

ASSISTED LIVING CONCEPTS INC

Form 10-Q/A

August 13, 2007

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

**Form 10-Q/A**

**(Mark One)**

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

**For the quarterly period ended June 30, 2007**

**OR**

**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**

*(State or other jurisdiction of  
incorporation or organization)*

**93-1148702**

*(I.R.S. Employer  
Identification No.)*

**W140 N8981 Lilly Road**

**Menomonee Falls, Wisconsin**

*(Address of principal executive offices)*

**53051**

*(Zip Code)*

**Registrant's telephone number, including area code: (262) 250-4500**

**111 West Michigan Street**

**Milwaukee, WI, 53203**

*(Former name, former address and former fiscal year, if changed since last report)*

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  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act (Check One).

Large accelerated filer  Accelerated filer  Non-accelerated filer

Indicate by a check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

As of August 9, 2007, the Company had 59,118,982 shares of its Class A Common Stock, \$0.01 par value outstanding and 9,192,350 shares of its Class B Common Stock, \$0.01 par value outstanding.

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**EXPLANATORY NOTE**

This amended Quarterly Report on Form 10-Q/A corrects the number of shares outstanding as of August 9, 2007 appearing on the cover page.

This Amendment contains the complete text of the original report with the corrected information appearing on the cover page.

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**ASSISTED LIVING CONCEPTS, INC.**  
**CONSOLIDATED BALANCE SHEETS**  
(In thousands, except share and per share data)

	<b>June 30, 2007 (Unaudited)</b>	<b>December 31, 2006</b>
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$ 34,595	\$ 19,951
Investments	6,123	5,332
Accounts receivable, less allowances of \$911 and \$1,086, respectively	3,524	5,395
Supplies, prepaid expenses and other current assets	7,309	8,178
Income tax receivable		90
Deferred income taxes	1,187	1,552
Total current assets	52,738	40,498
Property and equipment, net	375,240	374,612
Goodwill and other intangible assets, net	17,036	18,102
Restricted cash	8,270	10,947
Other assets	3,494	3,181
Total Assets	\$ 456,778	\$ 447,340
 <b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current Liabilities:		
Accounts payable	\$ 5,619	\$ 5,134
Accrued liabilities	21,723	19,580
Current maturities of long-term debt	14,483	2,732
Income taxes payable	336	
Current portion of self-insured liabilities	300	300
Total current liabilities	42,461	27,746
Accrual for self-insured liabilities	1,267	1,171
Long-term debt	74,809	87,904
Deferred income taxes	5,537	5,146
Other long-term liabilities	8,990	8,535
Total Liabilities	133,064	130,502
 Stockholders Equity:		
Preferred Stock, par value \$0.01 per share, 25,000,000 shares authorized, none issued		
Class A Common Stock, par value \$0.01 per share, 400,000,000 shares authorized, 59,972,731 and 59,501,918 issued, respectively	600	595

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Class B Common Stock, par value \$0.01 per share, 75,000,000 shares authorized, 9,275,657 and 9,956,337 issued, respectively	93	100
Treasury stock at cost, Class A Common Stock, 260,900 and 0 shares, respectively	(2,791)	
Additional paid-in capital	313,742	313,474
Accumulated other comprehensive income	1,032	530
Retained earnings	11,038	2,139
Total Stockholders' Equity	323,714	316,838
Total Liabilities and Stockholders' Equity	\$ 456,778	\$ 447,340

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

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**ASSISTED LIVING CONCEPTS, INC.**  
**CONSOLIDATED STATEMENTS OF INCOME**  
(In thousands, except per share data)

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>June 30,</b>		<b>June 30,</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
Revenues	\$ 57,426	\$ 56,998	\$ 114,947	\$ 113,774
Expenses:				
Residence operations (exclusive of depreciation and amortization and residence lease expense shown below)	38,219	37,839	75,977	75,756
General and administrative	3,839	2,190	6,826	4,941
Residence lease expense	3,460	3,537	7,159	7,025
Depreciation and amortization	4,323	4,169	8,504	8,292
Transaction costs		2,300	56	2,300
Total operating expenses	49,841	50,035	98,522	98,314
Income from operations	7,585	6,963	16,425	15,460
Other expense:				
Interest expense, net	(857)	(2,584)	(2,072)	(5,414)
Income from continuing operations before income taxes	6,728	4,379	14,353	10,046
Income tax expense	(2,556)	(2,442)	(5,454)	(4,631)
Net income from continuing operations	4,172	1,937	8,899	5,415
Loss from discontinued operations, net of taxes		(105)		(1,273)
Net income	\$ 4,172	\$ 1,832	\$ 8,899	\$ 4,142
Weighted average common shares:				
Basic	69,482	69,322	69,482	69,322
Diluted	70,183	70,205	70,194	70,205
Per share data:				
Basic earnings per common share:				
Income from continuing operations	\$ 0.06	\$ 0.03	\$ 0.13	\$ 0.08
Loss from discontinued operations				(0.02)
Net income	\$ 0.06	\$ 0.03	\$ 0.13	\$ 0.06

