ASSISTED LIVING CONCEPTS INC
Form 10-Q
November 14, 2003

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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, 2003
	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 1-13498

Assisted Living Concepts, Inc.

(Exact name of registrant as specified in its charter)

Nevada	**93-1148702**
(State or other jurisdiction of incorporation or organization)	*(IRS Employer Identification No.)*

1349 Empire Central, Suite 900
Dallas, TX 75247
(Address of principal executive offices)

(214) 424-4000
(Registrant s telephone number, including area code)

Indicate by check mark whether 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 [X] No [ ]

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes [ ] No [X]

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes [X] No [ ]

The Registrant had 6,432,091 shares of common stock, $.01 par value, outstanding at November 6, 2003.

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September 30, 2003

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

ASSISTED LIVING CONCEPTS, INC.
CONSOLIDATED BALANCE SHEETS
(In Thousands, Except Share Amounts)

ASSETS

	December 31, 2002	September 30, 2003
		(Unaudited)
Current assets:		
Cash and cash equivalents	$ 7,165	$ 10,904
Cash restricted for resident security deposits	1,929	1,562
Accounts receivable, net of allowance for doubtful accounts of $230 at December 31, 2002 and $682 at September 30, 2003	2,715	3,783
Prepaid insurance	343	1,074
Prepaid expenses	991	1,001
Assets held for sale	9,727	
Cash restricted for workers compensation claims	4,696	4,377
Other current assets	3,193	4,127
Total current assets	30,759	26,828
Restricted cash	5,315	1,010
Property and equipment, net	177,930	183,301
Deferred income taxes		1,673
Other assets, net	2,036	1,272
Total assets	$216,040	$214,084

LIABILITIES AND SHAREHOLDERS EQUITY

	December 31, 2002	September 30, 2003
Current liabilities:		
Accounts payable	$ 769	$ 1,170
Accrued real estate taxes	4,836	4,750
Accrued interest expense	2,174	1,136
Accrued payroll expense	5,021	4,767
Other accrued expenses	5,718	6,539
Income taxes payable		1,827
Resident security deposits	1,991	1,400
Other current liabilities	976	772
Current portion of unfavorable lease adjustment	607	490
Current portion of long-term debt and capital lease obligations	11,521	2,860
Total current liabilities	33,613	25,711
Other liabilities	463	641
Unfavorable lease adjustment, net of current portion	2,508	2,449
Long-term debt and capital lease obligations, net of current portion	109,078	102,705
Senior and Junior Secured notes	41,993	50,100

Total liabilities	187,655	181,606
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 at December 31, 2002 and 6,432,091 shares at September 30, 2003 (68,241 shares to be issued upon settlement of pending claims)	65	65
Additional paid-in capital	32,734	34,057
Accumulated deficit	(4,414)	(1,644)
Total shareholders equity	28,385	32,478
Total liabilities and shareholders equity	$216,040	$214,084

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

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ASSISTED LIVING CONCEPTS, INC.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2002	2003	2002	2003
Revenue	$39,069	$42,443	$113,896	$125,519
Operating expenses:				
Residence operating expenses	27,157	28,397	78,784	83,840
Corporate general and administrative	4,178	4,546	14,074	13,648
Building rentals	3,061	3,319	9,166	9,543
Depreciation and amortization	1,692	1,736	4,942	5,113
Total operating expenses	36,088	37,998	106,966	112,144
Operating income	2,981	4,445	6,930	13,375
Other income (expense):				
Interest expense	(3,545)	(3,375)	(10,602)	(10,233)
Interest income	55	97	160	163
Other income (expense), net	14		36	(71)
Total other expense, net	(3,476)	(3,278)	(10,406)	(10,141)
Income (loss) before debt restructure, reorganization costs, and discontinued operations	(495)	1,167	(3,476)	3,234
Debt restructure and reorganization costs	(14)		(680)	
Income (loss) from continuing operations before income taxes	(509)	1,167	(4,156)	3,234
Income tax expense		191		958
Income (loss) from continuing operations	(509)	976	(4,156)	2,276
Discontinued operations:				
Income (loss) from operations (including gain and loss on sale of assets)	(54)		(486)	830
Income tax expense				336
Income (loss) from discontinued operations	(54)		(486)	494
Net income (loss)	$ (563)	$ 976	$ (4,642)	$ 2,770
Basic earnings per share:				
Income (loss) from continuing operations	$ (0.08)	$ 0.15	$ (0.64)	$ 0.35
Income (loss) from discontinued operations	(0.01)		(0.07)	0.08
Net income (loss)	$ (0.09)	$ 0.15	$ (0.71)	$ 0.43
Diluted earnings per share:				
Income (loss) from continuing operations	$ (0.08)	$ 0.14	$ (0.64)	$ 0.34

Income (loss) from discontinued operations	(0.01)		(0.07)	0.08
Net income (loss)	$ (0.09)	$ 0.14	$ (0.71)	$ 0.42

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

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ASSISTED LIVING CONCEPTS, INC.

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

	Nine Months Ended September 30,	
	2002	**2003**
Operating Activities:		
Net income (loss)	$(4,642)	$ 2,770
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	5,051	5,113
Stock-based compensation expense		163
Amortization of debt issuance costs	80	83
Amortization of fair value adjustment to building rentals	(511)	(176)
Amortization of fair market adjustment to long-term debt	320	306
Amortization of discount on long-term debt	328	424
Straight line adjustment to building rentals	282	90
Interest paid-in-kind	915	1,003
Provision for doubtful accounts	207	658
(Gain) loss on sale or disposal of assets	545	(833)
Changes in assets and liabilities:		
Accounts receivable	(296)	(1,726)
Prepaid expenses	(584)	(741)
Other current assets	225	(39)
Other assets	(80)	(216)
Accounts payable	(371)	401
Accrued expenses	(1,502)	(555)
Other liabilities	(82)	607
Net cash provided by (used in) operating activities	(115)	7,332
Investing Activities:		
Decrease (increase) in restricted cash	(2,263)	4,991
Purchases of property and equipment	(2,207)	(2,493)
Sales of properties		2,569
Net cash provided by (used in) investing activities	(4,470)	5,067
Financing Activities:		
Proceeds from long-term debt	3,508	
Payments on long-term debt and capital lease obligations	(1,948)	(8,660)
Debt issuance costs	(79)	
Net cash provided by (used in) financing activities	1,481	(8,660)
Net increase (decrease) in cash and cash equivalents	(3,104)	3,739
Cash and cash equivalents, beginning of period	6,077	7,165
Cash and cash equivalents, end of period	$ 2,973	$10,904
Supplemental disclosure of cash flow information:		
Cash payments for interest	$ 8,472	$ 9,880

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

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ASSISTED LIVING CONCEPTS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. The Company

Assisted Living Concepts, Inc., (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 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 each of the three and nine month periods ended September 30, 2002 and 2003, pursuant to the rules and regulations of the Securities 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 prepared 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 for the fiscal year ended December 31, 2002 filed with the Securities and Exchange Commission. The results of operations for the three and nine month periods ended September 30, 2003 are not necessarily indicative of the results for a full year.

The results of operations for the three and nine month periods ended September 30, 2002 and 2003 reflect the continuing operations of 177 residences. Results of operations for five residences sold on September 30, 2002 and two residences sold in March 2003 are included in discontinued operations in the accompanying financial statements. (See Note 5).

