FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **1994-04-11** | Period of Report: **1994-02-28**
SEC Accession No. 0000950123-94-000735

FILER

MANOR CARE INC/NEW
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Type: **10-Q** | Act: **34** | File No.: **001-08195** | Film No.: **94522176**
SIC: **8051** Skilled nursing care facilities

Business Address
10750 COLUMBIA PIKE
SILVER SPRING MD 20901
3016819400

FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

(X) QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended February 28, 1994

( ) TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period ------ to -------

MANOR CARE, INC.

COMMISSION FILE NUMBER 1-8195

Incorporated in Delaware E.I.#52-1200376

10750 Columbia Pike, Silver Spring, Maryland 20901

Telephone: (301) 681-9400

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 twelve months, and (2) has been subject to such filing requirements for the past 90 days.

Yes X No

62,358,475 Common Shares were outstanding as of April 8, 1994.

This report contains 11 pages.

PART I. FINANCIAL INFORMATION

FINANCIAL STATEMENTS

MANOR CARE, INC. AND SUBSIDIARIES

The consolidated balance sheet as of February 28, 1994, the consolidated statements of income for the three and nine month periods ended February 28, 1994 and 1993, and the consolidated statements of cash flows for the nine months ended February 28, 1994 and 1993, have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. In the opinion of management, all adjustments, consisting only of normal recurring adjustments, necessary to present fairly the financial position, results of operations and cash flows at February 28, 1994 and for all periods presented have been made.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. These condensed consolidated financial statements should be read in conjunction with the financial statements and notes thereto included in the Company's May 31, 1993 annual report to shareholders, previously filed with the Commission. The results of operations for the three and nine month periods ended February 28, 1994 and 1993, and cash flows for the nine months ended February 28, 1994 and 1993, are not necessarily indicative of the operating results or cash flows for the full year.

MANOR CARE, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(in thousands)

<TABLE>
<CAPTION>

	February 28, 1994 (Unaudited)	May 31, 1993 (Note)
<S>	<C>	<C>
ASSETS		
Current assets		
Cash and cash equivalents	$ 56,895	$ 80,844
Receivables (net of allowances of $21,081 and $16,501)	84,889	82,820
Inventories	13,885	13,489
Current deferred income tax benefit	6,381	6,381
Prepaid expenses	16,238	9,374
Other assets	1,592	1,351
Total current assets	179,880	194,259
Property and equipment, at cost		
Land	91,314	80,944
Building and improvements	780,479	749,261
Capitalized leases	18,991	18,991
Furniture, fixtures and equipment	178,448	168,321
Facilities in progress	18,635	11,762
	1,087,867	1,029,279
Less accumulated depreciation	(295,552)	(275,533)
Net property and equipment	792,315	753,746
Lodging franchise rights	65,176	67,343
Other assets	106,305	91,158
	$1,143,676	$1,106,506

</TABLE>

NOTE: The balance sheet at May 31, 1993 has been taken from the audited financial statements at that date.

MANOR CARE, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(in thousands)

<TABLE>
<CAPTION>

	February 28, 1994 (Unaudited)	May 31, 1993 (Note)
<S>	<C>	<C>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Current portion of long-term debt	$ 5,753	$ 45,338
Accounts payable	45,152	44,504
Accrued expenses	106,955	85,377
Income taxes payable	6,875	5,254
Total current liabilities	164,735	180,473
Mortgage and other long-term debt	114,824	124,838
Subordinated long-term debt	157,556	255,600
Deferred Income Taxes and Other	194,310	183,601
Stockholders' Equity		
Capital stock	6,543	6,047
Contributed capital	167,051	68,471
Retained earnings	381,184	329,532
Cumulative translation adjustment	3	352
Treasury stock, at cost	(42,530)	(42,408)
Total stockholders' equity	512,251	361,994
	$1,143,676	$1,106,506

</TABLE>

NOTE: The balance sheet at May 31, 1993 has been taken from the audited financial statements at that date.

