

ADCARE HEALTH SYSTEMS INC

Form 8-K

August 20, 2008

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 8-K**

**CURRENT REPORT**

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

Date of Report: August 20, 2008

Date of Earliest Event Reported: August 15, 2008

**AdCare Health Systems, Inc.**

*(Exact Name of Registrant as specified in its Charter)*

**Ohio**

*(State or other jurisdiction of*

*incorporation or organization)*

**31-1332119**

*(I.R.S. Employer Identification No.)*

**5057 Troy Rd, Springfield, OH**

*(Address of principal executive offices)*

**45502-9032**

*(Zip Code)*

**Registrant's Telephone Number, Including Area Code**

**(937) 964-8974**

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Check the appropriate box below if the form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (See General Instruction A2. below):

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4 (c)).

**Item 2.02. Financial Statements and Exhibits.**

On Tuesday, August 19, 2008, AdCare Health Systems, Inc. (the Company ) issued a press release announcing its financial results for its second quarter ending June 30, 2008. A copy of this press release is furnished as Exhibit 99.1 hereto. Pursuant to the rules and regulations of the Securities and Exchange Commission, the information in this Current Report on Form 8-K, including the attached exhibit and the information set forth therein, shall not be deemed filed for purposes of Section 18 of the Securities Exchange Act of 1934, nor shall it be deemed to be incorporated by reference in any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, regardless of any general incorporation language in such filing.

**Item 5.02 Departure of Directors or Certain Officers; Election of Directors; Appointment of Certain Officers; Compensatory Arrangements of Certain Officers**

On Friday, August 15, 2008, at a Special Meeting of Shareholders, shareholders approved the issuance of warrants, which will vest over a period of five years, to officers and directors of the Company to purchase an aggregate of 1,092,305 shares of the Company s common stock as described in the Company s definitive proxy statement filed with the SEC on July 24, 2008 and incorporated herein by reference.

Also, on Friday, August 15, 2008, Mr. J. Michael Williams announced his retirement from the position of Executive Vice President and Chief Operating Officer of the Company. Also, effective August 15, 2008, Mr. Gary Wade, Chief Executive Officer, has assumed all the additional responsibilities of Executive Vice President and Chief Operating Officer.

**Item 9.01. Financial Statements and Exhibits.**

(d) Exhibits

| <u>Exhibit Number</u> | <u>Description of Exhibit</u>       |
|-----------------------|-------------------------------------|
| 99.1                  | Press Release dated August 19, 2008 |

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereto duly authorized.

Date: August 20, 2008

ADCARE HEALTH SYSTEMS, INC.

By: /s/ Scott Cunningham

Name: Scott Cunningham

Title: Chief Financial Officer

**EXHIBIT INDEX**

| <b>Exhibit No.</b> | <b>Description</b>  |
|--------------------|---|
| 99.1               | AdCare Health Systems, Inc. Press Release, dated August 19, 2008. |

Press Release

## **AdCare Health Systems, Inc. Reports 2008 Second Quarter**

### **Earning Results**

SPRINGFIELD, Ohio, August 19, 2008 /PRNewswire-FirstCall/ AdCare Health Systems, Inc. (Amex: ADK), an Ohio based long term care, home care and management company, today reported financial results for its second quarter of 2008.

Revenues for the quarter ended June 30, 2008 were \$6,016,536 as compared to \$5,872,377 for the same quarter in 2007, an increase of \$144,159. The increase was mostly due to better occupancy at our skilled nursing centers and our assisted living communities and increased rentals at our assisted living communities.

The net income for the quarter ended June 30, 2008 was \$22,963 as compared to a loss of \$212,880 for the second quarter ended June 30, 2007, an improvement of \$235,843. The improvement was due primarily to a gain of \$413,593 recognized in the acquisition of the New Lincoln Lodge, a 50 unit retirement and assisted living facility located in Columbus, Ohio. Basic and diluted net income per share for the quarter ended June 30, 2008 was \$0.01 as compared to a basic and diluted net loss per share of (\$0.05) for the same quarter ended June 30, 2007.