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3. Long-Term Debt

As of December 31, 2002 and September 30, 2003, long-term debt consists of the following (in thousands):

	December 31, 2002		September 30, 2003	
	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	$ 9,688	$ 9,585	$ 9,553	$ 9,456
Variable Rate Multifamily Revenue Bonds, payable to the Washington State Housing Finance Commission Department due 2028	7,217	7,295	7,221	7,295
Variable Rate Demand Housing Revenue Bonds, Series 1997, payable to the Idaho Housing and Finance Association due 2017	6,277	6,345	5,995	6,060
Variable Rate Demand Housing Revenue Bonds, Series A-1 and A-2 payable to the State of Ohio Housing Finance Agency due 2018	11,451	11,575	9,987	10,105
Housing and Urban Development Insured Mortgages due 2035	7,329	7,410	7,287	7,372
New Senior Secured Notes due 2009	35,750	35,750	34,350	34,350
New Junior Secured Notes due 2012	13,925	16,225	15,750	17,497
Mortgages payable due 2008	27,995	27,948	27,542	27,534
G.E. Capital (Previously Heller Healthcare Finance, Inc.) Credit Facility due 2005	42,691	43,516	37,980	38,496
Capital lease obligations	269	269		
Total long-term debt	162,592	$ 165,918	155,665	$ 158,165
Less current portion	11,521		2,860	
Long-term debt	$ 151,071		$ 152,805	

The Trust Deed Notes payable to OHCS are secured by buildings, land, furniture and fixtures of six Oregon residences. The notes are payable in monthly installments including interest at effective rates ranging from 7.375% to 9.0%.

The Variable Rate Multifamily Revenue Bonds are payable to the Washington State Housing Finance Commission Department and at September 30, 2003 are secured by a $7.4 million letter of credit and by buildings, land, furniture and fixtures of the five Washington residences and had an interest rate of 1.2% at September 30, 2003. The letter of credit expires in January 2005 and had an annual fee of 2.0% at September 30, 2003.

The Variable Rate Demand Housing Revenue Bonds, Series 1997 are payable to the State of Idaho Housing and Finance Association and at September 30, 2003 are secured by a $6.2 million letter of credit and by buildings, land, furniture and fixtures of four Idaho residences and had an interest rate of 1.2% at September 30, 2003. The letter of credit expires in January 2005 and had an annual fee of 2.0% at September 30, 2003.

The Variable Rate Demand Housing Revenue Bonds are payable to the State of Ohio Housing Finance Agency (OHFA) and at September 30, 2003 are secured by a $10.3 million letter of credit and by buildings, land, furniture and fixtures of six Ohio residences and had an interest rate of 1.2% at September 30, 2003. The letter of credit expires in January 2005 and had an annual fee of 2.0% at September 30, 2003.

At September 30, 2003, mortgage loans include three fixed rate loans secured by seven Texas residences, three Oregon residences and three New Jersey residences. These loans collectively require monthly principal and interest payments of $230,000, with balloon payments of $11.8 million, $5.3 million and $7.2 million due at maturity in May 2008, August 2008 and September 2008, respectively. These loans bear

fixed interest rates from 7.58% to 8.79%.

Housing and Urban Development (HUD) insured mortgages include three separate loan agreements entered into in 2001. These are fixed rate mortgages, each of which is secured by a separate facility in Texas. These loans mature between July 1, 2036 and August 1,

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2036 and collectively require monthly principal and interest payments of $47,493. The loans bear fixed interest rates between 7.40% and 7.55%.

The GE Capital credit facility is a secured line of credit up to $44.0 million. This is a variable rate credit facility, secured by 31 facilities. This credit facility matures in January 2005 and requires monthly principal payments of $65,000 for 2003 and $80,000 for 2004. The interest on the credit facility is calculated at LIBOR plus 4.5%, floating monthly (not to be less than 8%) and is payable monthly in arrears.

On January 1, 2002 the Debtors emerged from the proceedings under Chapter 11 of the Bankruptcy Code. 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 using the effective interest method. The New Notes are secured by 51 properties as of September 30, 2003.

In July 2003, the Company completed an open market purchase of a portion of the Company s outstanding 10% Senior Secured Notes due 2009 and Junior Secured Notes due 2012. The transaction included the purchase of $147,889 principal amount of Senior Secured Notes and $34,178 principal amount of Junior Secured Notes (collectively, the Purchased Notes). Because the purchase of the Junior Notes is not permitted under the Indentures and constitutes a Default there under, and the purchase of the Senior Notes may not be permitted and could constitute Default there under, although this issue is not clear, the Company cancelled the purchase transaction with the seller in September 2003.

As of the Effective Date, the Successor Company revalued its long-term debt in conjunction with the implementation of fresh-start reporting. At December 31, 2001, an adjustment of $3.1 million was recorded to reduce long-term debt to its fair market value. Amortization of this adjustment is computed using the straight-line method over the individual loan life.

As of September 30, 2003, the following periodic principal payments are required (in thousands):

October 1, 2003 through December 31, 2003	$ 720
2004	2,942
2005	39,462
2006	2,258
2007	2,408
Thereafter	110,375
Total	$ 158,165

The Company has a series of reimbursement agreements with U.S. Bank for letters of credit that secure certain Revenue bonds payable, which total approximately $23.9 million as of September 30, 2003. An amendment to these agreements signed in September 2003 released $4.3 million of previously restricted cash to the Company, extended the expiration of the letters of credit to January 2005, amended the annual fees to be 2% of the stated amount of the letters of credit, and set in place new financial covenants. The Company was in compliance with these new covenants at September 30, 2003. 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.

In addition to the debt agreements with OHCS related to the six owned residences in Oregon, the Company has entered into Lease Approval Agreements with OHCS and the lessor of the Oregon Leases, which obligates the Company to comply with the terms and conditions of the underlying trust deed relating to the leased buildings. Under the terms of the OHCS debt agreements, the Company is required to maintain a capital replacement escrow account to cover expected capital expenditure requirements for the Oregon Leases and the six OHCS loans.

As a further condition of the OHCS debt agreements, the Company is required to comply with the terms of certain regulatory agreements which provide, among other things, that in order to preserve the federal income tax exempt status of the bonds, the Company is required to lease at least 20% of the units of the projects to low or moderate income persons as defined in Section 142(d) of the Internal Revenue Code. There are additional requirements as to the age and physical condition of the residents with which the

Company must also comply. Non-compliance with these restrictions may result in an event of default and cause acceleration of the scheduled repayment.

4. Income Taxes

The Company anticipates taxable income for financial reporting purposes for the year ending December 31, 2003, and accordingly, has provided for federal and state income taxes on income from continuing operations and discontinued operations for the nine months ended September 30, 2003. The Company has recorded such income tax expense at the rate of 31.8% for the nine months ended September 30, 2003.

The provision for income taxes differs from the applicable U.S. statutory federal rate as a result of the following items:

Statutory federal income tax rate	34.0%
State income taxes, net of federal benefit	5.4%
Non-deductible expenses	0.7%
Reduction of valuation allowance	(8.3)%
Effective tax rate	31.8%

For the three months ended September 30, 2003, the company recorded income tax expense at the rate of 31.8%, less the effect of the change in the estimate from the six months ended June 30, 2003. The change in the estimate for the six months ended June 30, 2003 was a reduction of income tax expense of $180,000, resulting primarily from anticipation of utilization of net operating loss (NOL) carry-forwards.