MANOR CARE, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(unaudited)
(in thousands, except per-share data)

<TABLE>
<CAPTION>

	Three Months Ended February 28,	Nine Months Ended February 28,

	1994	1993	1994	1993
<S>	<C>	<C>	<C>	<C>
Revenues				
Healthcare, net	$231,503	$209,732	$676,878	$611,107
Lodging	52,568	35,213	176,446	132,945
Total revenues	284,071	244,945	853,324	744,052
Expenses				
Healthcare	175,488	159,030	513,665	464,139
Lodging	40,836	26,952	127,323	93,933
Depreciation & amortization	16,766	15,395	49,196	45,004
General corporate	17,658	15,927	49,202	42,873
Total expenses	250,748	217,304	739,386	645,949
Income from operations	33,323	27,641	113,938	98,103
Other income (expenses)				
Interest income and other	440	1,412	1,502	2,846
Gain on sale of property	-	-	7,978	-
Interest expense	(7,312)	(9,807)	(24,564)	(27,669)
Total other (expenses), net	(6,872)	(8,395)	(15,084)	(24,823)
Income before income taxes and extraordinary item	26,451	19,246	98,854	73,280
Income taxes	10,800	7,400	43,200	28,200
Income before extraordinary item	15,651	11,846	55,654	45,080
Extraordinary item (debt redemption, net of income taxes of $1,851)	-	(3,019)	-	(3,019)
Net income	$ 15,651	$ 8,827	$ 55,654	$ 42,061
Average shares outstanding	62,450	57,569	59,854	57,449
Income per share of common stock*				
Income before extraordinary item	$ .25	$ .21	$ .93	$ .79
Extraordinary item (debt redemption)	-	(.05)	-	(.05)
Net income per share of common stock	$ .25	$ .15*	$ .93	$ .73*

</TABLE>

* Does not add due to rounding.

MANOR CARE, INC., AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)
(in thousands)

<TABLE>

<CAPTION>

<S>	Nine Months Ended February 28, 1994 <C>	February 28, 1993 <C>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 55,654	$ 42,061
Reconciliation of net income to net cash provided by operating activities:		
Depreciation and amortization	49,196	45,004
Amortization of debt discount	864	644
Provision for bad debts	9,300	6,408
Increase in deferred taxes	5,877	2,263
Gain on sale of facilities	(7,978)	-
Changes in assets and liabilities (excluding sold facilities):		
Change in accounts receivable	(11,287)	(5,637)
Change in inventory and other current assets	(6,874)	(2,345)
Change in accounts payable and accrued expenses	21,806	(3,593)
Change in income taxes payable	1,621	1,660
Change in other liabilities	2,893	1,951
NET CASH PROVIDED BY OPERATING ACTIVITIES	121,072	88,416
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment in property and equipment	(58,460)	(67,932)
Purchase of operating pharmacies	(7,250)	(29,188)
Purchase of operating hotels	(27,250)	(12,386)
Investment in a healthcare business	(10,000)	-
Proceeds from sale of facilities	15,630	-
Other items, net	(2,775)	5,574
NET CASH UTILIZED BY INVESTING ACTIVITIES	(90,105)	(103,932)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of ten year notes	-	150,000
Principal payments of debt	(52,899)	(157,734)
Proceeds from exercise of stock options	1,985	1,088
Issuance/purchase of common stock for treasury	-	137
Dividends paid	(4,002)	(3,783)
NET CASH UTILIZED BY FINANCING ACTIVITIES	(54,916)	(10,292)
CHANGE IN CASH AND CASH EQUIVALENTS	(23,949)	(25,808)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	80,844	83,101
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 56,895	$ 57,293

</TABLE>

MANOR CARE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED FEBRUARY 28, 1994
(unaudited)

Long-Term Debt
- --------------

During the nine months ended February 28, 1994, the Company repaid approximately $53 million of debt. Included in this amount was approximately $3 million related to the Company's redemption of the $99 million of 6-3/8%

Convertible Subordinated Debentures due 2011 on October 25, 1993. The remaining $96 million were converted, at the election of the bondholders, into common stock at a conversion price per share of $20.31. Pursuant to these conversions, 4,743,522 shares of common stock were issued.

On November 20, 1992 the Company issued $150 million of 9-1/2% Senior Subordinated Notes due 2002. The proceeds of this offering were primarily used to redeem in January 1993 the $125 million of 11-3/8% Senior Subordinated Notes due 1998. Also during the nine months ended February 28, 1993, the Company repaid approximately $33 million of other debt.