Revenues for the six-months ended June 30, 2008 were \$12,009,078 as compared to \$11,696,726 for the same period in 2007, an increase of \$312,352. Net loss for the six-months ended June 30, 2008 was \$116,507 as compared to a loss of \$347,657 for the same period in 2007, an improvement of \$231,150. The improvement again was due primarily to the gain recognized in the acquisition of the New Lincoln Lodge in the second quarter. Basic and diluted net loss per share for the six-months ended June 30, 2008 was (\$0.03) as compared to a basic and diluted net loss per share of (\$0.09) for the same six-month period ended June 30, 2007.

David A. Tenwick, Chairman of AdCare, stated that the Company is continuing to absorb the increased costs of being a public company and being listed on the American Stock Exchange. So far this year, we have refinanced three of our assisted living properties and one of our nursing homes with long term HUD financings. In addition, we continue to look for suitable acquisitions as well as raising additional capital. We believe that being a listed company is helpful in looking for potential acquisitions and raising more capital.

The Chairman had two additional announcements to make. Mr. Tenwick stated, On August 15, 2008, J. Michael Williams, AdCare's Executive Vice President and COO, announced his retirement from AdCare. Mr Tenwick added, We wish Mike well and Gary Wade, in addition to his duties as President, will take on all of Mike's operating responsibilities. The second announcement from Mr. Tenwick is that at the special meeting of shareholders held on August 15, 2008, the shareholders approved the issuance of warrants to officers and directors of AdCare to purchase up to 1,092,305 shares of common stock of AdCare. As described in the definitive proxy filed with the SEC on July 24, 2008, the warrants will vest over a period of five years.

About AdCare Health Systems, Inc.

AdCare Health Systems, Inc. (Amex: ADK) develops, owns and manages assisted living facilities, nursing homes and retirement communities and provides home health care services. Prior to becoming a publicly traded company in November of 2006, AdCare operated as a private company for 18 years. AdCare's 920 employees

provide high-quality care for patients and residents residing in the 16 facilities that they manage, seven of which are assisted living facilities, six skilled nursing centers and three independent senior living communities. The Company has ownership interests in eight of those facilities. In the ever expanding marketplace of long term care, AdCare's mission is to provide quality healthcare services to the elderly.

Safe Harbor Statement

Statements contained in this press release that are not historical facts may be forward-looking statements within the meaning of federal law. Such forward-looking statements reflect management's beliefs and assumptions and are based on information currently available to management. The forward-looking statements involve known and unknown risks, results, performance or achievements of the Company to differ materially from those expressed or implied in such statements. Such factors are identified in the public filings made by the Company with the Securities and Exchange Commission and include the Company's ability to secure lines of credit and/or an acquisition credit facility, find suitable acquisition properties at favorable terms, changes in the health care industry because of political and economic influences, changes in regulations governing the industry, changes in reimbursement levels including those under the Medicare and Medicaid programs and changes in the competitive marketplace. There can be no assurance that such factors or other factors will not affect the accuracy of such forward-looking statements.

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**ADCARE HEALTH SYSTEMS, INC. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**

|   | June 30,<br>2008<br>(Unaudited) | December 31,<br>2007 |
|---|---------------------------------|----------------------|
| <u>ASSETS</u>   |                                 |                      |
| Current Assets:   |                                 |                      |
| Cash  | \$ 1,053,332                    | \$ 926,625           |
| Certificate of deposit, restricted                      | 214,363                         | 209,637              |
| Accounts receivable:                                    |                                 |                      |
| Long-term care resident receivables, net                | 2,041,199                       | 2,115,364            |
| Management, consulting and development receivables, net | 256,086                         | 259,778              |
| Advances and receivables from affiliates                | 21,187                          | 27,558               |
| Prepaid expenses and other                              | 581,074                         | 453,219              |
| Total current assets                                    | 4,167,241                       | 3,992,181            |
| Restricted Cash   | 712,369                         | 973,975              |
| Property and Equipment, Net                             | 16,965,197                      | 14,425,868           |
| Note Receivable, Net                                    | -                               | 221,413              |
| License, Net  | 1,189,307                       | 1,189,307            |
| Goodwill  | 2,638,193                       | 2,638,193            |
| Other Assets  | 1,033,726                       | 1,050,506            |
| Total assets  | \$ 26,706,033                   | \$ 24,491,443        |
| <u>LIABILITIES AND<br/>STOCKHOLDERS EQUITY</u>          |                                 |                      |
| Current Liabilities:                                    |                                 |                      |
| Current portion of notes payable and other debt         | \$ 724,588                      | \$ 773,279           |
| Current portion of notes payable to stockholder         | 9,432                           | 9,026                |
| Accounts payable  | 1,531,418                       | 1,416,313            |
| Accrued expenses  | 1,901,010                       | 2,060,222            |
| Forward purchase contract                               | 900,000                         | 900,000              |
| Total current liabilities                               | 5,066,448                       | 5,158,840            |
| Notes Payable and Other Debt, Net of Current Portion    | 15,217,668                      | 12,813,338           |
| Notes Payable to Stockholder, Net of Current Portion    | 801,776                         | 810,084              |
| Other Liabilities                                       | 480,521                         | 559,509              |
| Deferred Tax Liability                                  | 21,284                          | -                    |
| Minority Interest in Equity of Consolidated Entities    | 291,411                         | 255,070              |

