

ADCARE HEALTH SYSTEMS INC
Form 10-Q
August 07, 2012
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2012

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

For the transition period from _____ to _____

Commission File Number 001-33135

AdCare Health Systems, Inc.

(Exact name of registrant as specified in its charter)

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Ohio
(State or other jurisdiction)

31-1332119
(I.R.S. Employer Identification Number)

of incorporation)

1145 Hembree Road, Roswell, GA 30076

(Address of principal executive offices)

(678) 869-5116

(Registrant's telephone number, including area code)

5057 Troy Road, Springfield, OH 45502-9032

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the 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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer
(Do not check if a smaller reporting company)

Smaller reporting company

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

As of June 30, 2012: 13,696,538 shares of common stock with no par value were outstanding.

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Item 1. Financial Statements

ADCARE HEALTH SYSTEMS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(Amounts in 000s)

	June 30, 2012 (Unaudited)	December 31, 2011
<u>ASSETS</u>		
Current Assets:		
Cash and cash equivalents	\$ 9,373	\$ 7,364
Restricted cash and cash equivalents	3,624	1,883
Accounts receivable, net of allowance of \$2,460 and \$1,346	26,964	18,759
Prepaid expenses and other	668	663
Assets of disposal group held for sale	38	47
Total current assets	40,667	28,716
Restricted cash and investments	5,812	4,870
Property and equipment, net	147,093	105,143
Intangible assets – bed licenses	2,464	1,189
Intangible assets – lease rights, net	7,925	8,460
Goodwill	906	906
Escrow deposits for acquisitions	1,513	3,172
Lease deposits	1,725	1,685
Deferred loan costs, net	5,733	4,818
Other assets	71	122
Total assets	\$ 213,909	\$ 159,081
<u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>		
Current Liabilities:		
Current portion of notes payable and other debt	\$ 9,401	\$ 4,567
Revolving credit facilities and lines of credit	1,900	7,343
Accounts payable	16,601	12,075
Accrued expenses	11,424	9,858
Liabilities of disposal group held for sale	143	240
Total current liabilities	39,469	34,083
Notes payable and other debt, net of current portion:		
Senior debt, net of discounts	116,603	87,771
Convertible debt, net of discounts	15,035	14,614
Revolving credit facilities	7,064	1,308
Other debt	12,880	1,400
Derivative liability	1,127	1,889
Other liabilities	1,729	2,437
Deferred tax liability	87	86
Total liabilities	193,994	143,588
Commitments and contingencies (Note 14)		

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Stockholders' equity:

Preferred stock, no par value; 1,000 shares authorized; no shares issued or outstanding

Common stock and additional paid-in capital, no par value; 29,000 shares authorized; 13,697 and 12,193 shares issued and outstanding

	39,647	35,047
Accumulated deficit	(18,240)	(18,713)
Total stockholders' equity	21,407	16,334
Noncontrolling interest in subsidiaries	(1,492)	(841)
Total equity	19,915	15,493
Total liabilities and stockholders' equity	\$ 213,909	\$ 159,081

See notes to consolidated financial statements

Table of Contents**ADCARE HEALTH SYSTEMS, INC. AND SUBSIDIARIES**

CONSOLIDATED STATEMENTS OF OPERATIONS

(Amounts in 000s, except per share data)

