ASSISTED LIVING CONCEPTS INC
Form 10-Q
November 12, 2002

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20459

Form 10-Q

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

For the quarterly period ended September 30, 2002

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	**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 [X] No [ ]

The Registrant had 6,431,759 shares of common stock, $.01 par value, outstanding at November 8, 2002.

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FORM 10-Q
September 30, 2002

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PART I FINANCIAL INFORMATION

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PART I FINANCIAL INFORMATION

Item 1. ***Financial Statements***

ASSISTED LIVING CONCEPTS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands, except share amounts)
(Unaudited)

	Successor Company	
	December 31, 2001	September 30, 2002
ASSETS		
Current assets:		
Cash and cash equivalents	$6,077	$2,973
Cash restricted for resident security deposits	2,415	2,432
Receivable from sale of properties		4,500
Accounts receivable, net of allowance for doubtful accounts: 2002 - $204	2,328	2,417
Prepaid expenses	983	1,567
Cash restricted for workers compensation claims	2,825	5,119
Assets held for sale	188	890
Other current assets	3,674	3,513
Total current assets	18,490	23,411
Restricted cash	5,349	5,301
Property and equipment, net	196,548	187,893
Other assets, net	1,866	1,945

Total assets	$222,253	$218,550
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$1,450	$1,079
Accrued real estate taxes	4,523	4,778
Other accrued expenses	12,390	10,633
Resident security deposits	2,471	2,160
Other current liabilities	652	881
Current portion of unfavorable lease adjustment	681	647
Current portion of long-term debt and capital lease obligation	2,622	8,585
Total current liabilities	24,789	28,763
Other liabilities	89	371
Unfavorable lease adjustment, net of current portion	3,115	2,638
Long-term debt and capital lease obligation, net of current portion	161,461	158,621
Total liabilities	189,454	190,393

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		(4,642)
Total shareholders equity	32,799	28,157
Total liabilities and shareholders equity	$222,253	$218,550

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
(in thousands, except per share amounts)
(unaudited)

	Predecessor Company	Successor Company	Predecessor Company	Successor Company
	Three Months Ended September 30, 2001	Three Months Ended September 30, 2002	Nine Months Ended September 30, 2001	Nine Months Ended September 30, 2002
Revenue	$37,142	$39,177	$109,680	$114,201
Operating expenses:				
Residence operating expenses	25,278	27,280	74,178	79,125
Corporate general and administrative	4,546	4,178	13,254	14,073
Building rentals	1,749	941	5,349	2,806
Building rentals with related party	2,297	2,120	6,889	6,360
Depreciation and amortization	2,415	1,692	7,277	4,960
Total operating expenses	36,285	36,211	106,947	107,324
Operating income	857	2,966	2,733	6,877

Other income (expense):

Interest expense	(5,303)	(3,545)	(14,610)	(10,602)
Interest income	95	55	382	160
Other income (expense), net	14	14	(55)	36
Total other expense, net	(5,194)	(3,476)	(14,283)	(10,406)
Loss before debt restructure and reorganization costs	(4,337)	(510)	(11,550)	(3,529)
Debt restructure and reorganization costs	(2,805)	(14)	(4,171)	(680)
Loss from continuing operations	(7,142)	(524)	(15,721)	(4,209)
Loss from discontinued operations	(191)	(39)	(421)	(433)

Net loss	$(7,333)	$(563)	$(16,142)	$(4,642)
Basic and diluted loss per share from continuing operations	$(0.42)	$(0.08)	$(0.92)	$(0.64)
Basic and diluted loss per share from discontinued operations	(0.01)	(0.01)	(0.02)	(0.07)
Basic and diluted net loss per share	$(0.43)	$(0.09)	$(0.94)	$(0.71)
Basic and diluted weighted average shares outstanding	17,121	6,500	17,121	6,500

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
(in thousands)
(unaudited)

