REGIONAL HEALTH PROPERTIES, INC
Form 10-Q
November 14, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2018

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 001-33135

Regional Health Properties, Inc.

(Exact name of registrant as specified in its charter)

Georgia	81-5166048
(State or other jurisdiction of incorporation)	(I.R.S. Employer Identification Number)

454 Satellite Boulevard NW, Suite 100, Suwanee, GA 30024

(Address of principal executive offices)

(678) 869-5116

(Registrant’s telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the 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 filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically 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 such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See definition of "large accelerated filer", "accelerated filer", "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer		Accelerated filer
Non-accelerated filer		Smaller reporting company
	(Do not check if a smaller reporting company)	Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. Yes No

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

As of October 31, 2018: 20,187,240 shares of common stock, no par value, were outstanding.

Regional Health Properties, Inc.

Form 10-Q

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Part I. Financial Information

Item 1. Financial Statements
REGIONAL HEALTH PROPERTIES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(Amounts in 000's)

(Unaudited)

	September 30, 2018	December 31, 2017
ASSETS		
Current assets:		
Cash	$ 1,884	$ 1,818
Restricted cash	1,109	960
Accounts receivable, net of allowance of $1,414 and $2,570	887	945
Prepaid expenses and other	263	304
Notes receivable	829	677
Total current assets	4,972	4,704
Restricted cash	2,630	2,581
Property and equipment, net	78,574	81,213
Intangible assets - bed licenses	2,471	2,471
Intangible assets - lease rights, net	1,586	2,187
Goodwill	2,105	2,105
Lease deposits and other deposits	936	808
Straight-line rent receivable	6,632	6,400
Notes receivable	1,361	3,540
Other assets	71	542
Total assets	$ 101,338	$ 106,551
LIABILITIES AND EQUITY		
Current liabilities:		
Current portion of notes payable and other debt	$ 25,744	$ 6,621
Current portion of convertible debt, net	—	1,469
Accounts payable	4,502	4,386
Accrued expenses and other	4,220	7,022
Total current liabilities	34,466	19,498
Notes payable and other debt, net of current portion:		
Senior debt, net	48,645	57,801
Bonds, net	6,519	6,567
Other debt, net	—	644
Other liabilities	3,927	4,133
Deferred tax liabilities	38	38
Total liabilities	93,595	88,681

Commitments and contingencies (Note 13)		
Stockholders' equity:		
Common stock and additional paid-in capital, no par value; 55,000 shares authorized; 20,187 and 19,697 issued and outstanding at September 30, 2018 and December 31, 2017, respectively	61,850	61,724
Preferred stock, no par value; 5,000 shares authorized; 2,812 and 2,812 shares issued and outstanding, redemption amount $70,288 and $70,288 at September 30, 2018 and December 31, 2017, respectively	62,423	62,423
Accumulated deficit	(116,530)	(106,277)
Total stockholders' equity	7,743	17,870
Total liabilities and stockholders' equity	$ 101,338	$ 106,551

See accompanying notes to unaudited consolidated financial statements

REGIONAL HEALTH PROPERTIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(Amounts in 000's, except per share data)

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Revenues:				
Rental revenues	$4,972	$5,983	$15,706	$17,703
Management fees	235	229	703	688
Other revenues	49	133	148	393
Total revenues	5,256	6,345	16,557	18,784
Expenses:				
Facility rent expense	2,171	2,171	6,512	6,512
Cost of management fees	137	155	448	499
Depreciation and amortization	1,126	1,193	3,507	3,499
General and administrative expense	984	908	2,751	3,008
Provision for doubtful accounts	(48)	—	3,934	455
Other operating expenses	255	517	823	940
Total expenses	4,625	4,944	17,975	14,913
Income (loss) from operations	631	1,401	(1,418)	3,871
Other expense:				
Interest expense, net	1,783	1,011	4,595	3,049
Loss on extinguishment of debt	3,514	—	3,955	63
Other expense	—	105	10	388
Total other expense, net	5,297	1,116	8,560	3,500
(Loss) income from continuing operations before income taxes	(4,666)	285	(9,978)	371
Income tax expense	—	19	33	20
(Loss) income from continuing operations	$(4,666)	$266	$(10,011)	$351
Income (loss) from discontinued operations, net of tax	157	(1,032)	(242)	(2,049)
Net Loss	(4,509)	(766)	(10,253)	(1,698)
Preferred stock dividends - declared	—	(1,912)	—	(5,702)
Preferred stock dividends - undeclared	(1,912)	—	(5,736)	—
Net loss attributable to Regional Health Properties, Inc. common stockholders	$(6,421)	$(2,678)	$(15,989)	$(7,400)
Net loss (income) per share of common stock attributable to Regional Health Properties, Inc.				
Basic and diluted:				
Continuing operations	$(0.33)	$(0.08)	$(0.79)	$(0.27)
Discontinued operations	0.01	(0.05)	(0.01)	(0.10)
	$(0.32)	$(0.13)	$(0.80)	$(0.37)

