

SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **1994-05-13** | Period of Report: **1994-03-31**
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FILER

CARE ENTERPRISES INC /DE/

CIK: **716302** | IRS No.: **953311961** | State of Incorpor.: **DE** | Fiscal Year End: **1231**
Type: **10-Q** | Act: **34** | File No.: **000-20397** | Film No.: **94528131**
SIC: **8051** Skilled nursing care facilities

Business Address
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TUSTIN CA 92680
7145444443

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

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934 For the quarterly period ended March 31, 1994

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 1-9310

CARE ENTERPRISES, INC.
(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

95-3311961
(I.R.S. Employer
Identification Number)

2742 Dow Avenue, Tustin, California
(Address of principal executive offices)

92680-7245
(Zip Code)

(714) 544-4443
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports
required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of
1934 during the preceding 12 months (or for such shorter period that the
registrant was required to file such reports), and (2) has been subject to
such filing requirements for the past 90 days.

Yes No

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY
PROCEEDINGS DURING THE PRECEDING FIVE YEARS:

Indicate by check mark whether the registrant has filed all documents and
reports required to be filed by Section 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 No

Total Number Of Pages: 13

CARE ENTERPRISES, INC. AND SUBSIDIARIES

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All other items are omitted because they are not applicable.	

CARE ENTERPRISES, INC. AND SUBSIDIARIES
 CONSOLIDATED BALANCE SHEETS
 (in thousands, except number of shares and par values)

<TABLE>
 <CAPTION>

	March 31, 1994	December 31, 1993
	-----	-----
	(unaudited)	
<S>	<C>	<C>
ASSETS		
CURRENT ASSETS		
Cash	\$ 12,415	\$ 12,985
Receivables:		
Due from patients, less allowance for doubtful accounts of \$1,743 and \$1,633 for 1994 and 1993, respectively	19,057	17,149
Notes and other	3,184	4,492
Supplies inventory	1,461	1,470
Prepaid expenses	1,071	1,254
Deferred income taxes	3,651	3,982
	-----	-----
TOTAL CURRENT ASSETS	40,839	41,332
PROPERTY AND EQUIPMENT, net	68,800	69,386
MORTGAGE NOTES RECEIVABLE, less allowance for losses of \$1,652 and \$1,664 for 1994 and 1993, respectively	1,322	2,175
OTHER ASSETS	9,033	8,505
	-----	-----
	\$ 119,994	\$ 121,398
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Current portion of long term debt	\$ 814	\$ 1,139

Accounts payable	11,147	11,716
Accrued liabilities	18,388	19,623
Other current liabilities	- -	3,085
	-----	-----
TOTAL CURRENT LIABILITIES	30,349	35,563
LONG TERM DEBT	41,552	41,601
DEFERRED INCOME TAXES	6,149	6,812
OTHER NONCURRENT LIABILITIES AND DEFERRED ITEMS	11,950	11,949
	-----	-----
TOTAL LIABILITIES	90,000	95,925
SHAREHOLDERS' EQUITY		
Preferred stock, \$1.00 par value; Authorized 1,000,000 shares; issued and outstanding - none	- -	- -
Common stock, \$.01 par value; Authorized 25,000,000; issued and outstanding - 13,244,000 and 13,234,000 shares for 1994 and 1993, respectively	11,095	11,076
Additional capital	4,811	1,451
Retained earnings	14,088	12,946
	-----	-----
TOTAL SHAREHOLDERS' EQUITY	29,994	25,473
	-----	-----
	\$ 119,994	\$ 121,398
	=====	=====

See Notes to Consolidated Financial Statements

</TABLE>

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CARE ENTERPRISES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)
(in thousands, except per share amounts)

<TABLE>
<CAPTION>

	Three Months Ended March 31,	
	----- 1994	----- 1993
<S>	<C>	<C>
NET REVENUES	\$ 53,149	\$ 47,928
DIRECT EXPENSES		
Salaries and wages	24,203	22,495
Share appreciation rights	317	155
Employee benefits	7,337	6,510
Supplies and other expenses	8,406	7,300
Purchased services	5,261	4,347
Professional fees	375	498
Other costs and expenses	1,126	869
	-----	-----
TOTAL DIRECT EXPENSES	47,025	42,174