Acquisitions, Divestitures and Sales of Property
- --

In August 1992 the Company's 82% owned institutional pharmacy subsidiary, Vitalink Pharmacy Services, Inc., purchased a pharmacy located in Baltimore, Maryland, servicing 2,600 institutional beds for approximately $3.5 million. In December 1992 Vitalink also purchased a pharmacy business in New Jersey, servicing over 9,000 institutional beds, for approximately $25 million. In August 1993 a pharmacy business in Oregon was purchased for approximately $5.0 million. In December 1993 a pharmacy business in Colorado was purchased for approximately $2.2 million.

In April 1993 two nursing facilities were sold for $5.2 million. The realized gain from this sale was immaterial. In July 1993 three nursing facilities were sold for $15.6 million with a pre-tax gain of approximately $8.0 million.

In December 1993 the Company made a $10 million investment for a minority interest in a physician practice management business.

During fiscal year 1993, the Company purchased seven operating hotels containing a total of 1,306 rooms for approximately $25 million. In the first nine months of fiscal 1994, eight operating hotels were purchased containing a total of 1,214 rooms for approximately $27 million. An additional two hotels were purchased in fiscal 1994 which are in the process of being converted to assisted living facilities.

MANOR CARE, INC. AND SUBSIDIARIES
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL
CONDITION AND RESULTS OF OPERATIONS

Liquidity and Capital Resources
- -------------------------------

Available cash balances of $57 million as of February 28, 1994 and unused lines of credit of $162 million are considered adequate to ensure sufficient liquidity and capital resources for the foreseeable future.

Results of Operations
- ---------------------

Income before extraordinary item for the three months ended February 28, 1994 was $15.7 million or $.25 per share as compared to $11.8 million or $.21 per share reported in the prior year quarter. For the nine months ended February 28, 1994, income before extraordinary item amounted to $55.7 million or $.93 per share as compared to the prior year's $45.1 million or $.79 per share. The prior year results include a one-time, extraordinary after tax charge of $3.0 million relating to the early redemption of $125 million of 11-3/8% Senior Subordinated Notes due 1998. Net income after extraordinary loss from early debt redemption for the three months and nine months ended February 28, 1993 amounted to $8.8 million or $.15 per share and $42.1 million or $.73, respectively.

Income from operations for the three and nine month periods ended February 28, 1994 was $33.3 million and $113.9 million, respectively. This compares to income from operations in the same periods last year of $27.6 million and $98.1 million, respectively.

Gross profit for the healthcare division for the three and nine months ended February 28, 1994, increased $5.3 million and $16.2 million, respectively, when compared with the same periods last year. For the three and nine months ended February 28, 1994, healthcare revenues and operating expenses rose 10% and 11%, respectively. The improvement in gross profit was primarily due to the maturing of the new facilities opened as part of the Company's internal development program as well as the expansion of value added services.

MANOR CARE, INC. AND SUBSIDIARIES
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Results of Operations (continued)

Gross profit for the lodging division for the three and nine month periods ended February 28, 1994 increased $3.5 million and $10.1 million, respectively, when compared to the same periods last year. Lodging revenues increased 49% and 33% and lodging expenses increased 52% and 36% for the three and nine month periods, respectively. Significant increases in revenues and expenses are due to the recent purchases of hotels. Furthermore, operating profits have increased due to the economy's gradual recovery which has stimulated demand for the Company's economy and mid-market lodging brands.

Depreciation and amortization increased $1.4 and $4.2 million for the three and nine month periods ended February 28, 1994, respectively, due to the lodging acquisitions and increases in property and equipment resulting from additions and renovations to existing facilities during the past twelve months.

General Corporate expenses for the three and nine months ended February 28, 1994 increased $1.7 million and $6.3 million, respectively, when compared to the same periods last year. These increases were primarily due to general inflation and increased payroll and benefits costs relating to various programs.

Interest expense for the three and nine months ended February 28, 1994 decreased $2.5 million and $3.1 million, respectively, when compared to the same periods last year. The net decrease is primarily due to the early redemption and conversion of the $99 million of 6-3/8% debentures on October 25, 1993. Interest capitalized, in conjunction with construction programs, amounted to $.4 million and $2.2 million in the nine months ended February 28, 1994 and 1993, respectively.

MANOR CARE, INC. AND SUBSIDIARIES

PART II OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

10-1 - Agreement dated as of February 11, 1994 between Choice Hotels International, Inc. and Frederick W. Mosser.

(b) There were no reports filed on Form 8-K for the three months ended February 28, 1994.

