REGIONAL HEALTH PROPERTIES, INC
Form 10-Q
May 21, 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 March 31, 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)

(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, 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		Accelerated filer
Non-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 May 17, 2018: 20,303,733 shares of common stock, no par value, were outstanding.

Regional Health Properties, Inc.

Form 10-Q

Table of Contents

Part I. Financial Information

Item 1. Financial Statements
REGIONAL HEALTH PROPERTIES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(Amounts in 000's)

(Unaudited)

	March 31, 2018	December 31, 2017
ASSETS		
Current assets:		
Cash	$3,524	$ 1,818
Restricted cash	833	960
Accounts receivable, net of allowance of $1,992 and $2,570	599	945
Prepaid expenses and other	521	304
Notes receivable	727	677
Total current assets	6,204	4,704
Restricted cash	2,640	2,581
Property and equipment, net	80,397	81,213
Intangible assets - bed licenses	2,471	2,471
Intangible assets - lease rights, net	1,945	2,187
Goodwill	2,105	2,105
Lease deposits	808	808
Straight-line rent receivable	6,383	6,400
Notes receivable	2,990	3,540
Other assets	55	542
Total assets	$105,998	$ 106,551
LIABILITIES AND EQUITY		
Current liabilities:		
Current portion of notes payable and other debt	$17,714	$ 6,621
Current portion of convertible debt, net	—	1,469
Accounts payable	3,996	4,386
Accrued expenses and other	4,523	7,022
Total current liabilities	26,233	19,498
Notes payable and other debt, net of current portion:		
Senior debt, net	53,297	57,801
Bonds, net	6,586	6,567
Other debt, net	572	644
Other liabilities	3,899	4,133
Deferred tax liabilities	38	38
Total liabilities	90,625	88,681

Commitments and contingencies (Note 13)		
Stockholders' equity:		
Common stock and additional paid-in capital, no par value; 55,000 shares authorized; 19,697 and 19,697 issued and outstanding at March 31, 2018 and December 31, 2017, respectively	61,755	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 March 31, 2018 and December 31, 2017, respectively	62,423	62,423
Accumulated deficit	(108,805)	(106,277)
Total stockholders' equity	15,373	17,870
Total liabilities and stockholders' equity	$ 105,998	$ 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 March 31,	
	2018	2017
Revenues:		
Rental revenues	$5,705	$5,775
Management fees	234	229
Other revenues	48	131
Total revenues	5,987	6,135
Expenses:		
Facility rent expense	2,171	2,171
Cost of management fees	157	176
Depreciation and amortization	1,221	1,135
General and administrative expense	879	1,446
Provision for doubtful accounts	1,938	466
Other operating expenses	343	89
Total expenses	6,709	5,483
(Loss) income from operations	(722)	652
Other expense:		
Interest expense, net	1,275	1,032
Loss on extinguishment of debt	441	63
Other expense	9	95
Total other expense, net	1,725	1,190
Loss from continuing operations before income taxes	(2,447)	(538)
Income tax expense	26	1
Loss from continuing operations	(2,473)	(539)
Loss from discontinued operations, net of tax	(55)	(413)
Net loss	(2,528)	(952)
Preferred stock dividends - declared	—	(1,878)
Preferred stock dividends - undeclared	(1,912)	—
Net loss attributable to Regional Health Properties, Inc. common stockholders	$(4,440)	$(2,830)
Net loss per share of common stock attributable to Regional Health Properties, Inc.		
Basic and diluted:		
Continuing operations	$(0.23)	$(0.12)
Discontinued operations	0.00	(0.02)
	$(0.23)	$(0.14)

Weighted average shares of common stock outstanding:		
Basic and diluted	19,697	19,825

See accompanying notes to unaudited consolidated financial statements

REGIONAL HEALTH PROPERTIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

(Amounts in 000's)

(Unaudited)

	Shares of Common Stock	Shares of Preferred Stock	Common Stock and Additional Paid-in Capital	Preferred Stock	Accumulated Deficit	Total
Balances, December 31, 2017	19,697	2,812	$ 61,724	$ 62,423	$ (106,277)	$ 17,870
Stock-based compensation	—	—	31	—	—	31
Net loss	—	—	—	—	(2,528)	(2,528)
Balances, March 31, 2018	19,697	2,812	$ 61,755	$ 62,423	$ (108,805)	$ 15,373

See accompanying notes to unaudited consolidated financial statements

REGIONAL HEALTH PROPERTIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in 000’s)

(Unaudited)

