FORM 10QSB

Optional form for quarterly and transition reports of small business issuers under section 13 or 15(d)

Filing Date: **1999-07-27** | Period of Report: **1997-12-31**
SEC Accession No. 0000921895-99-000521

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FILER

UNITED VANGUARD HOMES INC /DE
CIK:**21221**| IRS No.: **112032899** | State of Incorp.:**DE** | Fiscal Year End: **0331**
Type: **10QSB** | Act: **34** | File No.: **000-05097** | Film No.: **99671084**
SIC: **6513** Operators of apartment buildings

Mailing Address
4 CEDAR SWAMP RD
GLEN COVE NY 11542

Business Address
4 CEDAR SWAMP RD
GLEN COVE NY 11542
5167591188

U.S. SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-QSB

(Mark One)

/X/ QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended December 31, 1997

/ / TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT

For the transition period from ________ to ________

Commission file number 0-5097

UNITED VANGUARD HOMES, INC.

(Exact Name of Small Business Issuer as Specified in Its Charter)

Delaware	11-2032899
(State or Other Jurisdiction of Incorporation or Organization)	(IRS Employer Identification Number)

4 Cedar Swamp Road, Glen Cove, New York 11542

(Address of Principal Executive Offices)

(516) 759-1188

(Issuer's Telephone Number, Including Area Code)

N/A

(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

Check whether the issuer: (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 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 / /

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: At March 31, 1999, there were outstanding 3,313,265 shares of the Registrant's Common Stock, $.01 par value.

Transitional Small Business Disclosure Format:

Yes / / No /X/

FORM 10-QSB

INDEX

UNITED VANGUARD HOMES, INC. AND SUBSIDIARIES

UNAUDITED CONSOLIDATED BALANCE SHEET

ASSETS

<TABLE>
<CAPTION>

CURRENT ASSETS	December 31, 1997	March 31, 1997
<S>	<C>	<C>
Cash	$ 242,695	$ 202,924
Accounts receivable, less allowance for doubtful accounts of $40,000	529,061	547,812
Due from affiliates, net	328,874	267,607
Prepaid expenses and other	217,711	518,393
Total current assets	1,318,341	1,536,736
PROPERTY AND EQUIPMENT - NET	2,157,045	2,276,651
OTHER ASSETS		
Development fees	979,200	795,500
Restricted assets	108,352	99,600
Other assets	202,569	176,437
	1,290,121	1,071,537
	$4,765,507	$4,884,924

</TABLE>

The accompanying notes are an integral part of these statements.

UNITED VANGUARD HOMES, INC. AND SUBSIDIARIES

UNAUDITED CONSOLIDATED BALANCE SHEET

LIABILITIES AND STOCKHOLDERS' DEFICIENCY

<TABLE>
<CAPTION>

	Dec. 31, 1997	March 31, 1997
CURRENT LIABILITIES		
Current portion of long-term debt	$ 535,179	$ 264,918
Accounts payable	525,125	487,758
Accrued expenses	704,260	660,084
Public Offering Costs	407,383	587,000
Income taxes payable	178,517	190,749
Total Current Liabilities	2,350,464	2,190,509
RESIDENT SECURITY DEPOSITS	273,473	284,526
LONG-TERM DEBT, less current portion	6,063,068	6,334,265
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' DEFICIENCY		
Preferred stock $.001 par value; 1,000,000 shares authorized; none issued and outstanding		
Common stock, $.01 par value; authorized, 14,000,000 shares; issued and outstanding, 3,308,850 shares and 3,320,950 shares, December 31, 1997 and March 31, 1997, respectively	33,089	33,210
Additional paid-in capital	6,995,847	7,043,226
Accumulated deficit	(10,950,434)	(11,000,812)
	(3,921,498)	(3,924,376)
	$ 4,765,507	$ 4,884,924

</TABLE>

The accompanying notes are an integral part of these statements.

