

REGIONAL HEALTH PROPERTIES, INC
Form 10-Q
November 14, 2018

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 September 30, 2018

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

Regional Health Properties, Inc.

(Exact name of registrant as specified in its charter)

Georgia	81-5166048
(State or other jurisdiction of incorporation)	(I.R.S. Employer Identification Number)

454 Satellite Boulevard NW, Suite 100, Suwanee, GA 30024

(Address of principal executive offices)

(678) 869-5116

(Registrant's telephone number, including area code)

Edgar Filing: REGIONAL HEALTH PROPERTIES, INC - Form 10-Q

(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 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 such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See definition of “large accelerated filer”, “accelerated filer”, “smaller reporting company” and “emerging growth company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Non-accelerated filer

Accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. Yes No

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 October 31, 2018: 20,187,240 shares of common stock, no par value, were outstanding.

Regional Health Properties, Inc.

Form 10-Q

Table of Contents

	Page Number
Part I. <u>FINANCIAL INFORMATION</u>	
Item 1. <u>Financial Statements (unaudited)</u>	3
<u>Consolidated Balance Sheets as of September 30, 2018 and December 31, 2017</u>	3
<u>Consolidated Statements of Operations for the three and nine months ended September 30, 2018 and 2017</u>	4
<u>Consolidated Statement of Stockholders' Equity for the nine months ended September 30, 2018</u>	5
<u>Consolidated Statements of Cash Flows for the nine months ended September 30, 2018 and 2017</u>	6
<u>Notes to Consolidated Financial Statements</u>	8
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	34
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	45
Item 4. <u>Controls and Procedures</u>	45
Part II. <u>OTHER INFORMATION</u>	
Item 1. <u>Legal Proceedings</u>	47
Item 1A. <u>Risk Factors</u>	48
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	51
Item 3. <u>Defaults upon Senior Securities</u>	51
Item 4. <u>Mine Safety Disclosures</u>	51
Item 5. <u>Other Information</u>	51
Item 6. <u>Exhibits</u>	52
<u>Signatures</u>	55

Part I. Financial Information

Item 1. Financial Statements

REGIONAL HEALTH PROPERTIES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(Amounts in 000's)

(Unaudited)

	September 30,	December 31,
	2018	2017
ASSETS		
Current assets:		
Cash	\$ 1,884	\$ 1,818
Restricted cash	1,109	960
Accounts receivable, net of allowance of \$1,414 and \$2,570	887	945
Prepaid expenses and other	263	304
Notes receivable	829	677
Total current assets	4,972	4,704
Restricted cash	2,630	2,581
Property and equipment, net	78,574	81,213
Intangible assets - bed licenses	2,471	2,471
Intangible assets - lease rights, net	1,586	2,187
Goodwill	2,105	2,105
Lease deposits and other deposits	936	808
Straight-line rent receivable	6,632	6,400
Notes receivable	1,361	3,540
Other assets	71	542
Total assets	\$ 101,338	\$ 106,551
LIABILITIES AND EQUITY		
Current liabilities:		
Current portion of notes payable and other debt	\$ 25,744	\$ 6,621
Current portion of convertible debt, net	—	1,469
Accounts payable	4,502	4,386
Accrued expenses and other	4,220	7,022
Total current liabilities	34,466	19,498
Notes payable and other debt, net of current portion:		
Senior debt, net	48,645	57,801
Bonds, net	6,519	6,567
Other debt, net	—	644
Other liabilities	3,927	4,133
Deferred tax liabilities	38	38
Total liabilities	93,595	88,681

Commitments and contingencies (Note 13)

Stockholders' equity:

Common stock and additional paid-in capital, no par value; 55,000 shares

authorized; 20,187 and 19,697 issued and outstanding at September 30,

2018 and December 31, 2017, respectively	61,850	61,724
--	--------	--------

Preferred stock, no par value; 5,000 shares authorized; 2,812 and 2,812

shares issued and outstanding, redemption amount \$70,288 and \$70,288 at

September 30, 2018 and December 31, 2017, respectively	62,423	62,423
--	--------	--------

Accumulated deficit	(116,530)	(106,277)
---------------------	------------	------------

Total stockholders' equity	7,743	17,870
----------------------------	-------	--------

Total liabilities and stockholders' equity	\$ 101,338	\$ 106,551
--	------------	------------

See accompanying notes to unaudited consolidated financial statements

REGIONAL HEALTH PROPERTIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(Amounts in 000's, except per share data)

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Revenues:				
Rental revenues	\$4,972	\$5,983	\$15,706	\$17,703
Management fees	235	229	703	688
Other revenues	49	133	148	393
Total revenues	5,256	6,345	16,557	18,784
Expenses:				
Facility rent expense	2,171	2,171	6,512	6,512
Cost of management fees	137	155	448	499
Depreciation and amortization	1,126	1,193	3,507	3,499
General and administrative expense	984	908	2,751	3,008
Provision for doubtful accounts	(48)	—	3,934	455
Other operating expenses	255	517	823	940
Total expenses	4,625	4,944	17,975	14,913
Income (loss) from operations	631	1,401	(1,418)	3,871
Other expense:				
Interest expense, net	1,783	1,011	4,595	3,049
Loss on extinguishment of debt	3,514	—	3,955	63
Other expense	—	105	10	388
Total other expense, net	5,297	1,116	8,560	3,500
(Loss) income from continuing operations before income taxes	(4,666)	285	(9,978)	371
Income tax expense	—	19	33	20
(Loss) income from continuing operations	\$(4,666)	\$266	\$(10,011)	\$351
Income (loss) from discontinued operations, net of tax	157	(1,032)	(242)	(2,049)
Net Loss	(4,509)	(766)	(10,253)	(1,698)
Preferred stock dividends - declared	—	(1,912)	—	(5,702)
Preferred stock dividends - undeclared	(1,912)	—	(5,736)	—
Net loss attributable to Regional Health Properties, Inc.				
common stockholders	\$(6,421)	\$(2,678)	\$(15,989)	\$(7,400)
Net loss (income) per share of common stock attributable to Regional Health Properties, Inc.				
Basic and diluted:				
Continuing operations	\$(0.33)	\$(0.08)	\$(0.79)	\$(0.27)
Discontinued operations	0.01	(0.05)	(0.01)	(0.10)
	\$(0.32)	\$(0.13)	\$(0.80)	\$(0.37)

Weighted average shares of common stock outstanding:

Basic and diluted	20,187	19,762	19,914	19,784
-------------------	--------	--------	--------	--------

See accompanying notes to unaudited consolidated financial statements

REGIONAL HEALTH PROPERTIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

(Amounts in 000's)

(Unaudited)

	Common Stock and					
	Shares of	Shares of	Additional			
	Common	Preferred	Paid-in	Preferred	Accumulated	Total
	Stock	Stock	Capital	Stock	Deficit	Total
Balances, December 31, 2017	19,697	2,812	\$ 61,724	\$ 62,423	\$ (106,277)	\$ 17,870
Stock-based compensation	—	—	126	—	—	126
Issuance of restricted stock, net of forfeitures	490	—	—	—	—	—
Net loss	—	—	—	—	(10,253)	(10,253)
Balances, September 30, 2018	20,187	2,812	\$ 61,850	\$ 62,423	\$ (116,530)	\$ 7,743

See accompanying notes to unaudited consolidated financial statements

REGIONAL HEALTH PROPERTIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in 000's)

(Unaudited)

	Nine Months Ended September 30,	
	2018	2017
Cash flows from operating activities:		
Net loss	\$(10,253)	\$(1,698)
Loss from discontinued operations, net of tax	242	2,049
(Loss) income from continuing operations	(10,011)	351
Adjustments to reconcile net (loss) income from continuing operations to net cash provided by operating activities:		
Depreciation and amortization	3,507	3,499
Settlement agreements in excess of cash paid		300
Stock-based compensation expense	126	281
Rent expense in excess of cash paid	301	440
Rent revenue in excess of cash received	(1,784)	(2,138)
Amortization of deferred financing costs, debt discounts and premiums	698	241
Loss on debt extinguishment	3,955	—
Bad debt expense	3,934	455
Changes in operating assets and liabilities:		
Accounts receivable	(349)	409
Prepaid expenses and other	239	202
Other assets	35	(16)
Accounts payable, and accrued expenses and other	663	324
Other liabilities	7	167
Net cash provided by operating activities - continuing operations	1,321	4,515
Net cash used in operating activities - discontinued operations	(1,264)	(961)
Net cash provided by operating activities	57	3,554
Cash flows from investing activities:		
Change in net cash investments	—	(35)
Purchase of real estate, net	—	(1,375)
Purchase of property and equipment	(266)	(774)
Net cash used in investing activities - continuing operations	(266)	(2,184)
Net cash used in investing activities	(266)	(2,184)
Cash flows from financing activities:		
Proceeds from debt issuance	2,397	—
Repayment on notes payable	(1,546)	(3,038)
Repayment on bonds payable	(95)	(90)
Repayment of convertible debt	—	(7,700)
Debt issuance costs	(95)	—

Edgar Filing: REGIONAL HEALTH PROPERTIES, INC - Form 10-Q

Proceeds from preferred stock issuances, net	—	977
Repurchase of common stock	—	(186)
Dividends paid on preferred stock	—	(5,702)
Net cash provided by (used in) financing activities - continuing operations	661	(15,739)
Net cash used in financing activities - discontinued operations	(188)	(485)
Net cash provided by (used in) financing activities	473	(16,224)
Net change in cash and restricted cash	264	(14,854)
Cash and restricted cash, beginning	5,359	19,509
Cash and restricted cash, ending	\$5,623	\$4,655

6

REGIONAL HEALTH PROPERTIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in 000's)

(Unaudited)

