

SUNLINK HEALTH SYSTEMS INC  
Form 10-Q  
February 14, 2013

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington D.C. 20549

**FORM 10-Q**

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

For the quarterly period ended December 31, 2012

OR

.. **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 1-12607

**SUNLINK HEALTH SYSTEMS, INC.**

(Exact name of registrant as specified in its charter)

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**Ohio**  
(State or other jurisdiction of  
incorporation or organization)

**31-0621189**  
(I.R.S. Employer  
Identification No.)

**900 Circle 75 Parkway, Suite 1120, Atlanta, Georgia 30339**  
(Address of principal executive offices)

**(770) 933-7000**  
(Zip Code)

**(770) 933-7000**  
(Registrant's telephone number, including area code)

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 filings 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, or 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   
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

The number of Common Shares, without par value, outstanding as of February 14, 2013 was 9,446,039.

**PART I. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****SUNLINK HEALTH SYSTEMS, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS**

(in thousands)

	December 31, 2012 (unaudited)	June 30, 2012
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$ 7,733	\$ 2,057
Cash in escrow	753	0
Receivables - net	14,227	13,228
Inventory	3,922	3,884
Income tax receivable	70	198
Deferred income tax asset	6,705	5,174
Prepaid expense and other	3,870	4,231
EHR incentive reimbursement receivable	577	0
Net current assets held for sale	0	1,846
Total current assets	37,857	30,618
Property, plant and equipment, at cost	62,732	63,856
Less accumulated depreciation	32,345	33,774
Property, plant and equipment - net	30,387	30,082
Noncurrent Assets:		
Intangible assets - net	3,248	3,320
Goodwill	461	461
Deferred income tax asset	4,016	5,891
Other noncurrent assets	1,735	894
Net noncurrent assets held for sale	0	7,906
Total noncurrent assets	9,460	18,472
<b>TOTAL ASSETS</b>	<b>\$ 77,704</b>	<b>\$ 79,172</b>
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 8,402	\$ 6,934
Revolving advances	0	5,931
Current maturities of long-term debt	9,488	9,050
Current maturities of subordinated long-term debt	300	300
Accrued payroll and related taxes	4,391	4,584
Income taxes payable	2,165	0
Due to third party payors	862	0
Deferred Gain - Medicare EHR incentive reimbursement	5,257	0
Other accrued expenses	2,507	2,566
Current liabilities held for sale	0	2,449
Total current liabilities	33,372	31,814

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<b>Long-Term Liabilities</b>		
Long-term debt	6,435	11,588
Subordinated long-term debt	2,002	2,152
Noncurrent liability for professional liability risks	3,324	3,191
Other noncurrent liabilities	724	907
Noncurrent liabilities held for sale	0	229
<b>Total long-term liabilities</b>	<b>12,485</b>	<b>18,067</b>
<b>Commitment and Contingencies</b>		
<b>Shareholders' Equity</b>		
Preferred Shares, authorized and unissued, 2,000 shares	0	0
<b>Common Shares, without par value:</b>		
Issued and outstanding, 9,446 shares at December 31, 2012 and 9,447 shares at June 30, 2012	4,725	4,724
Additional paid-in capital	13,565	13,521
Retained earnings	14,054	11,543
Accumulated other comprehensive loss	(497)	(497)
<b>Total Shareholders' Equity</b>	<b>31,847</b>	<b>29,291</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$ 77,704</b>	<b>\$ 79,172</b>

See notes to condensed consolidated financial statements.

## SUNLINK HEALTH SYSTEMS, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

## AND COMPREHENSIVE EARNINGS AND LOSS

(in thousands, except per share amounts)

(unaudited)

	Three Months Ended December 31,		Six Months Ended December 31,	
	2012	2011	2012	2011
Operating revenues (net of contractual allowances)	\$ 30,385	\$ 31,401	\$ 59,557	\$ 60,957
Less provision for bad debts of Healthcare Facilities Segment	2,535	2,376	6,017	5,755
Net revenues	27,850	29,025	53,540	55,202
Costs and Expenses				
Cost of goods sold	6,529	7,807	10,766	12,741
Salaries, wages and benefits	13,386	13,219	26,607	26,352
Provision for bad debts of Specialty Pharmacy Segment	177	39	257	309
Supplies	2,437	2,069	4,700	4,260
Purchased services	1,896	1,858	3,852	3,923
Other operating expenses	3,976	4,035	8,081	8,111
Rent and lease expense	458	550	1,004	1,127
Impairment of property, plant and equipment	0	0	789	0
Depreciation and amortization	989	1,120	1,973	2,219
EHR incentive payments	(1,024)	(613)	(1,024)	(1,272)
Operating Loss	(974)	(1,059)	(3,465)	(2,568)
Other Income (Expense):				
Interest expense	(647)	(1,031)	(1,206)	(2,334)
Interest income	0	0	0	2
Loss from Continuing Operations before income taxes	(1,621)	(2,090)	(4,671)	(4,900)
Income Tax Benefit	(226)	(693)	(1,654)	(1,760)
Loss from Continuing Operations	(1,395)	(1,397)	(3,017)	(3,140)
Earnings from Discontinued Operations	5,330	462	5,528	650
Net Earnings (loss)	3,935	(935)	2,511	(2,490)
Other comprehensive income	0	0	0	0
Comprehensive income (loss)	\$ 3,935	\$ (935)	\$ 2,511	\$ (2,490)
Earnings (Loss) Per Share:				
Continuing Operations:				
Basic	\$ (0.15)	\$ (0.15)	\$ (0.32)	\$ (0.34)
Diluted	\$ (0.15)	\$ (0.15)	\$ (0.32)	\$ (0.34)
Discontinued Operations:				
Basic	\$ 0.56	\$ 0.05	\$ 0.59	\$ 0.07

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Diluted	\$ 0.56	\$ 0.05	\$ 0.59	\$ 0.07
<b>Net Earnings (loss):</b>				
Basic	\$ 0.42	\$ (0.10)	\$ 0.27	\$ (0.27)
Diluted	\$ 0.42	\$ (0.10)	\$ 0.27	\$ (0.27)
<b>Weighted-Average Common Shares Outstanding:</b>				
Basic	9,446	9,448	9,446	9,253