	Predecessor Company	Successor Company
	Nine Months Ended September 30, 2001	Nine Months Ended September 30, 2002
Operating Activities:		
Net loss	$(16,142)	$(4,642)
Adjustment to reconcile net loss to net cash used in operating activities		
Depreciation and amortization	7,277	4,960
Amortization of debt issuance costs	2,712	80
Amortization of fair value adjustment to building rentals		(511)
Amortization of fair market adjustment to long-term debt		320
Amortization of discount on long-term debt		328
Straight line adjustment to building rentals		282
Interest paid-in-kind		915
Provision for doubtful accounts	(113)	207
Loss on disposal of assets	88	
Loss (gain) on operations of discontinued operations	421	(112)
Loss on disposal of discontinued operations		545
Changes in working capital items:		
Accounts receivable	191	(296)
Prepaid expenses	1,670	(584)

Other current assets	(1,618)	225
Other assets	(595)	(80)
Accounts payable	(1,189)	(371)
Accrued expenses	1,373	(1,502)
Resident security deposits	(14)	(311)
Other current liabilities	(8,295)	229
Other liabilities	(463)	
Net cash used in continuing operations	(14,697)	(318)
Net cash provided by (used in) discontinued operations	(28)	203
Investing Activities:		
Increase in restricted cash	(1,564)	(2,263)
Purchases of property and equipment	(1,494)	(2,207)
Net cash used in investing activities	(3,058)	(4,470)

Financing Activities:		
Proceeds from long-term debt	25,466	3,508
Payments on long-term debt and capital lease obligation	(4,278)	(1,948)
Payments on bridge loan payable	(4,000)	
Debt issuance costs	(3,706)	(79)
Net cash provided by financing activities	13,482	1,481
Net decrease in cash and cash equivalents	(4,301)	(3,104)
Cash and cash equivalents, beginning of period	9,889	6,077
Cash and cash equivalents, end of period	5,588	$2,973
Supplemental disclosure of cash flow information:		
Cash payments for interest	$9,641	$8,472
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 condensed consolidated financial statements.

ASSISTED LIVING CONCEPTS, INC.

NOTES TO CONDENSED 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. 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 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.

3. Basis of Presentation

The condensed consolidated financial statements included herein have been prepared by the Company without audit and in the opinion of management include all adjustments (all of which are normal and recurring) necessary for a fair presentation of the results of operations for the three and nine months ended September 30, 2001 and 2002, pursuant to the rules and regulations of the Securities

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and Exchange Commission. The accompanying condensed consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation. Certain reclassifications have been made to the prior period financial statements to conform to the current period presentation. Certain information and footnote disclosures normally included in financial statements in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such rules and regulations; however the Company believes that the disclosures in the accompanying financial statements are adequate to make the information presented not misleading. The accompanying condensed consolidated financial statements should be read in conjunction with the Company s annual report on Form 10-K/A for the fiscal year ended December 31, 2001 filed with the Securities and Exchange Commission. The results of operations for the nine months ended September 30, 2002 are not necessarily indicative of the results for a full year.

The results of operations for the three and nine months ended September 30, 2001 and 2002 reflect the continuing operations of 178 residences. Results of operations for five residences which sold on September 30, 2002 and one residence pending sale are included in Loss from Discontinued Operations in the accompanying financial statements. (See Note 12).

4. Fresh Start Reporting and Factors Affecting Comparability of Financial Information

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 condensed consolidated financial statements and related information at and subsequent to December 31, 2001 are labeled Successor Company, and reflect 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.

As a consequence of the implementation of fresh-start reporting effective December 31, 2001 the financial information presented in the condensed consolidated statements of operations for the three and nine months ended September 30, 2001 and the corresponding statements of cash flows for the nine months ended September 30, 2001 are generally not comparable to the financial results for the three and nine months ended September 30, 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 condensed 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.

5. New Accounting Pronouncement

The Company adopted Statement of Financial Accounting Standards (SFAS) No.144, *Accounting for the Impairment or Disposal of Long-Lived Assets* on January 1, 2002. SFAS No.144 broadened the presentation for discontinued operations to include a component of an entity. Based upon the broadened definition, the properties pending sale or sold by the Company meet the criteria to be treated as discontinued operations. Accordingly, the revenues and expenses and any estimated losses associated with the sale have been classified as loss from discontinued operations in the accompanying condensed consolidated statement of operations for the three and nine months ended September 30, 2001 and 2002.

