ASSISTED LIVING CONCEPTS INC
Form 10-Q
August 09, 2010

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

Form 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2010

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: 001-13498

Assisted Living Concepts, Inc.

(Exact name of registrant as specified in its charter)

Nevada	**93-1148702**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*
W140 N8981 Lilly Road Menomonee Falls, Wisconsin	**53051**
(Address of principal executive offices)	*(Zip Code)*

Registrant s telephone number, including area code: (262) 257-8888

Indicate by check mark whether the 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 þ No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes o No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer o	Accelerated filer þ	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by a check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No þ

As of August 2, 2010, the Company had 10,021,958 shares of its Class A Common Stock, $0.01 par value per share, outstanding and 1,522,135 shares of its Class B Common Stock, $0.01 par value per share, outstanding.

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Part I. FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share data)

	June 30, 2010 (unaudited)	December 31, 2009
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 12,239	$ 4,360
Investments	3,568	3,427
Accounts receivable, less allowances of $1,096 and $738, respectively	3,627	2,668
Prepaid expenses, supplies and other receivables	4,095	3,537
Deposits in escrow	1,763	1,993
Income taxes receivable		723
Deferred income taxes	4,590	4,636
Current assets of discontinued operations	168	36
Total current assets	30,050	21,380
Property and equipment, net	411,894	415,454
Intangible assets, net	11,003	11,812
Restricted cash	3,017	4,389
Other assets	1,977	1,935
Non-current assets of discontinued operations		399
Total Assets	$ 457,941	$ 455,369
LIABILITIES AND STOCKHOLDERS EQUITY		
Current Liabilities:		
Accounts payable	$ 5,749	$ 8,005
Accrued liabilities	16,177	19,228
Deferred revenue	6,008	6,368
Current maturities of long-term debt	1,884	1,823
Income tax payable	1,212	
Current portion of self-insured liabilities	500	500
Current liabilities of discontinued operations		34
Total current liabilities	31,530	35,958
Accrual for self-insured liabilities	1,416	1,416
Long-term debt	118,954	119,914
Deferred income taxes	14,281	13,257
Other long-term liabilities	11,801	11,853
Commitments and contingencies		
Total Liabilities	177,982	182,398

Preferred Stock, par value $0.01 per share, 25,000,000 shares authorized; no shares issued and outstanding				
Class A Common Stock, $0.01 par value, 80,000,000 shares authorized at June 30, 2010 and December 31, 2009; 12,403,499 and 12,397,525 shares issued and 10,108,938 and 10,048,674 shares outstanding, respectively		124		124
Class B Common Stock, $0.01 par value, 15,000,000 shares authorized at June 30, 2010 and December 31, 2009; 1,523,085 and 1,528,650 shares issued and outstanding, respectively		15		15
Additional paid-in capital		314,964		314,602
Accumulated other comprehensive loss		(775)		(2,012)
Retained earnings		39,995		33,486
Treasury stock at cost, 2,384,561 and 2,348,851 shares, respectively		(74,364)		(73,244)
Total Stockholders Equity		279,959		272,971
Total Liabilities and Stockholders Equity	$	457,941	$	455,369

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

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ASSISTED LIVING CONCEPTS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)
(In thousands, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	**2009** (Reclassified) (see Note 11)	**2010**	**2009** (Reclassified) (see Note 11)
Revenues	$ 58,305	$ 56,683	$ 116,164	$ 113,750
Expenses:				
Residence operations (exclusive of depreciation and amortization and residence lease expense shown below)	34,805	35,181	70,517	72,434
General and administrative	4,256	3,341	8,030	6,775
Residence lease expense	5,111	4,993	10,194	9,923
Depreciation and amortization	5,698	5,218	11,368	10,149
Goodwill impairment				16,315
Total operating expenses	49,870	48,733	100,109	115,596
Income (loss) from operations	8,435	7,950	16,055	(1,846)
Other expense:				
Other-than-temporary investments impairment	(2,026)		(2,026)	
Interest income	4	7	8	19
Interest expense	(1,899)	(1,834)	(3,787)	(3,537)
Income (loss) from continuing operations before income taxes	4,514	6,123	10,250	(5,364)
Income tax expense	(1,618)	(2,182)	(3,741)	(2,326)
Net income (loss) from continuing operations	2,896	3,941	6,509	(7,690)
Loss from discontinued operations, net of tax		(34)		(178)
Net income (loss)	$ 2,896	$ 3,907	$ 6,509	$ (7,868)
Weighted average common shares:				
Basic	11,567	11,808	11,572	11,882
Diluted	11,738	11,927	11,741	11,882
Per share data:				
Basic earnings per common share				
Earnings (loss) from continuing operations	$ 0.25	$ 0.33	$ 0.56	$ (0.65)
Loss from discontinued operations				(0.01)
Net income (loss)	$ 0.25	$ 0.33	$ 0.56	$ (0.66)