	Nine Months Ended September 30,	
	2018	2017
Supplemental disclosure of cash flow information:		
Interest paid	\$3,775	\$2,840
Income taxes paid	\$33	\$13
Supplemental disclosure of non-cash activities:		
Non-cash payments of long-term debt	\$(8,744)	\$—
Non-cash payments of convertible debt	(1,500)	—
Non-cash payments of professional liability settlements from financing	(2,371)	—
Non-cash debt issuance costs and prepayment penalties	(1,238)	—
Non-cash payments of professional liability settlements from prior insurer	(2,850)	—
Net payments through escrow	\$(16,703)	\$—
Non-cash proceeds from financing	13,853	—
Non-cash proceeds from prior insurer for professional liability settlements	2,850	—
Net proceeds through escrow	\$16,703	\$—
Non-cash proceeds from debt to purchase real estate	\$—	\$4,125
Non-cash deferred financing	\$3,352	\$—
Surrender of security deposit	\$305	\$500
Non-cash proceeds from vendor-financed insurance	\$198	\$198
Settlement agreements in excess of cash paid	\$—	\$300
Non-cash proceeds from financing of South Carolina Medicaid audit repayment	\$—	\$385

See accompanying notes to unaudited consolidated financial statements

REGIONAL HEALTH PROPERTIES, INC. AND SUBSIDIARIES

Notes to Unaudited Consolidated Financial Statements

September 30, 2018

NOTE 1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Description of Business

AdCare Health Systems, Inc. (“AdCare”) is the former parent of, and the predecessor issuer to, Regional Health Properties, Inc. (“Regional Health” and, together with its subsidiaries, the “Company” or “we”). On September 29, 2017, AdCare merged (the “Merger”) with and into Regional Health, a Georgia corporation and wholly owned subsidiary of AdCare formed for the purpose of the Merger, with Regional Health continuing as the surviving corporation in the Merger. The Company now has many of the characteristics of a real estate investment trust (“REIT”) and is focused on the ownership, acquisition and leasing of healthcare related properties. For a description of the Merger, see Part II, Item 8, Financial Statements and Supplemental Data, Note 1 – Summary of Significant Accounting Policies included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2017, filed with the Securities and Exchange Commission (“SEC”) on April 16, 2018 (the “Annual Report”).

The Company is a self-managed real estate investment company that invests primarily in real estate purposed for long-term care and senior living. The Company’s business primarily consists of leasing and subleasing healthcare facilities to third-party tenants, which operate the facilities. The operators of the Company’s facilities provide a range of healthcare services, including skilled nursing and assisted living services, social services, various therapy services, and other rehabilitative and healthcare services for both long-term and short-stay patients and residents.

As of September 30, 2018, the Company owned, leased, or managed for third parties 30 facilities, primarily in the Southeast United States. Of the 30 facilities, the Company: (i) leased 14 owned facilities and subleased 11 leased skilled nursing facilities to third-party tenants; (ii) leased two owned assisted living facilities to third-party tenants; and (iii) managed on behalf of third-party owners two skilled nursing facilities and one independent living facility (see Note 7 – Leases and Part II, Item 8, Financial Statements and Supplemental Data, Note 7 – Leases in the Annual Report for a more detailed description of the Company’s leases).

The Company leases its currently-owned healthcare properties, and subleases its currently-leased healthcare properties, on a triple-net basis, meaning that the lessee (i.e., the third-party operator of the property) is obligated under the lease or sublease, as applicable, for all costs of operating the property, including insurance, taxes and facility maintenance, as well as the lease or sublease payments, as applicable. These leases are generally long-term in nature with renewal options and annual rent escalation clauses.

When used in this Quarterly Report on Form 10-Q (this “Quarterly Report”), unless otherwise specifically stated or the context otherwise requires, the terms:

- “Board” refers to the Board of Directors of AdCare with respect to the period prior to the Merger and to the Board of Directors of Regional Health with respect to the period after the Merger;
- “common stock” refers to AdCare’s common stock with respect to the period prior to the Merger and to Regional Health’s common stock with respect to the period after the Merger; and
- “Series A Preferred Stock” refers to AdCare’s 10.875% Series A Cumulative Redeemable Preferred Stock with respect to the period prior to the Merger and to Regional Health’s 10.875% Series A Cumulative Redeemable Preferred Stock with respect to the period after the Merger.

Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) for interim financial information and with the instructions to Form 10-Q and Rule 8-03 of Article 8 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation of the results of operations for the periods presented have been included. Operating results for the three and nine months ended September 30, 2018 and 2017 are not necessarily indicative of the results that may be expected for the fiscal year. The balance sheet at December 31, 2017 has been derived from the audited consolidated financial statements at that date, but does not include all of the information and footnotes required by GAAP for complete financial statements.

You should read the unaudited consolidated financial statements in this Quarterly Report together with the historical audited consolidated financial statements of the Company for the year ended December 31, 2017, included in the Annual Report. See Part II, Item 8, Financial Statements and Supplementary Data, Note 1 – Summary of Significant Accounting Policies included in the Annual Report, for a description of all significant accounting policies. During the three and nine months ended September 30, 2018, there were no material changes to the Company's policies, except as noted below in Recently Adopted Standards.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the unaudited consolidated financial statements and accompanying notes. Actual results could differ materially from those estimates.

Revenue Recognition and Allowances

Triple-Net Leased Properties. The Company's triple-net leases provide for periodic and determinable increases in rent. The Company recognizes rental revenues under these leases on a straight-line basis over the applicable lease term when collectability is probable. Recognizing rental income on a straight-line basis generally results in recognized revenues during the first half of a lease term exceeding the cash amounts contractually due from our tenants, creating a straight-line rent receivable that is included in straight-line rent receivable on our consolidated balance sheets. In the event the Company cannot reasonably estimate the future collection of rent from one or more tenant(s) of the Company's facilities, rental income for the affected facilities will be recognized only upon cash collection, and any accumulated straight-line rent receivable will be reversed in the period in which the Company deems rent collection no longer probable. Rental revenues for five facilities located in Ohio and one facility in North Carolina are recorded on a cash basis (for additional information with respect to such facilities, see Note 7 – Leases).

Allowances. The Company assesses the collectability of its rent receivables, including straight-line rent receivables and working capital loans to tenants. The Company bases its assessment of the collectability of rent receivables and working capital loans to tenants on several factors, including payment history, the financial strength of the tenant and any guarantors, the value of the underlying collateral, and current economic conditions. If the Company's evaluation of these factors indicates it is probable that the Company will be unable to receive the rent payments or payments on a working capital loan, then the Company provides a reserve against the recognized straight-line rent receivable asset or working capital loan for the portion that we estimate may not be recovered. If the Company changes its assumptions or estimates regarding the collectability of future rent payments required by a lease or required from a working capital loan to a tenant, then the Company may adjust its reserve to increase or reduce the rental revenue or interest revenue from working capital loans to tenants recognized in the period the Company makes such change in its assumptions or estimates, see Note 7 – Leases).

As of September 30, 2018 and December 31, 2017, the Company reserved for approximately \$1.4 million and \$2.6 million, respectively, of gross patient care related receivables arising from its legacy operations. Allowances for patient care receivables are estimated based on an aged bucket method as well as additional analyses of remaining balances incorporating different payor types. Any changes in patient care receivable allowances are recognized as a component of discontinued operations. All uncollected patient care receivables were fully reserved at September 30, 2018 and December 31, 2017. Accounts receivable, net, totaled \$0.9 million at September 30, 2018 and \$0.9 million at December 31, 2017.

Extinguishment of Debt

The Company recognizes extinguishment of debt when the criteria for a troubled debt restructure are not met and the change in the debt terms is considered substantial. The Company calculates the difference between the reacquisition price of the debt and the net carrying amount of the extinguished debt (including deferred finance fees) and recognizes a gain or loss on the income statement of the period of extinguishment.

Pre-paid expenses and other

As of September 30, 2018 and December 31, 2017, the Company had \$0.3 million and \$0.3 million, respectively, in pre-paid expenses and other, primarily for directors' and officers' insurance and mortgage insurance premiums.

Self-Insurance

The Company has self-insured against professional and general liability claims since it discontinued its healthcare operations during 2014 and 2015 in connection with its transition from an owner and operator of healthcare properties to a healthcare property holding and leasing company (see Part II, Item 8, Financial Statements and Supplementary Data, Note 15 – Commitments and Contingencies in the Annual Report for more information). The Company evaluates quarterly the adequacy of its self-insurance reserve based on a number of factors, including: (i) the number of actions pending and the relief sought; (ii) analyses provided by defense counsel, medical experts or other information which comes to light during discovery; (iii) the legal fees and other expenses anticipated to be incurred in defending the actions; (iv) the status and likely success of any mediation or settlement discussions, including estimated settlement amounts and legal fees and other expenses anticipated to be incurred in such settlement, as applicable; and (v) the venues in which the actions have been filed or will be adjudicated. The Company believes that most of the professional and general liability actions are defensible and intends to defend them through final judgment unless settlement is more advantageous to the Company. Accordingly, the self-insurance reserve reflects the Company's estimate of settlement amounts for the pending actions, if applicable, and legal costs of settling or litigating the pending actions, as applicable. Because the self-insurance reserve is based on estimates, the amount of the self-insurance reserve may not be sufficient to cover the settlement amounts actually incurred in settling the pending actions, or the legal costs actually incurred in settling or litigating the pending actions. See Note 8 – Accrued Expenses and Other.

Other operating expenses and Other expense

Other operating expenses decreased by approximately \$0.2 million, or 50.7%, to \$0.3 million for the three months ended September 30, 2018, compared with \$0.5 million for the same period in 2017. The decrease is due to: (i) a \$0.3 million settlement expense related to Mr. McBride, the Company's former Chief Executive Officer and Chairman of the Board, in the prior year period; and (ii) \$0.1 million investigation expense related to an internal investigation in the prior year period, offset by: (i) \$0.1 million accrual for property taxes related to facilities whose rent payments are being recognized on a cash received basis; and (ii) approximately \$0.1 million increase in contract services.

Other expense decreased by \$0.1 million, or 100.0%, for the three months ended September 30, 2018, compared with \$0.1 million for the same period in 2017 and decreased by \$0.4 million, or 97.4%, for the nine months ended September 30, 2018, compared with \$0.4 million for the same period in 2017. The prior period charge was related to expenses for the Merger.

Reclassifications

Certain reclassifications have been made to the 2017 financial information to conform to the 2018 presentation with no effect on the Company's consolidated financial position or results of operations. These reclassifications did not affect total assets, total liabilities, or stockholders' equity. Reclassifications were made to the consolidated statements of operations for the three and nine months ended September 30, 2017 to conform the presentation of: (i) management fee revenues and its related expense, previously reported as general and administrative expense; and (ii) provision for doubtful accounts previously reported as Other operating expenses. Reclassifications were made to the consolidated statements of cash flows for the nine months ended September 30, 2017 to include restricted cash in cash and restricted cash at the beginning-of-period and end-of-period totals.

