

ASSISTED LIVING CONCEPTS INC  
Form 10-Q  
August 09, 2001  
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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20459

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**FORM 10-Q**

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

For the quarterly period ended June 30, 2001

OR

- TRANSITION REPORT PURSUANT TO SECTION 12 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the Transition period from \_\_\_\_\_ to \_\_\_\_\_ .

Commission file number 1-83938

**ASSISTED LIVING CONCEPTS, INC.**

(Exact name of registrant as specified in its charter)

Nevada  
(State or other jurisdiction of  
incorporation or organization)

93-1148702  
(IRS Employer  
Identification No.)

11835 NE Glenn Widing Drive, Building E

Portland, Oregon 97220  
(Address of principle executive offices)

(503) 252-6233

(Registrant's telephone number, including area code)

Indicate by check mark whether Registrant (1) has filed all reports 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 Registrants was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

The Registrant had 17,120,745 shares of common stock, \$.01 par value, outstanding at August 6, 2001.

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**PART I FINANCIAL INFORMATION**

**Item 1. Financial Statements**

**ASSISTED LIVING CONCEPTS, INC.**

**CONSOLIDATED BALANCE SHEETS**

**(In thousands, except share amounts)**

**ASSETS**

	<b>December 31, 2000</b>	<b>June 30, 2001</b>
	<hr/>	<hr/>
		<b>(unaudited)</b>
Current assets:		
Cash, cash equivalents and cash held for tenant security deposits		
\$9,889 \$5,679		

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Accounts receivable, net of  
allowance for doubtful accounts of  
\$1,399 and \$353, respectively  
2,448 2,207  
Prepaid insurance  
1,765 1,094  
Prepaid expenses  
1,042 485  
Other current assets  
2,729 3,121

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Total current assets  
17,873 12,586

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Restricted cash  
6,466 8,474  
Property and equipment, net  
298,744 294,669  
Goodwill, net  
4,785 4,639  
Other assets, net  
8,590 11,030

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Total assets  
\$336,458 \$331,398

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LIABILITIES AND  
SHAREHOLDERS' EQUITY

Current liabilities:

Accounts payable  
\$2,708 \$1,525  
Accrued real estate taxes  
4,835 3,969  
Accrued interest expense  
1,937 2,013  
Accrued payroll expense  
4,017 4,379  
Other accrued expenses  
4,855 3,775  
Bridge loan payable  
4,000  
Litigation settlement payable  
7,765 3,256  
Tenant security deposits  
2,484 2,453  
Insurance premium obligation  
1,228

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Other current liabilities

565 421

Current portion of long-term debt  
and capital lease obligation

1,690 11,827

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Total current liabilities

34,856 34,846

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Other liabilities

6,059 5,751

Long-term debt and capital lease  
obligation, net of current portion

70,407 74,474

Convertible subordinated  
debentures

161,250 161,250

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Total liabilities

272,572 276,321

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Commitments and contingencies

Shareholders' equity:

Preferred Stock, \$.01 par value;  
1,000,000 shares authorized; none  
issued or outstanding

Common Stock, \$.01 par value;  
80,000,000 shares authorized;  
issued and outstanding 17,120,745  
shares in 2000 and 2001

171 171

Additional paid-in capital

144,212 144,212

Accumulated deficit

(80,497) (89,306)

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Total shareholders' equity

63,886 55,077

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Total liabilities and shareholders  
equity  
\$336,458 \$331,398

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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)**

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2000</b>	<b>2001</b>	<b>2000</b>	<b>2001</b>
Revenue	\$34,146	\$37,371	\$67,278	\$74,248
Operating expenses:				
Residence operating expenses				
22,305 24,891 44,987 50,449				
Corporate general and administrative				
5,066 4,440 9,114 8,708				
Building rentals				
3,685 4,151 7,330 8,322				
Building rentals to related party				
317 634				
Depreciation and amortization				
2,339 2,571 4,751 5,123				
Debt and lease restructure costs				
1,063 1,366				
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Total operating expenses				
33,712 37,116 66,816 73,968				
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Operating income  
434 255 462 280

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Other income (expense):

Interest expense  
(4,090) (4,905) (8,118) (9,307)

Interest income  
180 139 389 287

Gain (loss) on sale and disposal of assets  
13 (52) 13 (88)

Loss on sale of marketable securities  
(368) (368)

Other income (expense), net  
10 (48) 10 19

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Total other expense  
(4,255) (4,866) (8,074) (9,089)

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Net loss  
\$(3,821) \$(4,611) \$(7,612) \$(8,809)

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Basic and diluted net loss per common share  
\$(0.22) \$(0.27) \$(0.44) \$(0.51)

Basic and diluted weighted average common shares  
outstanding  
17,121 17,121 17,121 17,121

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,**

**2000      2001**

**Operating Activities:**

Net loss  
\$(7,612) \$(8,809)  
Adjustment to reconcile net  
loss to net cash used in  
operating activities:

Depreciation and amortization  
4,751 5,123  
Provision for doubtful accounts  
291 (21)  
Loss on sale of marketable  
securities  
368  
Compensation expense on  
issuance of consultant options