Diluted earnings per common share

Earnings (loss) from continuing operations	$	0.25	$	0.33	$	0.55	$	(0.65)
Loss from discontinued operations								(0.01)
Net income (loss)	$	0.25	$	0.33	$	0.55	$	(0.66)

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

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ASSISTED LIVING CONCEPTS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(In thousands)

	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009 (Reclassified)
OPERATING ACTIVITIES:		
Net income (loss)	$ 6,509	$ (7,868)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	11,368	10,344
Other-than-temporary investments impairment	2,026	
Goodwill impairment		16,315
Amortization of purchase accounting adjustments for leases	(197)	(198)
Provision for bad debts	358	(27)
Provision for self-insured liabilities	262	392
Loss on disposal of fixed assets	315	34
Unrealized gain on investments	(17)	
Equity-based compensation expense	362	188
Change in fair value of derivatives	23	
Deferred income taxes	306	(154)
Changes in assets and liabilities:		
Accounts receivable	(1,317)	360
Supplies, prepaid expenses and other receivables	(558)	(1,027)
Deposits in escrow	230	388
Current assets discontinued operations	(132)	
Accounts payable	(1,432)	(1,735)
Accrued liabilities	(3,051)	(231)
Deferred revenue	(360)	424
Current liabilities discontinued operations	(34)	
Payments of self-insured liabilities	(261)	(320)
Income taxes payable / receivable	1,935	4,296
Changes in other non-current assets	1,330	809
Other non-current assets discontinued operations	399	
Other long-term liabilities	100	553
Cash provided by operating activities	18,164	22,543
INVESTING ACTIVITIES:		
Payment for executive retirement plan securities	(110)	(95)
Payments for new construction projects	(3,208)	(11,768)
Payments for purchases of property and equipment	(4,930)	(6,930)
Cash used in investing activities	(8,248)	(18,793)
FINANCING ACTIVITIES:		
Purchase of treasury stock	(1,120)	(4,860)
Repayment of revolving credit facility		(19,000)

Proceeds from issuance of new mortgage debt				14,000
Repayment of mortgage debt		(917)		(8,114)
Cash used by financing activities		(2,037)		(17,974)
Increase (decrease) in cash and cash equivalents		7,879		(14,224)
Cash and cash equivalents, beginning of year		4,360		19,905
Cash and cash equivalents, end of period	$	12,239	$	5,681
Supplemental schedule of cash flow information:				
Cash paid during the period for:				
Interest	$	3,575	$	3,663
Income tax payments, net of refunds		1,494		(1,892)

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

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ASSISTED LIVING CONCEPTS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION

As of June 30, 2010, Assisted Living Concepts, Inc. and its subsidiaries (ALC or the Company) operated 211 senior living residences in 20 states in the United States totaling 9,280 units. ALC s residences typically range from approximately 40 to 60 units and offer residents a supportive, home-like setting and assistance with the activities of daily living.

ALC became an independent, publicly traded company listed on the New York Stock Exchange on November 10, 2006, (the Separation Date), when shares of ALC Class A and Class B Common Stock were distributed to Extendicare Inc., now known as Extendicare Real Estate Investment Trust (Extendicare), stockholders (the Separation).

ALC operates in a single business segment with all revenues generated from properties located within the United States.

The accompanying unaudited condensed consolidated financial statements reflect all adjustments which are, in the opinion of management, necessary for a fair presentation of the results for the three and six month periods ended June 30, 2010 and 2009 pursuant to the instructions to Form 10-Q and Article 10 of Regulation S-X. All such adjustments are of a normal recurring nature except for the impairment charges related to goodwill recorded in the first quarter of 2009, the losses from discontinued operations which were recorded throughout 2009, and the investment impairment and asset impairment recorded in the second quarter of 2010. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States (GAAP) have been condensed or omitted pursuant to such rules and regulations. These 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 year ended December 31, 2009. Operating results for interim periods are not necessarily indicative of results that may be expected for the entire year ending December 31, 2010.