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Revenues:				
Patient care revenues	\$ 54,642	\$ 33,872	\$ 104,450	\$ 64,404
Management revenues	363	484	726	982
Total revenues	55,005	34,356	105,176	65,386
Expenses:				
Cost of services (exclusive of facility rent, depreciation and amortization)	42,227	27,104	82,350	52,279
General and administrative	4,929	3,167	8,860	6,091
Facility rent expense	2,050	1,947	4,115	3,850
Depreciation and amortization	1,761	705	3,258	1,352
Salary retirement and continuation costs		622		622
Total expenses	50,967	33,545	98,583	64,194
Income from Operations	4,038	811	6,593	1,192
Other Income (Expense):				
Interest expense, net	(3,366)	(1,852)	(6,320)	(3,288)
Acquisition costs, net of gains	(524)	(622)	(817)	357
Derivative gain (loss)	353	(2,588)	763	(3,938)
Loss on extinguishment of debt		(77)		(77)
Other income (expense)	(13)	(19)	(29)	587
Total other expense, net	(3,550)	(5,158)	(6,403)	(6,359)
Income (Loss) from Continuing Operations Before Income Taxes	488	(4,347)	190	(5,167)
Income Tax Expense	(45)	(124)	(99)	(210)
Income (Loss) from Continuing Operations	443	(4,471)	91	(5,377)
Loss from discontinued operations	(160)	(91)	(269)	(126)
Net Income (Loss)	283	(4,562)	(178)	(5,503)
Net Loss Attributable to Noncontrolling Interests	396	165	651	341
Net Income (Loss) Attributable to AdCare Health Systems	\$ 679	\$ (4,397)	\$ 473	\$ (5,162)
Net Income (Loss) per Common Share Basic:				
Continuing Operations	\$ 0.06	\$ (0.49)	\$ 0.06	\$ (0.58)
Discontinued Operations	(0.01)	(0.01)	(0.02)	(0.01)
	\$ 0.05	\$ (0.50)	\$ 0.04	\$ (0.59)
Net Income (Loss) per Common Share Diluted:				
Continuing Operations	\$ 0.06	\$ (0.49)	\$ 0.06	\$ (0.58)
Discontinued Operations	(0.01)	(0.01)	(0.02)	(0.01)
	\$ 0.05	\$ (0.50)	\$ 0.04	\$ (0.59)

See notes to consolidated financial statements

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CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

(Amounts in 000s)

(Unaudited)

	Common Stock Shares		Common Stock and Additional Paid-in Capital		Accumulated Deficit		Noncontrolling Interests		Total
Balance, January 1, 2012	12,193	\$	35,047	\$	(18,713)	\$	(841)	\$	15,493
Nonemployee warrants for services			390						390
Stock based compensation expense			347						347
Public stock offering, net	1,165		3,768						3,768
Exercises of options and warrants	69		95						95
Issuance of restricted stock	270								
Net income (loss)					473		(651)		(178)
Balance, June 30, 2012	13,697	\$	39,647	\$	(18,240)	\$	(1,492)	\$	19,915

See notes to consolidated financial statements

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CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in 000s)

(Unaudited)

	Six Months Ended June 30,	
	2012	2011
Cash flows from operating activities:		
Net Loss	\$ (178)	\$ (5,503)
Net Loss from discontinued operations	269	126
Net Income (loss) from continuing operations	91	(5,377)
Adjustments to reconcile net income (loss) from continuing operations to net cash provided by operating activities:		
Depreciation and amortization	3,258	1,352
Warrants issued for services		297
Stock based compensation expense	347	467
Provision for leases in excess of cash	291	379
Amortization of deferred financing costs	975	407
Amortization of debt discounts	429	445
Derivative (gain) loss	(763)	3,938
Loss on debt extinguishment		77
Deferred tax expense	1	95
(Gain) loss on disposal of assets	(2)	126
Gain on acquisitions		(1,104)
Provision for bad debts	1,233	351
Other noncash items	29	45
Changes in certain assets and liabilities, net of acquisitions:		
Accounts receivable	(9,306)	(3,538)
Prepaid expenses and other	(4)	278
Other assets	50	(29)
Accounts payable and accrued expenses	5,081	3,010
Net cash provided by operating activities continuing operations	1,710	1,219
Net cash (used in) provided by operating activities discontinued operations	(426)	14
Net cash provided by operating activities	1,284	1,233
Cash flows from investing activities:		
Proceeds from property and equipment	3	
Change in restricted cash and investments	(485)	(110)
Acquisitions	(8,849)	(5,793)
Purchase of property and equipment	(2,569)	(1,943)
Net cash used in investing activities	(11,900)	(7,846)
Cash flows from financing activities:		
Proceeds from debt	11,515	4,830
Debt issuance costs	(205)	(175)
Change in line of credit	312	4,287
Exercise of warrants and options	95	219
Proceeds from stock issuances, net	3,768	
Repayment of notes payable	(2,763)	(709)
Net cash provided by financing activities continuing operations	12,722	8,452
Net cash used in financing activities discontinued operations	(97)	(89)