Diluted earnings per common share:

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Income from continuing operations	\$ 0.06	\$ 0.03	\$ 0.13	\$ 0.08
Loss from discontinued operations				(0.02)
Net income	\$ 0.06	\$ 0.03	\$ 0.13	\$ 0.06

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

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	<b>Six Months Ended June 30,</b>	
	<b>2007</b>	<b>2006</b>
<b>OPERATING ACTIVITIES:</b>		
Net income	\$ 8,899	\$ 4,142
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	8,504	8,349
Amortization of purchase accounting adjustments for:		
Leases and debt	(429)	(239)
Below market resident leases	(39)	(859)
Provision for bad debt	158	162
Provision for self-insured liabilities	300	330
Payments of self-insured liabilities	(204)	(212)
Loss on impairment of long-lived assets and discontinued operations		1,723
Deferred income taxes	756	83
Equity-based compensation expense	192	280
Changes in assets and liabilities:		
Accounts receivable	1,713	(299)
Supplies, prepaid expenses and other current assets	869	(271)
Accounts payable	485	(1,033)
Accrued liabilities	2,143	3,359
Income taxes payable/receivable	137	(1,017)
Other non-current assets including restricted cash	2,364	(193)
Other long-term liabilities	709	486
Current due to Extencicare		1,909
Cash provided by operating activities	26,557	16,700
<b>INVESTING ACTIVITIES:</b>		
Payments for new construction projects	(2,098)	(1,240)
Payments for purchases of property and equipment	(5,968)	(3,363)
Cash used in investing activities	(8,066)	(4,603)
<b>FINANCING ACTIVITIES:</b>		
Capital contributions from Extencicare	74	1,522
Purchase of treasury stock	(2,791)	
Repayment of interest bearing advances to Extencicare		(14,500)
Payments of long-term debt	(1,130)	(1,241)
Cash used in financing activities	(3,847)	(14,219)

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Increase / (decrease) in cash and cash equivalents	14,644	(2,122)
Cash and cash equivalents, beginning of year	19,951	6,439
Cash and cash equivalents, end of period	\$ 34,595	\$ 4,317
Supplemental schedule of cash flow information:		
Cash paid during the period for:		
Interest	\$ 3,319	\$ 5,649
Income tax payments, net of refunds	4,460	257

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**

**1. BASIS OF PRESENTATION**

Assisted Living Concepts, Inc. and its subsidiaries ( ALC or the Company ) operate 207 assisted living residences in 17 states in the United States totaling 8,326 units as of June 30, 2007. ALC 's residences average approximately 40 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 ALC Class A and Class B Common Stock was distributed to Extendicare Inc., now known as Extendicare Real Estate Investment Trust ( Extendicare ), stockholders (the Separation ).

Effective upon the Separation, the ownership structure of the entities changed and as such became consolidated. All references to ALC financial statements, both pre- and post-Separation Date are referred to as consolidated versus combined.

The consolidated financial statements of ALC represent, prior to the Separation Date, the consolidated financial position and results of operations of the assisted living operations of Extendicare in the United States. After the Separation Date, the consolidated financial statements represent 178 assisted living residences operated by ALC, 177 of which comprised ALC when it was acquired by Extendicare Health Services, Inc. ( EHSI ) (the Acquisition ) in January of 2005, and 29 residences purchased from EHSI, a subsidiary of Extendicare, shortly before the Separation.

On June 19, 2006, ALC formed Pearson Insurance Company, LTD ( Pearson ), a wholly owned Bermuda based captive insurance company to self-insure general and professional liability risks.