Recently Adopted Standards

On January 1, 2018, the Company adopted Accounting Standards Update (“ASU”) 2014-09, Revenue from Contracts with Customers, as codified in Accounting Standards Codification (“ASC”) 606, which requires a company to recognize revenue when the company transfers control of promised goods and services to a customer. Revenue is recognized in an amount that reflects the consideration to which a company expects to receive in exchange for such goods and services. The new revenue standard does not apply to rental revenues, which are the Company’s primary source of revenue. A company is also required to disclose sufficient quantitative and qualitative information for financial statement users to understand the nature, amount, timing and uncertainty of revenue and associated cash flows arising from contracts with customers. The Financial Accounting Standards Board (“FASB”) has issued several amendments to the standards, which are intended to promote a more consistent interpretation and application of the principals outlined in the standard. The new revenue standard is effective for annual reporting periods beginning after December 15, 2017, including interim periods within those reporting periods.

The Company has one contract (the “Management Contract”) to manage two skilled nursing facilities and one independent living facility for a third party, with payment for each month of service received in full on a monthly basis.

Companies are permitted to adopt the standard using a retrospective transition method (i.e., restate all prior periods presented) or a cumulative effect method (i.e., recognize the cumulative effect of initially applying the guidance at the date of initial application with no restatement of prior periods). However, both methods allow companies to elect certain practical expedients on transition that will help to simplify how a company restates its contracts. The Company adopted the standard using the cumulative effect method. As a result of the adoption of this guidance, for the three and nine months ended September 30, 2017, the Company reclassified expenses related to the Management Contract from General and administrative expense to Cost of management fees on the consolidated statements of operations.

In August 2016, the FASB issued ASU 2016-15, Classification of Certain Cash Receipts and Cash Payments, which clarifies the treatment of several cash flow categories. In addition, the guidance clarifies that when cash receipts and cash payments have aspects of more than one class of cash flows and cannot be separated, classification will depend on the predominant source or use. This update is effective for annual periods beginning after December 15, 2017, and interim periods within those fiscal years. The Company adopted the guidance for the three and nine month period ending September 30, 2018 with an effective date of January 1, 2018. The adoption of ASU 2016-15 did not have a material effect on the Company's consolidated financial statements.

In November 2016, the FASB issued ASU 2016-18, Restricted Cash, which requires that the statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash. Therefore, amounts generally described as restricted cash will be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. ASU 2016-18 is effective for annual and interim periods beginning after December 15, 2017 and early adoption is permitted using a retrospective transition method to each period presented. The Company adopted the guidance with an effective date of January 1, 2018. Given this change, transfers between cash and restricted cash are no longer reported as cash flow activities on the statement of cash flows and hence reclassifications were made to the consolidated statements of cash flows for the three and nine months ended September 30, 2017 to include restricted cash in cash and restricted cash at the beginning-of-period and end-of-period totals.

Recent Significant Accounting Pronouncements

In February 2016, the FASB issued ASU 2016-02, Leases, which introduces a lessee model that brings most leases on the balance sheet and, among other changes, eliminates the requirement in current GAAP for an entity to use bright-line tests in determining lease classification. In July 2018, the FASB issued ASU 2018-11, Leases (Topic 842) Targeted Improvements, which amends ASU 2016-02, to provide: (i) entities with an additional (and optional) transition method to adopt the new leases standard; and (ii) lessors with a practical expedient option, by class of underlying assets, to not separate non-lease components from the related lease components and, instead, to account for those components as a single lease component, if certain criteria are met. ASU 2016-02 and ASU 2018-11 are not effective for the Company until January 1, 2019, with early adoption permitted. Entities currently are required to adopt the new leases standard using either: (i) a modified retrospective transition method, where an entity initially applies the new leases standard (subject to specific transition requirements and optional practical expedients) at the beginning of the earliest period presented in the financial statements; or (ii) to initially apply the new leases standard at the adoption date and recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. The Company is evaluating this guidance and the impact to the Company, as both lessor and lessee, on its consolidated financial condition, results of operations and cash flows.

See Part II, Item 8, Financial Statements and Supplementary Data, Note 1 – Summary of Significant Accounting Policies included in the Annual Report, for a description of the other accounting pronouncements the Company is currently evaluating.

NOTE 2. EARNINGS PER SHARE

Basic earnings per share is computed by dividing net income or loss attributable to common stockholders by the weighted-average number of shares of common stock outstanding during the respective period. Diluted earnings per share is similar to basic earnings per share except: (i) net income or loss is adjusted by the impact of the assumed conversion of convertible debt into shares of common stock; and (ii) the weighted-average number of shares of common stock outstanding includes potentially dilutive securities (such as options, warrants, non-vested common stock and additional shares of common stock issuable under convertible debt outstanding during the period) when such securities are not anti-dilutive. Potentially dilutive securities from options, warrants and unvested restricted 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. For the three and nine months ended September 30, 2018 and 2017, approximately 1.2 million and 2.4 million shares, respectively, of potentially dilutive securities were excluded from the diluted loss per share calculation because including them would have been anti-dilutive for such periods.

The following tables provide a reconciliation of net income (loss) for continuing and discontinued operations and the number of shares of common stock used in the computation of both basic and diluted earnings per share:

(Amounts in 000's, except per share data)	Three Months		Nine Months	
	Ended September 30, 2018	2017	Ended September 30, 2018	2017
Numerator:				
(Loss) income from continuing operations	\$ (4,666)	\$ 266	\$ (10,011)	\$ 351
Preferred stock dividends - declared	—	(1,912)	—	(5,702)
Preferred stock dividends - undeclared ⁽¹⁾	(1,912)	—	(5,736)	—
Basic and diluted loss from continuing operations	(6,578)	(1,646)	(15,747)	(5,351)
Income (loss) from discontinued operations, net of tax	157	(1,032)	(242)	(2,049)
Net loss attributable to Regional Health Properties, Inc.				
common stockholders	\$ (6,421)	\$ (2,678)	\$ (15,989)	\$ (7,400)
Denominator:				
Basic - weighted average shares	20,187	19,762	19,914	19,784
Diluted - adjusted weighted average shares ⁽²⁾	20,187	19,762	19,914	19,784
Basic and diluted loss per share:				
Loss from continuing operations attributable to Regional				
Health	\$ (0.33)	\$ (0.08)	\$ (0.79)	\$ (0.27)
Income (loss) from discontinued operations	0.01	(0.05)	(0.01)	(0.10)
Loss attributable to Regional Health Properties, Inc.				
common stockholders	\$ (0.32)	\$ (0.13)	\$ (0.80)	\$ (0.37)

(1) The Board suspended dividend payments with respect to the Series A Preferred Stock for the fourth quarter 2017, the first, second and third quarter 2018. On June 8, 2018, the Board determined to continue suspension of the payment of the quarterly dividend indefinitely.

(2) Securities outstanding that were excluded from the computation, because they would have been anti-dilutive were as follows:

(Share amounts in 000's)	September 30,	
	2018	2017
Stock options	181	245
Warrants - employee	582	1,350
Warrants - non employee	437	437
Shares issuable upon conversion of convertible debt	—	353
Total anti-dilutive securities	1,200	2,385

NOTE 3. LIQUIDITY

The Company plans to undertake measures to grow its operations, streamline its cost infrastructure and otherwise increase liquidity by: (i) replacing certain tenants who are in default of their lease payment terms; (ii) increasing future lease revenue through acquisitions and investments in existing properties; (iii) modifying the terms of existing leases; (iv) refinancing or repaying debt classified as current and longer term debt to reduce interest costs and mandatory principal repayments; and (v) reducing general and administrative expenses.

Management anticipates access to several sources of liquidity, including cash on hand, cash flows from operations (assuming that new tenants, for five of the Company's facilities located in Ohio, are in place by December 31, 2018), and debt refinancing during the twelve months from the date of this filing. At September 30, 2018, the Company had \$1.9 million in unrestricted cash. During the nine months ended September 30, 2018, the Company generated positive cash flow from continuing operations of \$1.3 million and anticipates continued positive cash flow from operations in the future.

On June 8, 2018, the Board indefinitely suspended dividend payments with respect to the Series A Preferred Stock. Such dividends are currently in arrears for the fourth quarter 2017 and the first, second and third quarter 2018 dividend periods. The Board plans to revisit the dividend payment policy with respect to the Series A Preferred Stock on an ongoing basis. The Board believes that the dividend suspension will provide the Company with additional funds to meet its ongoing liquidity needs.

As of September 30, 2018, the Company had total current liabilities of \$34.5 million and total current assets of \$5.0 million, resulting in a working capital deficit of approximately \$29.5 million. Included in current liabilities at September 30, 2018 is the \$25.7 million current portion of the Company's \$80.9 million in indebtedness. The current portion of such indebtedness is comprised of approximately: (i) \$19.3 million of long term-debt (including a \$0.5 million "tail fee") under the Pinecone Credit Facility (as defined below), net of \$0.1 associated deferred financing costs, classified as current due to the Company's short-term forbearance agreement pursuant to noncompliance with certain covenants under the Pinecone Credit Facility and the lender's ability to exercise default-related rights and remedies, including the acceleration of the maturity of such debt (as discussed below in this note); (ii) \$4.1 million of senior debt associated with one facility in Oklahoma as described below maturing in April 2019, which we intend to seek to refinance as described below; (iii) \$1.4 million of mortgage indebtedness included in the Company's senior guaranteed debt; and (iv) other mortgage indebtedness of approximately \$0.9 million. The Company anticipates net principal repayments of approximately \$2.4 million (excluding the potential acceleration of the \$19.3 million debt under the Pinecone Credit Facility and the \$4.1 million associated with one facility located in Oklahoma maturing in April 2019) during the next twelve-month period and approximately \$0.8 million of payments on other non-routine debt.