UNITED VANGUARD HOMES, INC. AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENT OF EARNINGS

<TABLE>
<CAPTION>

	For the Three Months Ended December 31, 1997	1996	For the Nine Months Ended December 31, 1997	1996
Operating Revenues:				
Resident Services	$ 1,183,977	$ 1,256,595	$ 3,537,665	$ 3,777,826
Health care services	662,161	656,567	2,048,173	1,973,387
Management Fees	30,000	30,000	90,000	30,000
Development fees	60,700	81,040	183,700	220,000
	1,936,838	2,024,202	5,859,538	6,001,213
Operating Expenses:				
Residence operating expenses	1,531,076	1,590,863	4,561,150	4,566,278
General and administrative	261,471	249,824	804,440	557,967
Depreciation and amortization	68,087	65,966	204,263	203,922
Provision for loss on (recovery of) advances to affiliates	0	(15,000)	42,494	
	1,860,634	1,906,653	5,554,853	5,370,661
Income from operations	76,204	117,549	304,685	630,552
Other Income (expense)				

Interest expense, net	(134,042)	(145,399)	(421,364)	(415,327)
Other income	56,761	13,531	86,540	129,677
Debt conversion expense	--	0	0	(156,466)
Public Offering costs (Loss) Recovery	130,617	(1,000,000)	134,617	(1,000,000)
Income (loss) before income taxes	129,540	(1,014,319)	104,478	(811,564)
Income Taxes	17,989	(47,492)	54,000	55,008
NET INCOME (LOSS)	$ 111,551	($ 966,827)	$ 50,478	$ (866,572)
Earnings per share (loss)	$ 0.03	($ 0.43)	$ 0.02	($ 0.39)
Common shares and equivalents outstanding	3,308,932	2,252,689	3,306,395	2,243,895

</TABLE>

The accompanying notes are an integral part of these statements.

UNITED VANGUARD HOMES, INC. AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENT OF STOCKHOLDERS' DEFICIENCY

NINE MONTHS ENDED DECEMBER 31, 1997

<TABLE>
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	Shares	Amount	Additional Paid-in Capital	Accumulated Deficit	Total
<S>	<C>	<C>	<C>	<C>	<C>
Balance, March 31, 1997	3,320,950	$33,210	$7,043,226	($11,000,812)	($3,924,376)
Shares purchased and simultaneously retired	(19,600)	(196)	(69,804)		(70,000)
Investment in Vanguard Homes of N.J., Inc.				(100)	(100)
Shares issued as compensation	7,500	75	22,425		22,500
Net Income				50,478	50,478
Balance, December 31, 1997	3,308,850	$33,089	$6,995,847	($10,950,434)	($3,921,498)

</TABLE>

The accompanying notes are an integral part of these statements.

UNITED VANGUARD HOMES, INC. AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE NINE MONTHS ENDED DECEMBER 31,

<TABLE>
<CAPTION>

	1997	1996
Cash flows from operating activities:		
<S>	<C>	<C>
Net income	$ 50,478	($866,572)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	202,094	238,925
Common stock issued for services	22,500	2,781
Debt Conversion expense	-	156,466
Changes in operating assets and liabilities:		
Accounts receivable, advances and other receivables	18,752	(73,708)
Prepaid expenses	313,108	18,578
Other assets	(35,086)	-
Development fees	(183,700)	154,806
(Decrease) in due to affiliates	(61,267)	(61,278)
Accounts payable	37,367	(252,565)
Accrued expenses	(135,442)	611,642
Income taxes payable	(12,232)	(26,000)
Resident security deposits	(11,053)	507
Net cash provided by operating activities:	205,519	(96,418)
Cash flows used in investing activities:		
Investment in VHNJ	(100)	-
Purchases of property and equipment	(73,535)	(97,009)
	(73,635)	(97,009)
Cash flows from financing activities:		
Proceeds from borrowings on mortgages and notes payable	225,000	500,000
Principal repayments of mortgages and notes payable	(238,361)	(180,412)
Common stock purchased and simultaneously retired	(70,000)	-
Proceeds from exercised warrants	-	207,074
Increase in deferred costs	-	(8,660)
Restricted cash financing	(8,752)	-
Net cash used financing activities	(92,113)	518,002
NET INCREASE IN CASH	39,771	324,575
Cash at beginning of period	202,924	210,245
Cash at end of period	$ 242,695	$ 534,820
Cash paid during the period for		
Interest	$ 376,642	$ 416,000
Income taxes	$ 58,270	$ 81,000
Schedule of noncash investing and financing activities:		
Capital leases for furniture and equipment	$ -	$ 47,591
Debt converted to equity	-	$1,305,000
	$ -	$1,352,591