For periods prior to the Separation Date, the historical consolidated financial and other data in this report have been prepared to include all of Extendicare 's assisted living business in the United States, consisting of:

- § the assisted living residences operated by EHSI through the Separation Date, which ranged from 29 to 36 residences between January 1, 2003 and the date of the Acquisition and consisted of 32 residences operated by EHSI at December 31, 2005,
- § 177 assisted living residences operated by ALC since the time of the Acquisition,
- § three assisted living residences that were constructed and owned by EHSI (two of which were operated by ALC) during 2005,
- § an Escanaba, Michigan residence since its acquisition on November 1, 2006, and
- § Pearson since its formation on June 19, 2006.

Prior to the Separation, operations were terminated at four of the EHSI residences and are presented as discontinued operations. At the Separation Date the historical financial statements consisted of 209 residences.

The historical consolidated financial and other operating data prior to the Separation Date do not contain data related to certain assets and operations that were transferred to ALC such as share investments in Omnicare, Inc. ( Omnicare ), Bam Investments Corporation ( BAM ), and MedX Health Corporation ( MedX ), or cash and other investments in Pearson, and do include certain assets and operations that were not transferred to ALC in connection with the Separation such as certain EHSI properties as they did not fit the targeted portfolio profile or were not readily separable from EHSI 's operations. The differences between the historical consolidated financial data and financial data for the assets and the operations transferred in the Separation are immaterial.

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

The accompanying unaudited consolidated financial statements include all normal recurring 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, 2007 and 2006 pursuant to the instructions to Form 10-Q and Article 10 of Regulation S-X. Certain information and footnote disclosures normally included in the 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, 2006. Operating results are not necessarily indicative of results that may be expected for the entire year ending December 31, 2007.

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

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES****(a) Principles of Presentation and Consolidation**

Prior to November 10, 2006, the consolidated financial statements include a combination of historical financial assets and operations of the assisted living operations of Extencicare described in Note 1. For periods after the Separation Date the consolidated financial statements include the 178 assisted living residences operated by ALC, the 29 residences purchased from Extencicare, and Pearson. The accompanying consolidated financial statements include the financial statements of Assisted Living Concepts, Inc. and all majority owned subsidiaries. All significant intercompany accounts and transactions with subsidiaries have been eliminated from the consolidated financial statements.

The consolidated financial statements of the Company 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 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, determination of asset impairment, determination of self-insured liabilities for general and professional liability, workers' compensation and health and dental claims, and valuation of deferred tax assets. Actual results could differ from those estimates.

**(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.

At June 30, 2007 and December 31, 2006, the Company had approximately 54% and 43%, 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 \$0.5 million and \$0.3 million in the six month periods ended June 30, 2007 and 2006, respectively. Bad debt expense was \$0.3 million and \$0.2 million in the six month periods ended June 30, 2007 and 2006, respectively.

**(c) Comprehensive Income**

Comprehensive income consists of net income and other gains and losses affecting stockholders' equity which under GAAP are excluded from results of operations. In the three and six month periods ended June 30, 2007 and 2006, this consists of unrealized gains and losses on available for sale investment securities, net of any related tax effect.

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>June 30,</b>		<b>June 30,</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
	<b>(In thousands)</b>			
Net income	\$ 4,172	\$ 1,832	\$ 8,899	\$ 4,142
Net unrealized gains	744		502	

Total comprehensive income	\$ 4,916	\$ 1,832	\$ 9,401	\$ 4,142
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**ASSISTED LIVING CONCEPTS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

***(d) 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 is 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.

In June 2006, the Financial Accounting Standards Board ( FASB ) issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109* ( FIN 48 ), which became effective for the Company on January 1, 2007. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement No. 109, *Accounting for Income Taxes*. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken. Additionally, FIN 48 provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. For the benefits of a tax position to be recognized, a tax position must be more-likely-than-not to be sustained upon examination by taxing authorities. The amount recognized is measured as the largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate settlement. The adoption of FIN 48 has not resulted in a transition adjustment to retained earnings. On the date of adoption, the Company had \$0.5 million of unrecognized tax benefits. If recognized, \$0.2 million would affect the effective tax rate. The total amount of accrued interest costs and penalties related to income taxes are \$0.1 million. The Company classified the interest expense and penalties as income tax expense in the Company's financial statements. There were no material changes in these items during the three and six month periods ended June 30, 2007. Tax returns for all years after 2002 are subject to future examination by tax authorities.