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6. Cash and Cash Equivalents

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

	December 31, 2001	September 30, 2002
Cash	$5,022	$541
Cash equivalents	1,055	2,432
Total cash and cash equivalents	$6,077	$2,973

7. Long-Term Restricted Cash

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

	December 31, 2001	September 30, 2002
Cash held for loan agreements with U.S Bank National Association (U.S. Bank)	$4,338	$4,329
Cash held in accordance with lease agreements	970	972
State regulated restricted resident security deposits	41	
Total long-term restricted cash	$5,349	$5,301

8. Property And Equipment

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

	December 31, 2001	September 30, 2002
Land	$22,177	$21,147
Buildings and improvements	166,443	162,164
Equipment	3,937	5,732
Furniture	3,991	3,810
Total property and equipment	196,548	192,853
Less accumulated depreciation		4,960
Property and equipment, net	$196,548	$187,893

Land, buildings and certain furniture and equipment relating to 124 owned residences serve as collateral for long-term debt.

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9. Long-Term Debt

As of December 31, 2001 and September 30, 2002, long-term debt consists of the following (in thousands):

	December 31, 2001		September 30, 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	$9,727	$9,623
Variable Rate Multifamily Revenue Bonds, payable to the Washington State Housing Finance Commission Department due 2017	7,521	7,605	7,526	7,605
Variable Rate Demand Revenue Bonds, Series 1997, payable to the Idaho Housing and Finance Association due 2017	6,542	6,615	6,276	6,345
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	11,449	11,575
Housing and Urban Development Insured Mortgages due 2036	7,374	7,457	7,342	7,423
New Senior Secured Notes due 2009	40,250	40,250	40,250	40,250
New Junior Secured Notes due 2012	12,628	12,628	13,874	13,874
Mortgages payable due 2008	28,513	28,463	28,128	28,080
G.E. Capital (Previously Heller Healthcare Finance, Inc.) Credit Facility due 2005	39,222	40,458	42,591	43,516
Capital lease obligations due 2002	296	301	43	46
Total long-term debt	164,083	$165,538	167,206	$168,337
Less current portion	2,622		8,585	

Long-term debt	$161,461	$158,621

On January 1, 2002 the Company s Plan of Reorganization 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 52 properties. (See Note 2).

Of the face amount of $55.5 million outstanding of the New Notes at December 31, 2001 and September 30, 2002, $18.2 million and $19.5 million, respectively, is payable to related parties. (See Note 10).

As of September 30, 2002, $5.4 million of the New Senior Secured Notes have been classified in current portion of long-term debt. This includes net proceeds of approximately $4.5 million from the sale of five Florida and Georgia properties, which closed on September 30, 2002 and $871,000 representing the book value of one Indiana property, which is pending sale and expected to close by December 31, 2002, subject to certain closing conditions. The proceeds from the five Florida and Georgia properties were received in October 2002 and will be used by the trustee to redeem New Senior Secured Notes on November 8, 2002.

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

In May 2002, the Company amended its existing agreement with U.S. Bank, establishing new covenants, with which the Company was in compliance as of September 30, 2002. Failure to comply with these covenants would constitute an event of default, which would allow U.S. Bank to declare any amounts outstanding under the loan documents to be due and payable. Certain of the Company s leases and loan agreements contain covenants and cross-default provisions such that a default on one of those agreements could cause the Company to be in default on one or more other agreements, which would have a material adverse effect on the Company.

10. Related Party Transactions

Andre Dimitriadis, who has been a member of the Company s Board of Directors since January 2002, is the President, Chief Executive Officer and Chairman of the Board of LTC Properties, Inc. (LTC). The Company currently leases 37 properties (1,426 units) from LTC. The Company incurred rent expense under these leases of $6.9 million and $6.4 million for the nine months ended September 30, 2001 and 2002, respectively, pursuant to these leases.

Certain members of the Company s Board of Directors own, [or beneficially own], $19.5 million of the Company s publicly traded New Notes as of September 30, 2002. The Company has incurred interest expense on these publicly traded New Notes held by these related parties of approximately $458,000 and $1.4 million for the three and nine months ended September 30, 2002, respectively. At September 30, 2002, interest expense of approximately $338,000 is payable in cash and $121,000 is payable-in-kind and increases the related parties 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 assets. The Company believes it is more likely than not that some portion or all of the deferred tax assets will not be realized.

