First Choice Healthcare Solutions, Inc.
May 17, 2017
11:00 a.m. ET

OPERATOR: This is Conference #: 051717FirstC.

OPERATOR: Good morning. My name is Karen (ph), and I'll be your conference facilitator today. Welcome to First Choice Healthcare Solutions First Quarter 2017 Financial Results.

At this time, all participants are in a listen-only mode. A question-and-answer session will follow management's prepared remarks. As a reminder, this conference call is being recorded. A replay of today's call will be available on First Choice's website later today and will remain posted there for the next 90 days.

I would like to remind everyone that any forward-looking statements made during the call are protected under the safe harbor provisions of the Private Securities Litigation and Reform Act. Such forward-looking statements are based upon current expectations and there can be no assurance that the results contemplated in the statements will be realized.

Actual results may differ materially from such statements due to a number of important factors and risks which are identified in our press release and our annual and quarterly reports filed with the SEC. These forward-looking statements are based on information available to First Choice today and the Company assumes no obligation to update statements as circumstances change.

Additionally, during today's call, the company's management may discuss non-GAAP measures which they believe can be useful in evaluating the company's performance. The presentation of this additional information should be considered in isolation or as a substitute for results prepared in accordance with GAAP.

A reconciliation of adjusted EBITDA can be found in the company's earnings release which posted to the wire earlier today and can be viewed on First Choice's website found at www.myfch.com.

Joining us on the call today is Tim Skeldon, CFO. Now, at this time, it is my pleasure to introduce Chris Romandetti, Chairman, President and CEO of First Choice. Sir, the floor is yours.

CHRISTIAN ROMANDETTI: Thank you, Karen, and I appreciate the introduction and I'd also like to thank everybody for taking their valuable time to join the call today. In a moment, I'm going to turn it over to Tim to summarize and bring some clarity to the numbers for Q1. We're pretty excited on our trajectory on how we are working and heading through our new plan for this year to achieve goals.

I think it starts with the first one that was important. I think you've all read the notice last week that we've elected to upgrade, bring a larger group in excess of 1,500 people at our new accounting firm to give Tim the additional resources and we're proud to announce that we are now have Markham (ph) as our public certified third party auditors of the company allowing this Q to be prepared by them was exciting to see the professionalism between Tim and the accounting firm and how they could interact in such a short period of time to turn out a document in a timely fashion and to file.

And it was exciting to discuss with them yesterday if they – like they said, if we had just a few more weeks first, we think that we could be earlier on each filing as we need to prepare as the company grows that if one day we have to move to an accelerated filing with the hopes of up listing and moving to a national board that this firm will be able to run parallel with the requirements of the company.

So, with that, I'm going to turn it over to Tim Skeldon, our CFO and let him give you an overview of the numbers and then I'll be coming back in and discussing further overview of the company. Tim, please?

TIMOTHY SKELDON: All right. Thanks, Chris. Good morning, everyone. I'd like to start the call by discussing a little of the information that was presented in the press release and our adjusted EBITDA for the first quarter 2017 compared to 2016. We measure and assess our operating performance through the analysis of the adjusted EBITDA results and for the first quarter of 2017, our adjusted EBITDA was approximately $0.8 million compared to $1.2 million for the first quarter of 2016.

However, you'll notice in the press release, we did some adjustments to the right of the 2016 to account for the items that were impacted for the sale of Marina Towers. There was approximately $253,000 of cost that we get to add back when we owned the building for interest, depreciation, and amortization that now that it's sold, we do – we were no longer allowed to capture that cost as an add back to our EBITDA.

So, if you were to do a same store comparison, then that gets us to an adjusted EBITDA of $963,359 versus the $752,000 that we have on the actual report for a difference of $210,000 in adjusted EBITDA. This is – this was mostly also impacted by the sale of Marina Towers as we are now the – a tenant and no longer the owner of the building, our costs associated with leasing the building increased approximately $50,000 a month or $150,000 for the quarter, which accounts for 75 percent of the $210,000 difference that we had.

In addition, we incurred approximately well over $200,000 in one-time startup costs associated with the new physical therapy location that we expect to have opened this month. This cost are not allowable as a startup cost and will be amortized over some period of time as we are public company and we must expense them as they are incurred. So, although it has a negative impact now, we should see improved margins as we move forward in this service line in the future quarters.

