MANOR CARE INC
Form 10-Q
May 15, 2001

1

FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

(Mark One)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2001

OR

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

COMMISSION FILE NUMBER: 1-10858

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

DELAWARE	34-1687107
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)
333 N. SUMMIT STREET, TOLEDO, OHIO	43604-2617
(Address of principal executive offices)	(Zip Code)

REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE: (419) 252-5500

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 X No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the close of business on April 30, 2001.

Common stock, $0.01 par value -- 102,887,589 shares

2

TABLE OF CONTENTS

PART I. FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS.

MANOR CARE, INC.

Consolidated Balance Sheets

	March 31, 2001 (Unaudited) (In thousands, ex
ASSETS	
Current assets:	
Cash and cash equivalents	$ 23,453
Receivables, less allowances for doubtful accounts of $62,685 and $61,137, respectively	387,808
Receivable from sale of assets	1,766
Prepaid expenses and other assets	24,425
Deferred income taxes	62,019
Total current assets	499,471

Property and equipment, net of accumulated depreciation of $672,389 and $646,478 respectively	1,567,691
Intangible assets, net of amortization	102,382
Other assets	189,573
Total assets	$2,359,117
LIABILITIES AND SHAREHOLDERS' EQUITY	
Current liabilities:	
Accounts payable	$ 86,516
Employee compensation and benefits	85,167
Accrued insurance liabilities	64,306
Income tax payable	44,192
Other accrued liabilities	51,678
Revolving loans	
Long-term debt due within one year	5,491
Total current liabilities	337,350
Long-term debt	752,257
Deferred income taxes	108,916
Other liabilities	127,745
Shareholders' equity:	
Preferred stock, $.01 par value, 5 million shares authorized	
Common stock, $.01 par value, 300 million shares authorized, 111.0 million shares issued	1,110
Capital in excess of par value	323,109
Retained earnings	862,106
Other comprehensive income	(256)
	1,186,069
Less treasury stock, at cost (8.1 and 8.4 million shares, respectively)	(153,220)
Total shareholders' equity	1,032,849
Total liabilities and shareholders' equity	$2,359,117

See notes to consolidated financial statements.

3

4

MANOR CARE, INC.

Consolidated Statements Of Operations
(Unaudited)

	Three Months En
	2001
	(In thousands, excep
Revenues	$638,193
Expenses:	

Operating	527,197
General and administrative	26,575
Depreciation and amortization	30,839
	584,611
Income before other income (expenses), income taxes and minority interest	53,582
Other income (expenses):	
Interest expense	(14,221)
Equity in earnings (losses) of affiliated companies	(297)
Interest income and other	1,101
Total other expenses, net	(13,417)
Income (loss) before income taxes and minority interest	40,165
Income taxes (benefit)	15,182
Minority interest income	
Net income (loss)	$ 24,983
Earnings per share - basic and diluted	$0.24
Weighted average shares:	
Basic	102,152
Diluted	103,760

See notes to consolidated financial statements.

4

5

MANOR CARE, INC.

Consolidated Statements Of Cash Flows
(Unaudited)

	Three Months E
	2001
	(In thou
OPERATING ACTIVITIES	
Net income (loss)	$ 24,983
Adjustments to reconcile net income (loss) to net cash provided by operating activities:	
Depreciation and amortization	30,839
Provision for bad debts	10,552
Net gain on sale of assets	(798)
Equity in (earnings) losses of affiliated companies	297
Minority interest income	
Changes in assets and liabilities, excluding sold facilities and acquisitions:	
Receivables	(7,076)
Prepaid expenses and other assets	(11,700)
Liabilities	24,167

Total adjustments	46,281
Net cash provided by operating activities	71,264
INVESTING ACTIVITIES	
Investment in property and equipment	(18,184)
Investment in systems development	(2,089)
Acquisitions	(3,472)
Proceeds from sale of assets	3,005
Consolidation of subsidiary	
Net cash used in investing activities	(20,740)
FINANCING ACTIVITIES	
Net repayments under bank credit agreements	(244,200)
Principal payments of long-term debt	(2,585)
Proceeds from issuance of senior notes	200,000
Payment of deferred financing costs	(2,712)
Proceeds from exercise of stock options	1,002
Purchase of common stock for treasury	(3,519)
Net cash used in financing activities	(52,014)
Net increase (decrease) in cash and cash equivalents	(1,490)
Cash and cash equivalents at beginning of period	24,943
Cash and cash equivalents at end of period	$23,453

See notes to consolidated financial statements.

