ASSISTED LIVING CONCEPTS INC
Form 10-Q
November 06, 2008

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

Form 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2008

OR

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

For the transition period from to

Commission file number: 001-13498

Assisted Living Concepts, Inc.

(Exact name of registrant as specified in its charter)

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o

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

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

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

As of October 31, 2008, the registrant had 52,807,366 shares of its Class A common stock, $0.01 par value outstanding and 8,545,902 shares of its Class B common stock, $0.01 par value outstanding.

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Part I. FINANCIAL INFORMATION
Item 1. FINANCIAL STATEMENTS

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

	September 30, 2008 (Unaudited)	December 31, 2007
ASSETS		
Current assets:		
Cash and cash equivalents	$ 6,347	$ 14,066
Investments	2,850	4,596
Accounts receivable, less allowances of $965 and $992, respectively	3,864	3,746
Supplies, prepaid expenses and other current assets	6,106	6,733
Deferred income taxes	4,446	4,080
Income taxes receivable	356	
Total current assets	23,969	33,221
Property and equipment, net	410,070	395,141
Goodwill and other intangible assets, net	30,162	20,736
Restricted cash	1,338	8,943
Cash designated for acquisition		14,864
Other assets	3,099	3,336
Total Assets	$ 468,638	$ 476,241
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 10,529	$ 7,800
Accrued liabilities	18,805	17,951
Deferred revenue	8,196	6,346
Accrued income taxes		198
Current maturities of long-term debt	9,110	26,543
Current portion of self-insured liabilities	300	300
Total current liabilities	46,940	59,138
Accrual for self-insured liabilities	1,429	941
Long-term debt	117,697	103,176
Deferred income taxes	9,093	9,008
Other long-term liabilities	9,920	9,444
Commitments and contingencies		
Total Liabilities	185,079	181,707

Preferred Stock, par value $0.01 per share, 25,000,000 shares authorized, none issued or outstanding		
Class A Common Stock, par value $0.01 per share, 400,000,000 shares authorized, 52,806,292 and 56,131,873 issued and outstanding, respectively	595	595
Class B Common Stock, par value $0.01 per share, 75,000,000 shares authorized, 8,546,902 and 8,727,458 issued and outstanding, respectively	100	100
Additional paid-in capital	313,652	313,548
Accumulated other comprehensive (loss) income	(993)	103
Retained earnings	30,611	19,318
Treasury stock at cost, Class A Common Stock, 8,210,660 and 4,691,060 shares, respectively	(60,406)	(39,130)
Total Stockholders Equity	283,559	294,534
Total Liabilities and Stockholders Equity	$ 468,638	$ 476,241

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 INCOME
(Unaudited)
(In thousands, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	**2007**	**2008**	**2007**
Revenues	$ 58,367	$ 57,898	$ 176,468	$ 172,845
Expenses:				
Residence operations (exclusive of depreciation and amortization and residence lease expense shown below)	38,577	38,832	114,522	114,809
General and administrative	3,458	2,663	9,538	9,489
Residence lease expense	4,987	3,595	14,894	10,754
Depreciation and amortization	4,691	4,584	13,935	13,088
Transaction costs				56
Total operating expenses	51,713	49,674	152,889	148,196
Income from operations	6,654	8,224	23,579	24,649
Other expense:				
Interest income	17	408	487	1,478
Interest expense	(1,886)	(1,813)	(5,851)	(4,955)
Income before income taxes	4,785	6,819	18,215	21,172
Income tax expense	(1,819)	(2,594)	(6,922)	(8,048)
Net income	$ 2,966	$ 4,225	$ 11,293	$ 13,124
Weighted average common shares:				
Basic	61,357	67,891	62,966	68,946
Diluted	62,004	68,575	63,617	69,648
Per share data:				
Basic earnings per common share	$ 0.05	$ 0.06	$ 0.18	$ 0.19
Diluted earnings per common share	$ 0.05	$ 0.06	$ 0.18	$ 0.19