	Three Months Ended March 31, 2018	2017
Cash flows from operating activities:		
Net loss	$(2,528)	$(952)
Loss from discontinued operations, net of tax	55	413
Loss from continuing operations	(2,473)	(539)
Adjustments to reconcile net loss from continuing operations to net cash provided by operating activities:		
Depreciation and amortization	1,221	1,135
Stock-based compensation expense	31	234
Rent expense in excess of cash paid	113	158
Rent revenue in excess of cash received	(683)	(768)
Amortization of deferred financing costs, debt discounts and premiums	195	99
Loss on debt extinguishment	441	—
Bad debt expense	1,938	466
Changes in operating assets and liabilities:		
Accounts receivable	(271)	163
Prepaid expenses and other	(22)	(201)
Other assets	33	(294)
Accounts payable, and accrued expenses and other	209	236
Other liabilities	—	60
Net cash provided by operating activities - continuing operations	732	749
Net cash used in operating activities - discontinued operations	(735)	(1,051)
Net cash used in operating activities	(3)	(302)
Cash flows from investing activities:		
Purchase of property and equipment	(163)	(329)
Net cash used in investing activities - continuing operations	(163)	(329)
Net cash used in investing activities	(163)	(329)
Cash flows from financing activities:		
Proceeds from debt issuance	2,397	—
Repayment on notes payable	(503)	(1,974)
Repayment of convertible debt	—	(6,700)
Repurchase of common stock	—	(187)
Dividends paid on preferred stock	—	(1,878)
Net cash provided by (used in) financing activities - continuing operations	1,894	(10,739)
Net cash used in financing activities - discontinued operations	(90)	(140)
Net cash provided by (used in) financing activities	1,804	(10,879)

Net change in cash and restricted cash	1,638	(11,510)
Cash and restricted cash, beginning	5,359	19,509
Cash and restricted cash, ending	$6,997	$7,999

6

REGIONAL HEALTH PROPERTIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in 000's)

(Unaudited)

	Three Months Ended March 31,	
	2018	2017
Supplemental disclosure of cash flow information:		
Interest paid	$755	$682
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 deferred financing	$488	$—
Surrender of security deposit	$245	$500
Non-cash proceeds from vendor-financed insurance	$194	$193
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

March 31, 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”). 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 purposes 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. See Part II, Item 8, Notes to Consolidated Financial Statements, 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”), for a description of the Merger.

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 March 31, 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, Notes to Consolidated Financial Statements, 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 Regulations 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 months ended March 31, 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, Notes to Consolidated Financial Statements, Note 1 – Summary of Significant Accounting Policies included in the Company's Annual Report, for a description of all significant accounting policies. During the three months ended March 31, 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.

Allowances

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, 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, 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.

As of March 31, 2018 and December 31, 2017, the Company allowed for approximately $2.0 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 allowed at March 31, 2018 and December 31, 2017. Accounts receivable, net, totaled $0.6 million at March 31, 2018 and $0.9 million at December 31, 2017.

Pre-paid expenses and other

As of March 31, 2018 and December 31, 2017, the Company had $0.5 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, Notes to Consolidated Financial Statements, 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.

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 months ended March 31, 2017 to conform the presentation of management fee revenues and its related expense, previously reported as general and administrative expense. Reclassifications were made to the consolidated statements of cash flows for the three months ended March 31, 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 to manage (the "Management Contract") 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 months ended March 31, 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, guidance 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 month period ending March 31, 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, that 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 months ended March 31, 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. The FASB also issued an Exposure Draft on January 5, 2018 proposing to amend ASU 2016-02, which would provide lessors with a practical expedient, 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 the related Exposure Draft are not effective for the Company until January 1, 2019, with early adoption permitted. 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, Notes to Consolidated Financial Statements, 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 months ended March 31, 2018 and 2017, approximately 1.2 million and 2.8 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 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:

	Three Months Ended March 31,	
(Amounts in 000’s, except per share data)	2018	2017
Numerator:		
Loss from continuing operations	$(2,473)	$(539)
Preferred stock dividends - declared	—	(1,878)
Preferred stock dividends - undeclared (1)	(1,912)	—
Basic and diluted loss from continuing operations	(4,385)	(2,417)
Loss from discontinued operations, net of tax	(55)	(413)
Net loss attributable to Regional Health Properties, Inc. common stockholders	$(4,440)	$(2,830)
Denominator:		
Basic - weighted average shares	19,697	19,825
Diluted - adjusted weighted average shares (2)	19,697	19,825
Basic and diluted loss per share:		
Loss from continuing operations attributable to Regional Health	$(0.23)	$(0.12)
Loss from discontinued operations	0.00	(0.02)
Loss attributable to Regional Health Properties, Inc. common stockholders	$(0.23)	$(0.14)

(1) The Board suspended dividend payments with respect to the Series A Preferred Stock for the fourth quarter 2017 and first quarter 2018.

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

	March 31,	
(Share amounts in 000's)	2018	2017
Stock options	181	333
Warrants - employee	582	1,450
Warrants - non employee	437	437
Shares issuable upon conversion of convertible debt	—	588
Total anti-dilutive securities	1,200	2,808

NOTE 3. LIQUIDITY

The Company plans to undertake measures to grow its operations and to streamline its cost infrastructure by: (i) increasing future lease revenue through acquisitions and investments in existing properties; (ii) modifying the terms of existing leases; (iii) refinancing or repaying debt to reduce interest costs and mandatory principal repayments; and (iv) reducing general and administrative expenses.