PROPERTY EXPENSES

Lease, rent and property taxes	2,030	1,932
Depreciation and amortization	1,286	1,306
Interest	966	855
	-----	-----
TOTAL PROPERTY EXPENSES	4,282	4,093
	-----	-----
INCOME BEFORE INCOME TAXES	1,842	1,661
PROVISION FOR INCOME TAXES	700	665
	-----	-----
NET INCOME	\$ 1,142	\$ 996
	=====	=====
INCOME PER SHARE	\$ 0.09	\$ 0.08
	=====	=====
Average shares outstanding	13,394	13,262
	=====	=====

</TABLE>

See Notes to Consolidated Financial Statements

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CARE ENTERPRISES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)
(in thousands)

<TABLE>
<CAPTION>

	For the Three Months Ended March 31,	
	1994	1993
	-----	-----
<S>	<C>	<C>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 1,142	\$ 996
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	1,286	1,306
Provision for doubtful accounts	124	194

Deferred income taxes and charge in lieu of taxes	418	141
Other, net	(22)	(234)
Changes in assets and liabilities:		
Accounts receivable	(2,032)	(358)
Other current assets	192	72
Notes and other receivables	2,123	(114)
Other assets	(552)	18
Accounts payable and accrued liabilities	806	64
Other current liabilities	(3,085)	(517)
Other noncurrent liabilities and deferred items	1	6
	-----	-----
Total adjustments	(741)	578
	-----	-----
Net cash provided by operating activities	401	1,574
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments received on mortgage notes receivable	75	38
Payments for property additions	(688)	(692)
	-----	-----
Net cash used by investing activities	(613)	(654)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on term notes, mortgage debt and capitalized leases	(377)	(2,587)
Proceeds from exercise of stock options	19	--
	-----	-----
Net cash used by financing activities	(358)	(2,587)
	-----	-----
NET DECREASE IN CASH	(570)	(1,667)
CASH AT BEGINNING OF PERIOD	12,985	7,283
	-----	-----
CASH AT END OF PERIOD	\$ 12,415	\$ 5,616
	=====	=====
SUPPLEMENTAL CASH FLOW INFORMATION		
Interest paid	\$ 447	\$ 958
Taxes paid	\$ (7)	\$ 154

</TABLE>

See Notes to Consolidated Financial Statements

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CARE ENTERPRISES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(UNAUDITED)
(in thousands)

<TABLE>
<CAPTION>

	Common Stock		Additional	Retained	
	Shares	Amount	Capital	Earnings	Total
	-----	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>	<C>
BALANCE at December 31, 1993	13,234	\$ 11,076	\$ 1,451	\$ 12,946	\$ 25,473
Exercise of stock options	10	19			19
Additional capital resulting use of pre-reorganization tax NOL's (Note 3)			2,610		2,610
Charge in lieu of income taxes			750		750
Net income				1,142	1,142
BALANCE at March 31, 1994	13,244	\$ 11,095	\$ 4,811	\$ 14,088	\$ 29,994
	=====	=====	=====	=====	=====

</TABLE>

See Notes to Consolidated Financial Statements.

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CARE ENTERPRISES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

NOTE 1 - BASIS OF PRESENTATION

The unaudited consolidated financial statements and related notes have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Accordingly, certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have not been presented. The accompanying unaudited consolidated financial statements and related notes should be read in conjunction with the financial statements and related notes included in the Company's report to the Securities and Exchange Commission on Form 10-K for the year ended December 31, 1993.

In the opinion of the management of Care, all material adjustments necessary to present fairly the Company's financial condition, its results of operations and changes in financial position have been made. All material intercompany balances, profits and transactions have been eliminated. Certain prior period balances have been reclassified to conform to current period classifications. The consolidated results of operations for the three months ended March 31, 1994 are not necessarily indicative of the consolidated operating results for a full year.

