ASSISTED LIVING CONCEPTS INC
Form 10-Q
May 20, 2002

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20459

Form 10-Q

þ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2002

or

o 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	**93-1148702**
(State or other jurisdiction of incorporation or organization)	*(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 þ No o

The Registrant had 6,431,759 shares of common stock, $.01 par value, outstanding at May 13, 2002.

TABLE OF CONTENTS

Table of Contents

ASSISTED LIVING CONCEPTS, INC.

FORM 10-Q

March 31, 2002

INDEX

Table of Contents

PART I FINANCIAL INFORMATION

Item 1. *Financial Statements*

ASSISTED LIVING CONCEPTS, INC.

CONSOLIDATED BALANCE SHEETS
(in thousands, except share amounts)

	Successor Company	
	December 31, 2001	March 31, 2002
		(Unaudited)
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 6,077	$ 3,618
Cash restricted for resident security deposits	2,415	2,417
Accounts receivable, net of allowance for doubtful accounts of $13 at 2002	2,328	2,415
Prepaid insurance	160	2,667
Prepaid expenses	823	637
Cash restricted for workers compensation claims	2,825	4,519
Other current assets	3,862	3,617
Total current assets	18,490	19,890
Restricted cash	5,349	5,372
Property and equipment, net	196,548	195,506
Other assets, net	1,866	1,956
Total assets	$222,253	$222,724
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 1,450	$ 1,196
Accrued real estate taxes	4,523	3,648
Accrued interest expense	666	1,095
Accrued interest expense payable to related parties		331
Accrued payroll expense	4,561	5,882
Other accrued expenses	7,163	6,270
Resident security deposits	2,471	2,433
Insurance premium obligation		1,224
Other current liabilities	652	261
Current portion of unfavorable lease adjustment	681	664
Current portion of long-term debt and capital lease obligation	2,622	2,583
Total current liabilities	24,789	25,587
Other liabilities	89	168
Unfavorable lease adjustment	3,115	2,962
Long-term debt and capital lease obligation, net of current portion	161,461	162,658

Total liabilities	189,454	191,375
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 (68,241 shares to be issued upon settlement of pending claims)	65	65
Additional paid-in capital	32,734	32,734
Accumulated deficit		(1,450)
Total shareholders equity	32,799	31,349
Total liabilities and shareholders equity	$222,253	$222,724

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

Table of Contents

ASSISTED LIVING CONCEPTS, INC.

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

	Predecessor Company	Successor Company
	Three Months Ended March 31, 2001	Three Months Ended March 31, 2002
Revenue	$36,877	$37,889
Operating expenses:		
Residence operating expenses	25,558	26,335
Corporate general and administrative	4,268	4,316
Building rentals	1,958	982
Building rentals to related party	2,213	2,055
Depreciation and amortization	2,552	1,667
Total operating expenses	36,549	35,355
Operating income	328	2,534
Other income (expense):		
Interest expense	(4,402)	(3,161)
Interest expense to related parties		(430)
Interest income	148	54
Other income, net	31	
Total other expense, net	(4,223)	(3,537)
Loss before debt restructure and reorganization costs	(3,895)	(1,003)
Debt restructure and reorganization costs	303	447
Net loss	$ (4,198)	$ (1,450)
Basic and diluted net loss per common share	$ (.25)	$ (.22)
Basic and diluted weighted average common shares outstanding	17,121	6,500

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

Table of Contents

ASSISTED LIVING CONCEPTS, INC.

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

	Predecessor Company	Successor Company
	Three Months Ended March 31, 2001	Three Months Ended March 31, 2002
Operating Activities:		
Net loss	$(4,198)	$(1,450)
Adjustment to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	2,552	1,667
Amortization of debt issuance costs		20
Amortization of fair value adjustment to building rentals		(170)
Amortization of fair market adjustment to long-term debt		107
Amortization of discount on long-term debt		106
Straight line adjustment to building rentals		86
Interest paid-in-kind		305
Provision for doubtful accounts	156	13
Changes in assets and liabilities:		
Accounts receivable	(166)	(100)
Prepaid expenses	282	(2,321)
Other current assets	378	245
Other assets	(17)	(31)
Accounts payable	(166)	(254)
Accrued expenses	(1,341)	313
Insurance premium obligation	2,507	1,224
Other current liabilities	(2,314)	(429)
Other liabilities	(106)	(7)
Net cash used in operating activities	(2,433)	(676)
Investing Activities:		
Increase in restricted cash	(2,081)	(1,719)
Purchases of property and equipment	(453)	(625)
Net cash used in investing activities	(2,534)	(2,344)
Financing Activities:		
Proceeds from long-term debt	1,300	1,000
Payments on long-term debt and capital lease obligation	(340)	(360)
Debt issuance costs	(1,809)	(79)
Net cash provided by (used in) financing activities	(849)	561
Net decrease in cash and cash equivalents	(5,816)	(2,459)
Cash and cash equivalents, beginning of period	9,889	6,077
Cash and cash equivalents, end of period	$ 4,073	$ 3,618
Supplemental disclosure of cash flow information:		