</TABLE>

The accompanying notes are an integral part of these statements.

UNITED VANGUARD HOMES, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Note A - Basis of Presentation

The accompanying consolidated balance sheet as of March 31, 1997 and December 31, 1997, the related consolidated statements of earnings and cash flows for the three-month periods ended December 31, 1997 and 1996, and the statement of stockholders' deficiency for the nine-month period ended December 31, 1997 have been prepared by the management of United Vanguard Homes, Inc. (the "Company") without audit. In the opinion of management, all adjustments (which include only normal recurring accrual adjustments) necessary to present fairly the financial position and results of operations as of and for the nine months ended December 31, 1997 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 financial statements should be read in conjunction with the financial statements and notes thereto included in the Company's Annual Report on Form 10-KSB for the year ended March 31, 1997. The results of operations for the period ended December 31, 1997 are not necessarily indicative of the operating results expected for a full year.

Note B - Stockholders' Equity

Convertible Debt

In March 1996, the Company offered the convertible mortgage holders and noteholders the option to convert, through April 30, 1996, to shares of common stock at a price of $3.75 instead of prices ranging from $6.67 through $7.22. In April 1996, 347,996 common shares were issued in connection with the offer. As a result of the offer, the Company issued 167,877 additional shares upon conversion, the fair value of which, $156,466, has been recorded as debt conversion expense in the accompanying consolidated statement of operations for the three months ended June 30, 1996.

Stock Option Plan

In June 1996, the Company adopted the 1996 Outside Directors' Stock Option Plan (the "Directors' Plan"), which provides for the grant of options to purchase common stock of the Company to non-employee directors of the Company. The Directors' Plan authorizes the issuance of a maximum of 90,000 shares of common stock.

The Directors' Plan is administered by the Board of Directors. Under the Directors' Plan, each non-employee director elected after April 1, 1996 will receive options for 3,000 shares of common stock upon election. To the extent that shares of common stock remain available for the grant of options under the Directors' Plan, each year on April 1, commencing April 1, 1997, each non-employee director will be granted an option to purchase 1,800 shares of common stock. The exercise price per share for all options granted under the Directors' Plan will be equal to the fair market value of the common stock as of the date preceding the date of grant. All options vest in three equal annual installments -- beginning on the first anniversary on the date of the grant.

Prior to the adoption of the Directors' Plan, options had been issued to outside directors, of which options to purchase ____ shares were outstanding at December 31, 1997.

Employment Agreement

As of April 1, 1996, the Company entered into an employment agreement with the Company's President and Chief Operating Officer pursuant to which an annual base salary under the employment agreement is $100,000. In June 1996, The President received a $25,000 cash bonus and 3,000 shares of the Company's common stock fair valued at $.93 per share.

Note C - Contingencies

An affiliate of Vanguard Ventures, Inc. ("Vanguard"), the Company's majority stockholder, was indebted under a first mortgage in the principal amount of $4,081,000. The mortgage securing this loan provides that a default under such loan is a default under each of the Company's Hillside Terrace and Whitcomb Tower Mortgages. Therefore, a potential Vanguard default on this affiliate's loan could result in the foreclosure of Hillside Terrace and Whitcomb Tower.