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|                   |            |            |
|-------------------|------------|------------|
| Total liabilities | 21,879,108 | 19,596,841 |
|-------------------|------------|------------|

Stockholders' equity:

Preferred stock, no par value; 500,000 shares authorized;

no shares issued or outstanding

-

-

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

3,786,129 shares authorized; 3,786,129 shares issued  
and outstanding

14,112,424

14,063,956

Accumulated deficit

(9,285,499)

(9,169,354)

Total stockholders' equity

4,826,925

4,894,602

Total liabilities and stockholders' equity

\$ 26,706,033

\$ 24,491,443

See notes to consolidated financial statements

**ADCARE HEALTH SYSTEMS, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
(Unaudited)

|  | Three-Months Ended |             | Six-Months Ended |              |
|--|--------------------|-------------|------------------|--------------|
|  | June 30,           |             | June 30,         |              |
|  | 2008               | 2007        | 2008             | 2007         |
| <b>Revenues:</b>                                   |                    |             |                  |              |
| Patient care revenues                              | \$ 5,574,114       | \$5,457,475 | \$11,142,175     | \$10,824,117 |
| Management, consulting and development fee revenue | 442,422            | 414,902     | 866,903          | 872,609      |
| Total revenue                                      | 6,016,536          | 5,872,377   | 12,009,078       | 11,696,726   |
| <b>Expenses:</b>                                   |                    |             |                  |              |
| Payroll and related payroll costs                  | 3,697,477          | 3,653,871   | 7,284,874        | 7,342,447    |
| Other operating expenses                           | 2,113,128          | 1,924,627   | 4,136,385        | 3,704,381    |
| Depreciation and amortization                      | 206,324            | 169,683     | 433,018          | 340,087      |
| Total expenses                                     | 6,016,929          | 5,748,181   | 11,854,277       | 11,386,915   |
| Income (Loss) from Continuing Operations           | (393)              | 124,196     | 154,801          | 309,811      |
| <b>Other Income (Expense):</b>                     |                    |             |                  |              |
| Interest income                                    | 5,096              | 16,728      | 14,228           | 33,308       |
| Interest expense, others                           | (393,358)          | (289,373)   | (619,710)        | (569,945)    |
| Interest expense, related parties                  | (13,574)           | (17,726)    | (28,446)         | (35,683)     |
| Minority interest in earnings (losses) of          |                    |             |                  |              |
| consolidated entities                              | 22,241             | (36,134)    | (29,689)         | (64,008)     |
|  | (379,595)          | (326,505)   | (663,617)        | (636,328)    |
| Gain on Acquisition                                | 413,593            | -           | 413,593          | -            |
| Income (Loss ) From Continuing Operations Before   |                    |             |                  |              |
| Income Taxes                                       | 33,605             | (202,309)   | (95,223)         | (326,517)    |
| Income Tax Expense                                 | (10,642)           | -           | (21,284)         | -            |
| Income (Loss) From Continuing Operations           | 22,963             | (202,309)   | (116,507)        | (326,517)    |
| <b>Discontinued Operations:</b>                    |                    |             |                  |              |

