

SUNLINK HEALTH SYSTEMS INC
Form 10-Q
February 14, 2011

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, 2010

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)

Ohio
(State or other jurisdiction of

incorporation or organization)

900 Circle 75 Parkway, Suite 1120, Atlanta, Georgia 30339

(Address of principal executive offices)

31-0621189
(I.R.S. Employer

Identification No.)

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(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 11, 2011 was 8,081,732.

SUNLINK HEALTH SYSTEMS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands)

	December 31, 2010 (unaudited)	June 30, 2010
<u>ASSETS</u>		
Current Assets:		
Cash and cash equivalents	\$ 1,231	\$ 1,704
Receivables - net	18,680	17,233
Inventory	4,770	4,823
Income tax receivable	1,776	345
Deferred income tax asset	5,858	6,030
Prepaid expenses and other	3,720	4,499
Total Current Assets	36,035	34,634
Property, Plant and Equipment, at cost	73,457	72,474
Less accumulated depreciation and amortization	33,923	31,118
Property, Plant and Equipment - net	39,534	41,356
Intangible assets-net	11,457	11,776
Goodwill	9,024	9,024
Other assets	367	1,700
Total Assets	\$ 96,417	\$ 98,490
<u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>		
Current Liabilities:		
Accounts payable	\$ 8,667	\$ 8,445
Revolving advances	2,800	-
Current maturities of long-term debt	30,000	1,797
Current maturities of subordinated long-term debt	300	300
Accrued payroll and related taxes	4,985	5,129
Third-party payor settlements	1,177	-
Income taxes	-	607
Other accrued expenses	2,814	2,828
Total Current Liabilities	50,743	19,106
Long-Term Liabilities:		
Long-term debt	18	29,090
Subordinated long-term debt	2,100	2,250
Noncurrent liability for professional liability risks	3,206	2,956
Noncurrent deferred income tax liabilities	1,403	1,625
Other noncurrent liabilities	775	771
Total Long-term Liabilities	7,502	36,692
Commitments and Contingencies		
Shareholders' Equity:		
Preferred shares, authorized and unissued, 2,000 shares		
Common shares, without par value:		

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Issued and outstanding, 8,082 shares at December 31, 2010 and 8,079 shares at June 30, 2010	4,040	4,039
Additional paid-in capital	11,713	11,701
Retained earnings	22,032	26,565
Accumulated other comprehensive loss	(301)	(301)
Total Parent Company Shareholders' Equity	37,484	42,004
Noncontrolling interest	688	688
Total Shareholders' Equity	38,172	42,692
Total Liabilities and Shareholders' Equity	\$ 96,417	\$ 98,490

See notes to condensed consolidated financial statements.

SUNLINK HEALTH SYSTEMS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS

(in thousands, except per share amounts)

(unaudited)

	THREE MONTHS ENDED December 31,		SIX MONTHS ENDED December 31,	
	2010	2009	2010	2009
Net Revenues	\$ 48,751	\$ 50,395	\$ 92,955	\$ 98,462
Costs and Expenses:				
Cost of goods sold	8,443	8,968	14,251	15,598
Salaries, wages and benefits	19,739	20,082	39,040	40,042
Provision for bad debts	5,133	6,014	11,357	12,526
Supplies	3,688	3,981	7,341	7,849
Purchased services	3,085	3,089	6,136	6,107
Other operating expenses	6,096	5,681	12,439	11,572
Rent and lease expense	849	808	1,688	1,628
Depreciation and amortization	1,547	1,695	3,140	3,357
Gain on sale of Home Health businesses	-	-	-	(2,342)
Operating Profit (Loss)	171	77	(2,437)	2,125
Other Income (Expense):				
Interest expense	(3,229)	(859)	(4,077)	(1,778)
Interest income	1	6	2	9
Earnings (Loss) from Continuing Operations before Income Taxes	(3,057)	(776)	(6,512)	356
Income Tax Expense (Benefit)	(978)	(365)	(1,788)	218
Earnings (Loss) from Continuing Operations	(2,079)	(411)	(4,724)	138
Earnings (Loss) from Discontinued Operations	314	(113)	190	(166)
Net Loss	\$ (1,765)	\$ (524)	\$ (4,534)	\$ (28)
Earnings (Loss) Per Share:				
Continuing Operations:				
Basic	\$ (0.26)	\$ (0.05)	\$ (0.58)	\$ 0.02
Diluted	\$ (0.26)	\$ (0.05)	\$ (0.58)	\$ 0.02
Discontinued Operations:				
Basic	\$ 0.04	\$ (0.01)	\$ 0.02	\$ (0.02)
Diluted	\$ 0.04	\$ (0.01)	\$ 0.02	\$ (0.02)
Net Loss:				
Basic	\$ (0.22)	\$ (0.07)	\$ (0.56)	\$ (0.00)
Diluted	\$ (0.22)	\$ (0.07)	\$ (0.56)	\$ (0.00)

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Weighted-Average Common Shares Outstanding:				
Basic	8,082	8,050	8,081	8,050
Diluted	8,082	8,050	8,081	8,069

See notes to condensed consolidated financial statements.

SUNLINK HEALTH SYSTEMS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**(in thousands)****(unaudited)**

	SIX MONTHS ENDED DECEMBER 31,	
	2010	2009
Net Cash Provided By (Used In) Operating Activities	\$ (1,360)	\$ 39
Cash Flows From Investing Activities:		
Proceeds from sale of Home Health businesses	-	3,300
Expenditures for property, plant and equipment	(869)	(1,337)
Net Cash Provided by (Used in) Investing Activities	(869)	1,963
Cash Flows From Financing Activities:		
Revolving advances, net	2,800	(2,100)
Payments on long-term debt	(1,052)	(1,060)
Proceeds from issuance of common shares under stock option plans	8	-
Net Cash Provided by (Used in) Financing Activities	1,756	(3,160)
Net Decrease in Cash and Cash Equivalents	(473)	