Now, back to the income statement in total revenues for Space Coast platform for the first quarter of 2017, we're up 7 percent, rising to 7.7 million from 7.2 million in 2016. The increase is primarily attributed to an increase in patient service revenue generated by First Choice Medical Group, which increased 552,000 or 24 percent. This is, again, attributable to the additional physicians and the add on the physical therapy.

More in depth analysis of the net patient service revenue growth, I will be looking at our average patient value or as we'd like to refer to this our APV. This is factored by dividing total patient service revenues comprised of all medical and ancillary service fees by the total number of surgeries performed in a given time frame. For all of fiscal year 2016, our APV was 10,144 and an increase to 10,628 in the first quarter of 2017, a 5 percent increase.

In addition, our surgical volume increased 10 percent for the three-month period over last year, which has also contributed to the 8 percent increase in net patient service revenue. During the quarter ended March 31, 2017, the Space Coast platform performed 672 orthopedic and spine surgical procedures compared to 610 in the prior year. The volume increased is 62 in the company ancillary services account or 100 percent in net patient service revenue growth.

However, as we have noted in previous calls, Dr. Harrison (ph) who is Army Reserve and was deployed to the Middle East through the end of January had started up and beginning to ramp its volume up in mid-February plus with a few others physicians who were not up to their expected surgical volume resulted in approximately 160 fewer surgical cases in the first quarter 2017 from what we had expected.

The increase in the APV to over 625 or $10,625 for the year and surgical volume growth was driven by the addition of two world class surgeons, Dr. Sands (ph) and Dr. Dee Lorenzi (ph) who joined the practice at the end of second quarter 2016, and we were now established – were now well established in their volumes or where we'd anticipated to be moving forward.

Growth was also few but the ongoing expansions of our Physical Therapy and Occupational Therapy Division which generated approximately 1,500 visits a month, resulting in a net patient service revenue increase and there is increasing momentum within the system or a system-wide referrals from the physicians to our collective ancillary service offerings.

Yes. We also believed that there'll be no growth as B.A.C.K. Center and Crane Creek Surgery Center, the two (ph) locations will occur in 2017 as we expect that have all the physicians back to full capacity for the year. In late February this year, we've welcomed another top-rated spine surgeon to the B.A.C.K. CENTER, Dr. James Billys, who is – who was able to contribute to our first quarter results.

With additional providers expect to be joining the First Choice family in the coming months and given our other expansion initiatives being actively pursued, we believe that we will continue to see growth on our surgical volume and APV in 2017.

Crane Creek has capacity to host between 4,000 and 5,000 but is projected to do approximately 1,700 surgical procedures this year. We are working with the management company to implement a Total Joint Replacement Program, but this has not been completed yet. In addition, we are disappointed in their financial performance for the quarter and the management company is being charged with improving the bottom line.

Finally, we believe that the addition of new surgeons and their support staff to our clinical team coupled with anticipated growth in the number of outpatient surgical procedures performed in Care Creek Surgery Center will have a definitive positive impact on our APV in 2017. With the addition of providers comes an increase in medical and clerical personnel to support them. Total employees increase approximately 50 – by 50 in 2017. This resulted in a 5 percentage point increase in salary and benefits as a percentage of net patient service revenue.

Other operating cost increase as well due to the opening of two new physical therapy or opening up the new physical therapy division and the cost associated with supporting these clinical services. Other operating cost is made up of supplies and other resources used directly in operating the physician clinics and physical therapy clinics as well as diagnostic services.

On past conference calls, we had mentioned we expected our overhead to remain constant and in single digits and we have maintained overhead for the first quarter ending March 31, 2017 in single digits.

So, in summary, I'd like to just put together a few bullet points of what I mentioned earlier. First of all, total revenue increased 7 percent with net patient service revenue accounting for 93 percent of the increase. Surgical procedures increased 10 percent from 610 to 672. Our average patient value was 10,628 within the first quarter of 2017 compared to – all last year of 10,144 or 5 percent increase. Salary and benefits as a percentage of net patient service revenue increased by 5 percentage points. Interest cost was reduced 82 percent and corporate overhead as a percent of total revenue came in at our projected single-digit percentage.

With that, I've completed my prepared remarks relating to the first quarter 2017 financial results. If you have financial-related questions regarding more detailed explanation or requiring more detailed explanation, I am pleased – I would be pleased to address them during the Q&A later on this call as time allows.

Now, I'll turn the floor back over to Chris.

ROMANDETTI: Well, thank you, Tim. Thank you for a great detailed presentation of the numbers. So, what I think I want to do is recap a little bit before we get into what we think our future still has to bear with us for 2017.