Weighted average shares of common stock outstanding:				
Basic and diluted	20,187	19,762	19,914	19,784

See accompanying notes to unaudited consolidated financial statements

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REGIONAL HEALTH PROPERTIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

(Amounts in 000's)

(Unaudited)

	Shares of Common Stock	Shares of Preferred Stock	Common Stock and Additional Paid-in Capital	Preferred Stock	Accumulated Deficit	Total
Balances, December 31, 2017	19,697	2,812	$ 61,724	$ 62,423	$ (106,277)	$ 17,870
Stock-based compensation	—	—	126	—	—	126
Issuance of restricted stock, net of forfeitures	490	—	—	—	—	—
Net loss	—	—	—	—	(10,253)	(10,253)
Balances, September 30, 2018	20,187	2,812	$ 61,850	$ 62,423	$ (116,530)	$ 7,743

See accompanying notes to unaudited consolidated financial statements

REGIONAL HEALTH PROPERTIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in 000’s)

(Unaudited)

	Nine Months Ended September 30, 2018	Nine Months Ended September 30, 2017
Cash flows from operating activities:		
Net loss	$(10,253)	$(1,698)
Loss from discontinued operations, net of tax	242	2,049
(Loss) income from continuing operations	(10,011)	351
Adjustments to reconcile net (loss) income from continuing operations to net cash provided by operating activities:		
Depreciation and amortization	3,507	3,499
Settlement agreements in excess of cash paid		300
Stock-based compensation expense	126	281
Rent expense in excess of cash paid	301	440
Rent revenue in excess of cash received	(1,784)	(2,138)
Amortization of deferred financing costs, debt discounts and premiums	698	241
Loss on debt extinguishment	3,955	—
Bad debt expense	3,934	455
Changes in operating assets and liabilities:		
Accounts receivable	(349)	409
Prepaid expenses and other	239	202
Other assets	35	(16)
Accounts payable, and accrued expenses and other	663	324
Other liabilities	7	167
Net cash provided by operating activities - continuing operations	1,321	4,515
Net cash used in operating activities - discontinued operations	(1,264)	(961)
Net cash provided by operating activities	57	3,554
Cash flows from investing activities:		
Change in net cash investments	—	(35)
Purchase of real estate, net	—	(1,375)
Purchase of property and equipment	(266)	(774)
Net cash used in investing activities - continuing operations	(266)	(2,184)
Net cash used in investing activities	(266)	(2,184)
Cash flows from financing activities:		
Proceeds from debt issuance	2,397	—
Repayment on notes payable	(1,546)	(3,038)
Repayment on bonds payable	(95)	(90)
Repayment of convertible debt	—	(7,700)
Debt issuance costs	(95)	—

Proceeds from preferred stock issuances, net	—	977
Repurchase of common stock	—	(186)
Dividends paid on preferred stock	—	(5,702)
Net cash provided by (used in) financing activities - continuing operations	661	(15,739)
Net cash used in financing activities - discontinued operations	(188)	(485)
Net cash provided by (used in) financing activities	473	(16,224)
Net change in cash and restricted cash	264	(14,854)
Cash and restricted cash, beginning	5,359	19,509
Cash and restricted cash, ending	$5,623	$4,655

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REGIONAL HEALTH PROPERTIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in 000's)

(Unaudited)

	Nine Months Ended September 30,	
	2018	2017
Supplemental disclosure of cash flow information:		
Interest paid	$3,775	$2,840
Income taxes paid	$33	$13
Supplemental disclosure of non-cash activities:		
Non-cash payments of long-term debt	$(8,744)	$—
Non-cash payments of convertible debt	(1,500)	—
Non-cash payments of professional liability settlements from financing	(2,371)	—
Non-cash debt issuance costs and prepayment penalties	(1,238)	—
Non-cash payments of professional liability settlements from prior insurer	(2,850)	—
Net payments through escrow	$(16,703)	$—
Non-cash proceeds from financing	13,853	—
Non-cash proceeds from prior insurer for professional liability settlements	2,850	—
Net proceeds through escrow	$16,703	$—
Non-cash proceeds from debt to purchase real estate	$—	$4,125
Non-cash deferred financing	$3,352	$—
Surrender of security deposit	$305	$500
Non-cash proceeds from vendor-financed insurance	$198	$198
Settlement agreements in excess of cash paid	$—	$300
Non-cash proceeds from financing of South Carolina Medicaid audit repayment	$—	$385