Cash payments for interest	$ 1,730	$ 2,705
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.

Table of Contents

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.

2. Basis of Presentation

The accompanying unaudited consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto included in the Company s annual report on Form 10-K for the fiscal year ended December 31, 2001.

The accompanying consolidated financial statements are unaudited and have been prepared in accordance with accounting principles generally accepted in the United States of America. In the opinion of management, the unaudited consolidated financial statements include all necessary adjustments consisting of normal recurring accruals. Certain prior year amounts have been reclassified to conform to the current year presentation.

3. Reorganization and Fresh-Start Reporting

Reorganization

On October 1, 2001, Assisted Living Concepts, Inc. (the Company), and its wholly owned subsidiary, Carriage House Assisted Living, Inc. (Carriage House , and together with the Company, the Debtors) each filed a voluntary petition under Chapter 11 of Title 11 of the United States Code (the Bankruptcy Code) in the United States Bankruptcy Court for the District of Delaware in Wilmington (the Court), case nos. 01-10674 and 01-10670, respectively, which are being jointly administered. The Court gave final approval to the first amended joint plan of reorganization (the Plan) on December 28, 2001.

On January 1, 2002 (the Effective Date) the Plan became effective. The Plan authorized the issuance as of the Effective Date (subject to the Reserve described below) 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, and (c) 6,500,000 shares of new common stock, par value $0.01 (the New Common Stock) of the reorganized Company, of which 4% was issued to shareholders of the Predecessor Company.

At the Effective Date, the new Board of Directors of the reorganized Company consisted of seven members as follows: W. Andrew Adams (Chairman), Leonard Tannenbaum, Andre Dimitriadis, Matthew Patrick, Mark Holliday, Richard Ladd and Wm. James Nicol, then the President and Chief Executive Officer of the Company. In February 2002, Steven L. Vick replaced Mr. Nicol as President, Chief Executive Officer and Director.

The Company held back from the initial issuance of New Common Stock and New Notes on the Effective Date, $440,178 of New Senior Secured Notes, $166,775 of New Junior Secured Notes and 68,241 shares of New Common Stock (collectively, the Reserve) to be issued to holders of general unsecured claims at a later date. The total amount of, and the identities of all of the holders of, the general unsecured claims were not known as of the Effective Date, either because they were disputed or they were not made by

ASSISTED LIVING CONCEPTS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

their holders prior to December 19, 2001, the cutoff date for calculating the Reserve (the Cutoff Date). Once the total amount and the identities of the holders of those claims are determined, the shares of New Common Stock and the New Notes held in the Reserve will be distributed pro rata among the holders of those claims (the date of this distribution, the Subsequent Distribution Date).

If the Reserve is insufficient to cover the general unsecured claims allowed after the Cutoff Date, the Company and its subsidiaries will have no further liability with respect to those general unsecured claims and the holders of those claims will receive proportionately lower distributions of shares of New Common Stock and New Notes than the holders of general unsecured claims allowed prior to the Cutoff Date. If the Reserve exceeds the distributions necessary to cover the general unsecured claims allowed after the Cutoff Date, the additional securities remaining in the Reserve will be distributed among all holders of the general unsecured claims so as to ensure that each holder of a general unsecured claim receives, in the aggregate, its pro rata share of the New Common Stock and the New Notes. In this case, the holders of the general unsecured claims allowed prior to the Cutoff Date will receive distributions of securities both on the Effective Date and on the Subsequent Distribution Date.