So, recapping in Q1, the summary I took away from Tim when we look at Dr. Harrison (ph) and a couple of other providers that could have come in a little bit earlier from including our spine surgeon that came in the mid-February.

We had budgeted that we told (ph) we could have done about 150 to 160 additional surgeries in Q1, it doesn't mean we've lost them. It just means that's coming in but a little bit later, and if we have a $10,000 average or plus, it would have been above an additional $1.5 million for Q1 but like I say, they're ramping in other areas – other areas are ramping up quicker and does that mean? Our physical therapy was estimated in our corporate location in Melbourne to achieve a 325 to 350 if you go back to my old conference call and I'm proud to say this week they achieved in excess of 500 patients last week at this location.

Once again, a little bit of the delay and everything coming a little bit slower than we think because you know, being public, you're on a strict timeline every 90 days, every 62 days, we got to come back and report to you. So, unfortunately, the state, we felt the latest about a month and a half on achieving our licensing.

Let me explain licensing. Being non-physician-owned, we have to jump through hoops. We have to do level two background checks on all employees. They all need background screening, fingerprinting, and approved by the state and then you have to do total financial 18-month performance on each location.

I put this entire burden on our VP of operation, Kris Jones, who headed it up. She successfully now has gotten us – I want to say seven licenses, but more recently in this year four licenses which enabled us in Q1 to already open up in Vero Beach, as a physician extending office and then two PT locations which virtually open up in this month. We're booking patients to be seen there starting tomorrow, and then a satellite location in Merritt Island.

So, the summary of all that is I think I lost about 30 or 40 business days. The good news is that the PT Department as they were ramping up orders, you know, working really diligently and hard to keep that business here at corporate headquarters, but what it did demonstrate does is with the real estate we now own at 400 to 450 appointments a month are reasonable and our average patient value on that patient, we haven't seen total collections because you have to run it after six months. But it appears right now, we think that they could be closer to $100 per patient visit versus $83 that were being demonstrated in turn Q1.

So, you imagine that we have two more opening up this month. We're slated to open up two additional ones before year end. Again, not that we just got cleared with our 10, our Q and four ACA (ph) licenses. I'll be requesting, again, from Tim and Kris to delve right in and get me two more ACA (ph) licenses and it's difficult.

It's definitely a long procedure, but we think we can get two more locations open. I'm not here today giving guidance that each one can do 500 appointments a week, but I think it would be far more than the 300 that we previously estimated.

As it relates over to Crane Creek Surgery Center, yes, we're licensed. I've been mentioning it call after call that we're prepared, and we have contracts do total joints, but I've also told you life safety will not circumvent getting the middle of numbers until the right team is there to be able to do a total joint procedure, we will not move forward. Our estimates were to start at the end of Q1, Q2. We have not. The surgeons are prepared. The implant people are prepared but the physical location with management will be held harder to accountability today as my board meeting starts at 12:15 today for two hours to basically talk to the management company and put some definitive dates on when we'll be able to start our total joint program then.

Moving on to the Marina Towers as Tim mentioned earlier, we did lose the availability of EBITDA depreciation and amortization, and we picked up a direct costs but in exchange for that that gave us the capital to increase our revenue. So, if it's possible, we can grow our company by $15 million in revenue off the capital from the building. We will recognize that in quarters to come as we've been using that capital to expand business operation. But yes, our direct costs were absorbed in our financials of occupying the space that we now have to pay for compared to previous years when we were here basically rent free.

Moving over a little bit about the surgeons, we have mentioned at previous calls, we were looking to add four. We definitely added the two last year in June. Dr. Dee Lorenzi (ph) and Dr. Sands (ph). We've added Dr. Billys in Q1, Q2 here. He just came on board Q1 actually late in February, and we're still waiting for neurosurgeon that has made it through one of three steps for credentialing and goes back to the board this week. So, that's probably a 30 or 60 days delay right now getting them boarded with our local hospitals to move ahead.

I think everything else is somewhat in line. I want to get to question and answers quicker than usual because I think you've all heard the story, you recognized the story. I do want a round back to say, I think we got a great opportunity with the Markham (ph) Group on the accounting. They'll be able to definitely run parallel now with Tim. I'm sure questions will come up on how we're going to be addressing bad debt. They were in – on board for like four weeks.

So, we then scrutinized all – maybe less than that, 2-1/2 weeks, but with that being said, to get Q1 out and recognize their values and ours, though actually becoming in and going over revenue recognition during Q2, which will be reported at the end of Q2 if we can start looking at bringing some of that bad debt back in by what Tim can demonstrate and prove to them. So, I think that has nothing but added upside to us.