5

6

MANOR CARE, INC.

Notes To Consolidated Financial Statements
(Unaudited)

NOTE 1 - BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management of Manor Care, Inc. (the Company), the interim data includes all adjustments necessary for a fair statement of the results of the interim periods and all such adjustments are of a normal recurring nature. Operating results for the three months ended March 31, 2001 are not necessarily indicative of the results that may be expected for the year ending December 31, 2001.

The balance sheet at December 31, 2000 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. For further information, refer to the consolidated financial statements and footnotes thereto included in Manor Care, Inc.'s annual report on Form 10-K/A for the year ended December 31, 2000.

At March 31, 2001, the Company operated 298 skilled nursing and 57 assisted living facilities, 88 outpatient therapy clinics, one acute care hospital and 78 home health offices.

NOTE 2 - DEBT

In March 2001 the Company issued $200 million of 8% Senior Notes due in 2008 that are guaranteed by substantially all of its subsidiaries. The net proceeds of $197.3 million from the Senior Notes were used to repay borrowings outstanding under the existing bank credit agreements. The Company is in the process of registering identical Senior Notes with the Securities and Exchange Commission, which will be exchanged for the Senior Notes issued in March. Debt consists of the following:

	March 31, 2001	December 31, 2000
	(In thousands)	
Five Year Agreement	$362,800	$452,000
364 Day Agreement (revolving loans)		155,000
8% Senior Notes	200,000	
7 1/2% Senior Notes, net of discount	149,690	149,675
Mortgages and other notes	39,889	42,456
Capital lease obligations	5,369	5,402
	757,748	804,533
Less:		
364 Day Agreement		155,000
Amounts due within one year	5,491	5,479
Long-term debt	$752,257	$644,054

6

7

NOTE 3 - CONTINGENCIES

One or more subsidiaries or affiliates of Manor Care of America, Inc. (MCA) have been identified as potentially responsible parties (PRPs) in a variety of actions (the Actions) relating to waste disposal sites which allegedly are subject to remedial action under the Comprehensive Environmental Response Compensation Liability Act, as amended, 42 U.S.C. Sections 9601 et seq. (CERCLA) and similar state laws. CERCLA imposes retroactive, strict joint and several liability on PRPs for the costs of hazardous waste clean-up. The Actions arise out of the alleged activities of Cenco, Incorporated and its subsidiary and affiliated companies (Cenco). Cenco was acquired in 1981 by a wholly owned subsidiary of MCA. The Actions allege that Cenco transported and/or generated hazardous substances that came to be located at the sites in question. Environmental proceedings such as the Actions may involve owners and/or operators of the hazardous waste site, multiple waste generators and multiple waste transportation disposal companies. Such proceedings involve efforts by governmental entities and/or private parties to allocate or recover site investigation and clean-up costs, which costs may be substantial. The potential liability exposure for currently pending environmental claims and litigation, without regard to insurance coverage, cannot be quantified with precision because of the inherent uncertainties of litigation in the Actions and the fact that the ultimate cost of the remedial actions for some of the waste disposal sites where MCA is alleged to be a potentially responsible party has not yet been quantified. Based upon its current assessment of the likely outcome of the Actions, the Company believes that its future environmental liabilities will be approximately $22.5 to $28.0 million. The Company has received or expects to receive between $18.0 million and $23.5 million of insurance proceeds, depending upon the ultimate liabilities, which will offset amounts due as a result of these exposures.