See accompanying notes to unaudited consolidated financial statements

REGIONAL HEALTH PROPERTIES, INC. AND SUBSIDIARIES

Notes to Unaudited Consolidated Financial Statements

September 30, 2018

NOTE 1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES
Description of Business

AdCare Health Systems, Inc. (“AdCare”) is the former parent of, and the predecessor issuer to, Regional Health Properties, Inc. (“Regional Health” and, together with its subsidiaries, the “Company” or “we”). On September 29, 2017, AdCare merged (the “Merger”) with and into Regional Health, a Georgia corporation and wholly owned subsidiary of AdCare formed for the purpose of the Merger, with Regional Health continuing as the surviving corporation in the Merger. The Company now has many of the characteristics of a real estate investment trust (“REIT”) and is focused on the ownership, acquisition and leasing of healthcare related properties. For a description of the Merger, see Part II, Item 8, Financial Statements and Supplemental Data, Note 1 – Summary of Significant Accounting Policies included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2017, filed with the Securities and Exchange Commission (“SEC”) on April 16, 2018 (the “Annual Report”).

The Company is a self-managed real estate investment company that invests primarily in real estate purposed for long-term care and senior living. The Company’s business primarily consists of leasing and subleasing healthcare facilities to third-party tenants, which operate the facilities. The operators of the Company’s facilities provide a range of healthcare services, including skilled nursing and assisted living services, social services, various therapy services, and other rehabilitative and healthcare services for both long-term and short-stay patients and residents.

As of September 30, 2018, the Company owned, leased, or managed for third parties 30 facilities, primarily in the Southeast United States. Of the 30 facilities, the Company: (i) leased 14 owned facilities and subleased 11 leased skilled nursing facilities to third-party tenants; (ii) leased two owned assisted living facilities to third-party tenants; and (iii) managed on behalf of third-party owners two skilled nursing facilities and one independent living facility (see Note 7 – Leases and Part II, Item 8, Financial Statements and Supplemental Data, Note 7 – Leases in the Annual Report for a more detailed description of the Company’s leases).

The Company leases its currently-owned healthcare properties, and subleases its currently-leased healthcare properties, on a triple-net basis, meaning that the lessee (i.e., the third-party operator of the property) is obligated under the lease or sublease, as applicable, for all costs of operating the property, including insurance, taxes and facility maintenance, as well as the lease or sublease payments, as applicable. These leases are generally long-term in nature with renewal options and annual rent escalation clauses.

When used in this Quarterly Report on Form 10-Q (this “Quarterly Report”), unless otherwise specifically stated or the context otherwise requires, the terms:

- “Board” refers to the Board of Directors of AdCare with respect to the period prior to the Merger and to the Board of Directors of Regional Health with respect to the period after the Merger;
- “common stock” refers to AdCare’s common stock with respect to the period prior to the Merger and to Regional Health’s common stock with respect to the period after the Merger; and
- “Series A Preferred Stock” refers to AdCare’s 10.875% Series A Cumulative Redeemable Preferred Stock with respect to the period prior to the Merger and to Regional Health’s 10.875% Series A Cumulative Redeemable Preferred Stock with respect to the period after the Merger.

Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") for interim financial information and with the instructions to Form 10-Q and Rule 8-03 of Article 8 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation of the results of operations for the periods presented have been included. Operating results for the three and nine months ended September 30, 2018 and 2017 are not necessarily indicative of the results that may be expected for the fiscal year. The balance sheet at December 31, 2017 has been derived from the audited consolidated financial statements at that date, but does not include all of the information and footnotes required by GAAP for complete financial statements.

You should read the unaudited consolidated financial statements in this Quarterly Report together with the historical audited consolidated financial statements of the Company for the year ended December 31, 2017, included in the Annual Report. See Part II, Item 8, Financial Statements and Supplementary Data, Note 1 – Summary of Significant Accounting Policies included in the Annual Report, for a description of all significant accounting policies. During the three and nine months ended September 30, 2018, there were no material changes to the Company’s policies, except as noted below in Recently Adopted Standards.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the unaudited consolidated financial statements and accompanying notes. Actual results could differ materially from those estimates.