At December 31, 2001, the Company had approximately $94 million of NOL carry-forwards, which will expire between 2009 and 2021. These NOL carry-forwards have been reduced to approximately $16 million as a result of the discharge and cancellation of certain pre-petition liabilities under the Plan. The reduction of the NOL carry-forwards was effective on the date the liabilities were discharged.

The NOL carry-forwards remaining after the application of the cancellation of indebtedness provisions are subject to certain provisions of the Internal Revenue Code, which restricts the utilization of such NOL carry-forwards. In addition, any net unrealized built-in losses resulting from the excess of tax basis over the carrying value of the Company s assets (primarily property and equipment) as of the Effective Date, which are recognized within five years are also subject to these provisions. Section 382 of the Internal Revenue Code imposes limitations on the utilization of the NOL carry-forwards and built-in losses after certain changes of ownership of a loss company. The Company is deemed to be a loss company for these purposes. Under these provisions, the Company s ability to utilize these NOL carry-forwards and built-in losses in the future will generally be subject to an annual limitation of approximately $1.6 million (the Annual Limitation). There can be no assurance that the Company will be able to utilize these pre-change NOL carry-forwards or built-in losses and therefore, the Company established a 100 percent valuation allowance as of the Effective Date. Pursuant to SOP 90-7, the income tax benefit, if any, of the future realization of these NOL carry-forwards and built-in losses will be recorded as an adjustment to additional paid-in capital.

For the year ended December 31, 2002, the Annual Limitation was not utilized since the Company incurred a loss for financial statement purposes. A 100 percent valuation allowance of approximately $45.0 million was recorded to offset the associated net deferred tax asset as of December 31, 2002. For the full fiscal year ending December 31, 2003, the Company anticipates utilizing the 2003 Annual Limitation as well as the unused 2002 Annual Limitation.

5. Discontinued Operations

During March 2003, the Company sold one residence in Ohio and one residence in Indiana. The total sales price for these residences was $2.6 million, and the Company recognized a gain from these sales of $899,000.

In accordance with SFAS No. 144, the results of operations and the gain and losses from sales have been included in Income (loss) from discontinued operations in the accompanying financial statements for the three and nine-month periods ended September 30, 2002 and 2003.

On September 30, 2002 the Company completed the sale of four Florida residences and one Georgia residence. Consequently, the results of operations for these residences are included in Income (loss) from discontinued operations in the accompanying financial statements for the three and nine-month periods ended September 30, 2002.

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6. Stock-based Compensation

Previously, the Company accounted for stock-based compensation plans under the recognition and measurement provisions of APB Opinion No. 25, Accounting for Stock Issued to Employees (APB No. 25) and related interpretations. No stock-based employee compensation expense for stock options was reflected in Net Income previous to April 1, 2003, as all stock options granted under those plans had an exercise price equal to the fair market value of the underlying common stock on the date of grant. Effective April 1, 2003, the Company adopted the fair value recognition provisions of SFAS No. 123, Accounting for Stock-Based Compensation , and recognizes compensation expense according to the prospective transition method under SFAS No. 148, Accounting for Stock-Based Compensation Transition and Disclosure . Under this method the Company expenses the fair value of all new stock options granted after January 1, 2003. The following table illustrates the effect on net income and earnings per share had the company applied the fair value accounting method to all of the Company s stock option grants.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2002	2003	2002	2003
Net income (loss), as reported	$ (563)	$ 976	$ (4,642)	$ 2,770
Add: Stock-based employee compensation expense included in reported net income, net of related tax effects		46		108
Deduct: Total stock-based employee compensation expense determined under fair value method for all awards granted, net of related tax effects	(41)	(53)	(54)	(129)
Pro forma net income (loss)	$ (604)	$ 969	$ (4,696)	$ 2,749
Net income (loss) per share:				
Basic as reported	$ (0.09)	$ 0.15	$ (0.71)	$ 0.43
Basic pro forma	$ (0.09)	$ 0.15	$ (0.72)	$ 0.42
Diluted as reported	$ (0.09)	$ 0.14	$ (0.71)	$ 0.42
Diluted pro forma	$ (0.09)	$ 0.14	$ (0.72)	$ 0.41

7. Income (Loss) Per Share

The weighted average common shares used for basic net income (loss) per common share were 6,500,000 for the three and nine month periods ended September 30, 2002 and 2003. The effect of dilutive stock options using the treasury stock method added 263,444 shares for the three month period ended September 30, 2003 and 131,169 shares for the nine month period ended September 30, 2003. The effect of options for the three and nine month periods ended September 30, 2002 is not considered since their effect is antidilutive.

8. Subsidiary Guarantee of New Notes

The New Notes, issued by the Company, are publicly traded and the repayment of these notes is guaranteed by three wholly owned subsidiaries of the Company: ALC Indiana, Inc., Home and Community Care, Inc. (HCI) and Carriage House Assisted Living, Inc. (Carriage House). 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 investing activities of the separate legal entities included in the consolidating financial statements are fully interdependent and integrated with the Company and each other.

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ASSISTED LIVING CONCEPTS, INC.
CONDENSED CONSOLIDATING BALANCE SHEETS
September 30, 2003
(in thousands, except share amounts)
(unaudited)

		Wholly-Owned Subsidiaries					
	ALC, Inc.	ALC Indiana, Inc.	Carriage House	HCI	Non-Participating Subsidiaries	Consolidating Adjustments	Consolidated Total
ASSETS							
Current Assets:							
Cash and cash equivalents	$ 10,904	$	$	$	$	$	$ 10,904
Cash restricted for resident security deposits	1,562						1,562
Accounts receivable, net of allowance for doubtful accounts	3,510				273		3,783
Prepaid insurance	1,074						1,074
Prepaid expenses	923				78		1,001
Cash restricted for workers compensation claims	4,377						4,377
Other current assets	1,652				2,475		4,127
Total current assets	24,002				2,826		26,828
Restricted cash	1,010						1,010
Receivable (payable) from subsidiaries/ parent	(3,622)	5,498	(925)	3,309	(4,260)		
Property and equipment, net	85,655	12,365	3,465	4,082	77,734		183,301
Investment in subsidiaries	28,255					(28,255)	
Deferred income taxes	1,673						1,673
Other assets, net	1,271				1		1,272
Total assets	$ 138,244	$ 17,863	$ 2,540	$ 7,391	$ 76,301	$ (28,255)	$ 214,084
LIABILITIES AND SHAREHOLDERS EQUITY							
Current liabilities:							
Accounts payable	$ 1,067	$	$	$	$ 103	$	$ 1,170
Accrued real estate taxes	2,938	491	178	125	1,018		4,750
Accrued interest expense	964				172		1,136
Accrued payroll expense	4,694				73		4,767
Other accrued expenses	6,533				6		6,539
Resident security deposits	1,274				126		1,400
Other current liabilities	2,202	369			28		2,599
Current portion of unfavorable lease adjustment	424		66				490
Current portion of long-term debt and capital lease obligation, net of current portion	1,299				1,561		2,860
Total current liabilities	21,395	860	244	125	3,087		25,711
Other liabilities	601		40				641
Unfavorable lease adjustment	2,041		340		68		2,449
Long-term debt and capital lease obligation	81,556				71,249		152,805

Total liabilities	105,593	860	624	125	74,404		181,606
Shareholders equity:							
Common stock	65	16,342				(16,342)	65
Additional paid-in capital	34,230		2,549	7,365	5,667	(15,754)	34,057
Accumulated deficit	(1,644)	661	(633)	(99)	(3,770)	3,841	(1,644)
Total shareholders equity	32,651	17,003	1,916	7,266	1,897	(28,255)	32,478
Total liabilities and shareholders equity	$138,244	$17,863	$2,540	$7,391	$76,301	$(28,255)	$214,084

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ASSISTED LIVING CONCEPTS, INC.