MANOR CARE, INC. AND SUBSIDIARIES

SIGNATURES

Pursuant to the requirements 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.

MANOR CARE, INC.
(Registrant)

<TABLE>

<S>	<C>	<C>
Date: April 8, 1994	By:	James A. MacCutcheon Senior Vice President and Chief Financial Officer
Date: April 8, 1994	By:	James H. Rempe Senior Vice President General Counsel and Secretary
Date: April 8, 1994	By:	Margarita Schoendorfer Vice President and Corporate Controller

</TABLE>

EXHIBIT INDEX

10-1 - Agreement dated as of February 11, 1994 between Choice Hotels International, Inc. and Frederick W. Mosser.

EXHIBIT 10.1

SETTLEMENT AGREEMENT

Frederick W. Mosser and Choice Hotels International, Inc. have reached the following Agreement as of February 11, 1994. In this Agreement, "Employee" refers to Frederick W. Mosser. "Company" refers to Choice Hotels International, Inc.

1. Termination of Employment. Employee's employment agreement dated as of July 31, 1991 and employment will terminate on March 11, 1994. Employee's job duties will terminate on February 11, 1994. Employee hereby resigns as an officer and director of the Company and its affiliated corporations effective February 11, 1994. Upon termination of employment, Employee will return to Company any property owned by Company, including credit cards, keys to buildings and non-public materials, except that pursuant to the terms set forth in paragraph 2(J) below Employee may continue to use his company car until his final departure from Germany to the United States (not later than July 1, 1994).

2. Benefits. Company will pay Employee the following benefits:

A) Salary through March 11, 1994, with usual deductions taken (i.e., health insurance premium, FICA and income tax withholding, as applicable).

B) Earned vacation pay, with usual deductions taken.

C) Approved business expenses incurred through March 11, 1994, according to Company's policies.

D) An additional amount equal to US $500,000, payable on or before February 28, 1994 with usual deductions taken.

E) Company will pay for Employee's US, Maryland and German income tax preparation for 1993 and 1994.

F) Company will indemnify Employee against Maryland income taxes assessed for all years or partial years that Employee has been employed by Company in Germany. Furthermore, Employee's liability to the Company, if any, for taxes due for 1993 and 1994 pursuant to his employment agreement dated as of July 31, 1991 and letter of understanding dated June 19, 1991 is hereby waived by the Company.

G) Company will pay the reasonable costs of moving Employee, his family and household goods back to the US and will also pay the reasonable costs of delivery of household goods stored while Employee has been employed by Company in Germany.

H) Company will pay the reasonable costs of restoring Employee's home in Bethesda, Maryland to the condition at the beginning of the present tenant's tenancy (reasonable wear and tear excepted) upon the present tenant's vacating the premises in or about September 1994.

I) Company will pay the reasonable costs of restoring Employee's rental house in Germany to the condition at the beginning of the Employee's tenancy (reasonable wear and tear excepted) upon his vacating it in about June 1994.

J) Employee will be allowed the continued use, with all operating expenses to be borne by Employee, of his company car

until July 1, 1994 or until his departure from Germany to the US, whichever first occurs.

Employee understands that these benefits are all Employee is entitled to receive from Company except for rights under stock option agreements presently vested or which vest prior to termination of employment and further except for retirement or profit- sharing benefits to which Employee may be entitled under Company's standard program, if any. Employee will receive no further wages, vacation or other similar payments from Company. Employee agrees that the payments and benefits set forth herein are more than Company is required to pay under its normal policies and procedures.

3. Complete Release. Employee agrees to release Company, its parent, and any related companies, subsidiaries and affiliates, and the officers, directors, employees and agents of all of them, from all claims or demands Employee may have based on Employee's employment with Company or the termination of that employment except for claims for benefits under this Agreement. This includes a release of any rights or claims Employee may have under the Age Discrimination in Employment Act, which prohibits age discrimination in employment; Title VII of the Civil Rights Act of 1964, which prohibits discrimination in employment based on race, color, national origin, religion or sex; the Equal Pay Act, which prohibits paying men and women unequal pay for equal work; and any

other federal, state or local laws or regulations prohibiting employment discrimination. This also includes a release by Employee of any claims for personal injuries, wrongful discharge, compensation and benefits, expenses, bonuses, or any other employee rights or benefits. This release does not include a release of Employee's right, if any, to retirement or profit-sharing benefits under Company's standard programs, if any.