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|   |           |              |              |              |
|---|-----------|--------------|--------------|--------------|
| Loss from discontinued operations           | -         | (10,571)     | -            | (21,140)     |
| Net Income (Loss)                           | \$ 22,963 | \$ (212,880) | \$ (116,507) | \$ (347,657) |
| Net Income (Loss) Per Share, Basic:         |           |              |              |              |
| Continuing operations                       | \$ 0.01   | \$ (0.05)    | \$ (0.03)    | \$ (0.09)    |
| Discontinued operations                     | -         | -            | -            | -            |
|   | \$ 0.01   | \$ (0.05)    | \$ (0.03)    | \$ (0.09)    |
| Net Income (Loss) Per Share, Diluted:       |           |              |              |              |
| Continuing operations                       | \$ 0.01   | \$ (0.05)    | \$ (0.03)    | \$ (0.09)    |
| Discontinued operations                     | -         | -            | -            | -            |
|   | \$ 0.01   | \$ (0.05)    | \$ (0.03)    | \$ (0.09)    |
| Weighted Average Common Shares Outstanding, |           |              |              |              |
| Basic                                       | 3,786,129 | 3,786,129    | 3,786,129    | 3,786,129    |
| Diluted                                     | 5,609,196 | 3,786,129    | 3,786,129    | 3,786,129    |

See notes to consolidated financial statements.

**ADCARE HEALTH SYSTEMS, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Unaudited)

|  | Six-Months Ended June 30, |              |
|--|---------------------------|--------------|
|  | 2008                      | 2007         |
| Cash flows from operating activities:  |                           |              |
| Net Loss   | \$ (116,507)              | \$ (347,657) |
| Add back: loss from discontinued operations  | -                         | (10,571)     |
| Net loss from continuing operations  | \$ (116,507)              | \$ (358,228) |
| Adjustments to reconcile net loss from continuing operations to net cash provided by (used in) operating activities: |                           |              |
| Depreciation and amortization  | 433,018                   | 340,087      |
| Warrants issued for services   | 55,105                    | 8,123        |
| Stock option compensation expense  | 19,151                    | 6,330        |
| Minority interest  | 29,689                    | 64,008       |
| Note receivable forgiveness exchanged for rent   | 9,000                     | 18,000       |
| Gain on acquisition  | (413,593)                 | -            |
| Changes in certain assets and liabilities:   |                           |              |
| Accounts receivable  | 78,627                    | (86,624)     |
| Prepaid expenses and other   | 153,084                   | (192,513)    |
| Other assets   | 780                       | (9,645)      |
| Accounts payable and accrued expenses  | (114,350)                 | (65,862)     |
| Income tax liability   | 21,284                    | -            |
| Other liabilities  | (97,485)                  | 75,926       |
| Net cash provided by (used in) operating activities of continuing operations   | 57,803                    | (200,398)    |
| Net cash used in operating activities of discontinued operations   | -                         | (4,278)      |
| Net cash provided by (used in) operating activities  | 57,803                    | (204,676)    |
| Cash flow from investing activities:   |                           |              |
| Proceeds from the sale of assets net of associated costs   | 2,500                     | -            |
| Purchase of property plant and equipment   | (226,160)                 | (569,895)    |
| Net cash used in investing activities  | (223,660)                 | (569,895)    |
| Cash flows from financing activities:  |                           |              |
| Amortization of bond issuance costs  | 144,475                   | 69,196       |
| Decrease in restricted cash  | 276,693                   | 8,248        |
| Proceeds from notes payable  | -                         | 54,000       |
| Cash received upon exercise of warrants  | -                         | 20,000       |
| Repayment of notes payable to stockholder  | -                         | (4,646)      |

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|   |              |              |
|---|--------------|--------------|
| Prepaid Financing Costs   | 111,984      | -            |
| Repayment on notes payable  | (240,588)    | (201,524)    |
| Net cash provided by (used in) financing activities of continuing operations    | 292,564      | (54,726)     |
| Net cash provided by (used in) financing activities of discontinued operations: |              |              |
| Repayment on notes payable of discontinued operations                           | -            | (4,739)      |
| Net cash used in financing activities   | 292,564      | (59,465)     |
| Net Increase (Decrease) in Cash   | 126,707      | (834,036)    |
| Cash, Beginning   | 926,625      | 2,136,414    |
| Cash, Ending  | \$ 1,053,332 | \$ 1,302,378 |
| Supplemental Disclosure of Cash Flow Information:                               |              |              |
| Cash paid during the year for Interest  | \$ 265,760   | \$ 523,939   |
| Supplemental Disclosure of Non-Cash Activities:                                 |              |              |
| Rent in exchange of note receivable repayment                                   | \$ 9,000     | \$ 18,000    |
| Acquisition of assets in exchange for note forgiveness                          | \$ 2,808,736 | \$ -         |

See notes to consolidated financial statements.