CONDENSED CONSOLIDATING BALANCE SHEETS
DECEMBER 31, 2002
(in thousands, except share amounts)

		Wholly-Owned Subsidiaries					
	ALC, Inc.	ALC Indiana, Inc.	Carriage House	HCI	Non-Participating Subsidiaries	Consolidating Adjustments	Consolidated Total
ASSETS							
Current Assets:							
Cash and cash equivalents	$ 7,165	$	$	$	$	$	$ 7,165
Cash restricted for resident security deposits	1,929						1,929
Accounts receivable, net of allowance for doubtful accounts	2,446			3	266		2,715
Prepaid insurance	343						343
Prepaid expenses	946				45		991
Assets held for sale	9,727						9,727
Cash restricted for workers compensation claims	4,696						4,696
Other current assets	1,199			3	1,991		3,193
Total current assets	28,451			6	2,302		30,759
Restricted cash	5,315						5,315
Receivable from subsidiaries/parent	(6,489)	6,454	(1,236)	2,780	(1,509)		
Property and equipment, net	81,328	12,565	3,558	4,176	76,303		177,930
Investment in subsidiaries	27,632					(27,632)	
Deferred income taxes							
Other assets, net	1,635				401		2,036
Total assets	$137,872	$19,019	$ 2,322	$6,962	$77,497	$(27,632)	$216,040
LIABILITIES AND SHAREHOLDERS EQUITY							
Current liabilities:							
Accounts payable	$ 234	$	$	$ 1	$ 534	$	$ 769
Accrued real estate taxes	2,830	285	234	71	1,416		4,836
Accrued interest expense	2,147				27		2,174
Accrued payroll expense	4,960				61		5,021
Other accrued expenses	5,669				49		5,718
Resident security deposits	1,779			(1)	213		1,991
Other current liabilities	976						976
Current portion of unfavorable lease adjustment	525		82				607
Current portion of long-term debt and capital lease obligation	8,817				2,704		11,521
Total current liabilities	27,937	285	316	71	5,004		33,613
Other liabilities	430		33				463
Unfavorable lease adjustment, net of current portion	2,095		347		66		2,508
	78,852				72,219		151,071

Long-term debt and capital lease obligation, net of current portion							
Total liabilities	109,314	285	696	71	77,289		187,655
Commitments and contingencies							
Shareholders equity:							
Preferred stock							
Common stock	65	16,342				(16,342)	65
Additional paid-in capital	32,907		2,548	7,365	5,667	(15,753)	32,734
Accumulated deficit	(4,414)	2,392	(922)	(474)	(5,459)	4,463	(4,414)
Total shareholders equity	28,558	18,734	1,626	6,891	208	(27,632)	28,385
Total liabilities and shareholders equity	$137,872	$19,019	$ 2,322	$6,962	$77,497	$(27,632)	$216,040

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ASSISTED LIVING CONCEPTS, INC.

CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS
Nine Months Ended September 30, 2003
(in thousands)
(unaudited)

		Wholly-Owned Subsidiaries				
	ALC,Inc.	ALC Indiana, Inc.	Carriage House	HCI	Non-participating Subsidiaries	Consolidated Total
Revenue	$114,239	$	$	$	$11,280	$125,519
Operating expenses:						
Residence operating expenses	75,142	284	189		8,225	83,840
Corporate general and administrative	13,648					13,648
Building rentals	8,845		698			9,543
Depreciation and amortization	2,576	306	103	99	2,029	5,113
Total operating expenses	100,211	590	990	99	10,254	112,144
Operating income (loss)	14,028	(590)	(990)	(99)	1,026	13,375
Other income (expense):						
Interest expense	(5,246)				(4,987)	(10,233)
Interest income	163					163
Management fee income (expense)	(548)		357		191	
Lease income (expense)	(1,620)	1,620				
Other expense, net	(71)					(71)
Total other expense, net	(7,322)	1,620	357		(4,796)	(10,141)
Income (loss) from continuing operations before income taxes	6,706	1,030	(633)	(99)	(3,770)	3,234
Income tax expense	589	369				958
Income (loss) from continuing operations	6,117	661	(633)	(99)	(3,770)	2,276
Income (loss) from discontinued operations (including gain on sale of assets)	830					830
Income tax expense	336					336
Income from discontinued operations	494					494
Net income (loss)	$ 6,611	$ 661	$(633)	$(99)	$ (3,770)	$ 2,770

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ASSISTED LIVING CONCEPTS, INC

CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS
Nine Months Ended September 30, 2002
(in thousands)
(unaudited)

		Wholly-Owned Subsidiaries				
	ALC, Inc.	ALC Indiana, Inc.	Carriage House	HCI	Non-Participating Subsidiaries	Consolidated Total
Revenue	$ 104,130	$	$	$	$ 9,766	$ 113,896
Operating expenses:						
Residence operating expenses	70,923	222	179		7,460	78,784
Corporate general and administrative	14,074					14,074
Building rentals	8,509		657			9,166
Depreciation and amortization	2,496	300	97	98	1,951	4,942
Total operating expenses	96,002	522	933	98	9,411	106,966
Operating income (loss)	8,128	(522)	(933)	(98)	355	6,930
Other income (expense):						
Interest expense	(5,622)				(4,980)	(10,602)
Interest income	160					160
Management fee income (expense)	371		(230)		(141)	
Lease income (expense)	(1,620)	1,620				
Other income, net	36					36
Total other income (expense), net	(6,675)	1,620	(230)		(5,121)	(10,406)
Income (loss) before debt restructure, and reorganization cost, and discontinued operations	1,453	1,098	(1,163)	(98)	(4,766)	(3,476)
Debt restructure and reorganization costs	(680)					(680)
Income (loss) from continuing operations	773	1,098	(1,163)	(98)	(4,766)	(4,156)
Income (loss) from discontinued operations	(355)			(450)	319	(486)
Net income (loss)	$ 418	$ 1,098	$ (1,163)	$ (548)	$ (4,447)	$ (4,642)

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ASSISTED LIVING CONCEPTS, INC.
CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS
Nine months ended September 30, 2003
(in thousands)
(unaudited)