The additional cost that we kept telling you that we think we can spread our margins, we're still optimistic on that debt. Tim was conservative on corporate. It actually went down one point in Q1 over single digits that we expected. So, we're in a position that we want a few more quarters out to make sure that stays the course right now, but we're pretty excited that there's still expansion of margin capability here that's in the type (ph) business we're doing.

I think also in the past, I've told you that we've been looking at adding on additional ancillary services to the East Coast platform here. Those talks are still in talks but are – some of them are reducing that to hard due diligence which I have no further update other than we're doing the work we're supposed to be doing, and what you would hope we'd be doing on analyzing if these – if these other facilities can be an addition to our platform and cause an accretive benefit to our company.

So, I think that's what I have for prepared remarks myself. I probably will end with that before we go to question and answer about guidance. As you all might know, our previous guidance was put out at 40 million to 45 million as a range and an EBITDA expected of 15 to 20 percent. Today, with everything slipping about 27 business days of income and one surgeons not in, I'm going to be cautious – should be cautious about this, but we still feel between Tim and I averaging out and on the team for Kris Jones that we've been analyzing that we still feel we might be at the lower end of our guidance, right now, unless we do an acquisition or add other things.

But as of today, we still think that we budgeted the right amount of – between PT exceeding expectations and losing a 1.5 million in surgery revenue in Q1, we're still going to sit on this quarter guidance of saying that although we might be on the lower end, we still think we're in the bandwidth of what we've given of 40 to 45 and EBITDA of 15 to 20.

I'll discuss EBITDA of one part of that, as I start things up, now you got to remember I put management and to run five PT facilities. We have one open today, two more opening tomorrow and two more expected and we're absorbing all the start of cost of PT to run five locations.

So, again, we think that we'll benefit us on widening our EBITDA in location 2, 3, 4, and 5. Kris has been doing a great job on VP of Operations on cost analysis and flow through and I think we're getting better numbers or prepared, you know, better overlooking of each department to start looking at labor which is our number one cost factor, and we are finally at the point where we can start analyzing volume and cost of products. So, we're still hoping to see our expansion as the volumes going up and our vendors are indicating open conversations, and I think those single largest last one that there – Tim and Kris are working on directly is the negotiations of starting to renegotiate our third-party payer contracts.

We finally have earned the respect with volume we're doing in our community that we don't want to do the same amount of work for the same price. So, we are – we are sitting down with our independent contracts that I've – I haven't, but I've seen that they're looking at asking for what we think is a more reasonable rate of reimbursement.

So, with that, Karen (ph), I'd like to turn it over to question and answer a little bit earlier so that they do it in 30 minutes. We're at 27 minutes and thank you and I'm prepared for questions.

OPERATOR: Excellent. Thank you. Ladies and gentlemen, the floor is now open for questions. If you do have a question, please press star one on your telephone keypad at this time. If you're using a speakerphone, we ask that while pausing your question, you just pick up your handset to provide favorable sound quality.

Once, again, ladies and gentlemen, if you do you have a question please press star one on your telephone keypad at that time. And our first question comes from Anthony Morchegg (ph), please state your question.

ANTHONY MORCHEGG (ph): Hi, Chris. Nice job so far in spite of all the near-term challenges. What do you need to do in order to up-list at this point? What's left?

ROMANDETTI: Anthony (ph), good hearing from you. Great question. As we see the requirements talking with Paul Dorfman and from Andy (ph) over at NASDAQ, they need from us a completed app. We've done it once before and got preapproved but we pulled back and so the point of what we think our open items are as of today is to have three independent directors that are vetted, background checked and even now Markham (ph) has to do their own level two background check as the accounting firm won't take just any independent directors.

And step two is a stock price. We needed $2/$50 million market cap. So, some people have said, "Why don't you just reverse split it?" Or if I reverse split it today and our value still 43 million we can up-list. So, we need a $50-million market cap or a $2 and $2 trading price. If you want to go over to the NASDAQ, it's a – and let me back up, over at the New York Stock Exchange, it's $2 plus for five days. At the NASDAQ, it's $2 for 90 days or $3 for 10 days.

(Crosstalk)

MORCHEGG (ph): And are you making progress? Yes, and are you making progress on the corporate governance side with the directors?