Health care and senior living facilities are areas of extensive and frequent regulatory change. Changes in the laws or new interpretations of existing laws can have a significant effect on methods of doing business, costs of doing business and amounts of reimbursement, from governmental and other payors. The Company at all times attempts to comply with all applicable fraud and abuse laws; however, there can be no assurance that administrative or judicial interpretation of existing laws or regulations will not have a material adverse effect on the Company's operations or financial conditions.

Note D - Promissory Note

In August 1996, the Company received a $450,000 installment loan from State Bank of Long Island. The principal is payable in 36 equal installments plus interest at prime plus 1 1/2 percent.

In September 1997, the Company received $75,000 on a promissory note payable to State Bank of Long Island. The principal is payable in one installment, due November 8, 1997, with interest at prime plus 1 1/2 percent.

In December 1997, the Company received $150,000 on promissory note to a private party. The note is due June 30, 1998 and bears interest at 20 percent per annum.

ITEM 2 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF PLAN OF OPERATION

Nine Months Ended 1996 vs. 1997

Revenues

Net revenues of the Company represent its gross consolidated revenues, less charitable and Supplementary Social Security Income discounts.

Net revenues decreased by $142,000, or 2 percent, from $6,001,000 in the 1996 period to $5,859,000 in the 1997 period. The primary cause was a reduction in Resident Services Revenues which decreased by $240,000, or 6 percent, from $3,778,000 in the 1996 period to $3,538,000 in the 1997 period. The decrease was a result of a reduction in occupancy due to a temporary mortorium on admissions at one of the Company's facilities. From January to October 1997, Olds Manor was subject to a moratorium on admissions in the Home for the Aged due to the allegation that certain services being rendered were beyond the scope of the facility's Home for the Aged License. As a consequence of the moritorium, occupancy dropped from 95 percent, as of March 31, 1996, to 66 percent, as of December 31, 1997.

Healthcare services revenues increased by $75,000, or 4 percent, from $1,973,000 in the 1996 period to $2,048,000 in the 1997 period. The increase was a result of higher rates.

Management fees of $90,000 were earned this period on a contract which began October 1, 1996.

Development Fee income decreased by $36,000 or 17 percent, from $220,000 in the 1996 period to $184,000 in the 1997 period. These fees are lower this year since they are based on a 1995 development agreement which is substantially completed.

Residence Operating Expenses

Residence operating expenses include all retirement and healthcare center operating expenses, including, among other things, payroll and employments costs, food, utilities, repairs and maintenance, insurance, and property taxes.

Residence operating expenses were slightly lower ($5,000) than last year. The decrease was primarily attributed to operating cost reductions at Olds Manor in the current quarter.

General and Administrative Expenses

General and administrative expenses include all marketing costs, as well as the general and administrative expenses incurred at the Company's principal executive offices. General and administrative expenses include, among other things, administrative salaries, rent, utilities, insurance, and related expenses.

General and administrative expenses increased by $246,000, or 44 percent, from $558,000 in the 1996 period to $804,000 in the 1997 period. The increase is primarily attributable to an increase in personnel costs and an increase in overhead associated with the Company's attempted public offering and plans to expand its development projects.

Provision for Recovery on Advances to Affiliates

During the nine months ended December 31, 1997, the Company recorded a net recovery of Advances to Affiliates aggregating $15,000 as compared to a net loss on Advances of $42,000 in the 1996 period. The variance is a function of net funds paid out or received from the Company's parent (Vanguard) and affiliated companies. Future recoveries are anticipated as Vanguard liquidates some of its properties.

Interest Expense, Net

Interest expense, net, increased by $6,000, or 1 percent, from $415,000 in the 1996 period to $421,000 in the 1997 period. The increase is primarily attributable to increased borrowing (see Note D).

Debt Conversion Expense

The Company offered its debt holders an inducement in the form of a reduced conversion price on its then outstanding debt. As a result of such inducement, an aggregate of $1,305,000 of the Company's debt was converted into 347,996 shares of the Company's Common Stock effective April 1, 1996. As a result of such inducement, the Company issued 167,877 additional shares upon conversion, the fair value of which, $156,466, has been recorded as debt conversion expense during the 1996 period.