Revenue Recognition and Allowances

Triple-Net Leased Properties. The Company's triple-net leases provide for periodic and determinable increases in rent. The Company recognizes rental revenues under these leases on a straight-line basis over the applicable lease term when collectability is probable. Recognizing rental income on a straight-line basis generally results in recognized revenues during the first half of a lease term exceeding the cash amounts contractually due from our tenants, creating a straight-line rent receivable that is included in straight-line rent receivable on our consolidated balance sheets. In the event the Company cannot reasonably estimate the future collection of rent from one or more tenant(s) of the Company’s facilities, rental income for the affected facilities will be recognized only upon cash collection, and any accumulated straight-line rent receivable will be reversed in the period in which the Company deems rent collection no longer probable. Rental revenues for five facilities located in Ohio and one facility in North Carolina are recorded on a cash basis (for additional information with respect to such facilities, see Note 7 – Leases).

Allowances. The Company assesses the collectability of its rent receivables, including straight-line rent receivables and working capital loans to tenants. The Company bases its assessment of the collectability of rent receivables and working capital loans to tenants on several factors, including payment history, the financial strength of the tenant and any guarantors, the value of the underlying collateral, and current economic conditions. If the Company's evaluation of these factors indicates it is probable that the Company will be unable to receive the rent payments or payments on a working capital loan, then the Company provides a reserve against the recognized straight-line rent receivable asset or working capital loan for the portion that we estimate may not be recovered. If the Company changes its assumptions or estimates regarding the collectability of future rent payments required by a lease or required from a working capital loan to a tenant, then the Company may adjust its reserve to increase or reduce the rental revenue or interest revenue from working capital loans to tenants recognized in the period the Company makes such change in its assumptions or estimates, see Note 7 – Leases).

As of September 30, 2018 and December 31, 2017, the Company reserved for approximately $1.4 million and $2.6 million, respectively, of gross patient care related receivables arising from its legacy operations. Allowances for patient care receivables are estimated based on an aged bucket method as well as additional analyses of remaining balances incorporating different payor types. Any changes in patient care receivable allowances are recognized as a component of discontinued operations. All uncollected patient care receivables were fully reserved at September 30, 2018 and December 31, 2017. Accounts receivable, net, totaled $0.9 million at September 30, 2018 and $0.9 million at December 31, 2017.

Extinguishment of Debt

The Company recognizes extinguishment of debt when the criteria for a troubled debt restructure are not met and the change in the debt terms is considered substantial. The Company calculates the difference between the reacquisition price of the debt and the net carrying amount of the extinguished debt (including deferred finance fees) and recognizes a gain or loss on the income statement of the period of extinguishment.

Pre-paid expenses and other

As of September 30, 2018 and December 31, 2017, the Company had $0.3 million and $0.3 million, respectively, in pre-paid expenses and other, primarily for directors’ and officers’ insurance and mortgage insurance premiums.

Self-Insurance

The Company has self-insured against professional and general liability claims since it discontinued its healthcare operations during 2014 and 2015 in connection with its transition from an owner and operator of healthcare properties to a healthcare property holding and leasing company (see Part II, Item 8, Financial Statements and Supplementary Data, Note 15 – Commitments and Contingencies in the Annual Report for more information). The Company evaluates quarterly the adequacy of its self-insurance reserve based on a number of factors, including: (i) the number of actions pending and the relief sought; (ii) analyses provided by defense counsel, medical experts or other information which comes to light during discovery; (iii) the legal fees and other expenses anticipated to be incurred in defending the actions; (iv) the status and likely success of any mediation or settlement discussions, including estimated settlement amounts and legal fees and other expenses anticipated to be incurred in such settlement, as applicable; and (v) the venues in which the actions have been filed or will be adjudicated. The Company believes that most of the professional and general liability actions are defensible and intends to defend them through final judgment unless settlement is more advantageous to the Company. Accordingly, the self-insurance reserve reflects the Company's estimate of settlement amounts for the pending actions, if applicable, and legal costs of settling or litigating the pending actions, as applicable. Because the self-insurance reserve is based on estimates, the amount of the self-insurance reserve may not be sufficient to cover the settlement amounts actually incurred in settling the pending actions, or the legal costs actually incurred in settling or litigating the pending actions. See Note 8 – Accrued Expenses and Other.

