

ADCARE HEALTH SYSTEMS INC
Form 8-K
May 19, 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: May 19, 2008

Date of earliest event reported: May 15, 2008

AdCare Health Systems, Inc.

(Exact Name of Registrant as specified in its Charter)

Ohio

*(State or Other Jurisdiction
of Incorporation)*

333-131542

(Commission file Number)

31-1332119

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(IRS Employer Identification No.)

5057 Troy Road, Springfield, Ohio 45502-9032

(Address of principal executive offices) (Zip code)

Registrant's Telephone Number, Including Area Code

(937) 964-8974

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 2.01. Completion of Acquisition or Disposition of Assets.

On May 15, 2008, AdCare Health Systems, Inc. (the Company), completed the acquisition of 99% ownership in The New Lincoln, Ltd. (NLL). The sole asset of New Lincoln, Ltd. is the New Lincoln Lodge Retirement Residence (NLLRR). NLLRR is a 53 unit assisted living residence located in Columbus, Ohio. NLLRR began providing independent living and assisted living services in 1997.

On June 10, 1995, the Company formed New Lincoln Co. (in which the Company owned 49%) to serve as a 1% general partner in NLL. NLL was formed to acquire, renovate and operate NLLRR. In January 1999, the Company transferred its interest in New Lincoln, Ltd. to the majority owner. In connection with the transfer of the Company's interest in NLLRR, the Company received a promissory note in the amount of \$1,425,000. The note was due to be paid in full on or prior to December 31, 2004. At December 31, 2004, the outstanding principal balance was \$1,389,935. The Company granted an extension of the due date to December 31, 2005.

In October, 2005, the terms of the promissory note were retroactively amended. The amended terms called for interest at 10%, and a lump sum payment of the outstanding principal and accrued interest on December 31, 2006, the maturity date. The promissory note was personally guaranteed by the owner of the facility. This note was subsequently extended to December 31, 2007.

On March 7, 2008, the Company entered into a letter of intent to acquire 99% of New Lincoln Lodge in exchange for the outstanding note receivable, \$12,500 in cash and 1% ownership of NLL. The Company expects to recognize a gain on this transaction of approximately \$500,000 during the second quarter, 2008.

Item 2.02. Financial Statements and Exhibits.

On Monday, May 19, 2008, the Company issued a press release announcing its financial results for the first quarter ended March 31, 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 9.01. Financial Statements and Exhibits.

a.

Financial Statements of Business Acquired. The financial statements required by Item 9.01(a) are not included with this report. The Company intends to file these financial statements by amendment not later than 71 calendar days after the date this Form 8-K is required to be filed with the Securities and Exchange Commission.

b.

Pro Forma Financial Information. The pro forma financial information required under 9.01(b) is not included with this report. The Company intends to file this pro forma financial information by amendment no later than 71 calendar days after the date this Form 8-K is required to be filed with the Securities and Exchange Commission.

d.

Exhibits

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

ADCARE HEALTH SYSTEMS, INC.

By: /s/Scott Cunningham

Name: Scott Cunningham

Title: Chief Financial Officer

Press Release

AdCare Health Systems, Inc. Reports 2008 First Quarter

Earning Results

SPRINGFIELD, Ohio, May 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 first quarter of 2008.

Revenues for the quarter ended March 31st, 2008 were \$5,992,542 as compared to \$5,824,348 for the same quarter in 2007, an increase of \$168,194. The increase was primarily due to better occupancy at our skilled nursing centers and our assisted living communities.

The loss before taxes and discontinued operations for the quarter ended March 31, 2008 was \$128,826 as compared to a loss of \$124,206 for the first quarter ended March 31, 2007, an increase of \$4,620. Basic and diluted net loss per share for the three months ended March 31, 2008 was \$0.04 as compared to \$0.04 for the three months ended March 31, 2007.

David A. Tenwick, Chairman of AdCare, stated that the Company is continuing to absorb the necessary costs of being a public company but we are energized about being listed on the American Stock Exchange. Our plan is to utilize the advantages of being a public company by expanding operations through acquisitions in like or complimentary business areas such as rehabilitation services, institutional pharmacy and hospice, as well as raising additional capital. To assist us in carrying out our plans, we have engaged Prospect Financial Advisors.

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 900 employees provide high-quality care for patients and residents residing in the 15 facilities that they manage, seven of which are assisted living facilities, six skilled nursing centers and two independent senior living communities. The Company has ownership interests in seven 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.