ROMANDETTI: Well, you know, again, Anthony (ph), great question. I would want to tell you from two years ago to today, I think we've changed the infamous three independent directors three times. By some other shareholders, I would want to bet around the phone like they say Chris if you – you can get a shareholder – an independent director, I mean to come on board to fill the seat or you can get one to come on to make my job easier and to be more well-rounded.

Two years ago, I thought that I needed more M&A and finance directors and today I feel less as – less as that as I do successful operators that have grown their company on a – on a pace of doing it with smart guidance.

So, yes, the two then we originally had or I should say the three that were approved by the New York Stock Exchange two years ago are none of the three that today I would be picking and so that's what we've done.

So, I think I have two that I feel very confident with right now and we're ready to probably process them through this litany test they have to do and we're still on the third one. If I had to race to do it and that was what was holding me up, I'd pick one of the three other candidates I'm looking at, but as of today, I still have the third seat in my mind not pointed out yet.

MORCHEGG (ph): OK, thank you.

OPERATOR: Once again, ladies and gentlemen, if you do have a question or comment, please press star one on your telephone keypad at this time.

And our next question comes from Bill Sutherland from Benchmark Company, please state your question.

BILL SUTHERLAND: Chris and Tim, good morning. That some good developments here and well I just want to see as you think about now the mix of, you know, revenue that that is – that is becoming, you know, part of net patient service revenue and increasing APV. What do you think is the mix by the time we get to the end of the year that would, you know, be driving the – to some – to some part of the revenue guidance range? In other words, the balance between procedure growth and APV?

ROMANDETTI: Well, I think that's a great question, you know. Tim had some numbers showing me that Q2 if you demonstrated what we did in April and it was normalized and we're putting in the doctor's vacations right now but we would see an additional 150 surgeries in Q2, is that where you're at? So, that itself will grow just like sheer volume of operations.

I think the second part would be and maybe I'm not quite getting it, Bill, but we've discussed this before is, what fuels the actual APV and if it were at 5 – 10,006 right now, you know, if somebody would ask what I think in December run rate would be is, I think it's going to be a lot closer to 11,500 from just the growth of surgeries and the growth of physical therapy and the different implementation that our VP of Operations, Kris Jones is implementing in adding procedure rooms and scheduled other physicians, so these are other procedures that I think will come online.

Now, do I – what's that average plan going to be if you start January 1 at 10,100 and I think I end that say 12,000 or a run rate of December at 12, we're cautiously optimistic that we're halfway through getting you (ph) an average of 11. So, I think the north of 11,000 per APV is going to be to our benefit and if it – we run Q2 and that keeps creeping up, we might be there by midyear the end of Q2, beginning Q3, so that's how we're doing that is to see how the patient procedures go.

You got to remember, APV is then generated by the surgery. There has been some investors that have said, "Well, you're describing surgical cost, your average case is 10,000." We see three patients to get one surgery – we see four patients to get one surgery. So, we're still looking that by fall here of, you know, we think it's a great indicator, a great marketing tool to know that three of four of our patients that visit our centers do not require surgery, but every one of those that didn't require surgery increases our APV.

SUTHERLAND: Right, right.

ROMANDETTI: Does that make sense?

SUTHERLAND: Right. And I guess that's largely through utilization of PT that you now provide, is that what you mean, Chris?

ROMANDETTI: Utilizing of what, Bill?

SUTHERLAND: Of physical therapy.

ROMANDETTI: Well, it's not just physical therapy. I'll tell you, we know – we know physicians around the country that won't use proper protocols. If you're shoulder hurts, they send you to surgery. If you're shoulder hurts here, we have steps to see what is the cause and a proper diagnosis starts maybe with an x-ray verified by an MRI, verified by some therapy, verified by an injection and our last case is surgery.

Well, all those items prior to surgery increase APV and we know of other surgeons that don't own anything in the ancillary, so they'd rather just rush your shoulder to surgery. And so, we know some people that have a one, like under a two to one, every – every two people they see, one gets surgery. And so, we think the real good foundation, and so did the payers by the way.

It's mandated in our new payer contracts constantly show us proof that they failed conservative care and so it's the right thing to do. If you take somebody and can avoid surgery for now and strengthen them to therapy, diagnostics, and get them back to work quicker, back to their golf game quicker and they avoid the surgery and I'm a life living person of that.

I was told by a surgeon in town I needed both my rotator cuffs operated on and I – this was 10 years ago, and the doctor I hired downstairs here had me go to PT and under 30 days, I've never needed surgery on either shoulder. So, I'm a living experience on what that does but some people think that you make more money and it's good for business to rush everybody in and get them to surgery and it's not our company's philosophy. It's not in our moral compass and I think we will win better, bigger, faster economically to be part of a company that recognizes what the majority of the people want.