The Company intends to seek to refinance the Company's credit facility with Housing & Healthcare Finance, LLC (the "Quail Creek Credit Facility"), which is secured by a first mortgage on the real property and improvements constituting the Nursing & Rehabilitation Center located in Oklahoma City, Oklahoma and currently has a maturity date of April 30, 2019. There is no assurance that the Company will be able to do so on terms that are favorable to the Company or at all.

On February 15, 2018, (the "Closing Date") the Company entered into a debt refinancing ("Pinecone Credit Facility") with Pinecone Realty Partners II, LLC ("Pinecone"), with an aggregate principal amount of \$16.25 million, which refinanced existing mortgage debt in an aggregate amount of \$8.7 million on three skilled nursing properties known as Attalla, College Park and Northwest (the "Facilities"), and provided additional surplus cash flow of \$6.3 million for general corporate needs (see Note 9 – Notes Payable and Other Debt). Regional Health is a guarantor of the Pinecone Credit Facility. Certain of the notes under the Pinecone Credit Facility are also guaranteed by certain wholly-owned subsidiaries of Regional Health. The surplus cash flow from the Pinecone Credit Facility was used to fund \$2.4 million of self-insurance reserves for professional and general liability claims with respect to 25 professional and general liability actions, and to fund repayment of \$1.5 million in convertible debt. The remaining \$2.4 million in surplus cash proceeds from the Pinecone Credit Facility is used for general corporate purposes.

On May 10, 2018, Pinecone notified the Company in writing (the "Default Letter") that the Company was in default under certain financial covenants of the loan documents evidencing the Pinecone Credit Facility (the "Pinecone Loan Documents"). On May 18, 2018, the Company and certain of its subsidiaries entered into a Forbearance Agreement with Pinecone with respect to the specified events of default set forth therein (the "Original Forbearance Agreement"), pursuant to which, among other things, additional fees in the amount of \$0.4 million were added to the outstanding principal balance under the Pinecone Credit Facility. The forbearance period under the Original Forbearance Agreement terminated on July 6, 2018 because the Company did not satisfy conditions in the Original Forbearance Agreement that required the Company to enter into an agreement with Pinecone to support a transaction or series of transactions to remedy the defaults specified in the Default Letter and the Original Forbearance Agreement.

On September 6, 2018, the Company and certain of its subsidiaries entered into a new Forbearance Agreement (the "New Forbearance Agreement") with Pinecone pursuant to which Pinecone agreed, subject to the terms and conditions set forth in the New Forbearance Agreement, to forbear for a specified period of time from exercising its default-related rights and remedies (including the acceleration of the outstanding loans and charging interest at the specified default rate) with respect to specified events of default (the "Specified Defaults") under the Pinecone Loan Documents.

The forbearance period under the New Forbearance Agreement is from September 6, 2018, the date on which certain conditions set forth in the New Forbearance Agreement were satisfied, to December 31, 2018, unless the forbearance period is earlier terminated as a result of specified termination events, including a default or event of default under the Pinecone Loan Documents (other than any Specified Defaults) or any failure by the Company or its subsidiaries to comply with the New Forbearance Agreement.

Pursuant to the New Forbearance Agreement, the Company and Pinecone agreed to amend certain provisions of the Pinecone Loan Documents. Such amendments, among other things: (i) remove the restriction on prepaying the loans during the thirteen (13) month-period after the Closing Date; (ii) provide a thirty (30)-day cure period for certain events of default and a fifteen (15)-day cure period for certain failures to provide information or materials pursuant to the Pinecone Loan Documents; (iii) increase the finance fee payable on repayment or acceleration of the loans, depending on the time at which the loans are repaid (\$0.25 million prior to December 31, 2018 and \$0.5 million thereafter); and (iv) increase the outstanding principal balance owed by (a) approximately \$0.7 million to reimburse Pinecone for its accrued and unpaid expenses and to pay outstanding interest payments for prior interest periods and (b) \$1.5 million fee described as a non-refundable payment of additional interest. During the forbearance period under the New Forbearance Agreement, the interest rate will revert from the default rate of 18.5% per annum to the ongoing rate of 13.5% per annum.

Upon the occurrence of an event of default (other than the Specified Defaults), or the expiration or termination of the forbearance period under the New Forbearance Agreement, Pinecone may declare the entire unpaid principal balance under the Pinecone Credit Facility, together with all accrued interest and other amounts payable to Pinecone thereunder, immediately due and payable. Subject to the terms of the Pinecone Loan Documents, Pinecone may foreclose on the collateral securing the Pinecone Credit Facility (the “Collateral”). The Collateral includes, among other things, the Facilities and all assets of the borrowers owning the Facilities, the leases associated with the Facilities and all revenue generated by the Facilities, and rights under a promissory note in the amount of \$5.2 million, issued by Regional Health pursuant to the Pinecone Credit Facility in favor of one of its subsidiaries, which subsidiary is a borrower and guarantor under the Pinecone Credit Facility.

In addition, the equity interests in substantially all of Regional Health’s direct and indirect, wholly-owned subsidiaries (the “Pledged Subsidiaries”) have been pledged to Pinecone as part of the Collateral. The assets and operations of the Pledged Subsidiaries constitute substantially all of the Company’s assets and operations. Upon the occurrence of an event of default (other than the Specified Defaults) or the expiration or termination of the forbearance period under the New Forbearance Agreement, Pinecone may, in addition to its other rights and remedies, remove any or all of the managers of the Pledged Subsidiaries and appoint its own representatives as managers of such Pledged Subsidiaries. If Pinecone elects to appoint its own representatives as managers of the Pledged Subsidiaries, then such managers would control such subsidiaries and their assets and operations and could potentially restrict or prevent such subsidiaries from paying dividends or distributions to Regional Health. As a holding company with no significant operations, Regional Health relies primarily on dividends and distributions from the Pledged Subsidiaries to meet its obligations and pay dividends on its capital stock (when and as declared by the Board.)

The Pinecone Loan Documents provide that Pinecone’s rights and remedies upon an event of default are cumulative, and that Pinecone may exercise (although it is not obligated to do so) all or any one or more of the rights and remedies available to it under the Pinecone Loan Documents or applicable law. The Company does not know which rights and remedies, if any, Pinecone may choose to exercise under the Pinecone Loan Documents upon the occurrence of an event of default (other than the Specified Defaults) or the expiration or termination of the forbearance period under the New Forbearance Agreement. If Pinecone elects to appoint its own representatives as managers of the Pledged Subsidiaries, to accelerate the indebtedness under the Pinecone Credit Facility, or to foreclose on significant assets of the Company (such as the Facilities and/or the equity interests in the Pledged Subsidiaries), then it will have a material adverse effect on the Company’s liquidity, cash flows, financial condition and results of operations, and the Company’s ability to continue operations will be materially jeopardized.

The current forbearance period under the New Forbearance Agreement expires on December 31, 2018, unless earlier terminated upon the occurrence of specified termination events under the New Forbearance Agreement. As of such date, Pinecone will no longer be required to forbear from exercising its default-related rights and remedies with respect to the Specified Defaults and may exercise all of its rights and remedies with respect to the Pinecone loan Documents at that time.

As of September 30, 2018, eight of the Company’s facilities were in arrears’ on their rent payments. Combined cash rental payments for all eight facilities total \$0.4 million per month, or approximately 21% of our anticipated total monthly rental receipts. As of September 30, 2018 the facilities in Ohio owe in aggregate approximately \$1.8 million and the Symmetry related facilities owe in aggregate approximately \$0.6 million. Five of these facilities located in Ohio and leased to affiliates of Beacon Health Management, LLC (“Beacon”) and the Company has issued default notices to the operators of such facilities. Of the remaining three facilities in arrears on their rental payments, one such facility is located in North Carolina and two such facilities are located in South Carolina and all three of such facilities are leased to affiliates of Symmetry Healthcare Management, LLC (“Symmetry”) (for additional information with

respect to such facilities, see Note 7 – Leases).

On September 20, 2018, the Company reached an agreement with Symmetry, pursuant to which Symmetry agreed to a payment plan for rent arrears and the Company agreed to an aggregate reduction of approximately \$0.6 million in annualized rent with respect to the three facilities leased to Symmetry and waived approximately \$0.2 million in rent that was in arrears with respect to such facilities, upon which Symmetry recommenced monthly rent payments with respect to such facilities of \$0.1 million in the aggregate, starting with the September 1, 2018 amounts due.

Management is currently in negotiations with the operators of the facilities located in Ohio to obtain payment of all unpaid rents and to implement plans to ensure the future payment of rent. Such plans may include replacing one or more of the current operators or negotiating a new agreement with one or more of the current operators to resume rent payments. If the Company agrees to additional or revised terms with any current operator, such terms may be less favorable to the Company than the terms provided in the current lease. Management believes that the Company will attain a resolution that allows for the resumption of rent at the remaining five facilities within a relatively short time frame. If the Company is unable to resume collection of rent with respect to the five facilities, it will hinder the Company's ability to meet its obligations arising within one year of the date of issuance of these consolidated financial statements.

On August 28, 2018, the Company received a deficiency letter (the “Letter”) from NYSE American LLC (“NYSE American” or the “Exchange”) stating that the Company is not in compliance with the continued listing standards as set forth in Section 1003(f)(v) of the NYSE American Company Guide (the “Company Guide”). Specifically, the Letter informed the Company that the Exchange has determined that shares of the Company’s securities have been selling for a low price per share for a substantial period of time and, pursuant to Section 1003(f)(v) of the Company Guide, the Company’s continued listing is predicated on the Company effecting a reverse stock split of the common stock or otherwise demonstrating sustained price improvement within a reasonable period of time, which the Exchange determined to be no later than February 27, 2019. As a result of such noncompliance, the Company has become subject to the procedures and requirements of Section 1009 of the Company Guide.