		Wholly-Owned Subsidiaries				
	ALC, Inc.	ALC Indiana, Inc.	Carriage House	HCI	Non-Participating Subsidiaries	Consolidated Total
Operating Activities:						
Net income	$ 6,611	$ 661	$ (633)	$ (99)	$ (3,770)	$ 2,770
Adjustment to reconcile net loss to net cash provided by (used in) operating activities:						
Depreciation and amortization	2,576	306	103	99	2,029	5,113
Stock-based compensation expense	163					163
Amortization of deferred financing fees	83					83
Amortization of fair value adjustment to building rentals	(153)		(23)			(176)
Amortization of fair market adjustment to debt	7				299	306
Amortization of note discount	424					424
Straight-line adjustment to building rentals	90					90
Interest paid-in-kind	1,003					1,003
Provision for doubtful accounts	625				33	658
Gain on sale of assets	(833)					(833)
Changes in assets and liabilities:						
Receivable (payable) from subsidiaries/ parent	(2,879)	(1,436)	612	(55)	3,758	
Accounts receivable	(1,722)			3	(7)	(1,726)
Prepaid expenses	(708)				(33)	(741)
Other current assets	442			3	(484)	(39)
Other assets	(616)				400	(216)
Accounts payable	833			(1)	(431)	401
Accrued expenses	(475)	206	(56)	55	(285)	(555)
Other liabilities	203	369	7		28	607
Net cash provided by operating activities	5,674	106	10	5	1,537	7,332
Investing Activities:						
Collections of restricted cash, net	4,991					4,991
Purchases of property and equipment	(1,805)	(106)	(10)	(5)	(567)	(2,493)
Sale of properties	2,569					2,569
Net cash provided by (used in) investing activities	5,755	(106)	(10)	(5)	(567)	5,067
Financing Activities:						
Payments on long-term debt and capital lease obligation	(7,690)				(970)	(8,660)
Net cash used in financing activities	(7,690)				(970)	(8,660)
Net increase in cash and cash equivalents	3,739					3,739
Cash and cash equivalents, beginning of period	7,165					7,165
Cash and cash equivalents, end of period	$ 10,904	$	$	$	$	$ 10,904

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ASSISTED LIVING CONCEPTS, INC.
CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS
Nine months ended September 30, 2002
(in thousands)
(unaudited)

		Wholly-Owned Subsidiaries				
	ALC, Inc.	ALC Indiana, Inc	Carriage House	HCI	Non-Participating Subsidiaries	Consolidated Total
Operating Activities:						
Net loss	$ 418	$ 1,098	$ (1,163)	$ (548)	$ (4,447)	$ (4,642)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:						
Depreciation and amortization	2,434	300	97	239	1,981	5,051
Amortization of deferred financing fees	80					80
Amortization of fair value adjustment to building rentals	(443)		(68)			(511)
Amortization of fair market adjustment of debt	320					320
Amortization of note discount	328					328
Straight-line adjustment to building rentals	282					282
Interest paid-in-kind	915					915
Provision for doubtful accounts	207					207
Loss on sale of assets	286			468	(209)	545
Changes in assets and liabilities:						
Receivable (payable) from subsidiaries/parent	(2,255)	1,877	1,267	(1,960)	1,071	
Accounts receivable	(299)			8	(5)	(296)
Prepaid expenses	(627)				43	(584)
Other current assets	599			17	(391)	225
Other assets	(2,025)			1,810	135	(80)
Accounts payable	(199)			(4)	(168)	(371)
Accrued expenses	2,187	(3,198)	(54)	(1)	(436)	(1,502)
Other current liabilities	(71)			(11)		(82)
Other liabilities	826	(30)	25	(18)	(803)	
Net cash provided by (used in) operating activities	2,963	47	104		(3,229)	(115)
Investing Activities:						
Decrease/increase in restricted cash	(2,263)					(2,263)
Purchases of property and equipment	1,628	(47)	(104)		(3,684)	(2,207)
Net cash used in investing activities	(635)	(47)	(104)		(3,684)	(4,470)
Financing Activities:						
Proceeds from long-term debt	(3,405)				6,913	3,508
Payments on long-term debt and capital lease obligation	(1,948)					(1,948)
Debt issuance costs of offerings and long-term debt	(79)					(79)
Net cash provided by (used in) financing activities	(5,432)				6,913	1,481
Net decrease in cash and cash equivalents	(3,104)					(3,104)
Cash and cash equivalents, beginning of period	6,077					6,077

Cash and cash equivalents, end of period	$ 2,973	$	$	$	$	$ 2,973

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Item 2. ***Management s Discussion and Analysis of Financial Condition and Results of Operations***

This report on Form 10-Q may be deemed to constitute forward-looking statements made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Such statements, including without limitation, statements containing the words will, believes, anticipates, estimates, intends, expects, should, could, and words of similar import, are forward looking statements. These forward-lookin statements may be affected by risks and uncertainties, including without limitation (i) our ability to control costs and improve operating margins, (ii) our ability to increase occupancy, (iii) our ability to increase our revenue at a pace which exceeds expense inflation, (iv) our ability to operate our residences in compliance with evolving regulatory requirements, (v) the degree to which our future operating results and financial condition may be affected by a reduction in Medicaid reimbursement rates, and (vi) our ability to extend or renegotiate our current debt agreements. In light of such risks and uncertainties, our actual results could differ materially from such forward-looking statements. Except as may be required by law, we do not undertake any obligation to publicly release any revisions to any forward-looking statements contained herein to reflect events and circumstances occurring after the date hereof or to reflect the occurrence of unanticipated events.

References in this section to ALC, the Company, us or we refer to Assisted Living Concepts, Inc. and its wholly owned subsidiaries.

General

We operate, own and lease free-standing assisted living residences. These residences are primarily located in small, middle-market, rural and suburban communities with a population typically ranging from 10,000 to 40,000. As of September 30, 2003, we had operations in 14 states.

We provide personal care and support services, and make available routine nursing services (as permitted by applicable law) designed to meet the personal and health care needs of our residents. We believe that this combination of residential, personal care, support and health care services provides a cost-efficient alternative to, and affords an independent lifestyle for, individuals who do not require the broader array of medical services that nursing facilities are required by law to provide.

As of September 30, 2003, we operated 177 assisted living residences (6,838 units), of which we owned 122 residences (4,733 units) and leased 55 residences (2,105 units).

We derive our revenues primarily from resident fees for room, board and care. Resident fees typically are paid monthly by residents, their families, state Medicaid agencies or other third parties. Resident fees include revenue derived from a multi-tiered rate structure, which varies based on the level of care provided. Resident fees are recognized as revenues when services are provided. Our expenses include:

- residence operating expenses, such as staff payroll, food, property taxes, utilities, insurance and other direct residence operating expenses;
- general and administrative expenses consisting of regional management and corporate support functions such as legal, accounting and other administrative expenses;
- building rentals;
- depreciation and amortization; and
- interest expense related to debt.

We anticipate that the majority of our revenues will continue to come from private pay sources. However, we believe that by having located some of our residences in states with favorable regulatory and reimbursement climates, we should have a stable source of residents eligible for Medicaid reimbursement to the extent that private pay residents are not available and, in addition, provide our private pay residents with alternative sources of income when their private funds are depleted and they become Medicaid eligible.

Although we manage the mix of private paying residents and Medicaid paying residents residing in our facilities, any significant increase in our Medicaid population could have an adverse effect on our financial position, results of operations and cash flows, particularly if states operating these programs continue to limit, or more aggressively seek limits on, reimbursement rates.