8  
 Loss on disposal of assets  
 (13) 88  
 Changes in assets and  
 liabilities:

Accounts receivable  
 (267) 262  
 Prepaid expenses  
 (95) 1,228  
 Other current assets  
 387 (444)  
 Other assets  
 889 694  
 Accounts payable  
 (462) (1,183)  
 Accrued expenses  
 (915) (1,211)  
 Insurance premium obligation  
 1,228  
 Other current liabilities  
 240 (4,981)  
 Other liabilities  
 18 (308)

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Net cash used in operating  
 activities  
 (2,412) (8,334)

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**Investing Activities:**

Restricted cash  
 (941) (2,008)  
 Sale of investment securities  
 1,632  
 Purchases of property and  
 equipment  
 (1,679) (938)

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Net cash used in investing  
 activities  
 (988) (2,946)

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**Financing Activities:**

Proceeds from long-term debt  
 14,777

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Payments on long-term debt  
and capital lease obligation  
(328) (573)  
Payments on bridge loan  
payable  
(4,000)  
Debt issuance costs  
(3,134)

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Net cash (used in) provided by  
financing activities  
(328) 7,070

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Net decrease in cash, cash  
equivalents and cash held for  
tenant security deposits  
(3,728) (4,210)  
Cash, cash equivalents and  
cash held for tenant security  
deposits, beginning of period  
7,606 9,889

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Cash, cash equivalents and  
cash held for tenant security  
deposits, end of period  
\$3,878 \$5,679

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**Supplemental disclosure of  
cash flow information:**

Cash payments for interest  
\$7,500 \$7,819  
Decrease in construction  
payable and property and  
equipment  
\$(794) \$  
Reclassification of other  
current and other liabilities to  
current and non-current  
long-term debt and capital lease  
obligation  
\$ \$550

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., a Nevada Corporation, (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.

*Basis of Presentation and Principles of Consolidation*

These consolidated financial statements have been prepared without being audited, as allowed by the rules and regulations of the Securities and Exchange Commission. The accompanying consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries that own, lease and operate assisted living residences. All significant intercompany accounts and transactions have been eliminated in consolidation. Certain information and footnote disclosures that are normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted as allowed by rules and regulations of the Securities and Exchange Commission. These consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2000.

The financial information included in these financial statements contain all adjustments (which consist of normal recurring adjustments) which are, in the opinion of management, necessary for a fair presentation of results for the quarterly periods. The results of operations for the three and six month periods ended June 30, 2001 do not necessarily indicate the results that are expected for the full year.

*Reclassifications*

Certain reclassifications have been made in the prior period's financial statements to conform to the current period's presentation. Such reclassifications had no effect on previously reported net loss or total shareholders' equity.

**2. Debt and Lease Restructure Costs**

Debt and lease restructure costs include legal, financial advisory and other professional fees related to the potential restructuring of the Company's under-performing loans and leases, and convertible debentures maturing in 2002 and 2003. Since the Company does not expect to raise any new capital as a result of such restructuring, these amounts are expensed as incurred in the accompanying financial statements. Costs were \$1.1 million and \$1.4 million for the three and six months ended June 30, 2001, respectively.

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**ASSISTED LIVING CONCEPTS, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(Unaudited)**

**3. Cash, Cash Equivalents and Cash Held for Tenant Security Deposits**

The Company's cash, cash equivalents and cash held for tenant security deposits consist of the following (in thousands):

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	<u>December 31, 2000</u>	<u>June 30, 2001</u>
Cash	\$2,863	\$2,097
Cash equivalents 4,581 1,169		
Cash held for tenant security deposits 2,445 2,413		
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Total cash, cash equivalents and cash held for tenant security deposits \$9,889 \$5,679		
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Cash held for tenant security deposits is a general unrestricted asset of the Company.

**4. Restricted Cash**

Restricted cash consists of the following (in thousands):

	<u>December 31, 2000</u>	<u>June 30, 2001</u>
Cash held for loan agreements with U.S. Bank National Association ( U.S. Bank )	\$4,354	\$4,418
Cash held in accordance with lease agreements 1,001 1,022		
Workers' compensation deposits 1,072 2,994		
State regulated restricted tenant security deposits 39 40		
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Total restricted cash \$6,466 \$8,474		
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**5. Property and Equipment**

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The Company's property and equipment, stated at cost, consists of the following (in thousands):

	December 31, 2000	June 30, 2001
Land and improvements	\$21,378	\$21,383
Buildings and improvements		
287,178	287,251	
Equipment		
7,149	7,385	
Furniture		
8,638	8,679	
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Total property and equipment		
324,343	324,698	
Less accumulated depreciation		
25,599	30,029	
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Property and equipment, net		
\$298,744	\$294,669	
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**6. Insurance Premium Obligation**

During the six months ended June 30, 2001, the Company entered into several short-term agreements to finance its annual insurance premiums. These are nine month agreements and bear interest at annual fixed rates of approximately 8% to 9%.