The Company intends to regain compliance with the continued listing standards set forth in the Company Guide by undertaking a measure or measures that are in the best interests of the Company and its shareholders. In connection with such efforts, the Company is submitting for approval at the Company’s 2018 annual meeting of shareholders a proposal to amend the Company’s Amended and Restated Articles of Incorporation to effect a reverse stock split of the common stock at a ratio of between one-for-six and one-for-twelve, as determined by the Board in its sole discretion. The common stock and Series A Preferred Stock will continue to be listed on the NYSE American while the Company seeks to regain compliance with the continued listing standard noted, subject to the Company’s compliance with other continued listing requirements. If the Company fails to demonstrate a sustained price improvement or effect a reverse stock split of its common stock by February 27, 2019, then the Exchange may commence delisting procedures. The Company does not expect the Letter to affect the Company’s business operations, or its reporting obligations under the Securities and Exchange Commission regulations and rules, however management’s ability to raise additional capital through the issuance of equity securities and the terms upon which we are able to raise such capital may be adversely affected if we are unable to maintain the listing of the common stock and the Series A Preferred Stock on the NYSE American.

Under the accounting guidance related to the presentation of financial statements, the Company is required to evaluate, on a quarterly basis, whether or not the entity’s current financial condition, including its sources of liquidity at the date that the consolidated financial statements are issued, will enable the entity to meet its obligations as they come due arising within one year of the date of the issuance of the Company’s consolidated financial statements and to make a determination as to whether or not it is probable, under the application of this accounting guidance, that the entity will be able to continue as a going concern. The Company’s consolidated financial statements have been presented on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business.

In applying applicable accounting guidance, management considered the Company’s current financial condition and liquidity sources, including current funds available, forecasted future cash flows, the Company’s obligations due over the next twelve months, the likelihood that the Company will be able to comply with the requirements in the Pinecone Loan Documents, including the New Forbearance Agreement, and Pinecone’s remedies in the event of non-compliance, as well as the Company’s recurring business operating expenses.

There is no assurance that the Company will be able to comply with all of the requirements under the Pinecone Loan Documents, including the New Forbearance Agreement. Such compliance depends, in part, on the Company’s ability to work with outside parties, which is not within the Company’s exclusive control. If the Company is unable to comply

with all the requirements under the Pinecone Loan Documents, including the New Forbearance Agreement, and Pinecone were to accelerate all obligations under the Pinecone Loan Documents or otherwise exercise its default-related rights or foreclose on the Collateral, then it would have a material adverse consequence on the Company's ability to meet its obligations arising within one year of the date of issuance of these consolidated financial statements.

The Company plans to continue to undertake measures to refinance certain loans, including the Pinecone Credit Facility, and to streamline its cost infrastructure. There is no assurance however, that these efforts will be successful. Due to the inherent risks, unknown results, and significant uncertainties associated with each of these matters along with the direct correlation between these matters and the Company's ability to satisfy the financial obligations that may arise over the applicable one-year period, the Company is unable to conclude that it is probable that the Company will be able to meet its obligations arising within one year of the date of issuance of these consolidated financial statements within the parameters set forth in the accounting guidance.

NOTE 4. CASH AND RESTRICTED CASH

The following presents the Company's cash and restricted cash:

	September 30, December 31,	
(Amounts in 000's)	2018	2017
Cash	\$ 1,884	\$ 1,818
Restricted cash:		
Cash collateral	44	63
Replacement reserves	297	260
Escrow deposits	768	637
Total current portion	1,109	960
Restricted cash for debt obligations	365	405
HUD and other replacement reserves	2,265	2,176
Total noncurrent portion	2,630	2,581
Total restricted cash	3,739	3,541
Total cash and restricted cash	\$ 5,623	\$ 5,359

Cash collateral—In securing mortgage financing from certain lending institutions, the Company and certain of its wholly-owned subsidiaries are required to deposit cash to be held as collateral in accordance with the terms of such loan agreements.

Replacement reserves—Cash reserves set aside for non-critical building repairs for completion within the next 12 months, pursuant to loan agreements.

Escrow deposits—In connection with financing secured through the Company's lenders, several wholly-owned subsidiaries of the Company are required to make monthly escrow deposits for taxes and insurance.

Restricted cash for other debt obligations—In compliance with certain financing and insurance agreements, the Company and certain wholly-owned subsidiaries of the Company are required to deposit cash held as collateral by the lender or in escrow with certain designated financial institutions.

HUD and other replacement reserves—The regulatory agreements entered into in connection with the financing secured through the U.S. Department of Housing and Urban Development ("HUD") require monthly escrow deposits for replacement and improvement of the HUD project assets.

NOTE 5. PROPERTY AND EQUIPMENT

The following table sets forth the Company's property and equipment:

(Amounts in 000's)	Estimated Useful	September 30, 2018	December 31, 2017
--------------------	------------------	--------------------	-------------------

Edgar Filing: REGIONAL HEALTH PROPERTIES, INC - Form 10-Q

	Lives (Years)		
Buildings and improvements	5-40	\$ 89,624	\$ 89,665
Equipment and computer related	2-10	9,634	10,893
Land	—	4,137	4,248
Construction in process	—	231	49
		103,626	104,855
Less: accumulated depreciation and amortization		(25,052)	(23,642)
Property and equipment, net		\$ 78,574	\$ 81,213

The following table summarizes total depreciation and amortization expense for the three and nine months ended September 30, 2018 and 2017:

(Amounts in 000's)	Three Months Ended		Nine Months Ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Depreciation	\$788	\$857	\$2,394	\$2,486
Amortization	338	336	1,113	1,013
Total depreciation and amortization expense	\$1,126	\$1,193	\$3,507	\$3,499

NOTE 6. INTANGIBLE ASSETS AND GOODWILL

Intangible assets consist of the following:

(Amounts in 000's)	Bed licenses			
	(included in property and equipment) ^(a)			
	Bed Licenses	Separable	Rights	Total
Balances, December 31, 2017				
Gross	\$ 22,811	\$ 2,471	\$7,181	\$32,463
Accumulated amortization	(4,166)	—	(4,994)	(9,160)
Net carrying amount	\$ 18,645	\$ 2,471	\$2,187	\$23,303
Amortization expense	(512)	—	(601)	(1,113)
Balances, September 30, 2018				
Gross	22,811	2,471	7,181	32,463
Accumulated amortization	(4,678)	—	(5,595)	(10,273)
Net carrying amount	\$ 18,133	\$ 2,471	\$1,586	\$22,190

(a) Non-separable bed licenses are included in property and equipment as is the related accumulated amortization expense (see Note 5 – Property and Equipment).

The following table summarizes amortization expense for the three and nine months ended September 30, 2018 and 2017:

(Amounts in 000's)	Three Months		Nine Months	
	Ended		Ended	
	September 30,		September 30,	
	2018	2017	2018	2017
Bed licenses	\$ 171	\$ 169	\$512	\$512
Lease rights	167	167	601	501
Total amortization expense	\$ 338	\$ 336	\$1,113	\$1,013

Expected amortization expense for all definite-lived intangibles for each of the years ended December 31 is as follows:

(Amounts in 000's)	Bed Licenses	Lease Rights
2018 ^(a)	\$ 171	\$ 166
2019	683	667
2020	683	482
2021	683	203
2022	683	68
Thereafter	15,230	-
Total expected amortization expense	\$ 18,133	\$1,586

(a) Estimated amortization expense for the year ending December 31, 2018, includes only amortization to be recorded after September 30, 2018.

The following table summarizes the carrying amount of goodwill:

	September 30,	December 31,
(Amounts in 000's)	2018	2017
Goodwill	\$ 2,945	\$ 2,945
Accumulated impairment losses	(840)	(840)
Net carrying amount	\$ 2,105	\$ 2,105

The Company does not amortize indefinite-lived intangibles, which consist of separable bed licenses and goodwill.

NOTE 7. LEASES

Operating Leases

The Company leases eleven skilled nursing facilities from unaffiliated owners under non-cancelable leases, all of which have rent escalation clauses and provisions requiring payment of real estate taxes, insurance and maintenance costs by the lessee. Each of the skilled nursing facilities that are leased by the Company are subleased to and operated by third-party tenants. The Company also leases certain office space located in Suwanee, Georgia and Atlanta, Georgia. The Atlanta office space is subleased to a third-party tenant.

As of September 30, 2018, the Company is in compliance with all operating lease financial covenants, except with respect to the leases for two facilities located in Georgia (the "Omega Facilities"). Pursuant to the leases for the Omega Facilities, the Company is required to maintain a minimum tangible net worth of \$5.0 million. As of the date of filing, the Company's tangible net worth is approximately \$2.7 million, and the Company has not obtained a waiver with respect to the applicable financial covenant. The Company's annual cash inflow from the Omega Facilities is approximately \$2.2 million, with associated rent expense outflow being approximately \$2.0 million, such leases expire in 2025.

Future Minimum Lease Payments

Future minimum lease payments for each of the next five years ending December 31, are as follows:

	(Amounts in 000's)
2018 ^(a)	\$ 2,118
2019	8,526
2020	8,677
2021	8,830
2022	9,026
Thereafter	37,430
Total	\$ 74,607

(a) Estimated minimum lease payments for the year ending December 31, 2018 include only payments to be paid after September 30, 2018.

Leased and Subleased Facilities to Third-Party Operators

The Company leases or subleases 27 facilities (16 owned by the Company and 11 leased to the Company) to third-party tenants on a triple net basis, meaning that the lessee (i.e., the third-party tenant of the property) is obligated under the lease or sublease, as applicable, for all costs of operating the property, including insurance, taxes and facility maintenance, as well as the lease or sublease payments, as applicable.

18

Arkansas Leases and Facilities. Until February 3, 2016, the Company subleased nine facilities located in Arkansas (the “Arkansas Facilities”) to affiliates of Aria Health Group, LLC (“Aria”) pursuant to separate sublease agreements (the “Aria Subleases”). Effective February 3, 2016, the Company terminated each Aria Sublease due to the applicable Aria affiliate’s failure to pay rent pursuant to the terms of such sublease. From April 1, 2016 to October 6, 2016, the Company leased the Arkansas Facilities to Skyline Healthcare LLC (“Skyline”), pursuant to a Master Lease Agreement, dated February 5, 2016 (the “Skyline Lease”). The term of the Skyline Lease commenced on April 1, 2016. In connection with the Skyline Lease, the Company entered into an Option Agreement, dated February 5, 2016, with Joseph Schwartz, the manager of Skyline, pursuant to which Mr. Schwartz, or an entity designated by Mr. Schwartz (the “Purchaser”), had an exclusive and irrevocable option to purchase the Arkansas Facilities at a purchase price of \$55.0 million, consisting of cash consideration in the amount of \$52.0 million and a promissory note with a principal amount of \$3.0 million and a maturity date of March 31, 2022 (the “Skyline Note”). The Company completed the sale of the Arkansas Facilities to the Purchaser on October 6, 2016. The Skyline Note is guaranteed by Joseph Schwartz and Roselyn Schwartz (collectively, the “Guarantors”), pursuant to a Guaranty Agreement, dated September 30, 2016 (the “Guaranty”), executed by the Guarantors in favor of the Company (see Part II, Item 8, Financial Statements and Supplementary Data Note 10 – Acquisitions and Dispositions included in the Annual Report).