Other operating expenses and Other expense

Other operating expenses decreased by approximately $0.2 million, or 50.7%, to $0.3 million for the three months ended September 30, 2018, compared with $0.5 million for the same period in 2017. The decrease is due to: (i) a $0.3 million settlement expense related to Mr. McBride, the Company’s former Chief Executive Officer and Chairman of the Board, in the prior year period; and (ii) $0.1 million investigation expense related to an internal investigation in the prior year period, offset by: (i) $0.1 million accrual for property taxes related to facilities whose rent payments are being recognized on a cash received basis; and (ii) approximately $0.1 million increase in contract services.

Other expense decreased by $0.1 million, or 100.0%, for the three months ended September 30, 2018, compared with $0.1 million for the same period in 2017 and decreased by $0.4 million, or 97.4%, for the nine months ended September 30, 2018, compared with $0.4 million for the same period in 2017. The prior period charge was related to expenses for the Merger.

Reclassifications

Certain reclassifications have been made to the 2017 financial information to conform to the 2018 presentation with no effect on the Company's consolidated financial position or results of operations. These reclassifications did not affect total assets, total liabilities, or stockholders' equity. Reclassifications were made to the consolidated statements of operations for the three and nine months ended September 30, 2017 to conform the presentation of: (i) management fee revenues and its related expense, previously reported as general and administrative expense; and (ii) provision for doubtful accounts previously reported as Other operating expenses. Reclassifications were made to the consolidated statements of cash flows for the nine months ended September 30, 2017 to include restricted cash in cash and restricted cash at the beginning-of-period and end-of-period totals.

Recently Adopted Standards

On January 1, 2018, the Company adopted Accounting Standards Update (“ASU”) 2014-09, Revenue from Contracts with Customers, as codified in Accounting Standards Codification (“ASC”) 606, which requires a company to recognize revenue when the company transfers control of promised goods and services to a customer. Revenue is recognized in an amount that reflects the consideration to which a company expects to receive in exchange for such goods and services. The new revenue standard does not apply to rental revenues, which are the Company’s primary source of revenue. A company is also required to disclose sufficient quantitative and qualitative information for financial statement users to understand the nature, amount, timing and uncertainty of revenue and associated cash flows arising from contracts with customers. The Financial Accounting Standards Board (“FASB”) has issued several amendments to the standards, which are intended to promote a more consistent interpretation and application of the principals outlined in the standard. The new revenue standard is effective for annual reporting periods beginning after December 15, 2017, including interim periods within those reporting periods.

The Company has one contract (the “Management Contract”) to manage two skilled nursing facilities and one independent living facility for a third party, with payment for each month of service received in full on a monthly basis.

Companies are permitted to adopt the standard using a retrospective transition method (i.e., restate all prior periods presented) or a cumulative effect method (i.e., recognize the cumulative effect of initially applying the guidance at the date of initial application with no restatement of prior periods). However, both methods allow companies to elect certain practical expedients on transition that will help to simplify how a company restates its contracts. The Company adopted the standard using the cumulative effect method. As a result of the adoption of this guidance, for the three and nine months ended September 30, 2017, the Company reclassified expenses related to the Management Contract from General and administrative expense to Cost of management fees on the consolidated statements of operations.

In August 2016, the FASB issued ASU 2016-15, Classification of Certain Cash Receipts and Cash Payments, which clarifies the treatment of several cash flow categories. In addition, the guidance clarifies that when cash receipts and cash payments have aspects of more than one class of cash flows and cannot be separated, classification will depend on the predominant source or use. This update is effective for annual periods beginning after December 15, 2017, and interim periods within those fiscal years. The Company adopted the guidance for the three and nine month period ending September 30, 2018 with an effective date of January 1, 2018. The adoption of ASU 2016-15 did not have a material effect on the Company’s consolidated financial statements.

In November 2016, the FASB issued ASU 2016-18, Restricted Cash, which requires that the statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash. Therefore, amounts generally described as restricted cash will be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. ASU 2016-18 is effective for annual and interim periods beginning after December 15, 2017 and early adoption is permitted using a retrospective transition method to each period presented. The Company adopted the guidance with an effective date of January 1, 2018. Given this change, transfers between cash and restricted cash are no longer reported as cash flow activities on the statement of cash flows and hence reclassifications were made to the consolidated statements of cash flows for the three and nine months ended September 30, 2017 to include restricted cash in cash and restricted cash at the beginning-of-period and end-of-period totals.