Fresh-Start Reporting

Upon the Effective Date of our Plan of reorganization, we 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, we adopted the provisions of fresh-start reporting effective December 31, 2001. In adopting the requirements of fresh-start reporting as of December 31, 2001, we were required to value our assets and liabilities at their estimated fair value and eliminate our accumulated deficit at December 31, 2001.

Sales of Residences

During March 2003, the Company sold one residence in Ohio and one residence in Indiana. The total sales price for these residences was $2.6 million, and the Company recognized a gain from these sales of $899,000.

Critical Accounting Policies and Estimates

The discussion and analysis of our financial condition and results of operations are based upon our condensed consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue and expenses and related disclosure of contingent assets and liabilities. On an on-going basis, we evaluate these estimates, including those related to bad debts, income taxes, professional and general liability reserves, the carrying value of long-lived assets, financing operations, contingencies and litigation. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

Results of Operations

The following tables set forth, for the periods presented, operating expenses as a percentage of revenue, the number of total residences and units operated, average occupancy and rental rates and the sources of our revenue. The portion of revenues received from state Medicaid agencies are labeled as Medicaid state paid portion while the portion of our revenues that a Medicaid-eligible resident must pay out of his or her own resources is labeled Medicaid resident paid portion.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2002	2003	2002	2003
Revenue	100.0	100.0	100.0	100.0
Operating expenses:				
Residence operating expenses	69.5	66.9	69.2	66.8
Corporate general and administrative	10.7	10.7	12.4	10.9
Building rentals	7.9	7.8	8.1	7.5
Depreciation and amortization	4.3	4.1	4.2	4.1
Total operating expenses	92.4	89.5	93.9	89.3
Operating income	7.6	10.5	6.1	10.7
Other income (expense):				
Interest expense	(9.1)	(8.0)	(9.4)	(8.1)
Interest income	0.2	0.2	0.2	0.1
Other income, net	0.0		0.0	(0.1)
Total other expense, net	(8.9)	(7.8)	(9.2)	(8.1)
Income (loss) before debt restructure, reorganization costs, and discontinued operations	(1.3)	2.7	(3.1)	2.6
Debt restructure and reorganization costs	(0.0)		(0.5)	

Income (loss) from continuing operations before income taxes	(1.3)	2.7	(3.6)	2.6
Income tax expense		0.4		0.8
Income (loss) from continuing operations	(1.3)	2.3	(3.6)	1.8
Discontinued operations:				
Income (loss) from operations (including gain on sale of assets)	(0.1)		(0.5)	0.7
Income tax expense				0.3
Income (loss) from discontinued operations	(0.1)		(0.5)	0.4
Net income (loss)	(1.4)	2.3	(4.1)	2.2

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2002	2003	2002	2003
Other Data Relating to Continuing Operations:				
Residences operated (end of period)	177	177	177	177
Units operated (end of period)	6,847	6,838	6,847	6,838
Average occupancy rate (based on occupied units)	85.8%	88.4%	84.9%	88.1%
Average monthly rental rate	$2,180	$2,310	$2,153	$2,282
Sources of revenue:				
Medicaid state paid portion	13.1%	14.0%	12.6%	13.4%
Medicaid resident paid portion	8.0%	9.1%	7.7%	8.7%
Private resident paid portion	78.9%	76.9%	79.7%	77.9%
Total	100.0%	100.0%	100.0%	100.0%

Three months ended September 30, 2003 compared to three months ended September 30, 2002:

The Company recorded net income of $1.0 million on revenues of $42.4 million for the three months ended September 30, 2003 (the September 2003 Quarter) compared to a net loss of $563,000 on revenues of $39.1 million for the three months ended September 30, 2002 (the September 2002 Quarter).

Revenues increased $3.4 million for the September 2003 Quarter compared to the September 2002 Quarter primarily due to an increase in average occupancy percentage of approximately 2.6% and an increase in average rental rate received from residents of approximately $130 per month. In March 2003 the Company instituted a rent increase in all its residences.

Residence operating expenses increased $1.2 million for the September 2003 Quarter compared to the September 2002 Quarter but decreased as a percentage of revenue from 69.5% to 66.9%. Of the increase, $929,000 is attributable to an increase in payroll expenses, which decreased slightly as a percentage of revenue. The increase in payroll is primarily due to an increase in benefits and workers compensation expense, additional personnel, and increased salaries and wages, including expenses related to employee incentives. An increase in utilities expense of $329,000 in addition to less significant increases in other expense categories comprise the remaining increase in residence operating expenses from the September 2002 Quarter to the September 2003 Quarter. These increases were offset primarily by a decrease of $284,000 in maintenance costs, and less significant decreases in other expense categories.

Corporate, general and administrative expenses increased $368,000 for the September 2003 Quarter compared to the September 2002 Quarter and remained constant as a percentage of revenue at 10.7%. This increase is primarily related to $517,000 of bonus expense, $252,000 of legal fees, and other less significant increases. These increases were offset by less significant decreases in other corporate overhead items.

Building rentals increased $258,000, or 8.4%, for the September 2003 Quarter compared to the September 2002 Quarter and decreased as a percentage of revenue from 7.9% to 7.8%.

Depreciation and amortization expense increased by $44,000 for the September 2003 Quarter compared to the September 2002 Quarter.

Interest expense decreased $170,000 for the September 2003 Quarter compared to the September 2002 Quarter. The decrease is primarily due to the overall reduction of indebtedness.

The provision for income tax expense was $191,000 for the September 2003 Quarter. The Company anticipates taxable income for financial reporting purposes for the year ending December 31, 2003, and accordingly, has provided for federal and state income taxes on income from continuing operations and discontinued operations for the three months ended September 30, 2003. The Company has recorded such income tax expense at the rate of 31.8%, the estimated effective tax rate for the nine months ended September 30, less the effect of the change in the estimate from the six months ended June 30, 2003. The change in the estimate for the six months ended June 30, 2003 was a reduction of income tax expense of $180,000, resulting primarily from anticipation of utilization of net operating loss (NOL) carry-forwards. For income tax return purposes the Company anticipates any taxable income generated for the year ending December 31, 2003 will be offset in total by NOL carry-forwards.

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Nine months ended September 30, 2003 compared to nine months ended September 30, 2002:

The Company recorded net income of $2.8 million on revenues of $125.5 million for the nine months ended September 30, 2003 compared to a net loss of $4.6 million on revenues of $113.9 million for the nine months ended September 30, 2002.

Revenues increased $11.6 million for the nine months ended September 2003 compared to the nine months ended September 2002 primarily due to an increase in average occupancy percentage of approximately 3.2% and an increase in average rental rate received from residents of approximately $129 per month. In March 2003 the Company instituted a rent increase in all its residences.

Residence operating expenses increased $5.1 million for the nine months ended September 2003 compared to the nine months ended September 2002 but decreased as a percentage of revenue from 69.2% to 66.8%. Of the increase, $3.4 million is attributable to an increase in payroll expenses, which decreased slightly as a percentage of revenue. The increase in payroll is primarily due to an increase in benefits and workers compensation expense, additional personnel, and increased salaries and wages, including expenses related to employee incentives. An increase in utilities expense of $1.3 million in addition to less significant increases in other expense categories comprise the remaining increase in residence operating expenses from the nine months ended September 2002 to the nine months ended September 2003. These increases were offset primarily by a decrease of $374,000 in maintenance costs and less significant decreases in other expense categories.