In connection with the closing of the sale of the Arkansas Facilities, the Company entered into a Subordination and Standstill Agreement, dated September 26, 2016 (the “Subordination Agreement”), with the Canadian Imperial Bank of Commerce (formerly the PrivateBank and Trust Company), as agent for the lenders specified therein (collectively, the “Lenders”). Pursuant to the Subordination Agreement, the Company agreed to subordinate its claims and rights to receive payment under the Skyline Note or any document which may evidence or secure the indebtedness evidenced by such note, other than the Guaranty (collectively, the “Subordinated Debt”), to the claims and rights of the Lenders to receive payment under certain revolving loans, with an initial aggregate principal amount of \$6.0 million, and certain term loans, with an aggregate principal amount of \$45.6 million (collectively, the “Loans”), each extended by certain of the Lenders to affiliates of Skyline (collectively, the “Skyline Borrowers”). Pursuant to the Subordination Agreement, the Company may not accept payment of the Subordinated Debt, or take any action to collect such payment, if: (i) the Company has received notice from the Lenders that the Skyline Borrowers have failed to meet a specified financial covenant with respect to the Loans; or (ii) a default has occurred or is continuing with respect to the Loans. Pursuant to the Guaranty, the Guarantors have agreed to pay the outstanding principal amount of the Skyline Note, together with all accrued and unpaid interest: (x) on the date on which the Skyline Borrowers or an affiliate thereof repays or refinances any of the Loans; (y) on the date on which the Skyline Borrowers or its affiliates sells any of the Arkansas Facilities which the Skyline Borrowers or its affiliates purchased with proceeds from the Loans; or (z) upon written notice from the Company to the Guarantors any time on or after the two year anniversary of the Skyline Note. As of the date of filing, the Company has not received written notice from the Lenders regarding conditions prohibiting repayment of the Skyline Note.

On April 24, 2018, Skyline entered into a management contract with a third party to manage the Arkansas Facilities. On October 12, 2018, the Company accepted a payment of approximately \$1.0 million from such third party in full satisfaction of the Skyline Note, which represents a discount from the full amount of \$3.0 million outstanding thereunder. In connection with such payment, the Company agreed to release the Guarantors from their obligations under the Guaranty.

Beacon. On August 1, 2015, the Company entered into a lease inducement fee agreement with certain affiliates (collectively, the "Beacon Affiliates") of Beacon, pursuant to which the Company paid a fee of \$0.6 million as a lease inducement for certain Beacon Affiliates to enter into sublease agreements and to commence such subleases and transfer operations thereunder (the "Beacon Lease Inducement"). As of September 30, 2018, the balance of the Beacon Lease Inducement was approximately \$0.5 million. On April 24, 2018, five Beacon affiliates (the "Ohio Beacon Affiliates") informed the Company in writing that they would no longer be operating five (four owned and one leased by the Company) of the Company's facilities located in Ohio (the "Ohio Beacon Facilities") and that they would surrender operation of such facilities to the Company on June 30, 2018. As of the date of filing, the Ohio Beacon Affiliates have not surrendered possession of the Ohio Beacon Facilities and are nine months in arrears on rental payments. The Company intends to enforce its rights under the applicable sublease agreements for the Ohio Beacon Facilities and pursue all remedies available to it under such sublease agreements and applicable law. There is no assurance that the Company will be able to obtain payment of all unpaid rents under the leases for the Ohio Beacon Facilities. The Company is recognizing revenue on a cash basis with respect to the Ohio Beacon Facilities. During the first quarter of 2018, the Company expensed approximately \$0.7 million straight-line rent asset, recorded an allowance of \$0.5 million against the Beacon Lease Inducement and recorded approximately \$0.3 million allowance for other receivables. The Company is in negotiations with suitably qualified replacement operators, who are undergoing the HUD approval process, for such facilities.

The annualized 2018 cash rent under the lease agreements for the Ohio Beacon Facilities is shown below:

Facility Name	Operating	Beds/Units	Structure	Initial Lease Term Date	Expiration Date	2018	2018	% of Total
						Cash Annual Rent (Amounts in 000's)	Cash Annual Rent Expected	
Ohio								
Covington Care		94	Leased	8/1/2015	4/30/2025	\$ 818	3.7	%
Eaglewood ALF		80	Owned	8/1/2015	7/31/2025	764	3.4	%
Eaglewood Care Center		99	Owned	8/1/2015	7/31/2025	764	3.4	%
H&C of Greenfield		50	Owned	8/1/2015	7/31/2025	382	1.7	%
The Pavilion Care Center		50	Owned	8/1/2015	7/31/2025	382	1.7	%
Total		373				\$ 3,110	13.9	%

Symmetry. Affiliates of Symmetry (the "Symmetry Tenants") lease the following facilities from the Company, pursuant to separate lease agreements which expire in 2030 (the "Symmetry Leases"): (i) the Company's 106 bed, skilled nursing facility located in Sylvania, North Carolina (the "Mountain Trace Facility"); (ii) the Company's 96-bed, skilled nursing facility located in Sumter, South Carolina (the "Sumter Facility"); and (iii) the Company's 84-bed, skilled nursing facility located in Georgetown, South Carolina (the "Georgetown Facility"). On June 27, 2018, the Company notified Blue Ridge of Sumter, LLC, the tenant with respect to the Sumter Facility (the "Sumter Tenant"), and Blue Ridge on the Mountain, LLC, the tenant with respect to the Mountain Trace Facility (the "Mountain Trace Tenant"), that continued breach of the payment terms of the applicable Symmetry Lease would constitute an event of default. The Symmetry Tenants had alleged that the Company was in material breach of each of the Symmetry Leases with regard to deferred maintenance and were withholding rental payments on the basis of such allegations.

The Mountain Trace Tenant has not paid approximately \$0.2 million in rent owed for April through August 2018, the Sumter Tenant has not paid approximately \$0.3 million in rent owed for May through August 2018, and Blue Ridge in Georgetown, LLC, the tenant with respect to the Georgetown Facility (the "Georgetown Tenant"), has not paid \$0.05 million in rent owed for July and August 2018.

On September 20, 2018, the Company reached an agreement with the Symmetry Tenants with respect to the Symmetry Leases, pursuant to which the Symmetry Tenants agreed to a payment plan for the rent arrears and the Company agreed to a reduction in annualized rent of approximately \$0.6 million (the "Rent Concession") and waived approximately \$0.2 million in rent arrears, upon which the Symmetry Tenants recommenced monthly rent payments of \$0.1 million starting with the September 1, 2018 amounts due under the Symmetry Leases.

The Company intends to enforce its rights under the lease agreement for the Mountain Trace Facility and pursue all remedies available to it under such lease agreement and applicable law. The Company is currently in negotiations with a suitably qualified replacement operator to take possession of the Mountain Trace Facility on December 1, 2018. There is no assurance that the Company will be able to execute a new lease with respect to the Mountain Trace Facility on substantially equivalent terms to the current lease agreement or at all or that, if a new lease is executed, the new tenant will be able to take possession of the Mountain Trace Facility on December 1, 2018. Consequently, the Company is recognizing revenue on a cash basis with respect to the Mountain Trace Facility and has expensed approximately \$0.5 million of straight-line rent asset for the nine month period ended September 30, 2018.

There is no assurance that the Company will be able to obtain payment of all unpaid rents and the collection of approximately \$1.3 million (of asset balances shown in the table below) could be at risk.

Balances, net of allowances as of September 30, 2018 and annualized cash rent under the lease agreements for the Symmetry affiliated facilities is shown below:

(Amounts in 000's)

Facility Name	Revenue Recognition	Straight-Line Rent Asset	Other Receivables	2018 Original Cash Annual Rent**	% of Total	
					Original Expected 2018 Cash Annual Rent**	Annualized Rent Concession Granted*
North Carolina						
Mountain Trace	Cash basis	\$ —	\$ —	\$ 742	3.3	% \$ 382
South Carolina						
Sumter	Straight-line	537	409	836	3.8	% 236
Georgetown	Straight-line	216	107	338	1.5	% 26
		\$ 753	\$ 516	\$ 1,916	8.6	% \$ 644

*Effective September 1, 2018.

** Excludes concession granted

Peach Health. On June 18, 2016, the Company entered into a master sublease agreement, as amended on March 30, 2018, (the "Peach Health Sublease") with affiliates (collectively, "Peach Health Sublessee") of Peach Health Group, LLC ("Peach Health"), providing that Peach Health Sublessee would take possession of and operate three facilities located in Georgia (the "Peach Facilities") as subtenant. The Peach Facilities are comprised of: (i) an 85-bed skilled nursing facility located in Tybee Island, Georgia (the "Oceanside Facility"); (ii) a 50-bed skilled nursing facility located in Tybee Island, Georgia (the "Savannah Beach Facility"); and (iii) a 131-bed skilled nursing facility located in Jeffersonville, Georgia (the "Jeffersonville Facility").

