

SUNLINK HEALTH SYSTEMS INC
Form 10-Q/A
September 25, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington D.C. 20549

FORM 10-Q/A

(Amendment No. 1)

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

For the quarterly period ended December 31, 2008

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 **31-0621189**
(State or other jurisdiction of **(I.R.S. Employer**
incorporation or organization) **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

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 13, 2009 was 7,998,432.

Amendment No. 1 Overview

SunLink Health Systems, Inc. (SunLink) is filing this Amendment No. 1 of Form 10-Q/A to our Form 10-Q for the three and six month periods ended December 31, 2008 to reflect the restatement of our previously issued condensed consolidated financial statements and other information to correct the impact of non-cash accounting errors at its Carmichael s Cashway Pharmacy, Inc. subsidiary (Carmichael). For further discussion of the restatement, see Note 1. to our condensed consolidated financial statements and Item 4 contained herein.

In May 2009, Carmichael s then Chief Financial Officer (CFO) resigned. In June 2009, Carmichael hired a new CFO and in July 2009, the new Carmichael CFO and SunLink s CFO began an investigation into unresolved accounting discrepancies between Carmichael s accounts receivable detail and its general ledger. When the new Carmichael CFO was unable to resolve the discrepancies, SunLink, in July 2009, engaged an outside accountant (the **Investigation Accountant**) to investigate the discrepancies. After being informed of the preliminary results of the Investigation Accountant s investigation, the Company informed the Audit Committee of SunLink s Board of Directors (the **Audit Committee**) of the preliminary findings by such Investigation Accountant. Based on such preliminary findings, on August 28, 2009 SunLink concluded that the impact of the Carmichael level accounting irregularities made it likely that SunLink s financial statements for the first, second and third fiscal quarters ended September 30, 2008, December 31, 2008 and March 31, 2009, respectively, should not be relied on.

As we previously disclosed in our Form 8-K filed on August 28, 2009, SunLink reached its conclusion on August 28, 2009, based on information reviewed by SunLink s management and SunLink s Audit Committee and SunLink s independent registered public accounting firm (the **Public Accountants**), including information provided by the Investigation Accountant. SunLink concluded that Carmichael s financial statements, among other things, had misstated the Subsidiary s accounts receivable during the referenced periods due to accounting calculation errors and improper period-end cut-off of certain accounts receivable systems and, as a result thereof, the SunLink financial statements for the quarters ended September 30, 2008, December 31, 2008 and March 31, 2009 contained errors in the amount of accounts receivable, net income (loss), revenues, provision for bad debts, allowance for doubtful accounts and contractual allowances. The Public Accountants concur with SunLink s conclusion with respect to the restatement of the condensed consolidated financial statements for the quarter ended September 30, 2008, December 31, 2008 and March 31, 2009.

The information contained in this Amendment, including the condensed consolidated financial statements and the notes hereto, amends Items 1 and 2 of Part I and Item 4T of Part II of the originally filed Quarterly Report on Form 10-Q for the three and six month periods ended December 31, 2008 and no other items in our originally filed Form 10-Q are hereby amended. This Form 10-Q/A does not materially modify or update other disclosures in the original Form 10-Q, including the nature and character of such disclosure to reflect events occurring after February 13, 2009, the filing date of the original Form 10-Q. Accordingly, this Form 10-Q/A should be read in conjunction with our filings made with the Securities and Exchange Commission. In addition, currently dated certifications from our Chief Executive Officer and Chief Financial Officer have been included as exhibits to this amendment.

The following table sets forth the effects of the restatement on certain line items within our previously reported condensed consolidated financial statements (in thousands, except per share data):

(in thousands, except per share amounts)

Condensed Consolidated Statements of Earnings

	Three Months Ended	
	December 31, 2008 Restated	December 31, 2008 Previously Reported
Net Revenues	\$ 49,758	\$ 50,129
Provision for bad debts	5,987	5,503
Operating Profit	837	1,692
Earnings (Loss) from continuing operations before income taxes	(245)	610
Earnings (Loss) from continuing operations	(161)	366
Net Earnings (Loss)	(264)	263
Earnings (Loss) per Share		
Continuing Operations:		
Basic	(0.02)	0.05
Diluted	(0.02)	0.05
Net Earnings (Loss):		
Basic	(0.03)	0.03
Diluted	\$ (0.03)	\$ 0.03