The Company, Alterra Healthcare Corporation (Alterra) and the development joint venture jointly and severally guaranteed a revolving line of credit that has an outstanding balance and is capped at $57.0 million, which matures June 29, 2001. The Company and Alterra are undertaking efforts to sell the thirteen facilities. The debt will be repaid upon the sale of each facility.

Legislation phased out interest deductions on certain policy loans related to corporate-owned life insurance (COLI) as of January 1, 1999. The Company has recorded a cumulative reduction to income tax expense of approximately $34.0 million resulting from interest deductions for tax periods prior to 1999. While the Internal Revenue Service (IRS) has not asserted any claim challenging the Company's COLI interest expense deductions, the IRS has challenged other taxpayers' COLI interest deductions and has prevailed in certain lower court decisions. Management understands that these decisions and the IRS's position are being subjected to extensive challenges in court. The Company intends to defend vigorously its right to deduct the entire amount of such interest payments, were the IRS to challenge these deductions.

The Company is party to various other legal matters arising in the ordinary course of business including patient care-related claims and litigation. The Company believes that the resolution of such matters will not result in liability materially in excess of accounting accruals established with respect to such matters.

NOTE 4 - EARNINGS PER SHARE

The calculation of earnings per share (EPS) is as follows for the three months ended March 31:

	2001
	(In thousands, except ear
Numerator:	
Net income (loss) [income available to common shareholders]	$24,983
Denominator:	
Denominator for basic EPS - weighted-average shares	102,152
Effect of dilutive securities:	
Stock options	1,368
Non-vested restricted stock	240
Denominator for diluted EPS - adjusted for weighted-average shares and assumed conversions	103,760
EPS - basic and diluted	$0.24

In 2000, the dilutive effect of stock options would have been 733,000 shares. These shares were not included in the calculation because the effect would be anti-dilutive with a net loss.

NOTE 5 - SEGMENT INFORMATION

The Company provides a range of health care services. The Company has one reportable operating segment, long-term care, which includes the operation of skilled nursing and assisted living facilities. The "Other" category includes the non-reportable segments and corporate items not considered to be an operating segment. The revenues in the "Other" category include services for rehabilitation, home health and hospital care. Asset information, including capital expenditures, is not provided to the Company's chief operating decision maker. Operating performance represents revenues less operating expenses and does not include general and administrative expense, depreciation and amortization, other income and expense items, and income taxes. See Management's Discussion and Analysis for further discussion of general and professional liability expenses recorded in the first quarter of 2000.

	LONG-TERM CARE	OTHER
		(In thousands)
Three months ended March 31, 2001		
Revenues from external customers	$540,205	$97,988
Intercompany revenues		9,035
Depreciation and amortization	27,925	2,914
Operating margin	96,348	14,648
Three months ended March 31, 2000		
Revenues from external customers	488,375	81,543
Intercompany revenues		6,408
Depreciation and amortization	26,042	3,633
Operating margin	56,809	9,735

NOTE 6 - COMPREHENSIVE INCOME

Comprehensive income represents the sum of net income (loss) plus other comprehensive income (loss). Comprehensive income totaled $24,727,000 and $(783,000) for the first quarter of 2001 and 2000, respectively. The other comprehensive loss of $256,000 in the first quarter of 2001 represents the after tax loss of the terminated treasury lock agreement that the Company entered into as a hedge of interest rates on the future issuance of the Senior Notes in March 2001.

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

RESULTS OF OPERATIONS -
QUARTER ENDED MARCH 31, 2001 COMPARED TO QUARTER ENDED MARCH 31, 2000

Revenues. Our revenues increased $68.3 million, or 12 percent, from the first quarter of 2000 to 2001. Revenues from skilled nursing and assisted living facilities increased $51.8 million, or 11 percent, due to increases in rates--$50.2 million and occupancy--$4.8 million, which were partially offset by a decrease in bed capacity--$3.2 million. Our revenues from the home health business increased $12.9 million primarily because of an increase in home health visits and hospice services.