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

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

	Nine Months Ended September 30, 2008	2007
OPERATING ACTIVITIES:		
Net income	$ 11,293	$ 13,124
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	13,935	13,088
Amortization of purchase accounting adjustments for:		
Leases and debt	(549)	(753)
Below market resident leases		(39)
Provision for bad debt	27	75
Provision for professional/general liability insurance	673	1,217
Payments for professional/general liability insurance	(185)	(222)
Loss on sale or disposal of fixed assets	160	
Deferred income taxes	3,328	901
Equity-based compensation expense	104	
Changes in assets and liabilities:		
Accounts receivable	(145)	1,503
Supplies, prepaid expenses and other current assets	627	1,628
Accounts payable	(413)	(1,484)
Accrued liabilities	854	602
Deferred revenue	1,850	1,468
Income taxes payable/receivable	96	1,109
Other non-current assets	7,842	2,280
Other long-term liabilities	799	909
Cash provided by operating activities	40,296	35,406
INVESTING ACTIVITIES:		
Payment for acquisition	(14,532)	(24,436)
Cash designated for acquisition	14,864	
Payments for new construction projects	(12,102)	(3,210)
Payments for purchases of property and equipment	(12,283)	(8,474)
Cash used in investing activities	(24,053)	(36,120)
FINANCING ACTIVITIES:		
Capital contributions from Extendicare		74
Purchase of treasury stock	(21,276)	(27,663)
Proceeds from issuance of new mortgage debt	9,026	4,301
Proceeds from borrowings on revolving credit facility	7,000	19,000
Payments of long-term debt	(18,712)	(5,974)
Cash used in financing activities	(23,962)	(10,262)

Decrease in cash and cash equivalents	(7,719)	(10,976)
Cash and cash equivalents, beginning of year	14,066	19,951
Cash and cash equivalents, end of period	$ 6,347	$ 8,975
Supplemental schedule of cash flow information:		
Capital expenditure in accounts payable (non cash disclosures)	$ 3,142	
Cash paid during the period for:		
Interest	$ 6,016	$ 5,372
Income tax payments, net of refunds	3,511	5,854

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

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

1. BASIS OF PRESENTATION

Assisted Living Concepts, Inc. and its subsidiaries (ALC) operate 216 assisted and independent living residences in 20 states in the United States totaling 9,076 units as of September 30, 2008. ALC s residences average approximately 40 to 60 units and offer residents a supportive, home-like setting and assistance with the activities of daily living.

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

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

The accompanying unaudited condensed consolidated financial statements include all normal recurring adjustments which are, in the opinion of management, necessary for a fair presentation of the results for the three and nine month periods ended September 30, 2008 and 2007 pursuant to the instructions to Form 10-Q and Article 10 of Regulation S-X. Certain information and footnote disclosures normally included in the financial statements prepared in accordance with accounting principles generally accepted in the United States (GAAP) have been condensed or omitted pursuant to such rules and regulations. These financial statements should be read in conjunction with the consolidated financial statements and the notes thereto included in ALC s Annual Report on Form 10-K for the year ended December 31, 2007. Operating results are not necessarily indicative of results that may be expected for the entire year ending December 31, 2008.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Principles of Presentation and Consolidation

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

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

(b) Accounts Receivable

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

At September 30, 2008, and December 31, 2007, ALC had approximately 69% and 60%, respectively, of its accounts receivable derived from private payer sources, with the balance owing under various state Medicaid programs. Although management believes there are no credit risks associated with government agencies other than possible funding delays, claims filed under the Medicaid program can be denied if not properly filed prior to a statute of limitations.

ALC periodically evaluates the adequacy of its allowance for doubtful accounts by conducting a specific account review of amounts in excess of predefined target amounts and aging thresholds, which vary by payer type. Allowances for uncollectibility are considered based upon the evaluation of the circumstances for each of these specific accounts. In addition, ALC has developed internally-determined percentages for establishing an allowance for doubtful accounts, which are based upon historical collection

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

trends for each payer type and age of the receivables. Accounts receivable that ALC specifically estimates to be uncollectible, based upon the above process, are fully reserved in the allowance for doubtful accounts until they are written off or collected. ALC wrote off accounts receivable of $0.7 million and $0.6 million in the nine month periods ended September 30, 2008 and 2007, respectively. Bad debt expense was $0.6 million for the nine month period ended September 30, 2008, and $0.5 million for the nine month period ended September 30, 2007.

