

ADCARE HEALTH SYSTEMS, INC
Form 10-Q
August 13, 2015

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2015

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

For the transition period from _____ to _____

Commission File Number 001-33135

AdCare Health Systems, Inc.

(Exact name of registrant as specified in its charter)

Georgia

(State or other jurisdiction
of incorporation)

1145 Hembree Road, Roswell, GA 30076

(Address of principal executive offices)

31-1332119

(I.R.S. Employer Identification Number)

(678) 869-5116

(Registrant's telephone number, including area code)

Not Applicable

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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

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

Large accelerated filer

Accelerated filer

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

Smaller reporting company

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

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

As of July 31, 2015: 19,879,417 shares of common stock with no par value were outstanding.

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Forward-Looking Statements

This Quarterly Report on Form 10-Q (this "Quarterly Report") and certain information incorporated herein by reference contain forward-looking statements and information within the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. This information includes assumptions made by, and information currently available to management, including statements regarding future economic performance and financial condition, liquidity and capital resources, and management's plans and objectives. In addition, certain statements included in this Quarterly Report, in the Company's future filings with the Securities and Exchange Commission ("SEC"), in press releases, and in oral and written statements made by us or with our approval, which are not statements of historical fact, are forward-looking statements. Words such as "may," "could," "should," "would," "believe," "expect," "anticipate," "estimate," "intend," "seeks," "plan," "project," "continue," "predict," "will," "should," and other words or expressions of similar meaning are intended by us to identify forward-looking statements, although not all forward-looking statements contain these identifying words. Forward-looking statements are based on the Company's current expectations about future events or results and information that is currently available to us, involve assumptions, risks, and uncertainties, and speak only as of the date on which such statements are made.

All forward-looking statements are subject to the risks and uncertainties inherent in predicting the future. The Company's actual results may differ materially from those projected, stated or implied in these forward-looking statements as a result of many factors, including the Company's critical accounting policies and risks and uncertainties related to, but not limited to, overall industry environment, regulatory delays, negative clinical results, and the Company's financial condition. These and other risks and uncertainties are described in more detail in the Company's most recent Annual Report on Form 10-K, as well as other reports that the Company files with the SEC.

Forward-looking statements speak only as of the date they are made and should not be relied upon as representing the Company's views as of any subsequent date. The Company undertakes no obligation to update or revise such statements to reflect new circumstances or unanticipated events as they occur, except as required by applicable laws, and you are urged to review and consider disclosures that the Company makes in this Quarterly Report and other reports that the Company files with the SEC that discuss factors germane to the Company's business.

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Part I. Financial Information

Item 1. Financial Statements

ADCARE HEALTH SYSTEMS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(Amounts in 000's)

	June 30, 2015 (Unaudited)	December 31, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	\$15,340	\$10,735
Restricted cash and investments	8,354	3,321
Accounts receivable, net of allowance of \$10,903 and \$6,708	16,654	24,294
Prepaid expenses and other	3,327	1,766
Deferred tax asset	569	569
Assets of disposal group held for use	—	4,592
Assets of disposal group held for sale	10,242	5,813
Assets of variable interest entity held for sale	5,894	5,924
Total current assets	60,380	57,014
Restricted cash and investments	6,009	5,456
Property and equipment, net	128,693	130,993
Intangible assets - bed licenses	2,471	2,471
Intangible assets - lease rights, net	3,754	4,087
Goodwill	4,224	4,224
Lease deposits	1,816	1,683
Deferred loan costs, net	3,491	3,464
Other assets	2,286	569
Total assets	\$213,124	\$209,961
LIABILITIES AND EQUITY / (DEFICIT)		
Current liabilities:		
Current portion of notes payable and other debt	\$6,259	\$2,436
Current portion of convertible debt, net of discounts	4,482	14,000
Revolving credit facilities and lines of credit	1,542	5,576
Accounts payable	13,915	16,434
Accrued expenses	10,583	15,653
Liabilities of disposal group held for use	—	4,035
Liabilities of disposal group held for sale	9,398	5,197
Liabilities of variable interest entity held for sale	5,870	5,956
Total current liabilities	52,049	69,287
Notes payable and other debt, net of current portion:		
Senior debt, net of discounts	102,621	106,089
Bonds, net of discounts	6,918	7,011
Convertible debt, net of discounts	9,200	—
Revolving credit facilities	—	1,059
Other liabilities	2,947	2,129
Deferred tax liability	605	605
Total liabilities	174,340	186,180