Contact:

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ADCARE HEALTH SYSTEMS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

| | March 31, 2008 (Unaudited) | December 31, 2007 |
|---|----------------------------------|----------------------|
| <u>ASSETS</u> | | |
| Current Assets: | | |
| Cash | \$ 886,000 | \$ 926,625 |
| Certificate of deposit, restricted | 211,998 | 209,637 |
| Accounts receivable: | | |
| Long-term care resident receivables, net | 2,197,467 | 2,115,364 |
| Management, consulting and development receivables, net | 287,950 | 259,778 |
| Advances and receivables from affiliates, current | 22,669 | 27,558 |
| Prepaid expenses and other | 406,927 | 453,219 |
| Total current assets | 4,013,011 | 3,992,181 |
| Restricted cash | 740,803 | 973,975 |
| Property and equipment, net | 14,378,198 | 14,425,868 |
| Note receivable, net | 218,015 | 221,413 |
| License, net | 1,189,307 | 1,189,307 |
| Goodwill | 2,638,193 | 2,638,193 |
| Other assets | 1,151,121 | 1,050,506 |
| Total Assets | \$ 24,328,648 | \$ 24,491,443 |
| <u>LIABILITIES AND STOCKHOLDER'S EQUITY</u> | | |
| Current Liabilities: | | |
| Current portion of notes payable and other debt | \$ 740,607 | \$ 773,278 |
| Current portion of notes payable to stockholder | 9,432 | 9,026 |
| Accounts payable and accrued expenses | 3,485,882 | 3,476,536 |
| Forward purchase contract | 900,000 | 900,000 |
| Total current liabilities | 5,135,921 | 5,158,840 |
| Notes Payable and Other Debt, Net of Current Portion | 12,728,438 | 12,813,338 |
| Notes Payable to Stockholders, Net of Current Portion | 805,187 | 810,084 |
| Other Liabilities | 569,238 | 559,509 |
| Deferred Tax Liability | 10,642 | - |
| Minority Interest in Equity of Consolidated Entities | 307,000 | 255,070 |
| Total liabilities | 19,556,426 | 19,596,841 |
| Stockholders' equity: | | |

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| | | |
|--|---------------|---------------|
| Preferred stock, no par value; 500,000 shares authorized; no shares issued or outstanding | - | - |
| Common stock and additional paid-in capital, no par value; 14,500,000 shares authorized; 3,786,129 shares issued and outstanding | 14,081,044 | 14,063,956 |
| Accumulated deficit | (9,308,822) | (9,169,354) |
| Total stockholders' equity | 4,772,222 | 4,894,602 |
| Total liabilities and stockholders' equity | \$ 24,328,648 | \$ 24,491,443 |

See notes to consolidated financial statements

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

| | Three Months Ended March 31, | |
|--|------------------------------|--------------|
| | 2008 | 2007 |
| Revenues: | | |
| Patient care revenues | \$ 5,568,061 | \$ 5,366,640 |
| Management, consulting and development fee revenue | 424,481 | 457,708 |
| Total revenue | 5,992,542 | 5,824,348 |
| Expenses: | | |
| Payroll and related payroll costs | 3,587,397 | 3,688,575 |
| Other operating expenses | 2,023,256 | 1,779,752 |
| Depreciation and amortization | 226,694 | 202,903 |
| Total expenses | 5,837,347 | 5,671,230 |
| Income from Continuing Operations | 155,195 | 153,118 |
| Other Income (Expense): | | |
| Interest income | 9,133 | 16,580 |
| Interest expense, others | (226,352) | (248,073) |
| Interest expense, related parties | (14,872) | (17,957) |
| Minority interest in earnings of consolidated entities | (51,930) | (27,874) |
| | (284,021) | (277,324) |
| Loss Before Taxes and Discontinued Operations | (128,826) | (124,206) |
| Income Tax Expense | (10,642) | - |
| Loss From Continuing Operations | (139,468) | (124,206) |
| Discontinued Operations: | | |
| Loss from discontinued operations | - | (10,571) |
| Net Loss | \$ (139,468) | \$ (134,777) |
| Net Loss Per Share, Basic and Diluted: | | |
| Continuing operations | \$ (0.04) | \$ (0.04) |
| Discontinued operations | - | - |
| | \$ (0.04) | \$ (0.04) |

Weighted Average Common Shares Outstanding,

| | | |
|---------|-----------|-----------|
| Basic | 3,786,129 | 3,786,129 |
| Diluted | 3,786,129 | 3,786,129 |

See notes to consolidated financial statements