Our rate increases for the skilled nursing and assisted living facilities relate to private pay, Medicaid and Medicare. The Medicare rate increase related to the positive effect of the Medicare, Medicaid and SCHIP Balanced Budget Act of 1999 with many of the provisions beginning April 1, 2000. Our bed capacity declined between the first quarter of 2000 and 2001 because there was one additional day in 2000 as a result of leap year. Our occupancy levels were 86 percent for the first quarter of 2000 compared with 87 percent for the first quarter of 2001. When excluding start-up facilities, our occupancy levels were 87 percent for the first quarter of 2000 compared with 88 percent for the first quarter of 2001. Our occupancy levels for skilled nursing facilities were 87 percent for the first quarter of 2000 compared with 88 percent for the first quarter of 2001. The quality mix of revenue from Medicare, private pay and insured patients related to skilled nursing and assisted living facilities and rehabilitation operations increased from 67 percent for the first quarter of 2000 to 68 percent for the first quarter of 2001.

Operating Expenses. Our operating expenses in the first quarter of 2001 increased $23.8 million, or 5 percent, compared with the first quarter of 2000. Operating expenses from skilled nursing and assisted living facilities increased $12.3 million. Our operating expenses from our home health business increased $7.0 million, which corresponds with the increase in revenues mentioned above. Operating expenses for our transcription business increased $1.6 million.

In the first quarter of 2000, we recorded an additional $33.6 million of general and professional liability expense related to a change in estimate incorporating industry experience for claims originating in policy years 1994 through 1999. When excluding this additional expense, operating expenses for the skilled nursing and assisted living facilities increased $45.9 million, or 12 percent. We attribute the largest portion of this operating expense increase to labor costs and temporary staffing of $29.6 million. General and professional liability expense increased $3.9 million in the first quarter of 2001 compared with the current period expense in the first quarter of 2000.

9

10

General and professional liability costs for the long-term care industry, especially in the state of Florida, have become increasingly expensive. Industry sources report the average cost of a claim in Florida in 2000 was three times higher than the rest of the country and industry providers in the state experienced four times the number of claims compared to the national average. In May 2001 the Florida legislature passed a tort reform bill, which the governor is expected to sign. Due to the nature of the caps and limits in that legislation, the specific impact remains uncertain; but, we are hopeful that it will slow the rate of increases in general and professional liability claims and costs in Florida.

General and Administrative Expenses. Our general and administrative expenses, which approximated 4 percent of revenues, increased $1.2 million from the first quarter of 2000 to 2001. This increase related to general cost increases.

Depreciation and Amortization. Depreciation remained constant. Amortization increased primarily as a result of software amortization.

Interest Expense. Interest expense remained constant. When excluding capitalized interest, our interest expense decreased $0.9 million due to lower debt levels.

Equity in earnings (losses) of affiliated companies. During the first quarter of 2001, we recorded equity losses of $1.2 million related to our development joint venture with Alterra Healthcare Corporation. Our share of a pharmacy partnership's earnings increased $0.4 million.

LIQUIDITY AND CAPITAL RESOURCES

During the first quarter of 2001, we satisfied our cash requirements from cash generated from operating activities. Cash flows from operating activities were $71.3 million for the first quarter of 2001, an increase of $22.9 million from the first quarter of 2000. Our operating cash flows increased because of the increase in net income. We used the cash principally for capital expenditures, to acquire businesses and to repay debt. Expenditures for property and equipment of $18.2 million in the first quarter of 2001 included $4.9 million to construct new facilities.

In March 2001 we issued $200 million of 8% Senior Notes due in 2008. We used the net proceeds of $197.3 million from the Senior Notes to repay borrowings outstanding under our existing bank credit agreements. Following the repayment of borrowings under the credit agreements, we reduced the commitment under the 364-day agreement from $200 million to $50 million. At March 31, 2001, outstanding borrowings totaled $362.8 million under the five year agreement. We had no outstanding borrowings under the 364-day agreement. At March 31, 2001, after consideration of usage for letters of credit, the remaining credit availability under the combined agreements totaled $158.8 million. Future borrowings under these facilities are subject to certain financial ratio tests. We do not intend to renew the remaining $50 million 364-day agreement when it matures on September 21, 2001.