12. Discontinued Operations

On September 30, 2002 the Company completed the sale of four Florida residences and one Georgia residence. The transaction resulted in a loss of approximately $546,000. These residences serve as part of the collateral for the New Notes; therefore, net proceeds from the sale must be used to reduce the outstanding principal amount of the New Senior Notes. Net proceeds from the sale of approximately $4.5 million were received in October 2002 and are expected to be redeemed by the trustee on November 8, 2002. The Company has included the outstanding principal amount of the New Senior Notes expected to be paid upon redemption by the trustee in current portion of long-term debt in the accompanying balance sheet at September 30, 2002.

In March 2002 the Company closed one Indiana residence. The Company entered into an agreement to sell this residence and expects the sale to close by December 31, 2002, subject to certain closing conditions. Net property and equipment is included in assets held for sale at September 30, 2002 in the accompanying balance sheet. This residence serves as part of the collateral for the New Notes; therefore, expected net proceeds from the sale of this residence must be used to reduce the outstanding principal amount of the New Senior Notes. Accordingly, the current portion of long-term debt in the accompanying balance sheet at September 30, 2002 has been increased by $871,000 representing the book value of this residence.

In accordance with SFAS No. 144, the results of operations for these six residences and the loss incurred on the sale have been included in loss from discontinued operations in the accompanying financial statements for the three and nine months ended September 30, 2001 and 2002.

13. Contingencies

From time to time the Company is involved in judicial and administrative proceedings incidental to our business. Although occasional adverse decisions (or settlements) may occur, the Company is not party to any legal proceedings, which, in the opinion of management, would have a material adverse affect on the Company s financial position, results of operations or liquidity. The Company has accrued a liability for general and professional liability risks, based on historical data, for losses up to its insured retention levels.

14. 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

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with the guarantee of the New Notes by the Company s wholly-owned subsidiaries. The operating and investing activities of the separate legal entities included in the condensed consolidated financial statements are fully interdependent and integrated with the Company and each other.

Successor Company
Consolidating Balance Sheet
September 30, 2002

	ALC, Inc.	Wholly-Owned Subsidiaries: ALC Indiana, Inc.	Wholly-Owned Subsidiaries: Carriage House	Wholly-Owned Subsidiaries: HCI	Non-Participating Subsidiaries	Consolidating Adjustments	Consolidated Total
Current Assets:							
Cash and cash equivalents	$2,973	$	$	$	$	$	$2,973
Cash restricted for resident security deposits	2,432						2,432
Restricted cash from sale of properties	4,500						4,500
Accounts receivable, net	2,178			7	232		2,417
Prepaid expenses	1,567						1,567
Cash restricted for workers compensation claims	5,119						5,119
Assets held for sale	890						890
Other current assets	1,486			7	2,020		3,513
Total current assets	21,145			14	2,252		23,411

Restricted cash	5,301						5,301
Receivable from subsidiaries/parent	1,118	4,916		2,709	895	(9,638)	
Property and equipment, net	87,781	12,664	3,583	4,196	79,669		187,893
Investment in subsidiaries	27,155					(27,155)	
Other assets, net	1,516				429		1,945
Deferred tax asset		217				(217)	
Total assets	$144,016	$17,797	$3,583	$6,919	$83,245	$(37,010)	$218,550

LIABILITIES AND SHAREHOLDERS EQUITY

Current liabilities:

Accounts payable
$734 $ $ $1 $344 $ $1,079
Accrued real estate taxes
2,977 357 186 86 1,172 4,778
Other accrued expenses
10,451 9 173 10,633
Resident security deposits
1,956 204 2,160
Other current liabilities
881 881
Current portion of unfavorable lease adjustment
547 87 13 647
Current portion of long-term debt and capital lease obligation
6,653 1,932 8,585

Total current liabilities
24,199 357 273 96 3,838 28,763

Other liabilities
346 25 371
Unfavorable lease adjustment
2,204 366 68 2,638
Long-term debt and capital lease obligation, net of current portion

82,195 76,126 158,621
Payable to subsidiaries/parent
8,520 1,118 (9,638)
Deferred tax liability
217 (217)

Total liabilities
117,681 357 1,782 96 80,032 (9,855) 190,393

Shareholders equity:

Common stock
65 65
Additional paid-in capital
27,967 16,342 2,548 7,365 5,667 (27,155) 32,734
Retained earnings (accumulated deficit)
(1,997) 1,098 (747) (542) (2,454) (4,642)