In connection with the Peach Health Sublease, the Company extended a line of credit to Peach Health Sublessee for up to \$1.0 million for operations at the Peach Facilities (the "Peach Line"), with an initial interest rate of 13.5% per annum, which increases by 1% per annum. The Peach Line had a maturity date one year from the date of the first disbursement and is secured by a first priority security interest in Peach Health Sublessee's assets and accounts receivable. On April 6, 2017, the Company modified certain terms of the Peach Line in connection with Peach Health

Sublessee securing a \$2.5 million revolving working capital loan from a third party lender (the “Peach Working Capital Facility”), subsequently capped at \$1.75 million, which matures April 5, 2020. The Peach Working Capital Facility is secured by Peach Health Sublessee’s eligible accounts receivable, and all collections on the eligible accounts receivable are remitted to a lockbox controlled by the lender. The modifications of the Peach Line include: (i) reducing the loan balance to \$0.8 million and restricting further borrowings; (ii) extending the maturity date to October 1, 2020 and adding a six month extension option by Peach Health Sublessee, subject to certain conditions; (iii) increasing the interest rate from 13.5% per annum by 1% per annum; and (iv) establishing a four-year amortization schedule. Payment of principal and interest under the Peach Line is governed by certain financial covenants limiting distributions under the Peach Working Capital Facility. Furthermore, the Company guaranteed Peach Health Sublessee’s borrowings under the Peach Working Capital Facility subject to certain burn-off provisions (i.e., the Company’s obligations under such guaranty cease after the later of 18 months or achievement of a certain financial ratio by Peach Health Sublessee). The Company is obligated to pay the outstanding balance on the Peach Working Capital Facility (after application of all eligible accounts receivable collections by the lender) if Peach Health Sublessee fails to comply with the Peach Working Capital Facility obligations and covenants. Fair value of the liability using the expected present value approach is immaterial.

At September 30, 2018, there was approximately \$1.0 million outstanding on the Peach Line.

Future minimum lease receivables from the Company's facilities leased and subleased to third party tenants for each of the next five years ending December 31, are as follows:

	(Amounts in 000's) (b)
2018 (a)	\$4,660
2019	18,610
2020	19,040
2021	19,515
2022	20,002
Thereafter	94,216
Total	\$176,043

(a) Estimated minimum lease payments for the year ending December 31, 2018 include only payments to be paid after September 30, 2018.

(b) Excludes amounts for the Ohio Beacon Facilities and Mountain Trace Tenant, and updated to reflect Symmetry Rent Concession.

For further details regarding the Company's leased and subleased facilities to third-party operators, see Part II, Item 8, Financial Statements and Supplementary Data, Note 7 - Leases and Note 10 - Acquisitions and Dispositions included in the Annual Report.

NOTE 8. ACCRUED EXPENSES AND OTHER

Accrued expenses and other consist of the following:

	September 30, December 31,	
(Amounts in 000's)	2018	2017
Accrued employee benefits and payroll-related	\$ 309	\$ 290
Real estate and other taxes	704	423
Self-insured reserve ⁽¹⁾	1,832	5,077
Accrued interest	401	260
Other accrued expenses	974	972
Total accrued expenses and other	\$ 4,220	\$ 7,022

(1) The Company self-insures against professional and general liability claims and uses a third party administrator and outside counsel to manage and defend the claims. Additionally, for the year ended December 31, 2017, \$0.2 million was accrued in "Other liabilities" in the Company's consolidated balance sheets for amounts due in excess of twelve months, (see Note 13 - Commitments and Contingencies).

NOTE 9. NOTES PAYABLE AND OTHER DEBT

See Part II, Item 8, Financial Statements and Supplementary Data, Note 9 – Notes Payable and Other Debt included in the Annual Report for a detailed description of all the Company’s debt facilities.

22

Notes payable and other debt consists of the following:

	September 30, December 31,	
(Amounts in 000's)	2018	2017
Senior debt—guaranteed by HUD	\$ 33,066	\$ 33,685
Senior debt—guaranteed by USDA ^(a)	13,831	20,320
Senior debt—guaranteed by SBA ^(b)	673	2,210
Senior debt—bonds	6,960	7,055
Senior debt—other mortgage indebtedness	27,398	9,486
Other debt	812	1,050
Convertible debt	—	1,500
Subtotal	82,740	75,306
Deferred financing costs	(1,665)	(2,027)
Unamortized discount on bonds	(167)	(177)
Total debt	80,908	73,102
Less: current portion of debt	25,744	8,090
Notes payable and other debt, net of current portion	\$ 55,164	\$ 65,012

(a) U.S. Department of Agriculture (“USDA”)

(b) U.S. Small Business Administration (“SBA”)

The following is a detailed listing of the debt facilities that comprise each of the above categories:

(Amounts in 000's)

					September 30, December 31,	
Facility	Lender	Maturity	Interest Rate ^(a)	2018	2017	
Senior debt - guaranteed						
by HUD ^(b)						
The Pavilion Care Center	Red Mortgage	12/01/2027	Fixed	4.16%	\$ 1,247	\$ 1,329
Hearth and Care of						
Greenfield	Red Mortgage	08/01/2038	Fixed	4.20%	2,078	2,127
Woodland Manor	Midland State Bank	10/01/2044	Fixed	3.75%	5,246	5,334
Glenvue	Midland State Bank	10/01/2044	Fixed	3.75%	8,145	8,283
Autumn Breeze	KeyBank	01/01/2045	Fixed	3.65%	7,081	7,199
Georgetown	Midland State Bank	10/01/2046	Fixed	2.98%	3,584	3,644
Sumter Valley	KeyBank	01/01/2047	Fixed	3.70%	5,685	5,769
Total					\$ 33,066	\$ 33,685
Senior debt - guaranteed						
by USDA ^(c)						
Attalla ^(e)	Metro City	09/30/2035	Prime + 1.50%	5.50%	\$ —	\$ 6,169

Edgar Filing: REGIONAL HEALTH PROPERTIES, INC - Form 10-Q

Coosa	Metro City	09/30/2035	Prime + 1.50%	6.75%	5,431	5,562
Mountain Trace	Community B&T	01/24/2036	Prime + 1.75%	7.00%	4,166	4,260
Southland	Bank of Atlanta	07/27/2036	Prime + 1.50%	6.75%	4,234	4,329
Total					\$ 13,831	\$ 20,320
Senior debt - guaranteed						
by SBA ^(d)						
College Park ^(e)	CDC	10/01/2031	Fixed	2.81%	\$ —	\$ 1,523
Southland	Bank of Atlanta	07/27/2036	Prime + 2.25%	7.50%	673	687
Total					\$ 673	\$ 2,210

- (a) Represents cash interest rates as of September 30, 2018 as adjusted for applicable interest rate floor limitations, if applicable. The rates exclude amortization of deferred financing costs, which range from 0.08% to 0.53% per annum.
- (b) For the seven skilled nursing facilities, the Company has term loans insured 100% by HUD with financial institutions. The loans are secured by, among other things, an assignment of all rents paid under any existing or future leases and rental agreements with respect to the underlying facility. The loans contain customary events of default, including fraud or material misrepresentations or material omission, the commencement of a forfeiture action or proceeding, failure to make required payments, and failure to perform or comply with certain agreements. Upon the occurrence of certain events of default, the lenders may, after receiving the prior written approval of HUD, terminate the loans and all amounts under the loans will become immediately due and payable. In connection with entering into each loan, the Company entered into a healthcare regulatory agreement and a promissory note, each containing customary terms and conditions.

- (c) For the four skilled nursing facilities, the Company has term loans insured 70% to 80% by the USDA with financial institutions. The loans have an annual renewal fee for the USDA guarantee of 0.25% of the guaranteed portion. The loans have prepayment penalties of 2% to 3% through 2018, which declines 1% each year, capped at 1% for the remainder of the first 10 years of the term and 0% thereafter.
- (d) For each of the two facilities, the Company has a term loan with a financial institution, which is insured 75% by the SBA.
- (e) On February 15, 2018, the Company repaid these loans with proceeds from the Pinecone Credit Facility.

(Amounts in 000's)

Facility	Lender	Maturity	Interest Rate ^(a)	September 30, December 31,		
				2018	2017	
Senior debt - bonds						
Eaglewood Bonds Series A	City of Springfield, Ohio	05/01/2042	Fixed	7.65 %	\$ 6,610	\$ 6,610
Eaglewood Bonds Series B	City of Springfield, Ohio	05/01/2021	Fixed	8.50 %	350	445
Total					\$ 6,960	\$ 7,055

- (a) Represents cash interest rates as of September 30, 2018. The rates exclude amortization of deferred financing of approximately 0.26% per annum.

(Amounts in 000's)

Facility	Lender	Maturity	Interest Rate (a)	September 30, December 31,		
				2018	2017	
Senior debt - other mortgage indebtedness						
Quail Creek ^(c)	Congressional Bank	04/30/2019	LIBOR + 4.75%	5.75 %	\$ 4,136	\$ 4,314
Northwest ^(d)	First Commercial	07/31/2020	Prime	5.00 %	—	1,122
Meadowood	Exchange Bank of Alabama	05/01/2022	Fixed	4.50 %	3,951	4,050
College Park	Pinecone ^(b)	08/15/2020	Fixed	13.50%	2,727	—
Northwest	Pinecone ^(b)	08/15/2020	Fixed	13.50%	2,685	—
Attalla	Pinecone ^(b)	08/15/2020	Fixed	13.50%	8,705	—
Adcare Property Holdings	Pinecone ^(b)	08/15/2020	Fixed	13.50%	5,194	—
Total					\$ 27,398	\$ 9,486

- (a) Represents cash interest rates as of September 30, 2018 as adjusted for applicable interest rate floor limitations, if applicable. The rates exclude amortization of deferred financing costs which range from approximately 0.14% to 1.49% per annum and excludes the 5.5% finance fee described below.
- (b) On February 15, 2018, the Company entered into the Pinecone Credit Facility with Pinecone. On September 6, 2018, the Company entered into the New Forbearance Agreement, which provided for certain amendments to the Pinecone Credit Facility (for further information see, "Pinecone Credit Facility" below in this Note).
- (c) On April 30, 2018, the Company extended the maturity date of the Quail Creek Credit Facility to April 30, 2019.
- (d) On February 15, 2018, the Company repaid this loan with proceeds from the Pinecone Credit Facility.

(Amounts in 000's)

Lender	Maturity	Interest		September 30,	December 31,
		Rate		2018	2017
Other debt					
First Insurance Funding	03/01/2019	Fixed	4.24%	\$ 81	\$ 20
Key Bank	08/02/2019	Fixed	0.00%	495	495
McBride Note ^(a)	09/30/2019	Fixed	4.00%	153	264
Pharmacy Care of Arkansas South Carolina Department of Health & Human	02/08/2018	Fixed	2.00%	—	42
Services ^(b)	02/24/2019	Fixed	5.75%	83	229
Total				\$ 812	\$ 1,050

(a) The Company executed an unsecured promissory note in favor of William McBride III, the Company's former Chairman and Chief Executive Officer, pursuant to a settlement and mutual release agreement dated September 26, 2017, between Mr. McBride and the Company (the "McBride Settlement Agreement").

