonds are payable to the State of Ohio Housing Finance Agency (OHFA) and at June 30, 2003 are secured by a $10.8 million letter of credit and by buildings, land, furniture and fixtures of six Ohio residences and had an interest rate of 1.1% at June 30, 2003. The letter of credit expires in July 2005 and had an interest rate of 1.5% at June 30, 2003.

At June 30, 2003, mortgage loans include three fixed rate loans secured by seven Texas residences, three Oregon residences and three New Jersey residences. These loans collectively require monthly principal and interest payments of $230,000, with balloon payments of $11.8 million, $5.3 million and $7.2 million due at maturity in May 2008, August 2008 and September 2008, respectively. These loans bear fixed interest rates from 7.58% to 8.79%.

Housing and Urban Development (HUD) insured mortgages include three separate loan agreements entered into in 2001. These are fixed rate mortgages, each of which is secured by a separate facility in Texas. These loans mature between July 1, 2036 and August 1, 2036 and collectively require monthly principal and interest payments of $47,493. The loans bear fixed interest rates between 7.40% and 7.55%.

The GE Capital credit facility is a secured line of credit up to $44.0 million. This is a variable rate credit facility, secured by 31 facilities. This credit facility matures in January 2005 and requires monthly principal payments of $65,000 for 2003 and $80,000 for 2004. The interest on the credit facility is calculated at LIBOR plus 4.5%, floating monthly (not to be less than 8%) and is payable monthly in arrears.

On January 1, 2002 the Debtors emerged from the proceedings under Chapter 11 of the Bankruptcy Code. The Company s Plan of reorganization included the issuance of $40.25 million aggregate principal amount of seven-year secured notes (the New Senior Secured Notes), bearing interest at 10% per annum, payable semi-annually in arrears, and $15.25 million aggregate principal amount of ten-year secured notes (the New Junior Secured Notes and collectively with the New Senior Secured Notes, the New Notes), bearing interest payable in additional New Junior Secured Notes for three years at 8% per annum and thereafter payable in cash at 12% per annum, payable semi-annually in arrears. The New Junior Secured Notes were issued at a discount of $2.6 million. The discount is being amortized over the life of the New Junior Secured Notes using the effective interest method. The New Notes are secured by 51 properties as of June 30, 2003.

Of the $51.5 million outstanding in New Notes, $18.5 million is payable to related parties at June 30, 2003.

As of the Effective Date, the Successor Company revalued its long-term debt in conjunction with the implementation of fresh-start reporting. At December 31, 2001, an adjustment of $3.1 million was recorded to reduce long-term debt to its fair market value. Amortization of this adjustment is computed using the straight-line method over the individual loan life.

As of June 30, 2003, the following annual principal payments are required (in thousands):

July 1, 2003 through December 31, 2003	$ 1,867
2004	2,942
2005	43,762
2006	2,258
2007	2,408
Thereafter	110,032
Total	$ 163,269

The Company has a series of reimbursement agreements with U.S. Bank for letters of credit that secure certain of our Revenue bonds payable, which total approximately $24.7 million as of June 30, 2003. As such letters of credit expire, beginning in January 2004, the Company will need to obtain replacement letters of credit, post cash collateral or refinance the underlying debt. There can be no assurance that replacement letters of credit will be procured from the same or other lending institutions on terms that are acceptable to the Company. In the event that the Company is unable to obtain a replacement letter of credit or provide alternate collateral prior to the expiration of any of these letters of credit, the underlying debt would be in default. The Company s agreements with U.S. Bank contain restrictive covenants that include compliance with certain financial ratios.

In May 2002, we amended our existing agreement with U.S. Bank, establishing new covenants, with which we were in compliance as of June 30, 2003. Failure to comply with these covenants would constitute an event of default, which would allow U.S. Bank to declare any amounts outstanding under the loan documents to be due and payable.

In addition to the debt agreements with OHCS related to the six owned residences in Oregon, the Company has entered into Lease Approval Agreements with OHCS and the lessor of the Oregon Leases, which obligates the Company to comply with the terms and conditions of the underlying trust deed relating to the leased buildings. Under the terms of the OHCS debt agreements, the Company is required to maintain a capital replacement escrow account to cover expected capital expenditure requirements for the Oregon Leases and the six OHCS loans.

As a further condition of the OHCS debt agreements, the Company is required to comply with the terms of certain regulatory agreements which provide, among other things, that in order to preserve the federal income tax exempt status of the bonds, the Company is required to lease at least 20% of the units of the projects to low or moderate income persons as defined in Section 142(d) of the Internal Revenue Code. There are additional requirements as to the age and physical condition of the residents with which the Company must also comply. Non-compliance with these restrictions may result in an event of default and cause acceleration of the scheduled repayment.

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4. Income Taxes

The Company anticipates taxable income for both financial reporting and tax return purposes for the year ending December 31, 2003, and accordingly has provided for federal and state income taxes on income from continuing operations and discontinued operations for the six months ended June 30, 2003. The Company has recorded such income tax expense at the rate of 38.1% for the six months ended June 30, 2003.