Commitments and contingency (Note 14)

Preferred stock, no par value; 5,000 shares authorized; 2,113 and 950 shares issued and outstanding, redemption amount \$52,831 and \$23,750 at June 30, 2015 and December 31, 2014, respectively	47,950	20,392
Stockholders' equity:		
Common stock and additional paid-in capital, no par value; 55,000 shares authorized; 19,838 and 19,151 issued and outstanding at June 30, 2015 and December 31, 2014, respectively	62,036	61,896
Accumulated deficit	(68,262	) (56,067)
Total stockholders' equity / (deficit)	(6,226	) 5,829)
Noncontrolling interest in subsidiary	(2,940	) (2,440)
Total equity / (deficit)	(9,166	) 3,389)
Total liabilities and equity / (deficit)	\$213,124	\$209,961
See accompanying notes to unaudited consolidated financial statements		

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CONSOLIDATED STATEMENTS OF OPERATIONS

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

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Revenues:				
Patient care revenues	\$18,865	\$19,467	\$38,088	\$38,944
Management revenues	256	304	474	786
Rental revenues	4,205	296	5,545	593
Total revenues	23,326	20,067	44,107	40,323
Expenses:				
Cost of services (exclusive of facility rent, depreciation and amortization)	16,862	16,013	33,822	31,907
General and administrative expense	2,513	4,179	5,683	8,740
Facility rent expense	1,932	923	3,021	1,855
Depreciation and amortization	1,797	1,856	3,473	3,614
Salary retirement and continuation costs	(39)	) 1,282	(47)	) 1,282
Total expenses	23,065	24,253	45,952	47,398
Income (loss) from operations	261	(4,186)	) (1,845)	) (7,075)
Other income (expense):				
Interest expense, net	(2,279)	) (2,601)	) (4,769)	) (5,174)
Loss on extinguishment of debt	—	—	(680)	) (583)
Other expense	(194)	) (83)	) (480)	) (191)
Total other expense, net	(2,473)	) (2,684)	) (5,929)	) (5,948)
Loss from continuing operations before income taxes	(2,212)	) (6,870)	) (7,774)	) (13,023)
Income tax expense	—	—	(20)	) (8)
Loss from continuing operations	(2,212)	) (6,870)	) (7,794)	) (13,031)
Income (loss) from discontinued operations, net of tax	(3,151)	) 4,075	(2,818)	) 7,713
Net loss	(5,363)	) (2,795)	) (10,612)	) (5,318)
Net loss attributable to noncontrolling interests	270	157	500	330
Net loss attributable to AdCare Health Systems, Inc.	(5,093)	) (2,638)	) (10,112)	) (4,988)
Preferred stock dividend	(1,437)	) (646)	) (2,083)	) (1,292)
Net loss attributable to AdCare Health Systems, Inc. Common Stockholders	\$(6,530)	) \$(3,284)	) \$(12,195)	) \$(6,280)

Net loss per share of common stock attributable to AdCare Health Systems, Inc.

Basic:

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Continuing operations	\$(0.17) \$(0.43) \$(0.48) \$(0.81)
Discontinued operations	(0.16) 0.24	(0.15) 0.45)
	\$(0.33	) \$(0.19	) \$(0.63	) \$(0.36)
Diluted:					
Continuing operations	\$(0.17	) \$(0.43	) \$(0.48	) \$(0.81)
Discontinued operations	(0.16	) 0.24			