(b) On February 21, 2017, the South Carolina Department of Health and Human Services ("SCHHS") issued fiscal year 2013 Medicaid audit reports for two facilities operated by the Company during 2013. In its fiscal year 2013 Medicaid audit reports, SCHHS determined that the Company owed an aggregate \$0.4 million related to patient-care related payments made by SCHHS during 2013. Repayment of the \$0.4 million began on March 24, 2017 in the form of a two-year note bearing interest of 5.75% per annum.

24

(Amounts in 000's)

Facility	Maturity	Interest Rate	September 30, December 31,		
			2018	2017	
Convertible debt					
Issued July 2012 ^(a)	04/30/2018	Fixed	14.00%	\$ —	\$ 1,500
Total				\$ —	\$ 1,500

(a) On February 15, 2018, the Company repaid the outstanding principal balance to Cantone Asset Management, LLC, together with accrued interest thereon, with proceeds from the Pinecone Credit Facility. Pinecone Credit Facility

On February 15, 2018, the Company entered into the Pinecone Credit Facility with Pinecone. The Company borrowed an aggregate principal amount of \$16.25 million. The Pinecone Credit Facility refinanced existing mortgage debt in an aggregate amount of \$8.7 million with respect to the Facilities. On May 18, 2018, the Company and Pinecone modified the debt and on September 6, 2018, the Company and Pinecone substantially changed the terms of the Loan to complete an exchange of debt and accordingly recorded a \$3.5 million loss on extinguishment on the statement of operations for the period.

The maturity date of the Pinecone Credit Facility is August 15, 2020 and it originally bore interest at a fixed rate equal to 10% per annum for the first three months after the Closing Date and at a fixed rate equal to 12.5% per annum thereafter, subject to adjustment upon an event of default and specified regulatory events. The Pinecone Credit Facility is secured by, among other things, first priority liens on the Facilities and all tangible and intangible assets of the borrowers owning the Facilities, including all rent payments received from the operators thereof. Accrued and unpaid interest on the outstanding principal amount of the Pinecone Credit Facility is payable in consecutive monthly installments. Unless accelerated by Pinecone, the entire unpaid principal amount of the Pinecone Credit Facility is due on the maturity date, together with all accrued and unpaid interest and a finance fee equal to 3% of the original principal amount.

The Pinecone Credit Facility is subject to customary operating and financial covenants and regulatory conditions for each of the Facilities, which could result in additional monthly interest charges during any non-compliance and cure period. The Pinecone Credit Facility is prepayable in full beginning on the date that is thirteen months after the Closing Date, subject to the payment of a specified finance fee and, with respect to any prepayment made between March 15, 2019 and September 15, 2019, a prepayment premium equal to 1% of the principal amount being repaid. A specified early termination fee is payable in the event any amount is prepaid (in whole or in part) or is accelerated on or before the first anniversary of the Closing Date.

The Pinecone Credit Facility and the related documentation provide for customary events of default. Upon the occurrence of certain events of default, Pinecone can declare: (i) the entire unpaid principal balance under the Pinecone Credit Facility, together with all accrued interest and other amounts payable, immediately due and payable; (ii) increase the interest rate to 18.5%; and (iii) foreclose on the Collateral.

On May 10, 2018, management was notified by Pinecone that the certain events of default under the Pinecone Credit Facility had occurred and were continuing. On May 18, 2018, the Company and Pinecone entered into the Original

Forbearance Agreement, pursuant to which Pinecone agreed, subject to terms and conditions set forth in the Original Forbearance Agreement, to forbear from exercising its default-related rights and remedies with respect to specified events of default under the Pinecone Credit Facility during the forbearance period provided for therein. The Original Forbearance Agreement outlined a plan of correction whereby the Company could regain compliance under the Pinecone Credit Facility. Requirements set forth in the Original Forbearance Agreement included, among other things, the hiring of a special consultant to advise management on operational improvements and to assist in coordinating overall company strategy. Pursuant to the Forbearance Agreement, the Company and Pinecone agreed to amend certain provisions of the Pinecone Credit Facility. Such amendments, among other things: (i) eliminate the Company's obligation to complete certain lease assignments to suitably qualified replacement operators; (ii) require the payment of a specified "break-up fee" upon certain events, including prepayment of the Pinecone Credit Facility or a change of control; (iii) increase the ongoing interest rate from 12.5% per annum to 13.5% effective May 18, 2018; and (iv) increase the outstanding principal balance of the Pinecone Credit Facility by 2.5%.

The forbearance period under the Original Forbearance Agreement terminated on July 6, 2018 because the Company did not satisfy the condition set forth in the Original Forbearance Agreement requiring the Company to enter into an agreement with Pinecone to support a transaction or series of transactions to remedy the defaults specified in the Original Forbearance Agreement. Accordingly, as of such date, Pinecone was no longer required to forbear from exercising its default-related rights and remedies with respect to the specified defaults and could have exercised all of its rights and remedies under the Pinecone Credit Facility (including the application of an additional 5% interest on the outstanding loans under the Pinecone Credit Facility, the acceleration of such outstanding loans or foreclose on the Collateral).

On July 18, 2018, the Company received a letter from Pinecone stating that, as a result of the termination of the forbearance period under the Original Forbearance Agreement, Pinecone could accelerate its outstanding loans under the Pinecone Credit Facility and the Company was obligated to pay interest on such loans at the default interest rate of 18.50% per annum.

On September 6, 2018, the Company and certain of its subsidiaries entered into the New Forbearance Agreement with Pinecone pursuant to which Pinecone agreed, subject to the terms and conditions set forth in the New Forbearance Agreement, to forbear for a specified period of time from exercising its default-related rights and remedies (including the acceleration of the outstanding loans and charging interest at the specified default rate) with respect to the Specified Defaults under the Pinecone Loan Documents.

The forbearance period under the New Forbearance Agreement is from September 6, 2018, the date on which certain conditions set forth in the New Forbearance Agreement were satisfied, to December 31, 2018, unless the forbearance period is earlier terminated as a result of specified termination events, including a default or event of default under the Pinecone Loan Documents (other than any Specified Defaults) or any failure by the Company or its subsidiaries to comply with the New Forbearance Agreement.

Pursuant to the New Forbearance Agreement, the Company and Pinecone agreed to amend certain provisions of the Pinecone Loan Documents. Such amendments, among other things: (i) remove the restriction on prepaying the loans during the thirteen (13) month-period after the Closing Date; (ii) provide a thirty (30)-day cure period for certain events of default and a fifteen (15)-day cure period for certain failures to provide information or materials pursuant to the Pinecone Loan Documents; (iii) increase the finance fee payable on repayment or acceleration of the loans, depending on the time at which the loans are repaid (\$0.25 million prior to December 31, 2018 and \$0.5 million thereafter); and (iv) increase the outstanding principal balance owed by (a) approximately \$0.7 million to reimburse Pinecone for its accrued and unpaid expenses and to pay outstanding interest payments for prior interest periods and (b) \$1.5 million as a non-refundable payment of additional interest. During the forbearance period under the New Forbearance Agreement, the interest rate will revert from the default rate of 18.5% per annum to the ongoing rate of 13.5% per annum.

Pursuant to the New Forbearance Agreement which amends the Pinecone Loan Documents, the Company hired a financial advisor (a "Financial Advisor") reasonably acceptable to Pinecone to advise management and the Company's board of directors on operational improvements and to assist in coordinating overall company strategy, whose engagement shall include assisting the Company to obtain one or more sources of refinancing to repay the obligations under the Pinecone Loan Documents. The New Forbearance Agreement also amends the Pinecone Credit Facility to permit the Company to substitute or replace the operators of certain of the Company's facilities without the prior written consent of Pinecone, provided that such substitution or replacement is on commercially reasonable terms, has been approved by a Financial Advisor, and the terms of which have been disclosed to Pinecone no later than two (2) business days prior to entry into definitive documentation and Pinecone has not objected during such time period.

The forbearance period under the New Forbearance Agreement expires on December 31, 2018, unless earlier terminated upon specified termination events. As of such date, Pinecone will no longer be required to forbear from exercising its default-related rights and remedies with respect to any Specified Defaults and may exercise all of its rights and remedies under the Pinecone Credit Facility at that time. For further information, see Note – 3 Liquidity.

Debt Covenant Compliance

As of September 30, 2018, the Company had approximately 23 credit related instruments outstanding that include various financial and administrative covenant requirements. Covenant requirements include, but are not limited to, fixed charge coverage ratios, debt service coverage ratios, minimum EBITDA or EBITDAR, and current ratios.

Certain financial covenant requirements are based on consolidated financial measurements whereas others are based on measurements at the subsidiary level (i.e., facility, multiple facilities or a combination of subsidiaries). The subsidiary level requirements are as follows: (i) financial covenants measured against subsidiaries of the Company; and (ii) financial covenants measured against third-party operator performance. Some covenants are based on annual financial metric measurements whereas others are based on monthly and quarterly financial metric measurements. The Company routinely tracks and monitors its compliance with its covenant requirements.

The Company is in compliance with its debt covenants other than those in the Pinecone Credit Facility. The Company was not in compliance with various non-financial covenants and the combined fixed charge coverage ratio required under the Pinecone Credit Facility as of September 30, 2018. The Pinecone Credit Facility requires the Company maintain a combined fixed charge coverage ratio of 1.2, and the Company's combined fixed charge coverage ratio was equal to 1.0 as of September 30, 2018, such violation is waived for the duration of the New Forbearance Agreement period. For further information, see Note 3 – Liquidity.

Scheduled Maturities

The schedule below summarizes the scheduled gross maturities for the twelve months ended September 30 of the respective year:

	(Amounts in 000's)
For the twelve months ended September 30,	
2019	\$ 6,494
2020 (1)	20,940
2021	1,711
2022	5,161
2023	1,730
Thereafter	46,704
Subtotal	\$ 82,740
Less: unamortized discounts	(167)
Less: deferred financing costs, net	(1,665)
Total notes and other debt	