The provision for income taxes differs from the applicable U.S. statutory federal rate as a result of the following items:

Statutory federal tax rate	34.0%
State income taxes, net of federal benefit	2.6%
Non-deductible expenses	1.5%
Effective tax rate	38.1%

At December 31, 2002, the Company had approximately $93.5 million of net operating loss (NOL) carryforwards which will expire between 2009 and 2022. These NOL carryforwards have been reduced to approximately $16 million as a result of the discharge and cancellation of certain prepetition liabilities under the Plan. The reduction of the NOL carryforwards was effective on January 1, 2003.

The NOL carryforwards remaining after the application of the cancellation of indebtedness provisions are subject to certain provisions of the Internal Revenue Code which restricts the utilization of such NOL carryforwards. In addition, any net unrealized built-in losses resulting from the excess of tax basis over the carrying value of the Company s assets (primarily property and equipment) as of the Effective Date, which are recognized within five years are also subject to these provisions. Section 382 of the Internal Revenue Code imposes limitations on the utilization of the NOL carryforwards and built-in losses after certain changes of ownership of a loss company. The Company is deemed to be a loss company for these purposes. Under these provisions, the Company s ability to utilize these NOL carryforwards and built-in losses in the future will generally be subject to an annual limitation of approximately $1.6 million (the Annual Limitation). There can be no assurance that the Company will be able to utilize these NOL carryforwards or built-in losses and therefore, the Company established a 100 percent valuation allowance of approximately $43.6 million as of Effective Date. Pursuant to SOP 90-7, the income tax benefit, if any, of the future realization of these NOL carryforwards and built-in loss deductible temporary differences will be recorded as an adjustment to additional paid-in capital.

For the year ended December 31, 2002, the Annual Limitation was not utilized since the Company incurred a loss for financial statement purposes. A 100 percent valuation allowance of approximately $45.0 million was recorded to offset the associated net deferred tax asset as of December 31, 2002. For the full fiscal year ending December 31, 2003, the Company anticipates utilizing the 2003 Annual Limitation as well as some or all of the 2002 unused Annual Limitation. Because of the uncertainty of anticipating future taxable income, for the six months ended June 30, 2003 the Company has recorded a charge in lieu of taxes resulting from the initial recognition of built-in loss Annual Limitation tax benefits allocated as a credit to additional paid-in capital pursuant to SOP 90-7. To the extent the Company s 2003 financial statement income after permanent differences exceeds $3.2 million (the annual limitation for 2002 and 2003) and depending upon the Company s ability to recognize deferred tax assets which arose subsequent to the Effective Date, the Company s effective tax rate for 2003 would likely be less than 38.1%.

Subsequently recognized tax benefits relating to the valuation allowance for deferred tax assets as of June 30, 2003 will be allocated as follows:

Additional paid-in capital	$42.5	million
Income tax benefit that would be reported in the consolidated statement of operations	1.3	million
	$43.8	million

5. Discontinued Operations

During March 2003, the Company sold one residence in Ohio and one residence in Indiana. The total sales price for these residences was $2.6 million, and the Company recognized a gain from these sales of $899,000.

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In accordance with SFAS No. 144, the results of operations and the gain and losses from the sales have been included in Income (loss) from discontinued operations in the accompanying financial statements for the three and six month periods ended June 30, 2002 and 2003.

On September 30, 2002 the Company completed the sale of four Florida residences and one Georgia residence. Consequently, the results of operations for these residences are included in Income (loss) from discontinued operations in the accompanying financial statements for the three and six month periods ended June 30, 2002.

6. Stock-based Compensation

Previously, the Company accounted for stock-based compensation plans under the recognition and measurement provisions of APB Opinion No. 25, Accounting for Stock Issued to Employees (APB No. 25) and related interpretations. No stock-based employee compensation expense for stock options was reflected in Net Income previous to April 1, 2003, as all stock options granted under those plans had an exercise price equal to the fair market value of the underlying common stock on the date of grant. Effective April 1, 2003, the Company adopted the fair value recognition provisions of SFAS No. 123, Accounting for Stock-Based Compensation , and recognizes compensation expense according to the prospective transition method under SFAS No. 148, Accounting for Stock-Based Compensation Transition and Disclosure . Under this method the Company expenses the fair value of all new stock options granted after January 1, 2003. The following table illustrates the effect on net income and earnings per share had the company applied the fair value accounting method to all of the Company s stock option grants.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2002	2003	2002	2003
Net income (loss), as reported	$ (2,630)	$ 763	$ (4,080)	$ 1,794
Add: Stock-based employee compensation expense included in reported net income, net of related tax effects		93		93
Deduct: Total stock-based employee compensation expense determined under fair value method for all awards granted, net of related tax effects	(12)	(118)	(13)	(144)
Pro forma net income (loss)	$ (2,642)	$ 738	$ (4,093)	$ 1,743
Net income (loss) per share:				
Basic as reported	$ (0.41)	$ 0.12	$ (0.63)	$ 0.28
Basic pro forma	$ (0.41)	$ 0.11	$ (0.63)	$ 0.27
Diluted as reported	$ (0.41)	$ 0.12	$ (0.63)	$ 0.27
Diluted pro forma	$ (0.41)	$ 0.11	$ (0.63)	$ 0.27

7. Income (Loss) Per Share

The weighted average common shares used for basic net income (loss) per common share were 6,500,000 for the three and six month periods ended June 30, 2002 and 2003. The effect of dilutive stock options using the treasury stock method added 110,113 shares for the three month period ended June 30, 2003 and 52,519 shares for the six month period ended June 30, 2003. The effect of options for the three and six month periods ended June 30, 2002 is not considered since their effect is antidilutive.