Corporate, general and administrative expenses decreased $426,000 for the nine months ended September 2003 compared to the nine months ended September 2002 and decreased as a percentage of revenue from 12.4% to 10.9%. This decrease is primarily related to $768,000 of severance expenses incurred in the nine months ended September 2002 related to management changes. The Company incurred no significant severance expenses during the nine months ended September 2003. Also contributing to the decrease in administrative expenses was a $399,000 decrease in travel related expenses from the nine months ended September 2002 to the nine months ended September 2003. These expenses decreased primarily due to the completion of the corporate office relocation to Dallas, Texas in May 2003 and the corporate office s new facilities being more centrally located to the Company s residences. These decreases were offset primarily by increases from the nine months ended September 2002 to the nine months ended September 2003 in bonus expenses of $725,000 and other employee incentives and hiring expenses.

Building rentals increased $377,000, or 4.1%, for the nine months ended September 2003 compared to the nine months ended September 2002 and decreased as a percentage of revenue from 8.1% to 7.5%.

Depreciation and amortization expense increased by $171,000 for the nine months ended September 2003 compared to the nine months ended September 2002.

Interest expense decreased $369,000 for the nine months ended September 2003 compared to the nine months ended September 2002. The decrease is primarily due to the overall reduction of indebtedness.

Debt restructure and reorganization costs were $680,000 for the nine months ended September 2002. These were professional fees, including legal and investment advisory fees, related to the Company s Plan of Reorganization, which became effective January 1, 2002. The Company did not incur these expenses in the nine months ended September 2003.

Results from discontinued operations during the nine months ended September 2002 include results of operations, sales-related expenses from residences that were subsequently sold and gains and/or losses related to those sales. The results from discontinued operations during the nine months ended September 2003 include results of operations, sales-related expenses from residences that were sold during March 2003, and gains and/or losses related to those sales.

Income tax expense was $1.3 million for the nine months ended September 2003. The Company anticipates taxable income for financial reporting purposes for the year ending December 31, 2003, and accordingly, has provided for federal and state income taxes on income from continuing operations and discontinued operations for the nine months ended September 30, 2003. The Company has recorded such income tax expense at the rate of 31.8%. For income tax return purposes the Company anticipates any taxable income generated for the year ending December 31, 2003 will be offset in total by NOL carry-forwards.

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Liquidity and Capital Resources

At September 30, 2003, we had working capital of $1.1 million and unrestricted cash and cash equivalents of $10.9 million.

Net cash provided by operating activities was $7.3 million during the nine months ended September 30, 2003. The primary sources were net income of $2.8 million and $5.1 million for depreciation and amortization.

Net cash provided by investing activities was $5.1 million during the nine months ended September 30, 2003. The primary sources were the release of $4.3 million of restricted cash related to the amended agreements with U.S. Bank (see below) and the sale of properties for $2.6 million. These sources were offset by purchases of property and equipment totaling $2.5 million.

Net cash used in financing activities was $8.7 million during the nine months ended September 30, 2003, all of which related to payments on long-term debt. Of this amount, $4.3 million released from U.S. Bank (see below) was used to partially pay down the amount outstanding on the G.E. Capital Credit Facility.

Related to the New Notes, in June 2003 the Company received a notice of default from the Trustee indicating that the Company failed to comply with a non-financial covenant under the Indentures pertaining to the New Notes that requires the Company to deliver an annual opinion stating that all filings, recordings or other actions that are necessary to maintain the Liens under the Collateral Documents (as such terms are defined under the Indentures pertaining to the New Notes) have been done, or that no such action is required. The Company has delivered the required annual opinions to the Trustee and has received notice from the Trustee that the Default referenced in the Notice has been cured.

In July 2003, the Company completed an open market purchase of a portion of the Company s outstanding 10% Senior Secured Notes due 2009 and Junior Secured Notes due 2012. The transaction included the purchase of $147,889 principal amount of Senior Secured Notes and $34,178 principal amount of Junior Secured Notes (collectively, the Purchased Notes). Because the purchase of the Junior Notes is not permitted under the Indentures and constitutes a Default there under, and the purchase of the Senior Notes may not be permitted and could constitute Default there under, although this issue is not clear, the Company cancelled the purchase transaction with the seller in September 2003.

The Company has a series of reimbursement agreements with U.S. Bank for letters of credit that secure certain of our Revenue bonds payable, which total approximately $23.9 million as of September 30, 2003. An amendment to these agreements signed in September 2003 released $4.3 million of previously restricted cash to the Company, extended the expiration of the letters of credit to January 2005, amended the annual fees to be 2% of the stated amount of the letters of credit, and set in place new financial covenants. The Company was in compliance with these new covenants at September 30, 2003. 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. Any such default could have a material adverse effect on the Company.

Our credit agreements with U.S. Bank contain certain restrictive and financial covenants, including certain financial ratios. The agreements also require us to deposit $500,000 in cash collateral with U.S. Bank in the event certain regulatory actions are commenced with respect to the properties securing our obligations to U.S. Bank. U.S. Bank is required to release such deposits upon satisfactory resolution of the regulatory action. As of the date of this filing, no such deposits have been required.

The Company leases 37 of its facilities, representing 1,426 units, from LTC Properties, Inc. (LTC). In accordance with the Company s plan of reorganization, effective January 1, 2002, the Company entered into a Master Lease Agreement with LTC under which 16 leases were consolidated. This Master Lease Agreement provides for aggregate rent reductions of $875,000 per year and restructures the provision related to minimum rent increases for the 16 properties for the initial remaining term. The Master Lease Agreement and other LTC lease agreements also provides LTC with the option to exercise certain remedies, including the termination of the Master Lease Agreement and the other LTC leases, upon the occurrence of an Event of Default. A change of control of the Company is deemed to be an Event of Default. A change of control is deemed to occur if, among other things, (i) any person, directly or indirectly, is or becomes the beneficial owner of thirty percent (30%) or more of the combined voting power of the Company s outstanding voting securities, (ii) the stockholders approve under certain conditions a merger or consolidation of the Company with another corporation or entity, or (iii) the stockholders approve a plan of liquidation or sale of all or substantially all of the assets of the Company. If the surviving entity has a net worth of $75 million or more, the change of control does not constitute an Event of Default. In addition, there are cross default provisions in the LTC leases. At the same time that the Company entered into the Master Lease Agreement, it also amended 16 other leases with LTC under which the renewal rights of certain of those leases are tied together differently than previously with certain other leases. The lease agreements between the Company and LTC expire according to the following schedule:

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	Number of LTC Properties	Year of Lease Expiration
	6	2007
	18	2008
	7	2009
	1	2010
	5	2015
Total	37	

Below is summarized financial information for the 37 properties:

(in thousands) (unaudited)	Three months ended					
	June 30, 2002	September 30, 2002	December 31, 2002	March 31, 2003	June 30, 2003	September 30, 2003
Revenue	$7,921	$8,315	$8,292	$8,448	$8,776	$8,855
Residence operating expenses	5,214	5,432	5,493	5,469	5,442	5,552
Building rentals	2,120	2,120	2,120	2,149	2,149	2,236
Depreciation & amortization	5	10	13	15	17	20
Total operating expenses	7,339	7,562	7,626	7,633	7,608	7,808
Operating income	$ 582	$ 753	$ 666	$ 815	$1,168	$1,047

An Event of Default under the LTC leases including a change of control of the Company that resulted in the termination of the LTC leases would significantly impair the Company s cash flow from operations and could have a material adverse effect on the Company.