Total shareholders equity	26,035	17,440	1,801	6,823	3,213	(27,155)	28,157
Total liabilities and shareholders equity	$143,716	$17,797	$3,583	$6,919	$83,245	$(37,010)	$218,550

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Successor Company
Consolidating Balance Sheet
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
Cash restricted for resident security deposits
2,415 2,415
Accounts receivable, net
2,086 15 227 2,328
Prepaid expenses
940 43 983
Cash restricted for workers compensation claims
2,825 2,825
Other current assets
2,209 24 1,629 3,862

Total current assets
16,552 39 1,899 18,490

Restricted cash
5,349 5,349
Receivable from subsidiaries/parent
3,432 3,553 846 (7,831)
Property and equipment, net
95,509 12,917 3,576 6,610 77,936 196,548
Investment in subsidiaries
32,095 (32,095)
Other assets, net
1,511 355 1,866
Deferred tax asset
(217) 217

Total assets
$154,231 $16,687 $3,576 $7,495 $80,190 $(39,926) $222,253

LIABILITIES AND SHAREHOLDERS EQUITY

Current liabilities:

Accounts payable
933 5 512 1,450

Accrued real estate taxes
2,451 315 240 90 1,427 4,523
Other accrued expenses
11,989 30 17 354 12,390
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
20,813 345 332 130 3,169 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
90,859 70,602 161,461
Payable to subsidiaries/parent
6,890 267 674 (7,831)

Total liabilities	121,259	345	1,028	130	74,523	(7,831)	189,454
Shareholders equity:							
Common stock	65	16,342				(16,342)	65
Additional paid-in capital	32,907		2,548	7,365	5,667	(15,753)	32,734
Total shareholders equity	32,972	16,342	2,548	7,365	5,667	(32,095)	32,799

Total liabilities and shareholders equity	$154,231	$16,687	$3,576	$7,495	$80,190	$(39,926)	$222,253

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Predecessor Company
Consolidating Statement of Operations
Nine months ended September 30, 2002

		Wholly-Owned Subsidiaries					
	ALC, Inc.	ALC Indiana, Inc.	Carriage House	HCI	Non-Participating Subsidiaries	Consolidating Adjustments	Consolidated Total
Revenue	$ 102,593	$	$	$	$ 11,608	$	$ 114,201
Management fee income	47		229		48	(324)	
Lease income		1,620			1,230	(2,850)	
Operating expenses:							
Residence operating expenses	69,797	222	179		8,927		79,125
Corporate general and administrative	14,073						14,073
Building rentals	2,106		700				2,806
Building rentals to related party	6,360						6,360
Depreciation and amortization	2,612	300	97		1,951		4,960
Management fee expense	324					(324)	
Lease expense	2,850					(2,850)	
Total operating expenses	98,122	522	976		10,878	(3,174)	107,324

Operating income (loss)	4,518	1,098	(747)	2,008	6,877
Other income (expense):					
Interest expense	(5,931)			(4,671)	(10,602)
Interest income	160			160	
Other income, net	36			36	
Total other expense, net	(5,735)			(4,671)	(10,406)

Income (loss) before debt restructure and reorganization costs	(1,217)	1,098	(747)	(2,663)		(3,529)
Debt restructure and reorganization costs	(680)					(680)
Income (loss) from continuing operations	(1,897)	1,098	(747)	(2,663)		(4,209)
Loss from discontinued operations	(100)		(542)	209		(433)
Net income (loss)	$(1,997)	$1,098	$(747) $(542)	$(2,454)	$	$(4,642)

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Predecessor Company
Consolidating Statement of Cash Flows
Nine months ended September 30, 2002

	ALC, Inc.	Wholly-Owned Subsidiaries: ALC Indiana, Inc.	Wholly-Owned Subsidiaries: Carriage House	Wholly-Owned Subsidiaries: HCI	Non-Participating Subsidiaries	Consolidated Total
Operating Activities:						
Net income (loss)	$(1,997)	$1,098	$(747)	$(542)	$(2,454)	$(4,642)
Adjustment to reconcile net income loss to net cash (used in) provided by operating activities:						
Depreciation and amortization	2,642	300				