Fresh Start Reporting

Upon emergence from Chapter 11 proceedings, the Company adopted fresh-start reporting in accordance with the American Institute of Certified Public Accountants Statement of Position 90-7, *Financial Reporting By Entities in Reorganization Under the Bankruptcy Code* (SOP 90-7). In connection with the adoption of fresh-start reporting, a new entity has been deemed created for financial reporting purposes. For financial reporting purposes, the Company adopted the provisions of fresh-start reporting effective December 31, 2001. Consequently, the consolidated balance sheet and related information at and subsequent to December 31, 2001 is labeled Successor Company, and reflects the Plan and the principles of fresh-start reporting. Periods presented prior to December 31, 2001 have been designated Predecessor Company.

In adopting the requirements of fresh-start reporting as of December 31, 2001, the Company was required to value its assets and liabilities at fair value and eliminate its accumulated deficit as of December 31, 2001. A $32.8 million reorganization value was determined by the Company with the assistance of financial advisors in reliance upon various valuation methods, including discounted projected cash flow analysis and other applicable ratios and economic industry information relevant to the operation of the Company and through negotiations with various creditor parties in interest.

4. Factors Affecting Comparability of Financial Information

As a consequence of the implementation of fresh-start reporting effective December 31, 2001 the financial information presented in the unaudited consolidated statement of operations and the corresponding statements of cash flows for the three months ended March 31, 2001 are generally not comparable to the financial results for the three months ended March 31, 2002. Any financial information herein labeled Predecessor Company refers to periods prior to the adoption of fresh-start reporting, while those labeled Successor Company refer to periods following the Company s reorganization.

The lack of comparability in the accompanying unaudited consolidated financial statements relates primarily to the Company s capital costs (building rentals, interest, depreciation and amortization), as well as debt restructuring and reorganization costs.

Table of Contents

ASSISTED LIVING CONCEPTS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

5. Cash and Cash Equivalents

The Company s cash and cash equivalents consist of the following (in thousands):

	December 31, 2001	March 31, 2002
Cash	$5,022	$3,461
Cash equivalents	1,055	157
Total cash and cash equivalents	$6,077	$3,618

6. Long-Term Restricted Cash

Long-term restricted cash consists of the following (in thousands):

	December 31, 2001	March 31, 2002
Cash held for loan agreements with U.S. Bank National Association (U.S. Bank)	$4,338	$4,357
Cash held in accordance with lease agreements	970	974
State regulated restricted resident security deposits	41	41
Total long-term restricted cash	$5,349	$5,372

7. Property and Equipment

The Company s property and equipment consists of the following (in thousands):

	December 31, 2001	March 31, 2002
Land	$ 22,177	22,177
Buildings and improvements	166,443	166,544
Equipment	3,937	4,380
Furniture	3,991	4,072
Total property and equipment	196,548	197,173
Less accumulated depreciation		1,667
Property and equipment, net	$196,548	$195,506

Land, buildings and certain furniture and equipment relating to 129 owned residences serve as collateral for long-term debt.

Included in the 129 owned residences is one residence with a carrying value of $870,000 which was closed in March 2002. This closed residence is one of 57 residences which secure our New Notes. Any proceeds received on disposal of this residence must be used to reduce such debt.

8. Insurance Premium Obligation

During the three months ended March 31, 2002, 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 5.5% to 6.0%.

Table of Contents

ASSISTED LIVING CONCEPTS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

9. Long-Term Debt

As of December 31, 2001 and March 31, 2002, long-term debt consists of the following (in thousands):

	December 31, 2001		March 31, 2002	
	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.	$ 9,849	$ 9,741	$ 9,809	$ 9,703
Variable Rate Multifamily Revenue Bonds, payable to the Washington State Housing Finance Commission Department due 2028.	7,521	7,605	7,523	7,605
Variable Rate Demand Revenue Bonds, Series 1997, payable to the Idaho Housing and Finance Association due 2017.	6,542	6,615	6,543	6,615
Variable Rate Demand Revenue Bonds, Series A-1 and A-2 payable to the State of Ohio Housing Finance Agency due 2018.	11,888	12,020	11,900	12,020
Housing and Urban Development Insured Mortgages due 2035	7,374	7,457	7,363	7,446
New Senior Secured Notes due 2009.	40,250	40,250	40,250	40,250
New Junior Secured Notes due 2012.	12,628	12,628	13,038	13,038
Mortgages payable due 2008.	28,513	28,463	28,388	28,338
G.E. Capital (Previously Heller Healthcare Finance, Inc.) Credit Facility due 2005	39,222	40,458	40,252	41,386
Capital lease obligations due 2002.	296	301	175	188
Total long-term debt	164,083	$ 165,538	165,241	$ 166,589
Less current portion	2,622		2,583	
Long-term debt	$ 161,461		$ 162,658	

On January 1, 2002 the Company s Plan became effective. 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 at an effective interest rate of 13.0%. The New Notes are secured by 57 properties. (See Notes 3 and 7).