On February 8, 2000, our board of directors authorized us to spend up to $100 million to purchase our common stock through December 31, 2001. We purchased 175,000 shares for $3.5 million in the first quarter of 2001. We may use the shares for internal stock option and 401(k) match

programs and for other uses, such as possible future acquisitions.

We believe that our cash flow from operations will be sufficient to cover debt payments, future capital expenditures and operating needs. It is likely that we will pursue growth from acquisitions, partnerships and other ventures that would be funded from excess cash from operations, credit available under the bank credit agreement and other financing arrangements that are normally available in the marketplace.

CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING STATEMENTS

This report may include forward-looking statements. We have based these forward-looking statements on our current expectations and projections about future events. We identify forward-looking statements in this report by using words or phrases such as "anticipate," "believe," "estimate," "expect," "intend," "may be," "objective," "plan," "predict," "project," and "will be" and similar words or phrases, or the negative thereof.

These forward-looking statements are subject to numerous assumptions, risks and uncertainties. Factors which may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by us in those statements include, among others: changes in Medicare, Medicaid and certain private payors' reimbursement levels; existing government regulations, including applicable health care, tax and health and safety regulations, and changes in, or the failure to comply with, governmental regulations or the interpretations thereof; legislative proposals for health care reform; competition and general economic and business conditions; the ability to attract and retain qualified personnel; changes in current trends in the cost and volume of general and professional liability claims and other litigation.

Although we believe the expectations reflected in our forward-looking statements are based upon reasonable assumptions, we can give no assurance that we will attain these expectations or that any deviations will not be material. Except as otherwise required by the federal securities laws, we disclaim any obligations or undertaking to publicly release any updates or revisions to any forward-looking statement contained in this report to reflect any change in our expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

See the discussion of our market risk in our Form 10-K/A for the year ended December 31, 2000. In addition, in March 2001 we issued $200 million of 8% Senior Notes due in 2008. The carrying value of the Senior Notes approximates fair value. We used the net proceeds from the Senior Notes to repay borrowings outstanding under our existing bank credit agreements.

PART II. OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS.

Since May of 1999, we and other related persons and entities have been parties to several actions by or against Genesis Health Ventures, Inc. and its subsidiary, NeighborCare Pharmacy Services, Inc. On or about June 22, 2000, Genesis and NeighborCare filed voluntary petitions for bankruptcy under Chapter 11 of the Bankruptcy Code, which effectively stayed the actions to the extent they had not been stayed already. The status of the various Genesis/NeighborCare lawsuits is as follows:

First Action. On May 7, 1999, Genesis filed suit in federal district court in Delaware against us, our wholly owned subsidiary, Manor Care of America, Inc., formerly known as Manor Care, Inc., or MCA, our Chief Executive Officer, Paul A. Ormond, and our Chairman, Stewart Bainum, Jr. The complaint alleges that the defendants fraudulently induced Genesis to acquire, in August 1998, all of the outstanding stock of Vitalink Pharmacy Services, Inc., an approximately 50 percent-owned subsidiary of MCA. The complaint further alleges that the defendants' alleged conduct constituted violations of Section 10(b) of the Securities Exchange Act of 1934, and constituted common law fraudulent misrepresentation and negligent misrepresentation. The suit also alleges that our ownership in a partnership known as Heartland Healthcare Services violates a non-compete provision signed by MCA. The suit seeks compensatory and punitive damages in excess of $100 million and preliminary and permanent injunctive relief enforcing the covenant not to compete.

12

13

On June 29, 1999, the defendants moved to dismiss or, in the alternative, to stay the lawsuit in its entirety. On March 22, 2000, the court granted the defendants' motion to stay the action in its entirety pending the arbitration discussed below, but denied the motion with respect to the alternative request to dismiss the action. We intend to vigorously defend the lawsuit. Although the ultimate outcome of the case is uncertain, management believes that it is not likely to have a material adverse effect on our financial condition.