Three Months 1998 vs. 1997

The principal reasons for the changes in operations for the three months ended December 31, 1997 vs. 1996 are outlined in the discussion of the Nine Months Results. No material items which adversely affected liquidity and the financial position occurred in the three-month period.

Liquidity and Capital Resources

During the 1997 period operating activities provided cash of approximately $205,000 compared to requiring cash of approximately $97,000 from operating activities in the 1996 period. The increase in cash flows from operating activities was principally due to the Company's net profit in the current period.

During the 1997 period the Company required approximately $92,113 for financing activities compared to providing cash from financing activities of approximately $518,000 in the 1996 period. The decline in cash flows from financing activities was principally due to $275,000 in reduced borrowing for the current period and approximately $207,000 of proceeds from exercise of warrants which occurred only in year 1996.

As of December 31, 1997 the Company had a deficiency in working capital of $1,032,000. Of this deficiency $654,000 was the result of last year's aborted public offering.

In the current period the Company borrowed $225,000 in short-term notes (see Note D) to fund financing and investing activities. The effect of these loans and use to fund noncurrent obligations was the principal cause of the $378,000 increase in working capital deficit.

The Company's capital is not sufficient to fund its operating plans. Given the above, the Company is currently negotiating to sell a substantial portion of its operating and development properties. If such sales are successful, the Company would have adequate capital to fund future development projects.

In addition, the Company received a commitment letter from a financial institution to refinance substantially all of its outstanding mortgages. Although this commitment letter has expired, the Company believes it can successfully renegotiate this financing alternative, which, in the Company's opinion, would provide adequate working capital.

Part II -- OTHER INFORMATION

Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None during the quarter ended December 31, 1997.

Item 6 - EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

Exhibit 11, Unaudited Computation of Earnings Per Share
Exhibit 27, Unaudited Financial Data Schedule

(b) Report on 8-K

No reports on Form 8-K were filed during this period.

SIGNATURES

In accordance with the requirements of the Securities and Exchange Act of 1934, as amended, the Registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

UNITED VANGUARD HOMES, INC.

by: /s/ Carl G. Paffendor

Carl G. Paffendorf, Chairman of the Board

by: /s/ Paul D'Andrea

Paul D'Andrea, Vice President - Finance

Date: July 22, 1999

EXHIBIT 11

UNITED VANGUARD HOMES, INC. AND SUBSIDIARIES

UNAUDITED COMPUTATION OF EARNINGS PER SHARE

<TABLE>
<CAPTION>

	For the Three Months Ended December 31, 1997			For the Nine Months Ended December 31, 1997		
	Income (Numerator)	Shares (Denominator)	Per Share Amount	Income (Numerator)	Shares (Denominator)	Per Share Amount
Basic EPS						
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Net Income	$111,551	3,308,932	$0.03	$50,479	3,306,395	$0.02
Effect of Dilutive Securities						
Stock Options		34,200			34,200	
Diluted EPS Income available to common stock-holders plus assumed conversions	$111,551	3,343,132	$0.03	$50,479	3,340,595	$0.02

	For the Three Months Ended December 31, 1996			For the Nine Months Ended December 31, 1996		
	Income (Numerator)	Shares (Denominator)	Per Share Amount	Income (Numerator)	Shares (Denominator)	Per Share Amount
Basic EPS						
Net Income	($966,827)	2,252,689	($0.43)	($866,572)	2,243,895	($0.39)
Effect of Dilutive Securities						
Stock Options		27,792			27,792	
Diluted EPS Income available to common stock-holders plus assumed conversions	($966,827)	2,280,481	($0.42)	($866,572)	2,271,687	($0.38)

</TABLE>

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This schedule contains summary financial information extracted from the Company's Form 10- QSB for the quarter ended December 31, 1997 and is qualified in its entirety by reference to such financial statements.
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