8. Subsequent Event

In July 2003, the Company completed an open market purchase of a portion of the Company s outstanding 10% Senior Secured Notes due 2009 and Junior Secured Notes due 2012. The transaction included the purchase of $147,889 principal amount of Senior Secured Notes and $34,178 principal amount of Junior Secured Notes (collectively, the Purchase Notes). Because the purchase of the Junior Notes is not permitted under the Indentures and constitutes a Default thereunder, and the purchase of the Senior Notes may not be permitted and could constitute Default there under, although this issue is not clear, the Company intends to cure the Default by reversing these transactions and selling the Purchased Notes. Failure to cure the Default under the Indentures could have a material adverse effect on the Company.

9. Subsidiary Guarantee of New Notes

The New Notes, issued by the Company, are publicly traded and the repayment of these notes is guaranteed by three wholly owned subsidiaries of the Company: ALC Indiana, Inc., Home and Community Care, Inc. (HCI) and Carriage House Assisted Living, Inc. (Carriage House). The following information is presented as required under the Securities and Exchange Commission Financial Reporting Release No. 55 in connection with the guarantee of the New Notes by the Company s wholly owned subsidiaries. The operating and investing activities of the separate legal entities included in the consolidating financial statements are fully interdependent and integrated with the Company and each other.

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ASSISTED LIVING CONCEPTS, INC.
CONSOLIDATING BALANCE SHEETS
JUNE 30, 2003
(in thousands, except share amounts)
(unaudited)

	ALC, Inc.	Wholly-Owned Subsidiaries: ALC Indiana, Inc.	Carriage House	HCI	Non-Participating Subsidiaries	Consolidating Adjustments	Consolidated Total
ASSETS							
Current Assets:							
Cash and cash equivalents	$ 10,256	$	$	$	$	$	$ 10,256
Cash restricted for resident security deposits	1,673						1,673
Accounts receivable, net of allowance for doubtful accounts	3,178				242		3,420
Prepaid insurance	745						745
Prepaid expenses	675						675
Cash restricted for workers compensation claims	4,407						4,407
Other current assets	1,139				2,011		3,150
Total current assets	22,073				2,253		24,326
Restricted cash	5,312						5,312
Receivable from subsidiaries/parent	9,380	5,023		3,289	1,068	(18,760)	
Property and equipment, net	85,529	12,444	3,501	4,111	78,052		183,637
Investment in subsidiaries	29,634					(29,634)	
Deferred income taxes	990						990
Other assets, net	1,883				466		2,349
Total assets	$ 154,801	$ 17,467	$ 3,501	$ 7,400	$ 81,839	$ (48,394)	$ 216,614
LIABILITIES AND SHAREHOLDERS EQUITY							
Current liabilities:							
Accounts payable	$ 594	$	$	$	$ 39	$	$ 633
Accrued real estate taxes	2,451	446	239	102	771		4,009
Accrued interest expense	1,837				187		2,024
Accrued payroll expense	4,900				71		4,971
Other accrued expenses	6,700				57		6,757
Resident security deposits	1,414			(1)	149		1,562
Other current liabilities	1,355	243					1,598
Current portion of unfavorable lease adjustment	505		78				583
Current portion of long-term debt and capital lease obligation	1,257				1,503		2,760
Total current liabilities	21,013	689	317	101	2,777		24,897
Other liabilities	533		45				578
Unfavorable lease adjustment, net of current portion	1,850		309		61		2,220
Long-term debt and capital lease obligation, net of current portion	81,901				75,757		157,658
Payable to subsidiaries/parent	18,070		690			(18,760)	

Total liabilities	123,367	689	1,361	101	78,595	(18,760)	185,353
Commitments and contingencies							
Shareholders equity:							
Preferred stock							
Common stock	65	16,342				(16,342)	65
Additional paid-in capital	33,989		2,549	7,365	5,667	(15,754)	33,816
Accumulated deficit	(2,620)	436	(409)	(66)	(2,423)	2,462	(2,620)
Total shareholders equity	31,434	16,778	2,140	7,299	3,244	(29,634)	31,261
Total liabilities and shareholder s equity	$154,801	$17,467	$3,501	$7,400	$81,839	$(48,394)	$216,614

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ASSISTED LIVING CONCEPTS, INC.

CONSOLIDATING BALANCE SHEETS
DECEMBER 31, 2002
(in thousands, except share amounts)

		Wholly-Owned Subsidiaries					
	ALC, Inc.	ALC Indiana, Inc.	Carriage House	HCI	Non-Participating Subsidiaries	Consolidating Adjustments	Consolidated Total
ASSETS							
Current Assets:							
Cash and cash equivalents	$7,165						