Effective March 16, 2009, ALC implemented a one-for-five reverse stock split of its Class A and Class B Common Stock. All share and per share data in this report have been adjusted to reflect this reverse stock split.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Principles of Presentation and Consolidation

ALC s condensed consolidated financial statements have been prepared in accordance with GAAP. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Management s most significant estimates include revenue recognition and valuation of accounts receivable, measurement of acquired assets and liabilities in business combinations, valuation of assets and determination of asset impairment, estimates of self-insured liabilities for general and professional liability, workers compensation and health and dental claims, valuation of conditional asset retirement obligations, and valuation of deferred tax assets. Actual results could differ from those estimates.

The accompanying condensed consolidated financial statements include the financial statements of ALC and its majority-owned subsidiaries. All significant inter-company accounts and transactions with subsidiaries have been eliminated from the condensed consolidated financial statements.

(b) Accounts Receivable

Accounts receivable are recorded at the net realizable value expected to be received from individual residents or their responsible parties (private payers) and government assistance programs such as Medicaid.

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At June 30, 2010 and December 31, 2009, the Company had approximately 92% and 87%, respectively, of its accounts receivable derived from private payer sources, with the balance owing under various state Medicaid programs. Although management believes there are no credit risks associated with government agencies other than possible funding delays, claims filed under the Medicaid program can be denied if not properly filed prior to a statute of limitations.

The Company periodically evaluates the adequacy of its allowance for doubtful accounts by conducting a specific account review of amounts in excess of predefined target amounts and aging thresholds, which vary by payer type. Allowances for uncollectibility are considered based upon the evaluation of the circumstances for each of these specific accounts. In addition, the Company has developed internally-determined percentages for establishing an allowance for doubtful accounts, which are based upon historical collection trends for each payer type and age of the receivables. Accounts receivable that the Company specifically estimates to be uncollectible, based upon the above process, are fully reserved in the allowance for doubtful accounts until they are written off or collected. The Company wrote off accounts receivable of $0.4 million and $0.6 million in the six month periods ended June 30, 2010 and 2009, respectively. Bad debt expense was $0.8 million and $0.5 million for the six month periods ended June 30, 2010 and 2009, respectively.

(c) Investments

Investments in marketable securities are stated at fair value. Investments with no readily determinable fair value are carried at cost. Fair value is determined using quoted market prices at the end of the reporting period and, when appropriate, exchange rates at that date. All of our marketable securities are classified as available-for-sale. In December 2009, ALC elected to account for its investments in the executive retirement plan in accordance with the fair value option of Accounting Standards Codification (ASC) Topic 825. This provides for unrealized gains and losses to be recorded in the statement of operations instead of through comprehensive income. ALC records unrealized gains and losses from executive retirement plan investments in general and administrative expense; interest income and dividends from these investments are reported as a component of interest income. The purpose for making this election was to mitigate volatility in ALC s reported earnings as the change in market value of the investments will be offset by the recording of the related deferred compensation expense.

All other investments will continue to have their unrealized gains and losses recorded in other comprehensive income, net of tax. If the decline in fair value is judged to be other-than-temporary, the cost basis of the security is written down to fair value and the amount of the write-down is included in the consolidated statements of operations. The cost of securities held to fund executive retirement plan obligations is based on the average cost method and for the remainder of our marketable securities we use the specific identification method.

ALC regularly reviews its investments to determine whether a decline in fair value below the cost basis is other-than-temporary. To determine whether a decline in value is other-than-temporary, ALC evaluates several factors, including the current economic environment, market conditions, operational and financial performance of the investee, and other specific factors relating to the business underlying the investment, including business outlook of the investee, future trends in the investee s industry, and ALC s intent to carry the investment for a sufficient period of time for any recovery in fair value. If a decline in value is deemed other-than-temporary, ALC records reductions in carrying values to estimated fair values, which are determined based on quoted market prices, if available, or on one or more valuation methods such as pricing models using historical and projected financial information, liquidation values, and values of other comparable public companies. ALC recorded an other-than-temporary impairment of investments in the three and six month periods ended June 30, 2010 of $2.0 million. There was no such impairment recorded in the comparable periods of 2009.

(d) Goodwill

Goodwill represents the cost of acquired net assets in excess of their fair market values. Goodwill and intangible assets with indefinite useful lives are not amortized but are tested for impairment at least annually. Intangible assets with estimable useful lives are amortized over their respective estimated useful lives and also reviewed at least annually for impairment.