(c) Comprehensive Income

Comprehensive income consists of net income and other gains and losses affecting stockholders equity which under GAAP are excluded from results of operations. For the three and nine month periods ended September 30, 2008 and 2007, this consists of unrealized gains and losses on available for sale investment securities, net of any related tax effect.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
	(In thousands)			
Net income	$ 2,996	$ 4,225	$ 11,293	$ 13,124
Unrealized gains (losses)	(1,216)	(332)	(597)	170
Total comprehensive income	$ 1,780	$ 3,893	$ 10,696	$ 13,294

(d) Income Taxes

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

In June 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109* (FIN 48), which became effective for ALC on January 1, 2007. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise s financial statements in accordance with FASB Statement No. 109, *Accounting for Income Taxes*. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken. Additionally, FIN 48 provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. For the benefits of a tax position to be recognized, a tax position must be more-likely-than-not to be sustained upon examination by taxing authorities. The amount recognized is measured as the largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate settlement. The adoption of FIN 48 has not resulted in a transition adjustment to retained earnings for ALC.

As of September 30, 2008, ALC has total gross unrecognized tax benefits of $0.7 million compared with $0.6 million as of December 31, 2007, representing an increase of $0.1 million for the first nine months of 2008. Of the total gross unrecognized tax benefits, $0.4 million, if recognized, would reduce our effective tax rate in the period of recognition. At September 30, 2008, ALC had accrued interest and penalties related to unrecognized tax benefits of

$0.2 million.

ALC and its subsidiaries file income tax returns in the U.S. and in various state and local jurisdictions. At September 30, 2008, as part of EHI s consolidated tax return, ALC is under examination by the Internal Revenue Service (the IRS) for the 2005 and 2006 tax years. The IRS examination of the 2004 tax return was closed in the quarter ended March 31, 2008. The IRS examination of the January 31, 2005 short period return was closed in the quarter ended September 30, 2008. ALC s gross unrecognized tax benefits balance is not expected to change upon completion of the examinations.

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(e) New Accounting Pronouncements

On September 15, 2006, FASB issued FASB Statement No. 157, *Fair Value Measurements* (SFAS No. 157). SFAS No. 157 addresses how companies should measure fair value when they are required to use a fair value measure for recognition and disclosure purposes under GAAP. SFAS No. 157 requires the fair value of an asset or liability to be based on a market based measure which reflects the credit risk of the company. SFAS No. 157 also requires expanded disclosures including the methods and assumptions used to measure fair value and the effect of fair value measures on earnings. ALC adopted SFAS No. 157 on January 1, 2008. The adoption of SFAS No. 157 has not had a material impact on ALC s consolidated financial statements.

In February 2007, the FASB issued FASB Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115* (SFAS 159). SFAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. ALC adopted SFAS 159 on January 1, 2008. The adoption of SFAS 159 has not had a material impact on ALC s consolidated financial statements.

In December 2007, the FASB issued FASB Statement No. 141 (revised 2007), *Business Combinations* (SFAS 141R). SFAS 141R was issued to improve the relevance, representational faithfulness, and comparability of the information that a reporting entity provides in its financial reports about a business combination and its effects. SFAS 141R establishes principles and requirements for how the acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree, recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase, and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. SFAS 141R is to be applied prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. Early adoption is not permitted.

(f) Reclassifications

Certain reclassifications have been made in the prior years financial statements to conform to the current year s presentation.

3. LONG-TERM EQUITY-BASED COMPENSATION PROGRAM

Effective October 31, 2006, ALC s Board of Directors approved and adopted and ALC s sole stockholder approved the Assisted Living Concepts, Inc. 2006 Omnibus Incentive Compensation Plan (the 2006 Omnibus Plan). On May 5, 2008, the 2006 Omnibus Plan was again approved by ALC stockholders. The 2006 Omnibus Plan is administered by the Compensation/Nomination/Governance Committee of the Board of Directors (the Committee) and provides for grants of a variety of incentive compensation awards, including stock options, stock appreciation rights, restricted stock awards, restricted stock units, cash incentive awards and other equity-based or equity-related awards (performance awards).