Of the face amount of $55.5 million and $55.8 million outstanding of the New Notes at December 31, 2001 and March 31, 2002, $18.2 million and $18.3 million, respectively, were payable to related parties. (See Note 10).

The Company s Washington, Idaho and Ohio Revenue Bonds are secured by a combination of cash, residences and letters of credit. The letters of credit have been issued by U.S. Bank and the underlying credit

ASSISTED LIVING CONCEPTS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

agreements between U.S. Bank and the Company contain restrictive covenants that include compliance with certain financial ratios.

In May 2002, the Company received a waiver from U.S. Bank regarding the Bank s right to declare an event of default for the Company s failure to meet the March 31, 2002 financial covenant requirements established for the Predecessor Company set forth in the amended U.S. Bank loan agreement. Furthermore, the Company amended its existing agreement with U.S. Bank, establishing new covenants, with which the Company was in compliance as of March 31, 2002.

As of March 31, 2001, the following annual principal payments are required (in thousands):

2002	$ 2,583
2003	2,672
2004	2,891
2005	41,315
2006	2,258
Thereafter	114,870
Total	$ 166,589

10. Related Party Transactions

LTC Properties, Inc. and CLC Healthcare, Inc.

Andre Dimitriadis, who has been a member of the Company s Board of Directors and the Chair of its Audit Committee since January 2002, is the President, Chief Executive Officer and Chairman of the Board of LTC Properties, Inc. (LTC) and is the Chief Executive Officer and Chairman of the Board of CLC Healthcare, Inc. (previously LTC Healthcare, Inc.). LTC owned $11.0 million of the Company s New Notes and CLC Healthcare, Inc. (CLC) owned 22.4% of the Company s common stock and $1.9 million of the Company s New Notes at March 31, 2002.

The Company has incurred interest expense on LTC and CLC s New Notes in the amount of $260,000 and $45,000, respectively. Of this interest, $200,000 and $35,000 is payable in cash to LTC and CLC, respectively, at March 31, 2002. The remaining interest is payable-in-kind and increases LTC and CLC s ownership of the New Notes proportionately.

The Company currently leases 37 properties (1,426 units) from LTC. The Company incurred lease expense of $2.2 million and $2.1 million for the three months ended March 31, 2001 and 2002, respectively, pursuant to these leases.

National Health Investors, Inc.

W. Andrew Adams, who has been a member of the Company s Board of Directors and its Chair since January 2002, is the President, Chief Executive Officer and Chairman of the Board of Directors of National Health Investors, Inc. (NHI). NHI owned 557,214 shares of the Company s common stock and $5.0 million of the Company s New Notes at March 31, 2002.

The Company has incurred interest expense on NHI s New Notes in the amount of $117,000. Of this interest, $90,000 is payable in cash to NHI at March 31, 2002. The remaining interest is payable-in-kind and increases NHI s ownership of the New Notes.

Table of Contents

ASSISTED LIVING CONCEPTS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Leonard Tannenbaum

Leonard Tannenbaum is a current member of the Company s Board of Directors. Mr. Tannenbaum owned $323,875 of the Company s New Notes at March 31, 2002.

The Company has incurred interest expense on Mr. Tannenbaum s New Notes in the amount of $8,000. Of this interest, $6,000 is payable in cash to Mr. Tannenbaum at March 31, 2002. The remaining interest is payable-in-kind and increases Mr. Tannenbaum s ownership of the New Notes.

11. Income Taxes

The Company has provided no benefit for income taxes as the Company recorded a full valuation allowance on its deferred tax asset. The Company believes it is more likely than not that some portion or all of the deferred tax assets will not be realized.

12. Subsequent Event

Effective May 16, 2002, Matthew Patrick replaced Drew Q. Miller as Senior Vice President, Chief Financial Officer and Treasurer. Mr. Patrick also serves as a Director of the Company.