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ASSISTED LIVING CONCEPTS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

A two-step impairment test is required to identify potential goodwill impairment and measure the amount of the goodwill impairment loss to be recognized. In the first step, the fair value of each reporting unit is compared to its carrying value to determine if the goodwill is impaired. If the fair value of the reporting unit exceeds the carrying value of the net assets assigned to that unit, then goodwill is not impaired and the second step is not required. If the carrying value of the net assets assigned to the reporting unit exceeds its fair value, then the second step is performed in order to determine the implied fair value of the reporting unit s goodwill and an impairment loss is recorded for an amount equal to the difference between the implied fair value and the carrying value of the goodwill.

During the first quarter of 2009, the economy experienced recessionary conditions which were reflected in declining equity prices. ALC s stock price declined along with the overall market. ALC determined that the resulting significant change in its market capitalization warranted an interim review of goodwill.

ALC assessed its fair value using its stock price as well as applying an implied control premium. Due to the volatility of the market value of the stock price, the use of the average stock price over a range of dates around the valuation date was used. ALC compared the implied control premium to premiums paid in observable transactions of comparable companies.

At March 31, 2009, the market capitalization of ALC, using the average stock price from the five trading days prior to and through the five days after March 31, 2009 along with an implied control premium, resulted in a fair value estimate below its carrying value. In step two of the analysis, ALC completed a valuation of its assets and liabilities by estimating cash flows and market capitalization rates which were applied to income producing assets. Based on the review described above, ALC recorded a goodwill impairment charge of $16.3 million during the first quarter of 2009. The impairment charge is included as a component of operating results in the accompanying condensed consolidated statement of operations. The impairment charge is non-cash in nature.

The following is a summary of the changes in the carrying amount of goodwill for the six month period ended June 30, 2009 (in thousands):

Balance at December 31, 2008	$	16,315
Additions		
Adjustments		(16,315)
Balance at June 30, 2010 and 2009	$	

(e) Comprehensive Income (Loss)

Comprehensive income (loss) consists of net income (loss) and other gains and losses affecting stockholders equity which under GAAP are excluded from results of operations. For the three and six month periods ended June 30, 2010 and 2009, this consists of unrealized gains and losses on available for sale investment securities, net of tax, and unrealized losses on interest rate swap derivatives, net of tax.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
	(In thousands)			
Net income (loss)	$ 2,896	$ 3,907	$ 6,509	$ (7,868)
Unrealized (losses) gains on investments, net of tax (benefit) expense of $(113), $151, $16 and $(9), respectively	(184)	128	28	(132)
Unrealized gains (losses) on derivatives, net of tax expense (benefit) of $42, $137, $(24) and $32, respectively	68	224	(39)	52

Other-than-temporary impairment loss on investments, net of tax expense of $764	1,248		1,248	
Total comprehensive income (loss)	$ 4,028	$ 4,259	$ 7,746	$ (7,948)

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ASSISTED LIVING CONCEPTS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The components of accumulated other comprehensive loss, net of tax, are as follows:

	June 30, 2010	December 31, 2009
	(In thousands)	
Unrealized gains (losses) on investments	$ 4	$ (1,271)
Net unrealized loss on derivatives	(779)	(741)
Accumulated other comprehensive loss	$ (775)	$ (2,012)

(f) Income Taxes

Prior to the Separation Date, the Company s results of operations were included in the consolidated federal tax return of the Company s most senior U.S. parent company, Extendicare Holdings, Inc. (EHI). Federal current and deferred income taxes payable (or receivable) were determined as if the Company had filed its own income tax returns. As of the Separation Date, the Company became responsible for filing its own income tax returns. In all periods presented, income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the expected future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

As of June 30, 2010 and December 31, 2009, ALC had total gross unrecognized tax benefits of approximately $0.7 million. Of the total gross unrecognized tax benefits, $0.4 million, if recognized, would reduce ALC s effective tax rate in the period of recognition. At June 30, 2010 and December 31, 2009, ALC had accrued interest and penalties related to unrecognized tax benefits of $0.2 million.

ALC and its subsidiaries file income tax returns in the U.S. and in various state and local jurisdictions. Federal tax returns for all periods after December 31, 2006 are open for examination. Various state tax returns for all periods after December 31, 2005 are open for examination. For the tax periods between February 1, 2005 and November 10, 2006 ALC was included in the consolidated federal tax returns of EHI. Tax issues between ALC and Extendicare are governed by a Tax Allocation Agreement entered into by ALC and Extendicare at the time of the Separation. During 2009, the Internal Revenue Service completed an examination of the partial tax year ended December 31, 2005 and the partial tax year ended November 10, 2006. ALC contends that, as a result of the examinations, Extendicare is required to pay ALC approximately $3.0 million. As of the date of this report, Extendicare has taken the position that it is not required to pay this amount to ALC because Extendicare alleges ALC breached the Tax Allocation Agreement. The parties are seeking to resolve the matter.

