

SUNLINK HEALTH SYSTEMS INC
Form 10-Q
May 17, 2010

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 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)

31-0621189
(I.R.S. Employer

Identification No.)

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

(Address of principal executive offices)

(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

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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 May 14, 2010 was 8,072,482.

ITEM 1. FINANCIAL STATEMENTS

SUNLINK HEALTH SYSTEMS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands)

(unaudited)

	March 31, 2010	June 30, 2009
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 2,692	\$ 2,364
Receivables - net	19,636	21,116
Inventory	4,677	4,745
Income tax receivable	243	87
Deferred income tax asset	6,386	5,446
Prepaid expenses and other	4,006	3,265
Current assets of Mountainside Medical Center	1,325	
Total Current Assets	38,965	37,023
Property, Plant and Equipment, at cost	73,019	71,557
Less accumulated depreciation and amortization	29,588	25,435
Property, Plant and Equipment - net	43,431	46,122
Intangible assets-net	11,954	12,587
Goodwill	9,024	9,453
Other assets	1,775	2,198
Total Assets	\$ 105,149	\$ 107,383

LIABILITIES AND SHAREHOLDERS' EQUITY

Current Liabilities:		
Accounts payable	\$ 7,477	\$ 9,131
Revolving advances	2,100	3,400
Current maturities of long-term debt	1,796	1,808
Current maturities of subordinated long-term debt	300	300
Accrued payroll and related taxes	6,136	4,749
Income taxes	1,601	1,664
Other accrued expenses	3,854	4,348
Total Current Liabilities	23,264	25,400
Long-Term Liabilities:		
Long-term debt	29,539	30,887
Subordinated long-term debt	2,400	2,550
Noncurrent liability for professional liability risks	2,880	3,072
Noncurrent deferred income tax liabilities	2,161	1,776
Other noncurrent liabilities	763	1,306
Total Long-term Liabilities	37,743	39,591
Commitments and Contingencies		
Shareholders' Equity:		

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Preferred shares, authorized and unissued, 2,000 shares		
Common shares, without par value:		
Issued and outstanding, 8,072 shares at March 31, 2010 and 8,050 shares at June 30, 2009	4,036	4,025
Additional paid-in capital	11,682	11,626
Retained earnings	28,081	26,463
Accumulated other comprehensive loss	(272)	(337)
Total Parent Company Shareholders' Equity	43,527	41,777
Noncontrolling interest	615	615
Total Shareholders' Equity	44,142	42,392
Total Liabilities and Shareholders' Equity	\$ 105,149	\$ 107,383

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 March 31,		NINE MONTHS ENDED March 31,	
	2010	2009	2010	2009
Net Revenues	\$ 51,727	\$ 53,563	\$ 149,697	\$ 149,999
Costs and Expenses				
Cost of goods sold	8,446	10,004	24,044	25,299
Salaries, wages and benefits	20,130	20,091	60,172	59,692
Provision for bad debts	7,154	6,399	20,277	18,131
Supplies	3,943	3,790	11,792	10,903
Purchased services	2,918	2,792	9,025	8,714
Other operating expenses	4,953	5,070	15,436	15,964
Rent and lease expense	831	841	2,459	2,401
Impairment of construction in progress		433		433
Depreciation and amortization	1,702	1,733	5,059	5,137
Gain on sale of Home Health businesses			(2,342)	
Operating Profit	1,650	2,410	3,775	3,325
Other Income (Expense):				
Gain on sale of assets				180
Interest expense	(832)	(292)	(2,610)	(2,818)
Interest income	3	22	12	39
Earnings from Continuing Operations before Income Taxes	821	2,140	1,177	726
Income Tax Expense	391	1,159	609	509
Earnings from Continuing Operations	430	981	568	217
Earnings (Loss) from Discontinued Operations	1,216	(32)	1,050	(196)
Net Earnings	\$ 1,646	\$ 949	\$ 1,618	\$ 21
Earnings (Loss) Per Share:				
Continuing Operations:				
Basic	\$ 0.05	\$ 0.12	\$ 0.07	\$ 0.03
Diluted	\$ 0.05	\$ 0.12	\$ 0.07	\$ 0.03
Discontinued Operations:				
Basic	\$ 0.15	\$ (0.00)	\$ 0.13	\$ (0.02)
Diluted	\$ 0.15	\$ (0.00)	\$ 0.13	\$ (0.02)

Net Earnings:

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Basic	\$ 0.20	\$ 0.12	\$ 0.20	\$ 0.00
Diluted	\$ 0.20	\$ 0.12	\$ 0.20	\$ 0.00
Weighted-Average Common Shares Outstanding:				
Basic	8,057	7,999	8,052	7,975
Diluted	8,069	7,999	8,068	8,027

See notes to condensed consolidated financial statements.

SUNLINK HEALTH SYSTEMS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

	NINE MONTHS ENDED	
	MARCH 31,	
	2010	2009
Net Cash Provided By Operating Activities	\$ 1,582	\$ 272
Cash Flows From Investing Activities:		
Proceeds from sale of Home Health businesses	3,300	
Expenditures for property, plant and equipment	(1,812)	(1,032)
Proceeds from sale of assets		522
Net Cash Provided by (Used in) Investing Activities	1,488	(510)
Cash Flows From Financing Activities:		
Revolving advances, net	(1,300)	2,100
Payments on long-term debt	(1,509)	(1,933)
Proceeds from issuance of common shares under stock option plans	67	108