	Six Months Ended	
	December 31, 2008 Restated	December 31, 2008 Previously Reported
Net Revenues	\$ 96,436	\$ 96,867
Provision for bad debts	11,732	11,122
Operating Profit	915	1,956
Loss from continuing operations before income taxes	(1,414)	(373)
Loss from continuing operations	(764)	(122)
Net Loss	(928)	(286)
Loss per Share		
Continuing Operations:		
Basic	(0.10)	(0.02)
Diluted	(0.10)	(0.02)
Net Loss:		
Basic	(0.12)	(0.04)
Diluted	\$ (0.12)	\$ (0.04)

(in thousands, except per share amounts)

Condensed Consolidated Balance Sheets

	December 31, 2008 Restated	December 31, 2008 Previously Reported
Receivables - net	\$ 20,728	\$ 21,769
Prepaid expenses and other	3,854	3,455
Total assets	108,557	109,199
Retained earnings	\$ 24,623	25,265

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

(in thousands)

(unaudited)

	December 31, 2008 (Restated)	June 30, 2008
<u>ASSETS</u>		
Current Assets:		
Cash and cash equivalents	\$ 1,122	\$ 1,716
Receivables - net	20,728	20,052
Inventory	4,838	4,711
Deferred income tax asset	4,800	5,449
Prepaid expenses and other	3,854	3,244
Total Current Assets	35,342	35,172
Property, Plant and Equipment, at cost	71,149	71,205
Less accumulated depreciation and amortization	22,519	19,985
Property, Plant and Equipment - net	48,630	51,220
Intangible assets - net	12,975	13,427
Goodwill	9,453	9,453
Other assets	2,157	2,352
Total Assets	\$ 108,557	\$ 111,624
<u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>		
Current Liabilities:		
Accounts payable	\$ 9,385	\$ 8,691
Revolving advances	5,500	3,900
Third-party payor settlements	955	1,664
Current maturities of long-term debt	1,846	1,844
Current maturities of subordinated long-term debt	300	150
Accrued payroll and related taxes	4,781	6,012
Income taxes		555
Current liabilities of Mountainside Medical Center	594	600
Other accrued expenses	3,960	3,653
Total Current Liabilities	27,321	27,069
Long-Term Liabilities:		
Long-term debt	31,784	33,118
Subordinated long-term debt	2,700	2,850
Noncurrent liability for professional liability risks	2,804	2,506
Noncurrent deferred income tax liabilities	1,971	3,132

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Other noncurrent liabilities	1,458	2,090
Total Long-term Liabilities	40,717	43,696
Commitments and Contingencies		
Minority interest	615	615
Shareholders' Equity:		
Preferred shares, authorized and unissued, 2,000 shares		
Common shares, without par value:		
Issued and outstanding, 7,998 shares at December 31, 2008 and 7,932 shares at June 30, 2008	3,999	3,966
Additional paid-in capital	11,532	11,310
Retained earnings	24,623	25,551
Accumulated other comprehensive loss	(250)	(583)
Total Shareholders' Equity	39,904	40,244
Total Liabilities and Shareholders' Equity	\$ 108,557	\$ 111,624

See notes to condensed consolidated financial statements.

SUNLINK HEALTH SYSTEMS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS

(in thousands, except per share amounts)

(unaudited)

	THREE MONTHS ENDED DECEMBER 31,		SIX MONTHS ENDED DECEMBER 31,	
	2008 (Restated)	2007	2008 (Restated)	2007
Net Revenues	\$ 49,758	\$ 36,969	\$ 96,436	\$ 75,205
Costs and Expenses:				
Cost of Goods Sold	9,231		15,295	
Salaries, wages and benefits	19,511	17,589	39,601	35,414
Provision for bad debts	5,987	5,216	11,732	11,845
Supplies	3,387	3,745	7,113	7,525
Purchased services	2,870	2,472	5,922	5,023
Other operating expenses	5,460	5,425	10,894	9,856
Rent and lease expense	776	755	1,560	1,485
Depreciation and amortization	1,699	1,278	3,404	2,502
Cost of patient service revenues	48,921	36,480	95,521	73,650
Operating Profit	837	489	915	1,555
Other Income (Expense):				
Gain on sale of assets	180		180	
Interest expense	(1,272)	(436)	(2,526)	(846)
Interest income	10	28	17	33
Earnings (Loss) from Continuing Operations before Income Taxes	(245)	81	(1,414)	742
Income Tax Expense (Benefit)	(84)	30	(650)	248
Earnings (Loss) from Continuing Operations	(161)	51	(764)	494
Loss from Discontinued Operations	(103)	(84)	(164)	(134)
Net Earnings (Loss)	\$ (264)	\$ (33)	\$ (928)	\$ 360
Earnings (Loss) Per Share:				
Continuing Operations:				
Basic	\$ (0.02)	\$ 0.01	\$ (0.10)	