13. Subsidiary Guarantee of New Notes

The New Notes, issued by the Company, are publicly traded and the repayment of these notes is guaranteed by two wholly-owned subsidiaries of the Company: ALC Indiana, Inc. and Home and Community Care, Inc. (HCI). HCI and Carriage House Assisted Living, Inc. (Carriage House), a wholly owned subsidiary of the Company, are also co-obligors of the New Notes. 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

ASSISTED LIVING CONCEPTS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

investing activities of the separate legal entities included in the consolidated financial statements are fully interdependent and integrated with the Company and each other.

Successor Company

Consolidating Balance Sheets
March 31, 2002

	ALC, Inc.	Wholly-Owned Subsidiaries: ALC Indiana, Inc.	Wholly-Owned Subsidiaries: Carriage House	Wholly-Owned Subsidiaries: HCI	Wholly-Owned Subsidiaries: Non-Participating Subsidiaries	Consolidating Adjustments	Consolidated Total
ASSETS							
Current Assets:							
Cash and cash equivalents	$ 3,348	$	$	$	$ 270	$	$ 3,618
Receivable from subsidiaries/parent	1,586	5,357			4,949	(11,892)	
Cash restricted for resident security deposits	2,417						2,417
Accounts receivable, net	2,176			4	235		2,415
Prepaid insurance	2,667						2,667
Prepaid expenses	616				21		637
Cash restricted for workers compensation claims	4,519						4,519
Other current assets	1,704	9		23	1,881		3,617
Total current assets	19,033	5,366		27	7,356	(11,892)	19,890
Restricted cash	5,372						5,372
Property and equipment, net	92,074	12,818	3,586	6,568	80,460		195,506
Investment in subsidiaries	36,161					(36,161)	
Other assets, net	1,583				373		1,956
Total assets	$ 154,223	$ 18,184	$ 3,586	$ 6,595	$ 88,189	$ (48,053)	$ 222,724
LIABILITIES AND SHAREHOLDERS EQUITY							
Current liabilities:							
Accounts payable	$ 1,174	$	$	$ 1	$ 21	$	$ 1,196
Payable to subsidiaries/ parent	4,949		211		1,586	(6,746)	
Accrued real estate taxes	2,173	386	303	106	680		3,648
Accrued interest expense	1,049				46		1,095
Accrued interest expense payable to related parties	331						331
Accrued payroll expense	5,801			7	74		5,882
Other accrued expenses	6,204			4	62		6,270
Resident security deposits	2,155			19	259		2,433
Insurance premium obligation	1,224						1,224
Other current liabilities	259				2		261
	562		89		13		664

Current portion of unfavorable lease adjustment

ASSISTED LIVING CONCEPTS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

		Wholly-Owned Subsidiaries					
	ALC, Inc.	ALC Indiana, Inc.	Carriage House	HCI	Non-Participating Subsidiaries	Consolidating Adjustments	Consolidated Total
Current portion of long-term debt and capital lease obligation	1,364				1,219		2,583
Total current liabilities	27,245	386	603	137	3,962	(6,746)	25,587
Other liabilities	160		8				168
Unfavorable lease adjustment	2,478		409		75		2,962
Long-term debt and capital lease obligation, net of current portion	87,874				74,784		162,658
Total liabilities	117,757	386	1,020	137	78,821	(6,746)	191,375
Shareholders equity:							
Common stock	65						65
Additional paid-in capital	37,880	17,428	2,818	6,523	9,392	(41,307)	32,734
Retained earnings (accumulated deficit)	(1,479)	370	(252)	(65)	(24)		(1,450)
Total shareholders equity	36,466	17,798	2,566	6,458	9,368	(41,307)	31,349
Total liabilities and shareholders equity	$ 154,223	$ 18,184	$ 3,586	$ 6,595	$ 88,189	$ (48,053)	$ 222,274

Successor Company

Consolidating Balance Sheets
December 31, 2001

		Wholly-Owned Subsidiaries					
	ALC, Inc.	ALC Indiana, Inc.	Carriage House	HCI	Non-Participating Subsidiaries	Consolidating Adjustments	Consolidated Total
Current Assets:							
Cash and cash equivalents	$ 6,077	$	$	$	$	$	$ 6,077
Receivable from subsidiaries/parent	674	4,906	1,074	1,177		(7,831)	
Cash restricted for resident security deposits	2,415						2,415