A total of 4,000,000 shares of our Class A common stock are reserved for issuance under the 2006 Omnibus Plan. Awards with respect to a maximum of 200,000 shares may be granted to any one participant in any fiscal year (subject to adjustment for stock distributions or stock splits). The maximum aggregate amount of cash and other property other than shares that may be paid or delivered pursuant to awards to any one participant in any fiscal year is $2 million.

On March 30, 2007, the Committee approved the 2007 Long-Term Equity-Based Compensation Program and granted awards of tandem non-qualified stock options and stock appreciation rights (Options/SARs) to certain key employees (including executive officers) under the terms of the 2006 Omnibus Plan. The aggregate maximum number of Options/SARs granted to all participants was 380,000. The Options/SARs had an exercise price of $11.80, the closing price of the Class A common stock on the New York Stock Exchange on the date of grant, and an expiration date five years from the grant date. The Options/SARs had both time vesting and performance vesting features. On February 26, 2008 the Committee determined that the performance goals were not achieved in fiscal 2007 (related to reductions in Medicaid occupancy and maintenance of overall occupancy) and the Options/SARs expired.

On March 29, 2008, the Committee approved the 2008 Long-Term Equity-Based Compensation Program and granted Options/SARs to certain key employees (including executive officers) under the terms of the 2006 Omnibus Plan. The aggregate maximum number of Options/SARs granted to all participants was 487,500. The Options/SARs have both time vesting and performance vesting features. If the established performance goals (related to private pay occupancy) are achieved in fiscal 2008, the

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ASSISTED LIVING CONCEPTS, INC.
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Options/SARs become exercisable in one third increments on the first, second and third anniversaries of the grant date. Once exercisable, awards may be exercised either by purchasing shares of Class A common stock at the exercise price or exercising the stock appreciation right. The Committee has sole discretion to determine whether stock appreciation rights are settled in shares of Class A common stock, cash or a combination of shares of Class A common stock and cash. The Options/SARs have an exercise price of $5.89, the closing price of the Class A common stock on the New York Stock Exchange on March 31, 2008, the first trading day after the grant date, and expire five years from the grant date.

On May 5, 2008 the Committee recommended and the Board of Directors approved grants of 20,000 Options/SARs to each of the eight non-management directors. The aggregate number of Options/SARs granted was 160,000. The Options/SARs vest over time and are not subject to performance vesting features. The Options/SARs become exercisable in one third increments on the first, second and third anniversaries of the grant date. Once exercisable, awards may be exercised either by purchasing shares of Class A common stock at the exercise price or exercising the stock appreciation right. The Committee has sole discretion to determine whether stock appreciation rights are settled in shares of Class A common stock, cash or a combination of shares of Class A common stock and cash. The Options/SARs have an exercise price of $6.42, the closing price of the Class A common stock on the New York Stock Exchange on May 7, 2008, the second full trading day following the May 5, 2008 release of earnings, and expire five years from the grant date.

ALC adopted FASB Statement No. 123 (revised), *Share-Based Payment* effective March 30, 2007. A summary of Options/SARs activity as of and for the nine month periods ended September 30, 2008 and 2007, is presented below.

	2008		2007	
	# Options / SARs	Weighted Average Exercise Price	# Options / SARs	Weighted Average Exercise Price
Outstanding at beginning of period	320,000	$ 11.80		
Granted	647,500	$ 6.02	380,000	$ 11.80
Exercised				
Expired	(320,000)	$ 11.80		
Outstanding at end of period	647,500	$ 6.02	380,000	$ 11.80
Options Exercisable at September 30		$		$
Weighted average fair value of options	$ 2.64		$ 6.01	
Aggregate intrinsic value of options	$		$	
Weighted average contractual term	4.9 years		4.9 years	

