

REGIONAL HEALTH PROPERTIES, INC
Form 10-K
April 16, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2017

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT
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
(State or other jurisdiction of

81-5166048
(I.R.S. Employer

incorporation or organization)

Identification No.)

454 Satellite Boulevard NW, Suite 100, Suwanee, GA

30024-7191

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number including area code (678) 869-5116

Securities registered pursuant to Section 12(b) of the Exchange Act:

Title of each class	Name of each exchange on which registered
Common Stock, no par value	NYSE American
10.875% Series A Cumulative Redeemable Preferred Stock, no par value	NYSE American

Securities registered under Section 12(g) of the Exchange Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes 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 if disclosure of delinquent filers in response to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

(Do not check if a smaller reporting company)

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

The aggregate market value of Regional Health Properties, Inc.'s common stock held by non-affiliates as of June 30, 2017, the last business day of Regional Health Properties Inc.'s most recently completed second fiscal quarter, was \$19,083,752. The number of shares of Regional Health Properties, Inc., common stock, no par value, outstanding as of March 17, 2018, was 19,813,499.

Regional Health Properties, Inc.

Form 10-K

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Special Note Regarding Forward Looking Statements

Certain statements in this Annual Report on Form 10-K (this “Annual Report”) contain “forward-looking” information as that term is defined by the Private Securities Litigation Reform Act of 1995. Any statements that do not relate to historical or current facts or matters are forward-looking statements. Examples of forward-looking statements include all statements regarding our expected future financial position, results of operations, cash flows, liquidity, financing and refinancing plans, strategic and business plans, projected expenses and capital expenditures, competitive position, growth and acquisition opportunities, and compliance with, and changes in, governmental regulations. You can identify some of the forward-looking statements by the use of forward-looking words such as “anticipate,” “believe,” “plan,” “estimate,” “expect,” “intend,” “should,” “may” and other similar expressions, although not all forward-looking statements contain these identifying words.

Our actual results may differ materially from those projected or contemplated by our forward-looking statements as a result of various factors, including, among others, the following:

- Our ability to achieve the benefits that we expected to achieve from our transition to a healthcare property holding and leasing company (the “Transition”), including increased cash flow, reduced general and administrative expenses, and a lower cost of capital;
- The impact of liabilities associated with our legacy business of owning and operating healthcare properties, including pending and potential professional and general liability claims;
- Our dependence on the operating success of our tenants and their ability to meet their obligations to us;
- The effect of increasing healthcare regulation and enforcement on our tenants, and the dependence of our tenants on reimbursement from governmental and other third-party payors;
- The impact of litigation and rising insurance costs on the business of our tenants;
- The effect of our tenants declaring bankruptcy or becoming insolvent;
- The ability and willingness of our tenants to renew their leases with us upon expiration, and our ability to reposition our properties on the same or better terms in the event of nonrenewal or if we otherwise need to replace an existing tenant;
- The significant amount of our indebtedness, our ability to service our indebtedness, covenants in our debt agreements that may restrict our ability to pay dividends or incur additional indebtedness, and our ability to refinance our indebtedness on favorable terms;
- Our ability to raise capital through equity and debt financings, and the cost of such capital;
- The availability of, and our ability to identify, suitable acquisition opportunities, and our ability to complete such acquisitions and lease the respective properties on favorable terms; and
- Other risks inherent in the real estate business, including uninsured or underinsured losses affecting our properties, the possibility of environmental compliance costs and liabilities, and the illiquidity of real estate investments.

We urge you to carefully consider these risks and review the additional disclosures we make concerning risks and other factors that may materially affect the outcome of our forward-looking statements and our future business and operating results, including those made in Part I, Item IA, “Risk Factors” in this Annual Report, as such risk factors may be amended, supplemented or superseded from time to time by other reports we file with the Securities and Exchange Commission (“SEC”), including subsequent Annual Reports on Form 10-K and Quarterly Reports on Form 10-Q. We caution you that any forward-looking statements made in this Annual Report are not guarantees of future performance, events or results, and you should not place undue reliance on these forward-looking statements, which speak only as of the date of this Annual Report. We do not intend, and we undertake no obligation, to update any forward-looking information to reflect events or circumstances after the date of this Annual Report or to reflect the occurrence of unanticipated events, unless required by law to do so.

PART I.

Item 1. Business

Overview

Regional Health Properties, Inc. (“Regional Health” or “Regional”), through its subsidiaries (together, the “Company” or “we”), is a self-managed real estate investment company that invests primarily in real estate purposed for long-term care and senior living. Our business primarily consists of leasing and subleasing such facilities to third-party tenants, which operate the facilities. As of December 31, 2017, the Company owned, leased, or managed for third parties 30 facilities primarily in the Southeast. The Company’s facilities provide a range of healthcare and related services to patients and residents, 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.

Regional Health’s predecessor was incorporated in Ohio on August 14, 1991, under the name Passport Retirement, Inc. In 1995, the Company acquired substantially all of the assets and liabilities of AdCare Health Systems, Inc. and changed its name to AdCare Health Systems, Inc. (“AdCare”). AdCare completed its initial public offering in November 2006. Initially based in Ohio, AdCare expanded its portfolio through a series of strategic acquisitions to include properties in a number of other states, primarily in the Southeast. In 2012, AdCare relocated its executive offices and accounting operations to Georgia, and AdCare changed its state of incorporation from Ohio to Georgia on December 12, 2013.