NOTE 2 - MERGER

On April 4, 1994, Care and Regency Health Services, Inc. ("Regency") completed their previously announced merger. Pursuant to the Agreement and Plan of Merger dated as of December 20, 1993, as amended, Care Merger Sub, Inc., a wholly-owned subsidiary of Regency, was merged with and into Care, and Care became a wholly-owned subsidiary of Regency. Each share of common stock of Care was converted into 0.71 share of common stock of Regency.

NOTE 3 - INCOME TAXES

As of December 31, 1993 Care had claimed a federal net operating loss carryforward for tax purposes ("Tax NOL") of approximately \$93,200,000 and credit carryforwards of approximately \$4,000,000. However, when the Company's Plan of Reorganization was confirmed, an ownership change as defined in Internal Revenue Code Section 382 occurred. The Company had previously determined that this ownership change may subject the pre-confirmation Tax NOL and carryforwards to an annual limitation of approximately \$300,000; a maximum of \$3,300,000 was expected to be available for use prior to expiration.

In March 1994 the Internal Revenue Service issued final regulations relating to net operating losses, and specifically relating to the determination of eligibility for the use of Section 382(1)(5). Section 382(1)(5) could reduce the aggregate Tax NOL and credit carryforwards available but would not limit their annual use. Based on the new regulations, management believes the Company

qualifies for the use of this section. After applying its provisions, the amount of Tax NOL available for use is approximately \$53,000,000. This amount is subject to adjustment as a result of the IRS examinations of the Company's income tax returns for the years 1987 through 1990. In addition, as a result of the merger with Regency, the Company's use of its Tax NOL will be subject to an annual limitation of approximately \$7,900,000 in periods after the merger.

Based on the new regulations, the Company has reduced its income tax liability for 1992 and 1993 by an aggregate of \$2,610,000, representing the benefit of the use of the pre-confirmation Tax NOL. This amount has been recorded as an increase to Additional Capital at March 31, 1994. For 1994, the estimated tax benefit resulting from the usage of pre-confirmation Tax NOL of \$750,000 has also been recorded as an increase to additional capital, with a corresponding amount included in the provision for income taxes as a charge in lieu of taxes.

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CARE ENTERPRISES, INC. AND SUBSIDIARIES

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Financial Condition, Capital Resources and Liquidity

Care's principal source of liquidity continues to be cash provided by operations. During the three months ended March 31, 1994, cash provided by operations was approximately \$401,000. Cash used in investing activities totalled \$613,000, including capital expenditures of \$688,000 partially offset by collections on notes receivable. Cash used in financing activities was \$358,000, consisting of payments on notes, mortgages, and other debt of \$377,000 offset slightly by the proceeds from the exercise of stock options.

The Company's working capital increased by \$4,721,000 to \$10,490,000 at March 31, 1994. The increase was primarily due to the reduction of the Company's income tax liability for certain tax years resulting from the utilization of pre-confirmation Tax NOL's, as discussed in Note 3 to the consolidated financial statements. Other increases in working capital came from an increase in the current maturities of mortgage notes receivable and from operations.

On December 30, 1993 Care sold \$30,000,000 of its 8.1% Senior Secured Notes to a number of institutional investors in a private transaction. The notes have an average maturity of five years and provide for semiannual interest payments, with annual principal payments of \$6,000,000 commencing in January, 1997. The proceeds of the notes were used to pay \$18,851,000 of existing debt, including the remaining balance of \$11,569,000 on the Term Notes. An additional \$495,000 was used to pay the outstanding balance of a capitalized lease obligation and purchase the related facility. Proceeds of the borrowing were also used to pay costs and expenses of the issuance of the notes totalling \$1,139,000, and \$709,000 was used to establish cash escrows with a title company pending the resolution of certain title and debt payoff related issues and to pay certain other costs.

In March 1994 Care entered into an \$8,000,000 letter of credit facility with the Bank of America to replace \$6,238,000 letters of credit previously issued by another bank to be used in connection with its self-insured workers'

compensation programs in California and Ohio. The new letter of credit facility allowed Care to further improve liquidity by substituting an additional \$1,762,000 in letters of credit for cash collateral previously held by certain regulatory agencies.