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Net cash provided by financing activities	12,625	8,363
Net Change in Cash	2,009	1,750
Cash, Beginning	7,364	3,911
Cash, Ending	\$ 9,373	\$ 5,661
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the period for:		
Interest	\$ 4,630	\$ 2,438
Income Taxes	\$ 46	\$
Supplemental Disclosure of Non-cash Activities:		
Acquisitions in exchange for debt and equity instruments	\$ 32,720	\$ 17,384
Warrants issued for financings costs	\$ 390	\$ 330
Other assets acquired in exchange for debt	\$ 3,490	\$ 3,427

See notes to consolidated financial statements.

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ADCARE HEALTH SYSTEMS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(Unaudited)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The consolidated financial statements are presented in accordance with accounting principles generally accepted in the United States. These statements include the accounts of AdCare Health Systems, Inc. (AdCare) and its controlled subsidiaries (collectively with AdCare, the Company or we). Controlled subsidiaries include AdCare s majority owned subsidiaries and variable interest entities (VIE) in which AdCare has control as primary beneficiary. A primary beneficiary is the party in a VIE that has both of the following characteristics: (a.) The power to direct the activities of the VIE that most significantly impact the VIE s economic performance and (b.) The obligation to absorb losses of the VIE that could potentially be significant to the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE.

The Company delivers skilled nursing, assisted living and home health services through wholly owned separate operating subsidiaries. All inter-company accounts and transactions were eliminated in the consolidation. The accompanying unaudited consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Rule 8-03 of Regulation S-X. Accordingly, they do not include all of the information and notes required for complete annual financial statements and should be read in conjunction with the Company s audited consolidated financial statements and notes included in the Company s Annual Report on Form 10-K for the year ended December 31, 2011 (the Annual Report). In the opinion of the Company s management, all adjustments considered for a fair presentation are included and are of a normal recurring nature. Operating results for the three and six months ended June 30, 2012 are not necessarily indicative of the results that may be expected for the year ending December 31, 2012. Certain prior year amounts have been reclassified to conform to the current year presentation.

Earnings per Share

Basic earnings per share is computed by dividing net income or loss by the weighted-average number of common shares outstanding during the period. Diluted earnings per share is similar to basic earnings per share except net income or loss is adjusted by the impact of the assumed issuance of common shares upon conversion or exercise of convertible securities and the weighted-average number of common shares outstanding includes potentially dilutive securities, such as options, warrants, non-vested shares, and additional shares issuable under convertible notes outstanding during the period when such potentially dilutive securities are not anti-dilutive. Potentially dilutive securities from options, warrants and non-vested shares are calculated in accordance with the treasury stock method, which assumes that proceeds from the exercise of all options and warrants with exercise prices exceeding the average market value are used to repurchase common stock at market value. The incremental shares remaining after the proceeds are exhausted represent the potentially dilutive effect of the securities. Potentially dilutive securities from convertible debt are calculated based on the assumed issuance at the beginning of the period, as well as any adjustment to income that would result from their assumed issuance.

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(Amounts in 000s, except per share data)	Three Months Ended June 30,					
	Income (loss)	2012 Shares (1)	Per Share	Income (loss)	2011 Shares (1)	Per Share
Continuing Operations:						
Income (loss) from continuing operations	\$ 443			\$ (4,471)		
Net loss attributable to noncontrolling interests	396			165		
Basic income (loss) from continuing operations	\$ 839	13,467	\$ 0.06	\$ (4,306)	8,847	\$ (0.49)
Effect from options, warrants and non-vested shares		447				
Effect from assumed issuance of convertible shares (2)						