(g) Recently Adopted Accounting Pronouncements

On April 1, 2009, ALC adopted new guidance regarding interim disclosures about fair value of financial instruments, primarily codified in ASC Topic 825. The new guidance requires disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements. Since this guidance requires only additional disclosures of fair values of financial instruments in interim financial statements, the adoption did not affect ALC s financial position or results of operations.

On June 30, 2009, ALC adopted new guidance on the treatment of subsequent events, primarily codified in ASC Topic 855. ASC Topic 855 establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. In February 2010, new guidance was issued which removes the requirement for public companies to disclose the date through which subsequent events were reviewed. This guidance was effective upon issuance and has been adopted by ALC.

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ASSISTED LIVING CONCEPTS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

In June 2009, the FASB issued new accounting guidance on transfers of financial assets. The new guidance eliminates the concept of a qualifying special purpose entity and removes the exception from applying the current guidance for consolidation of variable interest entities to qualifying special purpose entities. The new guidance also defines the term participating interest to establish specific conditions for reporting a transfer of a portion of a financial asset as a sale. The statement also requires that a transferor recognize and initially measure at fair value all assets obtained and liabilities incurred as a result of a transfer of financial assets accounted for as a sale. The guidance became effective for ALC on January 1, 2010, and did not have a material impact on ALC s consolidated financial statements.

In June 2009, the FASB issued new accounting guidance on consolidation of variable interest entities, primarily codified in ASC Topic 810. The new guidance amends the process for identifying the primary beneficiary in variable interest entities and requires ongoing assessments for purposes of identifying the primary beneficiary. The new guidance also requires enhanced disclosures intended to provide users of financial statements with more transparent information about an entity s involvement in variable interest entities. The new guidance became effective for ALC on January 1, 2010, and did not have a material impact on ALC s consolidated financial statements.

(h) Recently Issued Accounting Pronouncements

Described below are recent changes in accounting guidance that may have a significant effect on ALC s financial statements. Recent guidance that is not anticipated to have an impact on or is unrelated to ALC s financial condition, results of operations or related disclosures is not discussed.

In October 2009, the FASB issued new guidance on multiple-deliverable revenue arrangements. This new guidance amends the criteria for separating deliverables as well as how to measure and allocate consideration for multiple arrangements. The guidance also expands the disclosures related to a vendor s multiple deliverable revenue arrangements. The new guidance will be effective prospectively for new revenue arrangements entered into or materially modified in 2011. ALC is currently assessing the impact of adopting this new guidance.

3. PROPERTY AND EQUIPMENT

Property and equipment and related accumulated depreciation and amortization consisted of the following:

	June 30, 2010	December 31, 2009
	(In thousands)	
Land and land improvements	$ 27,480	$ 27,207
Buildings and improvements	444,247	442,176
Furniture and equipment	28,786	27,900
Leasehold improvements	9,332	8,216
Construction in progress	4,536	2,024
	514,381	507,523
Less accumulated depreciation and amortization	(102,487)	(92,069)
	$ 411,894	$ 415,454

4. INVESTMENTS

Investments consist of $1.1 million of securities held to fund ALC s executive retirement plan (ERP) obligation and $2.4 million held in four individual equity securities which were contributed to ALC s capital upon the Separation, all of which are classified as available-for-sale and stated at fair value based on market quotes.

The securities related to the executive retirement plan are held in a securities brokerage account and are invested at the specific direction of the participants. Investment options include a limited number of mutual funds and money market funds.

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ASSISTED LIVING CONCEPTS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

In December 2009, ALC elected to account for securities related to the executive retirement plan under the fair value option of ASC Topic 825. As a result of making this election, all future gains and losses related to these investments will be recorded in the statement of operations as a component of general and administrative expense. Interest income and dividends are reported as a component of interest income. The purpose for making this election was to mitigate volatility in ALC s reported earnings as the change in market value of the investments will be offset by the recording of the related deferred compensation expense.

The other four equity investments are being accounted for under ASC Topic 320 and are recorded at fair value and unrealized gains and losses, which are determined to be temporary in nature, are recorded net of deferred taxes, as a component of other comprehensive income. In the event unrealized losses are determined to be other-than-temporary, the unrealized loss