CARE ENTERPRISES, INC. AND SUBSIDIARIES

Results of Operations

Summary of Certain Key Operating Statistics

<TABLE>
<CAPTION>

	Quarter ended March 31,	
	1994	1993
	-----	-----
<S>	<C>	<C>
Nursing and Rehabilitation Centers:		
Centers owned or leased and operated at end of period	50	50
Number of licensed beds	4,792	4,792
Average occupancy	92.4%	93.6%
Patient mix (revenues)		
Medicare	32%	28%
Medicaid	49	54

Private	14	15
Managed care and other	5	3
	-----	-----
	100%	100%
	=====	=====

</TABLE>

The table above excludes a 248-bed facility which is being managed by Care under a management agreement and a 64-bed residential facility.

Quarter ended March 31, 1994 compared to 1993

Revenues for the first quarter of 1994 increased by \$5,221,000 compared to the same quarter of 1993. The change consisted primarily of increases of \$4,676,000 for nursing and rehabilitation centers and \$570,000 for home health, offset by other changes totalling \$25,000. The increase in nursing and rehabilitation center revenues is attributable to several factors. Medicare revenues increased by \$2,860,000 due to the continued growth of therapy, subacute, and other specialized clinical services and a 13% increase in Medicare utilization. Medicaid revenues increased by \$410,000 primarily due to rate increases, offset slightly by lower Medicaid utilization. Managed care revenues increased by \$851,000 principally due to the development of new contracts with managed care organizations. Home health revenues increased due to continued business development.

The increase in salaries and employee benefits is the result of wage rate increases and, to a lesser extent, increased labor hours and the resulting increase in payroll-related costs for nursing and rehabilitation centers and home health. The increase in labor hours is primarily the result of growth of the home health business.

Supplies and other expenses consist of food, routine supplies, costs related to therapy services, utilities, maintenance and other general and administrative expenses. The increase in supplies and other expenses is primarily the result

CARE ENTERPRISES, INC. AND SUBSIDIARIES

Results of Operations (continued)

of higher therapy-related costs in the nursing and rehabilitation centers and home health due to Care's increased provision of those services. The increased emphasis on the provision of therapy services also resulted in an increase in the cost for contract therapists, which accounts for most of the increase in purchased services. Other costs and expenses increased due to the imposition of a new health care provider tax in West Virginia subsequent to the first quarter of 1993.

Interest expense increased due to higher outstanding debt balances resulting from the issuance of \$30,000,000 of Care's 8.1% Senior Secured Notes in December, 1993 to retire \$19,346,000 in debt and capitalized lease obligations.

On January 1, 1994 Care assumed the operation of a 64-bed residential facility, which accounts for most of the increase in lease and rent expense.

CARE ENTERPRISES, INC. AND SUBSIDIARIES

PART II. OTHER INFORMATION

ITEM 6 - EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

11. Statement regarding computation of earnings per share

(b) Reports on Form 8-K

The Company filed the following reports on Form 8-K during the quarter ended March 31, 1994:

Date	Item Reported
January 4, 1994	Merger Agreement with Regency Health Services, Inc.
January 13, 1994	Sale of Senior Secured Notes

SIGNATURE

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.

CARE ENTERPRISES, INC.
(Registrant)

May 13, 1994

Date

/S/ GARY L. MASSIMINO

Gary L. Massimino
Executive Vice President
Chief Financial Officer

CARE ENTERPRISES, INC. AND SUBSIDIARIES

<TABLE>
<CAPTION>

Exhibit 11 - Statement re: Computation of Earnings Per Share
(in thousands, except per share amounts)

	Three Months Ended March 31,	
	1994	1993
<S>	<C>	<C>
Primary:		
Average shares outstanding	13,240	13,222
Net effect of dilutive stock options based on the treasury stock method using average market price	154	40
Total	13,394	13,262
Net income	\$ 1,347	\$ 996
Per share amount	\$ 0.10	\$ 0.08
Fully diluted:		
Average shares outstanding	13,240	13,222
Net effect of dilutive stock options based on the treasury stock method using average market price	154	40
Incremental effect of using quarter-end market price which is greater than average market price	6	40
Total	13,400	13,302
Net income	\$ 1,347	\$ 996
Per share amount	\$ 0.10	\$ 0.07

</TABLE>