It's the patient decides and we can deliver this in a more conservative approach. And again, I'm going to demonstrate, Tim and I, can do the bean counting all day long and analyze where we're going but all that falls back on the protocols that Kris Jones, our VP of Medical Operation has been asked and put together the protocols to start really getting that to be even further consistent within our organization.

So that, you know, when I – two years ago, I used to have to say if you called up Bill and say can I see a doctor, I might have called the head downstairs to make sure you got the treatment I was looking for, knock on wood today, I no longer call ahead for a friend because you're going to get the right care but we're constantly checking that. And I'm going to – so, go ahead, Bill. To your next question, if you have one if didn't answer.

SUTHERLAND: Well, yes. Chris, I was trying to keep up with your commentary about the – about the expansion of physical therapy and wonder if you could just summarize kind of the – kind of what you've done in the first quarter and then how many, you know, what the expansion looks like I guess maybe you just take us – take us to the end of the year as you're – as you're planning it.

ROMANDETTI: Right. So, as I had mentioned right now, we are overloaded at corporate at 540 appointments scheduled this week, so this facility will run with no overtime. We run a little bit maybe right now because the others weren't open and licensed, but now that they're open and licensed and they're in geographic other areas, we're hoping that we probably can run between 300 and 400 per facility within 120 days of them opening.

So, I haven't done that math for this call today but our corporate facility shouldn't fall below 400, so that's 400 times a run rate at an average of $100 a person and then over the next 120 days, each other locations confidently (ph) get positive of 300 appointments a month, probably averaging 300 to 350. And then we have two more locations coming on in August that will take three to four months to get to their 350, so pretty simple graph.

But again, you know, you can't overnight to have it instantly. I got to hire more PTs and PTAs to grow that and although we're getting an overwhelming, I think last week, and Kris can verify this, but I think PT now that we have a great reputation in town got like 8 or 10 applicants in and so we're scrutinizing how we – how we interview run and make sure they have good patient outcomes also. So, that's the ramping up, you know, 90 days to 120 per location when all five are up, you know, if they …

SUTHERLAND: OK.

ROMANDETTI: … they all did 400, you can start doing the math.

SUTHERLAND: OK. I just – so it's a total of 5 by the time we get towards the back half of the year, that's great. And then finally, I didn't know if Tim had any color you want to add to, you know, how the balance sheet stands at 03/31 and just, you know, any movement that we should, you know, be sure to be aware of?

SKELDON: On the balance sheet, I don't really see any – not much of a change from quarter – from 12/31/16 to the quarter end of March 31, '17. You can see that we're continuing to pay down our notes payable that are out there and those should be going away soon. Our data is down pretty significantly. We have still just a remaining line of credit amount of 1.1 million sitting out there.

So, from a debt standpoint, we're doing very well and we're doing a lot of the growth through our paying cash out of operations to fuel that growth. So as Chris mentioned as we look at other opportunities, we may look at doing something differently in that arena, so but right now, we're kind of riding the course.

ROMANDETTI: Right and Tim brings up – Bill, just a, you know, a little bit with my five years of signing on this documents personally, I'm really happy that in October my $4 million of personal guarantees or 3 million on all the GE loans that we're paying 50, 60 grand a month in cash flow, get paid off this year like Tim is mentioning. So, that's our last piece of debt that gets 100 percent paid off this year.

We have 1.1 million add on our total line of credit. We have I think 1.6 million worth of credit available to us if needed to on our – on our AR line. One other note on the balance sheet, we inherited the B.A.C.K. Center with 955,000 of debt that's on there, that is not our responsibility nor is the 450,000 of what you look at long-term and short-term debt on the balance sheet when it marks out to be Crane TBC.

So, those two responsibilities of debts are of the three doctors – the two doctors personally of the B.A.C.K. Center that it's not our obligation to pay as they mature and they are only owed to one another for …

SUTHERLAND: Yes.

ROMANDETTI: … how we put them on.

SUTHERLAND: Understood.

ROMANDETTI: So, I think it's got – it's starting in great shape. I think others might say, why aren't we leveraging it like numerous other companies right now and I think we're in a great position to capitalize on that when the right opportunities start to be presented to us that we have leveraged to borrow smart money if we need to and be prepared to move ahead here to – to bring in things …

SUTHERLAND: Yes.

ROMANDETTI: … that Tim came over to the company to want to do and that was to invest in revenue growth.