Historically, AdCare’s business was focused primarily on owning and operating skilled nursing facilities and managing such facilities for unaffiliated owners with whom AdCare had management contracts. In July 2014, the board of directors approved and commenced a strategic plan to transition AdCare from an operator of healthcare facilities to a healthcare property holding and leasing company (the “Transition”). To effect the Transition, AdCare and its subsidiaries: (i) leased to third-party operators all of the healthcare properties which they own and previously operated; (ii) subleased to third-party operators all of the healthcare properties which they lease (but do not own) and previously operated; and (iii) retained a management agreement to manage two skilled nursing facilities and one independent living facility for third parties. The Transition was completed in December 2015, and, as a result of the Transition, our business has many of the characteristics of a real estate investment trust (“REIT”) and is focused on the ownership, acquisition and leasing of healthcare properties.

On September 29, 2017, AdCare merged (the “Merger”) with and into Regional Health, a Georgia corporation and a then wholly owned subsidiary of AdCare formed for the purposes of the Merger, with Regional Health continuing as the surviving corporation in the Merger.

As a consequence of the Merger:

- the outstanding shares of AdCare’s common stock, no par value per share (the “AdCare common stock”), converted, on a one-for-one basis, into the same number of shares of Regional Health’s common stock, no par value per share (the “RHE common stock”);
- the outstanding shares of AdCare’s 10.875% Series A Cumulative Redeemable Preferred Stock (the “AdCare Series A Preferred Stock”) converted, on a one-for-one basis, into the same number of shares of Regional Health’s 10.875% Series A Cumulative Redeemable Preferred Stock (the “RHE Series A Preferred Stock”);
- the board of directors (the “AdCare Board”) and executive officers of AdCare immediately prior to the Merger are the board of directors (the “RHE Board”) and executive officers, respectively, of Regional Health immediately following the Merger, and each director and executive officer continued his directorship or employment, as the case may be, with Regional Health under the same terms as his directorship or employment with AdCare immediately following

the Merger;

Regional Health assumed all of AdCare's equity incentive compensation plans, and all rights to acquire shares of AdCare common stock under any AdCare equity incentive compensation plan converted into rights to acquire RHE common stock pursuant to the terms of the equity incentive compensation plans and other related documents, if any;

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Regional Health became the successor issuer to AdCare and succeeded to the assets and continued the business and assumed the obligations of AdCare;

- the RHE common stock and RHE Series A Preferred Stock commenced trading on the NYSE American LLC (“NYSE American”) immediately following the Merger;

the rights of the holders of RHE common stock and RHE Series A Preferred Stock are governed by the amended and restated articles of incorporation of RHE (the “RHE Charter”) and the amended and restated bylaws of RHE (the “RHE Bylaws”). The RHE Charter is substantially equivalent to AdCare’s articles of incorporation, as amended (the “AdCare Charter”), except that the RHE Charter includes ownership and transfer restrictions related to the RHE common stock. The RHE Bylaws are substantially equivalent to the bylaws of AdCare, as amended (the “AdCare Bylaws”);

there was no change in the assets we hold or in the business we conduct; and

there is no fundamental change to our current operational strategy.

As a result of the Merger, the RHE Charter contains ownership and transfer restrictions with respect to the common stock. These ownership and transfer restrictions will better position the Company to comply with certain U.S. federal income tax rules applicable to REITs under the Internal Revenue Code of 1986, as amended (the “Code”) to the extent such rules relate to the common stock. The RHE Board continues to analyze and consider: (i) whether and, if so, when, the Company could satisfy the requirements to qualify as a REIT under the Code; (ii) the structural and operational complexities which would need to be addressed before the Company could qualify as a REIT, including the disposition of certain assets or the termination of certain operations which may not be REIT compliant; and (iii) if the Company were to qualify as a REIT, whether electing REIT status would be in the best interests of the Company and its shareholders in light of various factors, including our significant consolidated federal net operating loss carryforwards. There is no assurance that the Company will qualify as a REIT in future taxable years or, if it were to so qualify, that the RHE Board would determine that electing REIT status would be in the best interests of the Company and its shareholders.

When used in this Annual Report, unless otherwise specifically stated or the context otherwise requires, the terms:

“Board” refers to the AdCare Board with respect to the period prior to the Merger and to the RHE Board with respect to the period after the Merger;

“Company”, “we”, “our” and “us” refer to AdCare and its subsidiaries with respect to the period prior to the Merger and to Regional Health and its subsidiaries with respect to the period after the Merger;

“common stock” refers to the AdCare common stock with respect to the period prior to the Merger and to the RHE common stock with respect to the period after the Merger;

“Series A Preferred Stock” refers to the AdCare Series A Preferred Stock with respect to the period prior to the Merger and to the RHE Series A Preferred Stock with respect to the period after the Merger; and

“Charter” refers to the AdCare Charter with respect to the period prior to the Merger and to the RHE Charter with respect to the period after the Merger.

“Bylaws” refers to the AdCare Bylaws with respect to the period prior to the Merger and to the RHE Bylaws with respect to the period after the Merger.

Our principal executive offices are located at 454 Satellite Boulevard NW, Suite 100, Suwanee, GA 30024, and our telephone number is (678) 869-5116. We maintain a website at www.regionalhealthproperties.com. The contents of our website are not incorporated by reference herein or in any of our filings with the SEC.

Portfolio of Healthcare Investments

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.

As of December 31, 2017, the Company owns, leases, or manages 30 facilities, which are located primarily in the Southeast. Of the 30 facilities, the Company: (i) leased 14 owned 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 to our audited consolidated financial statements in Part II, Item 8, “Financial Statements and Supplementary Data” in this Annual Report.

The following table provides summary information regarding the number of facilities and related operational beds/units by state and property type as of December 31, 2017:

State	Owned	Leased	Managed for	Total
	Facilities Beds/Units	Facilities Beds/Units	Third-Parties Facilities Beds/Units	Facilities Beds/Units