Accounts receivable, net	2,086			15	227		2,328
Prepaid insurance	160						160
Prepaid expenses	780				43		823
Cash restricted for workers compensation claims	2,825						2,825
Other current assets	2,210			24	1,628		3,862
Total current assets	17,227	4,906	1,074	1,216	1,898	(7,831)	18,490
Restricted cash	5,349						5,349
Property and equipment, net	95,508	12,917	3,576	6,611	77,936		196,548
Investment in subsidiaries	23,171					(23,171)	
Other assets, net	1,511				355		1,866
Total assets	$142,766	$17,823	$4,650	$7,827	$80,189	$(31,002)	$222,253

Table of Contents

ASSISTED LIVING CONCEPTS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

		Wholly-Owned Subsidiaries					
	ALC, Inc.	ALC Indiana, Inc.	Carriage House	HCI	Non-Participating Subsidiaries	Consolidating Adjustments	Consolidated Total
LIABILITIES AND SHAREHOLDERS EQUITY							
Current liabilities:							
Accounts payable	935			6	509		1,450
Payable to subsidiaries/parent	7,157				674	(7,831)	
Accrued real estate taxes	2,451	315	240	90	1,427		4,523
Accrued interest expense	636	30					666
Accrued payroll expense	4,480			6	75		4,561
Other accrued expenses	7,097			11	55		7,163
Tenant security deposits	2,120			18	333		2,471
Other current liabilities	652						652
Current portion of unfavorable lease adjustment	589		92				681
Current portion of long-term debt and capital lease obligation	2,079				543		2,622
Total current liabilities	28,196	345	332	131	3,616	(7,831)	24,789
Other liabilities	11				78		89
Unfavorable lease adjustment	2,686		429				3,115
Long-term debt and capital lease obligation, net of current portion	90,858				70,603		161,461
Total liabilities	121,751	345	761	131	74,297	(7,831)	189,454
Shareholders equity:							
Common stock	65						65
Additional paid-in capital	20,950	17,478	3,889	7,696	5,892	(23,171)	32,734
Accumulated deficit							
Total shareholders equity	21,015	17,478	3,889	7,696	5,892	(23,171)	32,799
Total liabilities and shareholders equity	$142,766	$17,823	$4,650	$7,827	$80,189	$(31,002)	$222,253

Table of Contents

ASSISTED LIVING CONCEPTS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Successor Company

Consolidating Statements of Operations

Three months ended March 31, 2002

	ALC, Inc.	Wholly-Owned Subsidiaries: ALC Indiana, Inc.	Wholly-Owned Subsidiaries: Carriage House	Wholly-Owned Subsidiaries: HCI	Non-Participating Subsidiaries	Consolidated Total
Revenue	$33,828	$	$	$287	$ 3,774	$37,889
Operating expenses:						
Residence operating expenses	23,039	71	62	287	2,876	26,335
Corporate general and administrative	4,316					4,316
Building rentals	982					982
Building rentals to related party	1,822		233			2,055
Depreciation and amortization	845	99	32	51	640	1,667
Total operating expenses	31,004	170	327	338	3,516	35,355
Operating income (loss)	2,824	(170)	(327)	(51)	258	2,534
Other income (expense):						
Interest expense	(1,633)				(1,528)	(3,161)
Interest expense to related parties	(430)					(430)
Interest income	54					54
Management fee income (expense)	(78)		75	(14)	17	
Lease income (expense)	(1,769)	540			1,229	
Total other income (expense), net	(3,856)	540	75	(14)	(282)	(3,537)
Income (loss) before debt restructure and reorganization costs	(1,032)	370	(252)	(65)	(24)	(1,003)
Debt restructure and reorganization costs	447					447
Net income (loss)	$ (1,479)	$ 370	$(252)	$ (65)	$ (24)	$ (1,450)

Table of Contents

ASSISTED LIVING CONCEPTS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Successor Company

Consolidating Statements of Cash Flows
Three months ended March 31, 2002

		Wholly-Owned Subsidiaries				
	ALC, Inc.	ALC Indiana, Inc.	Carriage House	HCI	Non-Participating Subsidiaries	Consolidated Total
Operating Activities:						
Net income (loss)	$(1,479)	$370	$(252)	$(65)	$ (24)	$(1,450)
Adjustment to reconcile net income (loss) to net cash provided by (used in) operating activities:						
Depreciation and amortization	845	99	32	51	640	1,667
Amortization of debt issuance costs	20					20
Amortization of fair value adjustment to building rentals	(144)		(23)		(3)	(170)
Amortization of fair market adjustment to long-term debt	4				103	107
Amortization of discount on long-term debt	106					106
Straight line adjustment to building rentals						