Under the Senior Notes and Junior Notes the Company is required to make an offer (the Change of Control Offer) to repurchase the Senior Notes and the Junior Notes upon the occurrence of a change of control of the Company. A change of control as defined in the Indentures includes, among other things, the acquisition by any person or group of beneficial ownership greater than 50% of the total voting power of the common stock of the Company. The Change of Control Offer must be at a price equal to 101% of the principal amount of the Senior Notes and Junior Notes, together with accrued and unpaid interest. The occurrence of a change of control under the Indentures could have a material adverse effect on the Company.

As indicated in Amendment No. 9 to Schedule 13D/A, filed with the SEC on June 13, 2003 on behalf of BRU Holding Co., LLC, BET Associates, L.P., and Bruce E. Toll (the Filing Persons), Bruce Toll has acquired beneficial ownership of 1,110,426 shares (17.26%) of common stock of the Company. The Filing Persons further indicated that they have acquired the Company s securities for investment purposes but are currently re-evaluating their position and possible alternative future courses of action, including the possibility of seeking to acquire control of the Company, although no specific plan or proposal has been formulated. According to Amendment No. 12, to Schedule 13D/A, filed with the SEC on October 20, 2003, Bruce Toll has acquired beneficial ownership of 1,795,161 shares of common stock of the Company, or 27.91% of the Company s common stock, (based on 6,431,925 shares of common stock outstanding) and the Filing Persons have no intent to purchase additional shares which would increase their beneficial ownership percentage in excess of 29.9%. In the event the Filing Persons purchase a block of 50,000 or more shares of common stock during the period from September 18, 2003 through September 17, 2004, Mr. Toll as agreed to purchase an additional 557,214 shares of common stock from National Healthcare Investments, Inc. at the highest amount paid for a block of 50,000 or more shares of common stock during such twelve-month period. W. Andrew Adams, the Company s Chairman of the Board, is President, Chief Executive Officer and Chairman of the Board of Directors of National Healthcare Investments, Inc.

Certain of our leases and loan agreements, including the LTC leases, contain covenants and cross-default provisions such that a default on one of those agreements could cause us to be in default on one or more other agreements which would have a material adverse effect on the Company.

Our ability to make payments on and to refinance any of our indebtedness, to satisfy our lease obligations and to fund planned capital expenditures will depend on our ability to generate cash in the future. This, to a certain extent, is subject to general economic, financial, competitive, legislative, regulatory and other factors that are beyond our control.

Based upon our current level of operations, we believe that our current cash on hand and expected cash flow from operations are sufficient to meet our liquidity needs for at least the next twelve months.

There can be no assurance, however, that our business will generate sufficient cash flow from operations, or that currently anticipated cost savings and operating improvements will be realized on schedule, both of which may be necessary to enable us to pay our indebtedness, to satisfy our lease obligations and to fund our other liquidity needs. As a result, we may need to refinance all or a portion of our indebtedness, on or before maturity. There can be no assurance that we will be able to refinance any of our indebtedness, on commercially reasonable terms or at all.

Item 3. ***Quantitative and Qualitative Disclosure About Market Risk***

Market risk represents the risk of changes in value of a financial instrument, derivative or non-derivative, caused by fluctuations in interest rates and equity prices. Changes in these factors could cause fluctuations in our results of operations and cash flows.

For fixed rate debt, changes in interest rates generally affect the fair market value of the debt instrument, but not our results of operations or cash flows. We do not have an obligation to prepay any of our fixed rate debt prior to maturity, and therefore, interest rate risk and changes in the fair market value of our fixed rate debt will not have an impact on our results of operations or cash flows until we decide, or are required, to refinance such debt.

For variable rate debt, changes in interest rates generally do not impact the fair market value of the debt instrument, but do affect our future results of operations and cash flows. We had variable rate debt of $62.0 million outstanding at September 30, 2003 with a weighted average interest rate of 5.4%, of which $38.5 million has an interest rate floor of 8.0%. Assuming that our balance of variable rate debt remains constant, each one-percent increase in interest rates would result in an annual increase in interest expense, and a corresponding decrease in net cash flows, of $235,000 until the interest rate floor is exceeded. Conversely, each one-percent decrease in interest rates would result in an annual decrease in interest expense, and a corresponding increase in net cash flows, of $235,000.

We are also exposed to market risks from fluctuations in interest rates and the effects of those fluctuations on market values of our cash equivalents and short-term investments. These investments generally consist of overnight investments that are not significantly exposed to interest rate risk, except to the extent that changes in interest rates will ultimately affect the amount of interest income earned and cash flow from these investments.

We do not have any derivative financial instruments in place to manage interest costs, but that does not mean we will not use them as a means to manage interest rate risk in the future.

Item 4. ***Controls and Procedures***

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and our Chief Financial Officer, has evaluated our disclosure controls and procedures (as defined in Securities Exchange Act of 1934 (the Exchange Act) Rules 13a-15(e) and 15d-15(e) as of the end of the period covered by this report pursuant to Rule 13a-15(b) under the Exchange Act). Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of the period covered by this report, our disclosure controls and procedures are effective to ensure that information required to be disclosed in reports that we file or submit under the Exchange Act is (1) recorded, processed, summarized and reported in a timely manner, and (2) accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Controls

There has been no change in our internal control over financial reporting that occurred during our last fiscal quarter that has materially affected or is reasonably likely to materially affect, our internal control over financial reporting.

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PART II OTHER INFORMATION

Item 1. *Legal Proceedings*

We are involved from time to time in ordinary, routine or regulatory legal proceedings incidental to our business. As of November 11, 2003, we believe that such legal proceedings should not have a material adverse effect on our business.

Item 4. *Submission of Matters to a Vote of Security Holders*

None

Item 6. *Exhibits and Reports on Form 8-K*

(a) The following documents are filed as part of this report:

Exhibit Number	
12	Ratio of Earnings to Fixed Charges
31.1	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

(b) Reports on Form 8-K

We filed a report on Form 8-K on July 29, 2003 pursuant to Item 5 of Form 8-K announcing the Company s receipt of a Notice of cure from BNY Midwest Trust Company, the Trustee under the Indentures, regarding the annual opinion requirement.

We filed a report on Form 8-K on August 14, 2003 pursuant to Items 5 and 7 of Form 8-K announcing the Company s financial results for the quarter ended June 30, 2003.

We filed a report on Form 8-K on September 4, 2003 pursuant to Item 5 of Form 8-K announcing the death of Richard C. Ladd, a director of the Company.

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SIGNATURES

Pursuant to the requirements of Sections 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ASSISTED LIVING CONCEPTS, INC.
Registrant

By: /s/ Matthew Patrick

Name: Matthew Patrick
Title: *Senior Vice President, Chief Financial Officer, Secretary and Treasurer*

November 12, 2003

By: /s/ Stephan M. Kearney

Name: Stephan M. Kearney
Title: *Vice President, Controller and Chief Accounting Officer*

November 12, 2003

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EXHIBIT INDEX

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