SUTHERLAND: You just led – you just led me to my last question, Chris, which was where things stand with that, with the pipeline of, you know, new business opportunities.

ROMANDETTI: Right, so as I it was mentioned in the center of the – of the document on this call that, you know, we haven't put major dollar resources at identifying the next platform and the next platform in summary is of what we've been saying around the country. There's a couple of 150 that can handle our model. We like 10 locations, but I got to tell you, again the 10 locations we liked six months ago, now have moved to our top next 10, so we're getting different criteria, revenue of where they are, ease of hiring the doctors in the areas of where they are and then strategic partners that might be influencing that right now.

So, with that, I'm still feeling cautiously optimistic that another platform, one or two of them in case one doesn't work will be lined up and we're working towards that but I have not given up here on maximizing our strategic relationships in Melbourne as other providers are coming to us now as things are getting more difficult in the community to where we have other orthopedics, we have primary – we have a lot of people asking us, "Could you manage us and help us do that?"

So, we're still looking at that and figuring out what we can do and how to maximize that and as calls progress by Q2 call or short of something sooner than that, you'll be one of the first to know as will the rest of the investors.

SUTHERLAND: Great. Thanks, Chris.

OPERATOR: Once again, star one if you do have a question or comment.

And our next question comes from Gary Zwetchkenbaum from Plum Tree Consulting. Please state your question.

GARY ZWETCHKENBAUM: Chris and Tim congratulations on the total revenue increase in your net patient service revenue increase. I also went – appreciated hearing about your audit team and your hiring of Markham (ph) to help you going forward.

I wanted to focus on your M&A strategy going forward for 2017 and beyond. I understand you didn't include that in your guidance previously and I'd like you to talk about your M&A strategy and what's going on.

ROMANDETTI: Yes, well, Gary, great from hearing with you but I think what we put out for guidance right now is mainly organic …

ZWETCHKENBAUM: Right.

ROMANDETTI: … with the hinting on, but I'm sorry to disappoint you but I'm focused on right now getting 40 to 45 million at 15 to 20 percent in and as soon as this company starts walking through that. And when I say walking through that, normalization to me is this EBITDA number is great. That's how you're all evaluating this. That's what the street says, but Tim and I are on a mission here to make sure that we start moving into six-digit, multiple six-digit, positive cash flow numbers per month shortly. So I'm going to stay laser focused here for another quarter or two to make sure that we start growing the bank accounts.

Now, I don't mind them being depleted for acquisition or for expansion of revenue and operations is positive but it takes – right now, Tim's really working on still getting this one laser focused. He still wants to deploy additional accounting staff right now. We're actually a little too lean, I'm back to the same thing I mentioned on the last call where he thinks he's got 2 to 3 percent still in collections we can aggressively go after buy employing a few hundred thousand dollars of other people when you're doing $40 million, that's a 1.2 million (ph), net of 8 to 900 grand. That's low lying fruit for us. So I need to get that done, get Tim comfortable, hasn't even been here a year and roll that into a position where he can say, "Chris, keep running, bring more on."

But today, I don't want to confuse the issue and start telling you that next year we're going to do $60 million because we're going to buy something or 100. That's not today's call. So, Gary, I'm going to stay laser focused, get this one running, get harmony going, get Kris the tools she needs over at her end right now to, you know – we expanded 50 employees, we're opening up four more locations with another 40 coming on. That just doesn't say overnight put 90 people on and life is perfect.

Other managers, immediate managers, they all have it mapped out, but I'm not going to wish that upon Tim or them to say, "By the way, get me a shooting solution to open up January 1." Now I want to move in 2018 but for a total new platform, it's not on the table for me today to tell you when that quarter is. My team's got to come to me and say we can absorb it, start shopping and get to a term sheet, and they know I want to be there quicker than probably even you Gary, but today I'm not going to tell you that I'm forcing the term sheet on them today.

ZWETCHKENBAUM: My final question you brought up ancillary services, you gave some detail to the physical therapy and the expansion, can you talk a little bit about revenue that you will get this year from the added services, one that's come on. Can you give any kind of guidance as to when you expect to add revenue from these ancillary services in particular physical therapy and any other one you want to talk about that is starting this year.

ROMANDETTI: Well if I don't have to change guidance and I said a minimum of 40 and you minus 7.6, you can do the math and it's going tier up to be that Q4 is going to be probably $4 million higher because our run rate would have all locations click and ticking and running and our next surgeon will be on scale.