ALC uses the Black-Scholes option value model to estimate the fair value of stock options and similar instruments. Stock option valuation models require various assumptions, including the expected stock price volatility, risk-free interest rate, dividend yield, and forfeiture rate. In estimating the fair value of the Options/SARs granted on March 29, 2008, and May 5, 2008, ALC used a risk free rate equal to the five year U.S. Treasury yield in effect on the first business date after the grant date. The expected life of the Options/SARs (five years) was estimated using expected exercise behavior of option holders. Expected volatility was based on an ALC s Class A common stock volatility since it began trading on November 10, 2006 and ending on the date of grant. Because the Class A common stock has traded for less than the expected contractual term, an average of a peer group s historical volatility for a period equal to the Options/SARs expected life, ending on the date of grant, was compared to the historical ALC volatility with no material difference. Forfeitures are estimated at the time of valuation and reduce expense ratably over the vesting period. Because of a lack of history, the forfeiture rate was estimated at 0 percent of the Options/SARs awarded and may be adjusted periodically based on the extent to which actual forfeitures differ, or are expected to differ, from the previous estimate. The Options/SARs have characteristics that are significantly different from those of traded options and changes in the various input assumptions can materially affect the fair value estimates. The fair value of the Options/SARs was estimated at the date of grant using the following weighted average assumptions.

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

	May 5, 2008	March 29, 2008	March 30, 2007
Expected life from grant date (in years)	5	5	5
Risk-free interest rate	3.15%	2.50%	5.45%
Volatility	45.8%	46.9%	53.1%
Dividend yield			
Weighted average fair value (per share)	$2.83	$2.58	$6.01

The grant of the Options/SAR s had no impact on the diluted number of shares in either of the nine month periods ended September 30, 2008 or September 30, 2007. Compensation expense of $59,178 and $103,516 related to the Options/SARs was recorded in the three and nine month periods ended September 30, 2008, respectively. In the third quarter of 2007, management determined it was not probable that overall occupancy goals would be achieved. As a result, compensation income of $0.2 million was recorded in the quarter ended September 30, 2007 which reversed all previously recorded compensation expense related to the Options/SARs. Unrecognized compensation cost at September 30, 2008 and 2007 was approximately $0.6 million and $0 million, respectively, and the weighted average period over which it is expected to be recognized is three years.

4. GOODWILL AND OTHER INTANGIBLE ASSETS

The following is a summary of the changes in the carrying amount of goodwill for the nine month period ended September 30, 2008 (in thousands):

Balance at December 31, 2007	$ 19,909
Additions	
Adjustments	(3,597)
Balance at September 30, 2008	$ 16,312

The adjustment to goodwill related to reversing a valuation allowance against deferred tax assets associated with the completion of IRS audits of the 2004 and January 31, 2005 tax returns. These deferred tax assets were recorded prior to ALC s acquisition by Extendicare in January 2005.

Intangible assets with definite useful lives are amortized over their estimated lives and are tested for impairment whenever indicators of impairment arise. The following is a summary of other intangible assets as of September 30, 2008 and December 31, 2007 (in thousands):

	September 30, 2008			December 31, 2007		
	Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net
Resident relationships	$ 9,526	$ (7,115)	$ 2,411	$ 7,099	$ (6,272)	$ 827
Operating lease intangible and renewal options	11,665	(507)	11,158			
Non-compete agreements	331	(50)	281			
Total	$ 21,522	$ (7,672)	$ 13,850	$ 7,099	$ (6,272)	$ 827

Amortization expense related to definite-lived intangible assets for the three month periods ended September 30, 2008 and 2007, was $0.4 million and $0.6 million, respectively. Amortization expense related to definite-lived intangible assets for the nine month periods ended September 30, 2008 and 2007 was $1.4 million and $1.6 million, respectively.

5. EARNINGS PER SHARE

ALC computes earnings per share in accordance with FASB Statement No. 128, *Earnings Per Share (SFAS 128)*. SFAS 128 requires that companies compute earnings per share under two different methods, basic and diluted, and present per share data for all periods in which statements of income are presented. Basic earnings per share are computed by dividing net income by the weighted average number of shares of common stock outstanding. Diluted earnings per share are computed by dividing net income by the weighted average

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

number of shares of common stock and common stock equivalents outstanding. Common stock equivalents consist of incremental shares available upon conversion of Class B common shares which are convertible into Class A common shares at a rate of 1.075 Class A common shares per Class B common share. Common stock equivalents from Options/SARs are excluded for the three and nine month periods ended September 30, 2008 and 2007, as their effect was not dilutive.