***(e) New Accounting Pronouncements***

On September 15, 2006, the FASB issued Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* ( SFAS No. 157 ). SFAS No. 157 addresses how companies should measure fair value when they are required to use a fair value measure for recognition and disclosure purposes under GAAP. SFAS No. 157 will require the fair value of an asset or liability to be based on a market based measure which will reflect the credit risk of the company. SFAS No. 157 will also require expanded disclosure which will include the methods and assumptions used to measure fair value and the effect of fair value measures on earnings. SFAS No. 157 will be applied prospectively and will be effective for fiscal years beginning after November 15, 2007 and to interim periods within those fiscal years. The Company is currently assessing the impact SFAS No. 157 will have on its consolidated financial statements.

***(f) Reclassifications***

Certain reclassifications have been made in the prior years' financial statements to conform to the current year's presentation. Such reclassifications had no effect on previously reported net income or stockholders' equity.

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

**3. DISCONTINUED OPERATIONS**

There was no loss from discontinued operations during the three and six month periods ended June 30, 2007. The following is a summary of the results of operations for residences that were disposed of in 2006.

	<b>Three Months Ended June 30, 2006</b>	<b>Six Months Ended June 30, 2006</b>
	<b>(In thousands)</b>	
Revenues	\$ 53	\$ 540
Residence operations (exclusive of depreciation and amortization and residence lease expense shown below)	209	731
Residence lease expense	17	118
Depreciation and amortization	7	60
Loss on impairment of long-lived assets		1,731
Total operating expenses	233	2,640
Loss from discontinued operations	(180)	(2,100)
Interest expense	7	
Loss from discontinued operations before income taxes	(173)	(2,100)
Income tax benefit	68	827
Net loss from discontinued operations	\$ (105)	\$ (1,273)

The above summary of discontinued operations includes the following:

***(a) Closure and Disposition of Assisted Living Residence in Texas***

In the first quarter of 2006, due to future capital needs of the residence and poor financial performance, the Company decided to close an assisted living residence (60 units) located in San Antonio, Texas and actively pursue the disposition of the property on the market. In the first quarter of 2006 certain required structural costs were identified which resulted in the decision to close the residence. As a result, the Company reclassified the financial results of this residence to discontinued operations and recorded an impairment charge of \$1.7 million.

***(b) Closure of Assisted Living Residence in Washington***

In the first quarter of 2006, the lease term ended for an assisted living residence (63 units) in Edmonds, Washington, and the Company decided to terminate its operations due to poor financial performance. The Company concluded its relationship with the landlord on April 30, 2006. As a result, the Company reclassified the financial results of this residence to discontinued operations. There was no gain or loss on disposition of the operations and leasehold interest.

***(c) Closure of Assisted Living Residence in Oregon***

In the first quarter of 2006, due to poor financial performance, the Company decided to close an assisted living residence (45 units) in Klamath Falls, Oregon. There was no gain or loss recorded upon the closure.





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

**4. EARNINGS PER SHARE**

ALC computes earnings per share in accordance with SFAS No. 128, *Earnings Per Share*. SFAS No. 128 requires companies to compute earnings per share under two different methods, basic and diluted, and present per share data for all periods in which statements of operations are presented. For the three and six month periods ended June 30, 2006, basic and diluted earnings per share are computed using the shares outstanding as of the Separation Date. Basic earnings per share are computed by dividing net income by the weighted average number of shares of common stock outstanding. Diluted earnings per share are computed by dividing net income by the weighted average number of common stock and outstanding common stock equivalents. Common stock equivalents consist of incremental shares available upon conversion of Class B common shares which are convertible into Class A common shares at a rate of 1.075 and shares from stock options which are calculated using the treasury-stock method. Common stock equivalents from stock options are excluded for both the three and six month periods ended June 30, 2007 because their effect is anti-dilutive.

The following table provides a reconciliation of the numerators and denominators used in calculating basic and diluted earnings per share.

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>June 30,</b>		<b>June 30,</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
	<b>(In thousands, except per share data)</b>			
Basic earnings per share calculation				
Numerator:				
Income from continuing operations	\$ 4,172	\$ 1,937	\$ 8,899	\$ 5,415
Loss from discontinued operations, net of tax		(105)		(1,273)
Net income to common stockholders	\$ 4,172	\$ 1,832	\$ 8,899	\$ 4,142
Denominator:				
Weighted average of common shares outstanding	69,482	69,322	69,482	69,322
Income from continuing operations	\$ 0.06	\$ 0.03	\$ 0.13	\$ 0.08
Loss from discontinued operations, net of tax				(0.02)
Basic earnings per share	\$ 0.06	\$ 0.03	\$ 0.13	\$ 0.06
Diluted earnings per share calculation				
Numerator:				