So, if I were think that Q2 is going to be 1.5 million higher than this one and then pick the difference between four and the last one and the one in the middle, it will put you at about 2.8 or 3. So we're looking at that and that's why I got to see where that will fill. And you know if also enacted as (inaudible) the facilities four and five in the next 30 or 60 days by the next Q, I'm going to have to tell you all we're going to lower guidance to 38 million by something that's outside my control. If they don't allow me to bring in my surgeon from Canada because they don't accept his board credentialing here next week and that's been a big problem, but now we have a go from the board to say he fits, that's going to change it.

It's a very simplistic model to do. If we do 40, if we do 4,000 surgeries and they're worth $10,000, it's $40 million. If you do 3,700 and they're worth $11,000, it's a number. So, we'll be predicting ours and looking at our surgeries that are coming in. We've been pretty laser focused on that, but I can't create a surgery and nor will I for a short term gain. I think it's a great model that can keep the investors on a laser focused prediction of where we're going to be and I'll tell everybody like I'll tell you today. If you started seeing my average patient value dip below $10,000, that's the question to have on the call, where do we see revenues of operating from? But as long as we see APV growing, just keep getting me the pats on the back and we're happy.

Some people might want it to go faster. What happens, Gary, if I get joints approved for June 1 and I drop 500 joints in at $15,000 a joint down at the surgery center and we captured July through the end of the year. That's $7.5 million to get divided by an additional revenue that's not in my number. The reason I'm not counting it, I don't count stuff now until the day I do it.

ZWETCHKENBAUM: Having ...

(Crosstalk)

ROMANDETTI: Therapy (ph), we did 500 appointments last week plus. As soon as I do a total joint down there, I'll start forecasting that and my assumption is we're going to do some joints yet this year. I just got to get off this line, get down there and start my board meeting and hold some people their feet to the fire.

ZWETCHKENBAUM: Chris, having been an investor when you were doing less than a $1million annually, and you've been on point. I appreciate the information and it's good to see the growth. You've hit all your spots, I appreciate it.

ROMANDETTI: Thank you, Gary.

OPERATOR: Once again, ladies and gentlemen, if you do have a question, press star one on your telephone keypad at this time. Again, that's star one, if you do have a question or comment.

ROMANDETTI: Hey, Karen (ph), I'd like to take one more call because if that's possible then I need to get to my next one, OK.

OPERATOR: Perfect. And there appear to be no further questions at this time, Chris.

ROMANDETTI: OK. Well thank you again, Karen (ph), as planned, that worked great. So, in the summary of everything, I'd like to just once again go over with a skeleton corporate crew that's producing great outcomes. Hands off to both Tim and the help he gets from Julie (ph) and the rest of the staff to supply him all the stats. I mean everything from the numbers that Tim gets ultimately comes, I would say verified until double checked from Kris Jones because she's the one posting and doing the charges and so that's the accounting side. It's just Tim and his team but actually posting the charges and looking at it and analyzing it every day, I can't say enough to Kris Jones, her team.

Both Kim (ph) and Arlene (ph) and April (ph) and Tracy (ph), these are just people every day that are on the ground fighting day by day warfare it feels like when I hear what they got to do to get the – you know, it's so easy. I think it's almost a mechanical thing that the payers look for practices that 60 percent of the country is not on an electronic medical billing system. So they just deny, deny, deny and probably save billions of years and we don't, we fight and we fight. And I know just the other day we are fighting for stuff six months old, eight months old and that goes in that bad debt after 120 days and they're pulling that stuff forward.

So, once again, I can't say enough for the team, couldn't be here without them. And furthermore an independent recognition which I want to say we implemented in Q1 in which I wanted to bring up and mention – we've implemented something with an automated survey system that surveys all our patients within 10 minutes of their appointment and they rate you. They rate with your stars in fours, in fives, and ones and twos and I'm so happy to say that independently right now, we're getting numerous surveys per day that are fours and fives and when I see a one it comes to my desk and it's typically just an elderly person that thought a one was better than a five and they're incorrect.

So with that, it's a great independent test to validate not only what I think we're doing well, not what the team is doing well, but from that patient's perspective that we're doing the right job, taking our time, measuring twice, cutting once, no pun intended.

So, the point being, I thank the team. I thank everybody today for joining the call and I look forward to our next one and thank you again today for joining. Have a great day.

OPERATOR: Thank you, Chris. Ladies and gentlemen, this does conclude today's teleconference. We thank you for your participation. You may disconnect your lines at this time and have a great day.