Second Action. On August 27, 1999, MCA filed a separate action in federal district court in Delaware against Genesis concerning Genesis's 1998 acquisition of Vitalink. MCA's lawsuit charges that Genesis violated Section 11 and Section 12 of the Securities Act of 1933, when Genesis issued approximately $293 million of Genesis Preferred Stock to MCA for MCA's interest in Vitalink. The suit alleges that Genesis misrepresented and/or omitted material facts. MCA seeks, among other things, compensatory damages and recission, which would void MCA's purchase of the Genesis Preferred Stock and require Genesis to return to MCA the consideration that it paid at the time of the Vitalink sale.

On November 23, 1999, Genesis moved to dismiss the lawsuit in its entirety. On or about January 18, 2000, Genesis moved to consolidate MCA's lawsuit with the suit that Genesis had filed in Delaware district court on May 7, 1999. On or about September 29, 2000, the court granted in part and denied in part Genesis' motion to dismiss and also denied Genesis' motion to consolidate the lawsuits. On October 6, 2000, MCA advised the court by letter that the automatic stay in bankruptcy--a provision of the bankruptcy laws that prevents creditors from taking collection and other actions against a bankrupt debtor outside of the bankruptcy courts--had stayed MCA's lawsuit. However, pursuant to 11 U.S.C. ss. 108(c), MCA reserved any and all rights it may have concerning the September 29, 2000 order and the MCA litigation, including the right to seek clarification and reconsideration of the order, following termination or expiration of the automatic stay. We intend to vigorously prosecute this lawsuit following relief from the bankruptcy stay.

Third Action. Additionally, on May 7, 1999, NeighborCare instituted a lawsuit in the Circuit Court for Baltimore City, Maryland against us, MCA and ManorCare Health Services, Inc. seeking damages, preliminary and permanent injunctive relief, and a declaratory judgment related to allegations that the defendants had improperly sought to terminate certain Master Service Agreements between Vitalink, now known as NeighborCare, and ManorCare Health Services, Inc. NeighborCare also instituted arbitration proceedings against the same defendants. These proceedings seek substantially the same relief as sought in the Maryland action with respect to one of the Master Service Agreements at issue in the Maryland action and also certain additional permanent relief with respect to that contract. On May 13, 1999, NeighborCare and the defendants agreed:

- to consolidate the Maryland action into the arbitration;

- to dismiss the Maryland action with prejudice as to jurisdiction and without prejudice as to the merits; and

- to stay termination of the agreements at issue until a decision can be reached in the arbitration.

NeighborCare has since dismissed the Maryland action and consolidated certain of those claims into the arbitration by filing an amended demand for arbitration. On June 15, 1999, the defendants filed an answer and counterclaim, denying the material allegations in the amended demand. They subsequently moved to dismiss three of the six claims alleged in the amended demand. On or about May 17, 2000, the arbitrator, in response to the defendants' motion, dismissed two of NeighborCare's six claims.

On or about May 23, 2000, based upon NeighborCare's representation that it would likely file for bankruptcy before it could complete the arbitration hearing set for the weeks of June 12 and July 3, 2000, the Arbitrator vacated the hearing dates. NeighborCare's June 22, 2000 bankruptcy effectively stayed the matter. The defendants then asked the bankruptcy court to enforce the arbitration clause and relieve them from the automatic stay to the extent necessary to complete the arbitration. NeighborCare, in turn, opposed this motion and filed its own motion to assume the Master Service Agreements in the bankruptcy.

On or about February 6, 2001, the bankruptcy court issued an opinion finding in favor of the defendants' motion and deferring consideration of NeighborCare's motion to assume the Master Service Agreements until the arbitration is complete. No order was entered. Shortly thereafter, the defendants tendered a proposed order to the bankruptcy court, which granted the defendants' motion in accordance with the opinion. On or about February 22, 2001, NeighborCare moved the bankruptcy court to reconsider the February 6, 2001 opinion. Following briefing and a hearing on NeighborCare's motion to reconsider, the Court entered an order on March 20, 2001 denying the motion to reconsider, affirming and incorporating the February 6, 2001 opinion and granting relief from the automatic stay to permit the arbitration to proceed to final judgment in accordance with that Opinion. Hearing in the arbitration has also been rescheduled and is set to begin July 30, 2001. The defendants intend to vigorously defend the arbitration demand and to vigorously prosecute their counterclaim at the arbitration. Although we cannot predict the ultimate outcome of the arbitration, management believes that it is not likely to have a material adverse effect on our financial condition.