This Agreement covers both claims Employee knows about and those he or she may not know about. Employee assumes the risk of any and all unknown claims which may exist at the time he or she signs this Agreement, and agrees that this Agreement shall apply to any and all known and unknown claims.

4. Future Lawsuits. Employee promises never to file a lawsuit asserting any claims that are released in Paragraph 3 of this Agreement. Employee further agrees not to assist any other person in bringing any action, claim or demand against Company and agrees not to make derogatory remarks about Company. Employee agrees to assist Company at Company's expense in any lawsuit or claim arising from circumstances that took place during Employee's employment, to the extent reasonably necessary to protect Company's interests, and Company will reimburse Employee's reasonable expenses in connection therewith.

5. Business Information of Company. Employee agrees that for a period of twenty-four (24) months from the date of termination of employment, he or she shall not directly or

indirectly, or cause others to: (1) make use of or disclose to others any non-public information relating to the business of Company and its affiliates, including but not limited to present or prospective clients, franchises, management contracts, development plans, acquisitions, operating data or Company policies; (2) without Company's prior written consent, offer employment to or employ on behalf of any other person or entity, any person who is an employee of Company or its affiliates on the date hereof, or induce such person, directly or indirectly, to leave his or her employment; or (3) solicit franchisees, customers or clients of Company or its affiliates, or otherwise induce such persons, directly or indirectly, to terminate or reduce their business with Company.

6. Non-Admission of Liability. Company makes this Agreement to avoid the cost of defending against any possible lawsuit. By making this Agreement, Company does not admit that it has done anything wrong.

7. Non-Release of Future Claims. This Agreement does not waive or release any rights or claims that Employee may have under the Age Discrimination in Employment Act which arise after the termination of Employee's employment.

8. Consequences of Employee Violation of Promises. If Employee breaks Employee's promise in Paragraph 4 of this Agreement and files a lawsuit based on claims that Employee has released,

Employee will pay for all costs incurred by Company, any related companies, or the officers, directors, employees or agents of any of them, including reasonable attorneys' fees, in defending against Employee's claim.

9. Period for Review and Consideration of Agreement. Employee understands that Employee has been given a period of twenty-one (21) days to review and consider this Agreement before signing it. Employee further understands that Employee may use as much of this twenty-one (21) day period as Employee wishes prior to signing this Agreement.

10. Encouragement to Consult with Attorney. Employee is strongly encouraged to consult with an attorney before signing this Agreement. Employee understands that whether or not to do so is Employee's decision.

11. Employee's Right to Revoke Agreement. Employee may revoke this Agreement within seven (7) days of Employee's signing it. Revocation can be made by delivering a written notice of revocation to Gerald W. Petitt, President, Choice Hotels International, Inc., at 10750 Columbia Pike, Silver Spring, Maryland 20901. For this revocation to be effective, written notice must be received by Gerald W. Petitt no later than the close of business on the seventh (7th) day after Employee signs this Agreement. If Employee does not sign this Agreement within the

time period set forth in Paragraph 9, or revokes this Agreement, it shall not be effective or enforceable and Employee will not receive the benefits described in Paragraphs 2(D), (I) and (J).

12. Termination of Employment. Employee acknowledges that, if this Agreement becomes effective, Employee's employment with Company will end irrevocably and forever and will not be resumed.

13. Entire Agreement. This is the entire Agreement between Employee and Company. Company has made no promises to Employee other than those in this Agreement.

EMPLOYEE ACKNOWLEDGES THAT HE OR SHE HAS READ THIS AGREEMENT, UNDERSTANDS IT AND IS VOLUNTARILY ENTERING INTO IT.

PLEASE READ THIS AGREEMENT CAREFULLY. IT CONTAINS A RELEASE OF ALL KNOWN AND UNKNOWN CLAIMS.

<TABLE>
<CAPTION>

EMPLOYEE	CHOICE HOTELS INTERNATIONAL, INC.
<S>	<C>
/s/ Frederick W. Mosser	By: /s/ Gerald W. Petitt
- --------------------------------	------------------------------------
Frederick W. Mosser	Gerald W. Petitt, President
Date: February 11, 1994	Date: February 11, 1994
/s/ Everett F. Casey	/s/ Everett F. Casey
- --------------------------------	---------------------------------------
Witness	Attest Asst. Secy.

</TABLE>