Management anticipates access to several sources of liquidity, including cash on hand, cash flows from operations, and debt refinancing. At March 31, 2018, the Company had $3.5 million in unrestricted cash. During the three months ended March 31, 2018, the Company generated positive cash flow from continuing operations of $0.7 million and anticipates continued positive cash flow from operations in the future. The Board suspended dividend payments with respect to the Series A Preferred Stock for the fourth quarter 2017 and the first quarter 2018 dividend periods. The Board plans to revisit the dividend payment policy with respect to the Series A Preferred Stock in the second quarter of 2018. The Board believes that the dividend suspension will provide the Company with additional funds to meet its ongoing liquidity needs.

As of March 31, 2018, the Company had total current liabilities of $26.2 million and total current assets of $6.2 million, resulting in a working capital deficit of approximately $20.0 million. Included in current liabilities at March 31, 2018 is the $17.7 million current portion of its $78.2 million in indebtedness. The current portion of such indebtedness is comprised of: (i) $15.4 million of long term debt classified as current due to concerns regarding the Company’s ability to comply with the terms of a forbearance agreement detailed below in this note, which may cause acceleration of the maturity of such debt, (ii) $1.3 million mortgage indebtedness under the Company’s senior guaranteed debt; and (iii) other debt of approximately $1.0 million, which includes bond and other mortgage indebtedness. The Company anticipates net principal repayments of approximately $2.3 million (excluding the acceleration of the $15.4 million debt described above), during the next twelve-month period, which includes approximately $0.6 million of payments on other non-routine debt, $1.6 million of routine debt service amortization, and a $0.1 million payment of other debt. Management has obtained an additional extension of the maturity date of the Company’s credit facility with Housing & Healthcare Funding, LLC (the “Quail Creek Credit Facility”), that is secured by a first mortgage on the real property and improvements constituting the Nursing & Rehabilitation Center located in Oklahoma City, Oklahoma, to April 30, 2019. Management plans to refinance the Quail Creek Credit Facility within the next twelve months, although 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 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, and provided additional surplus cash flow of $6.3 million which is available to fund general corporate needs (see Note 9 – Notes Payable and Other Debt). 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 refinancing will be used for general corporate purposes.

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.

On May 10, 2018, management was notified by Pinecone that the Company was in default on a number of administrative items as outlined in the Pinecone Credit Facility. Management also informed Pinecone that the Company had failed to meet one of its financial covenant obligations, the minimum fixed charge coverage ratio, as outlined in the loan agreement to the Pinecone Credit Facility for the period ended March 31, 2018.

In order to alleviate such defaults, on May 18, 2018, the Company entered into a forbearance agreement with Pinecone (the "Forbearance Agreement"), in which, Pinecone provides a timeline and a number of remedies available to cure all default items and to regain compliance under the Pinecone Credit Facility. The forbearance period is from May 18, 2018, the date of the execution of the Forbearance Agreement, to July 20, 2018, during which time, the Company must comply with all benchmarks as outlined in the Forbearance Agreement.

Management believes that the overall plan of correction as outlined in the Forbearance Agreement is achievable, however many of the benchmarks, as articulated in the Forbearance Agreement, fall outside of the control of management, and if the Company is unable to satisfy the requirements as outlined, then one of the remedies available to Pinecone is that the entire principal balance of the Pinecone Credit Facility, plus interest and fees, will become immediately due and payable, indicating that substantial doubt exists about whether or not the Company will be able to continue as a going concern within one year after the date that the consolidated financial statements are issued.

In applying the accounting guidance, management considered the Company’s current financial condition and liquidity sources, including current funds available, forecasted future cash flows, and the Company’s obligations due over the next twelve months in addition to also considering the likelihood that the Company will comply with the requisites as outlined in the Forbearance Agreement and the implications thereof, as well as the Company’s recurring costs of operating its business.

There can be no assurance that the Company will be able to cure all of the deficiencies as listed in the Forbearance Agreement or that the Company will be able to continue to comply with all of the various covenants as required by the loan agreement of the Pinecone Credit Facility. The Company’s ability to cure its non-compliance with the Pinecone Credit Facility depends, in part, on its ability to work with outside parties, which is not within the Company’s exclusive control. If Pinecone were to call the balance of the Pinecone Credit Facility for any reason, and the Company were unable to cure such deficiency, it could 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 financial statements.

The Company plans to continue to undertake measures to refinance certain loans and to streamline its cost infrastructure. But due to the inherent risks, unknown results and significant uncertainties associated with each of these matters and the direct correlation between these matters and the Company’s ability to satisfy its 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:

	March 31,	December 31,
(Amounts in 000’s)	2018	2017

Cash	$ 3,524	$ 1,818
Restricted cash:		
Cash collateral	87	63
Replacement reserves	242	260
Escrow deposits	504	637
Total current portion	833	960
Restricted cash for debt obligations	405	405
HUD and other replacement reserves	2,235	2,176
Total noncurrent portion	2,640	2,581
Total restricted cash	3,473	3,541