Additional NeighborCare Complaint. On July 26, 1999, NeighborCare filed an additional complaint in the Circuit Court for Baltimore County, Maryland against Omnicare, Inc. and Heartland Healthcare Services, Inc. seeking injunctive relief and compensatory and punitive damages. Heartland Healthcare Services, Inc. is a partnership between us and subsidiaries of Omnicare. The complaint includes counts for tortious interference with Vitalink's purported contractual rights under the Master Service Agreements. On October 4, 1999, the defendants moved to dismiss or, in the alternative, to stay the lawsuit in its entirety. On November 12, 1999, the court stayed the matter pending the arbitration. Although we cannot predict the ultimate outcome of the case, management believes that it is not likely to have a material adverse effect on our financial condition.

Fourth Action. On December 22, 1999, MCA filed suit in federal court in Toledo, Ohio against Genesis; Cypress Group, L.L.C.; TPG Partners II, L.P.; and Nazem, Inc. The

complaint alleges that the issuance by Genesis of its Series H and Series I Preferred Stock violated the terms of the Series G Preferred Stock and the terms of a rights agreement entered into between Genesis and MCA in connection with the Vitalink transaction. On February 29, 2000, the defendants moved to dismiss the case. That motion was pending before the court as of the time the matter was automatically stayed by Genesis' June 22, 2000 bankruptcy filing.

See Note 3 - Contingencies in the notes to the consolidated financial statements for a discussion of litigation related to environmental matters and patient-care related claims.

Item 2. CHANGES IN SECURITIES
None

Item 3. DEFAULTS UPON SENIOR SECURITIES
None

Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS
At the Company's Annual Meeting of Stockholders held on May 8, 2001 the stockholders approved the following items: a) elect Stewart Bainum, Jr. as a director, b) elect William H. Longfield as a director, c) elect Paul A. Ormond as a director, d) approve the amendments to the Amended Stock Option Plan for Key Employees, e) approve the Equity Incentive Plan and f) ratify the selection of Ernst & Young LLP as independent public accountants for the year ending December 31, 2001. The items were approved by a vote as follows:

Item	For	Against	Withheld	Abstain
a	92,443,488		1,878,464	
b	92,442,866		1,879,086	
c	92,339,374		1,982,578	
d	76,152,884	14,003,077		4,165,991
e	73,462,345	16,667,320		4,192,287
f	90,069,010	391,754		3,861,188

Item 5. OTHER INFORMATION
None

Item 6. EXHIBITS AND REPORTS ON FORM 8-K
(a) Exhibits

S-K Item
601 No.

4.1 Indenture, dated March 8, 2001, among Manor Care, Inc., the subsidiary guarantors as named therein and National City Bank, Trustee (filed as Exhibit 4.1 to Manor Care, Inc.'s Form S-4 filed on May 3, 2001 and incorporated by reference.)

10.1 Fourth and Fifth Amendment to the Amended Stock Option Plan for Key Employees (filed as Appendix B to Manor Care, Inc.'s Proxy Statement dated April 6, 2001 in connection with its Annual Meeting held on May 8, 2001 and incorporated herein by reference.)

10.2 Equity Incentive Plan of Manor Care, Inc. (filed as Appendix C to Manor Care, Inc.'s Proxy Statement dated April 6, 2001 in connection with its Annual Meeting held on May 8, 2001 and incorporated herein by reference.)

(b) Reports on Form 8-K
None

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)

Date MAY 14, 2001 By /s/ GEOFFREY G. MEYERS

Geoffrey G. Meyers, Executive Vice-President
and Chief Financial Officer

17