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**ASSISTED LIVING CONCEPTS, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(Unaudited)**

**7. Long-Term Debt**

*Equipment Financing*

Effective February 22, 2001, the Company entered into a loan agreement to finance technology equipment in the amount of \$550,000. The agreement required an initial payment of \$150,000 (which has been paid) and monthly payments of \$25,000 (principal and interest) until maturity on August 31, 2002. This loan bears an interest rate of 12.5% and is secured by the related technology equipment which the Company purchased during the year ended December 31, 2000.

*Heller Financing*

On March 2, 2001, the Company entered into an agreement with Heller Healthcare Finance, Inc. ( Heller ) for a line of credit facility up to \$45.0 million. This line was scheduled to mature on August 31, 2002 and would have been secured by up to 32 properties.

As of June 27, 2001, the Company amended its line of credit facility with Heller, reducing the aggregate line of credit available from \$45.0 million to \$20.0 million. This amended line bears an interest rate of 3.85% over the three-month LIBOR rate floating monthly and requires monthly interest-only payments until maturity. The amended line is secured by 26 properties. The maturity date for the amended line is September 28, 2001; accordingly, the outstanding balance is included in current portion of long-term debt in the accompanying financial statements. If the Company or any of the borrower subsidiaries is not subject to Chapter 11 of the U.S. Bankruptcy Code before such date, the borrower subsidiaries may extend the maturity date to the earlier of May 31, 2002, or the earliest date on which the Company or any of the borrower subsidiaries is subject to such a petition. Fees incurred to date, including commitment fees, funding fees, closing fees and professional fees associated with the establishment of this line of credit and amendment were \$2.9 million. The balance outstanding on this line is \$10.1 million at June 30, 2001 (\$12.2 million at August 6, 2001).

As amended, the facility may be used to pay trade payables, certain professional fees relating to its debt and lease restructuring, closing costs and other anticipated costs, and to fund an interest reserve and tenant deposit account. As amended, the line of credit facility may no longer be used to fund interest payments on the Company's convertible debentures, to repurchase leased facilities or debentures, or to fund future payments in connection with the Company's class action litigation settlement. While the line remains outstanding, the Company has agreed that it will not sell or grant mortgages on all but one of its remaining unencumbered properties, unless the net proceeds are used to repurchase the Company's convertible debentures or otherwise reduce its indebtedness (if approved by Heller).

The line of credit is guaranteed by the Company; however, as amended, the filing of a petition under Chapter 11 of the U.S. Bankruptcy Code by the Company no longer triggers an event of default under the loan agreement.

*Housing and Urban Development ( HUD ) Insured Financing*

On June 14, 2001, the Company entered into two loan agreements for \$1.8 million and \$2.7 million with Red Mortgage Capital, Inc. ( Red Mortgage ) for long-term HUD insured financing. Each loan is secured by a property in Texas, each loan matures on July 1, 2036 and together require monthly principal and interest payments of \$31,000. Each of these loans bears a fixed annual interest rate of 7.40%. Of the \$4.5 million in proceeds, \$4.0 million was used to pay off bridge financing provided by Red Mortgage, \$200,000 was used for loan closing costs, \$190,000 was used to pay down the Heller line of credit and the remaining proceeds were used to fund escrow accounts.

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**ASSISTED LIVING CONCEPTS, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(Unaudited)**

On July 19, 2001, the Company entered into a \$3.0 million loan agreement with Red Mortgage for long-term HUD insured financing. This loan is secured by one property in Texas, matures on July 1, 2036 and requires monthly principal and interest payments of \$20,000. This loan bears a fixed annual interest rate of 7.55%. \$2.8 million of the proceeds were used to pay down the Heller line of credit and the remaining proceeds were used for loan closing fees and to fund escrow accounts.

*U.S. Bank Loan Amendment*

On March 12, 2001, in exchange for a waiver of U.S. Bank's right to declare an event of default for the Company's failure to comply with certain financial covenants as of December 31, 2000 and March 31, 2001, and for the modification of certain financial covenants, the Company agreed to maintain minimum cash balances of \$11.0 million at the end of each fiscal quarter, except for the fiscal quarter ending June 30, 2001 which has a required minimum balance of \$8.0 million. The amendment also requires the Company to deposit \$500,000 in cash collateral with U.S. Bank in the event certain regulatory actions are commenced with respect to the properties securing its obligations to U.S. Bank. U.S. Bank is required to release such deposits upon satisfactory resolution of the regulatory action. As of the date of this filing, no such additional deposits

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have been required. Failure to comply with any covenant constitutes an event of default, which will allow U.S. Bank (at its discretion) to declare any amounts outstanding under the loan documents to be due and payable.

In May, 2001, the Company received a waiver of U.S. Bank's right to declare an event of default for the Company's failure to meet the March 31, 2001 cash balance requirements set forth in the March 12, 2001 U.S. Bank loan amendment.

Additionally, in August, 2001, the Company received a waiver of U.S. Bank's right to declare an event of default for the Company's failure to meet the June 30, 2001 cash balance requirements and other financial ratios set forth in the amended U.S. Bank loan agreement. There can be no assurance that the Company will be able to meet these requirements as of the end of future quarters or that U.S. Bank will grant