Recent Significant Accounting Pronouncements

In February 2016, the FASB issued ASU 2016-02, Leases, which introduces a lessee model that brings most leases on the balance sheet and, among other changes, eliminates the requirement in current GAAP for an entity to use bright-line tests in determining lease classification. In July 2018, the FASB issued ASU 2018-11, Leases (Topic 842) Targeted Improvements, which amends ASU 2016-02, to provide: (i) entities with an additional (and optional) transition method to adopt the new leases standard; and (ii) lessors with a practical expedient option, by class of underlying assets, to not separate non-lease components from the related lease components and, instead, to account for those components as a single lease component, if certain criteria are met. ASU 2016-02 and ASU 2018-11 are not effective for the Company until January 1, 2019, with early adoption permitted. Entities currently are required to adopt the new leases standard using either: (i) a modified retrospective transition method, where an entity initially applies the new leases standard (subject to specific transition requirements and optional practical expedients) at the beginning of the earliest period presented in the financial statements; or (ii) to initially apply the new leases standard at the adoption date and recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. The Company is evaluating this guidance and the impact to the Company, as both lessor and lessee, on its consolidated financial condition, results of operations and cash flows.

See Part II, Item 8, Financial Statements and Supplementary Data, Note 1 – Summary of Significant Accounting Policies included in the Annual Report, for a description of the other accounting pronouncements the Company is currently evaluating.

NOTE 2. EARNINGS PER SHARE

Basic earnings per share is computed by dividing net income or loss attributable to common stockholders by the weighted-average number of shares of common stock outstanding during the respective period. Diluted earnings per share is similar to basic earnings per share except: (i) net income or loss is adjusted by the impact of the assumed conversion of convertible debt into shares of common stock; and (ii) the weighted-average number of shares of common stock outstanding includes potentially dilutive securities (such as options, warrants, non-vested common stock and additional shares of common stock issuable under convertible debt outstanding during the period) when such securities are not anti-dilutive. Potentially dilutive securities from options, warrants and unvested restricted shares are calculated in accordance with the treasury stock method, which assumes that proceeds from the exercise of all options and warrants with exercise prices exceeding the average market value are used to repurchase common stock at market value. The incremental shares remaining after the proceeds are exhausted represent the potentially dilutive effect of the securities. Potentially dilutive securities from convertible debt are calculated based on the assumed issuance at the beginning of the period, as well as any adjustment to income that would result from their assumed issuance. For the three and nine months ended September 30, 2018 and 2017, approximately 1.2 million and 2.4 million shares, respectively, of potentially dilutive securities were excluded from the diluted loss per share calculation because including them would have been anti-dilutive for such periods.

The following tables provide a reconciliation of net income (loss) for continuing and discontinued operations and the number of shares of common stock used in the computation of both basic and diluted earnings per share:

(Amounts in 000's, except per share data)	Three Months Ended September 30, 2018	Three Months Ended September 30, 2017	Nine Months Ended September 30, 2018	Nine Months Ended September 30, 2017
Numerator:				
(Loss) income from continuing operations	$(4,666)	$266	$(10,011)	$351
Preferred stock dividends - declared	—	(1,912)	—	(5,702)
Preferred stock dividends - undeclared (1)	(1,912)	—	(5,736)	—
Basic and diluted loss from continuing operations	(6,578)	(1,646)	(15,747)	(5,351)
Income (loss) from discontinued operations, net of tax	157	(1,032)	(242)	(2,049)
Net loss attributable to Regional Health Properties, Inc. common stockholders	$(6,421)	$(2,678)	$(15,989)	$(7,400)
Denominator:				
Basic - weighted average shares	20,187	19,762	19,914	19,784
Diluted - adjusted weighted average shares (2)	20,187	19,762	19,914	19,784
Basic and diluted loss per share:				
Loss from continuing operations attributable to Regional Health	$(0.33)	$(0.08)	$(0.79)	$(0.27)
Income (loss) from discontinued operations	0.01	(0.05)	(0.01)	(0.10)
Loss attributable to Regional Health Properties, Inc. common stockholders	$(0.32)	$(0.13)	$(0.80)	$(0.37)

(1) The Board suspended dividend payments with respect to the Series A Preferred Stock for the fourth quarter 2017, the first, second and third quarter 2018. On June 8, 2018, the Board determined to continue suspension of the payment of the quarterly dividend indefinitely.

(2) Securities outstanding that were excluded from the computation, because they would have been anti-dilutive were as follows:

(Share amounts in 000's)	September 30, 2018	2017
Stock options		