

CAPITAL SENIOR LIVING CORP
Form 10-Q
November 04, 2015
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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, 2015

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: 1-13445

Capital Senior Living Corporation
(Exact Name of Registrant as Specified in its Charter)

Delaware
(State or Other Jurisdiction of
Incorporation or Organization)

75-2678809
(I.R.S. Employer
Identification No.)

14160 Dallas Parkway, Suite 300, Dallas, Texas
(Address of Principal Executive Offices)

75254
(Zip Code)

(972) 770-5600

(Registrant's Telephone Number, Including Area Code)

NONE

(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 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 filing 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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions 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 a check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of October 30, 2015, the Registrant had 29,518,876 outstanding shares of its Common Stock, \$0.01 par value, per share.

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CAPITAL SENIOR LIVING CORPORATION

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	September 30, 2015 (unaudited)	December 31, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 34,687	\$ 39,209
Restricted cash	13,155	12,241
Accounts receivable, net	8,272	5,903
Accounts receivable from affiliates	3	5
Federal and state income taxes receivable	137	
Deferred taxes	129	460
Assets held for sale		35,761
Property tax and insurance deposits	12,163	12,198
Prepaid expenses and other	4,721	6,797
Total current assets	73,267	112,574
Property and equipment, net	848,019	747,613
Other assets, net	38,117	37,514
Total assets	\$ 959,403	\$ 897,701
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Accounts payable	\$ 694	\$ 2,540
Accounts payable to affiliates		7
Accrued expenses	34,837	32,154
Notes payable of assets held for sale		15,076
Current portion of notes payable	14,055	33,664
Current portion of deferred income and resident revenue	14,224	14,603
Current portion of capital lease and financing obligations	1,145	1,054
Federal and state income taxes payable		219
Customer deposits	1,950	1,499
Total current liabilities	66,905	100,816
Deferred income	14,494	15,949

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Capital lease and financing obligations, net of current portion	39,228	40,016
Deferred taxes	129	460
Other long-term liabilities	1,326	1,426
Notes payable, net of current portion	697,687	597,860
Commitments and contingencies		
Shareholders' equity:		
Preferred stock, \$.01 par value:		
Authorized shares 15,000; no shares issued or outstanding		
Common stock, \$.01 par value:		
Authorized shares 65,000; issued and outstanding shares 29,519 and 29,097 in 2015 and 2014, respectively	299	294
Additional paid-in capital	157,858	151,069
Retained deficit	(17,589)	(9,255)
Treasury stock, at cost 350 shares	(934)	(934)
Total shareholders' equity	139,634	141,174
Total liabilities and shareholders' equity	\$ 959,403	\$ 897,701

See accompanying notes to unaudited consolidated financial statements.

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	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2015	2014	2015	2014
Revenues:				
Resident and health care revenue	\$ 104,420	\$ 98,466	\$ 304,648	\$ 280,240
Affiliated management services revenue				415
Community reimbursement revenue		17		3,110
Total revenues	104,420	98,483	304,648	283,765
Expenses:				
Operating expenses (exclusive of facility lease expense and depreciation and amortization expense shown below)	63,649	59,992	184,487	171,268
General and administrative expenses	4,751	5,515	15,482	15,137
Facility lease expense	15,321	14,841	45,875	44,524
Stock-based compensation expense	2,301	1,599	6,745	5,676
Depreciation and amortization	12,722	13,840	38,985	35,607
Community reimbursement expense		17		3,110
Total expenses	98,744	95,804	291,574	275,322
Income from operations	5,676	2,679	13,074	8,443
Other income (expense):				
Interest income	12	12	36	40
Interest expense	(8,994)	(8,255)	(26,022)	(22,785)
Write-off of deferred loan costs and prepayment premiums	(102)		(973)	(6,979)
Joint venture equity investment valuation gain				1,519
Gain (Loss) on disposition of assets, net	6,418	(1)	6,247	(11)
Equity in earnings of unconsolidated joint ventures, net				105
Other income		5	1	22
Income (Loss) before provision for income taxes	3,010	(5,560)	(7,637)	(19,646)
Provision for income taxes	(139)	(199)	(697)	(579)
Net income (loss)	\$ 2,871	\$ (5,759)	\$ (8,334)	\$ (20,225)
Per share data:				
Basic net income (loss) per share	\$ 0.10	\$ (0.20)	\$ (0.28)	\$ (0.70)
Diluted net income (loss) per share	\$ 0.10	\$ (0.20)	\$ (0.28)	\$ (0.70)

Weighted average shares outstanding	basic	28,732	28,371	28,668	28,273
Weighted average shares outstanding	diluted	28,733	28,371	28,668	28,273
Comprehensive income (loss)		\$ 2,871	\$ (5,759)	\$ (8,334)	\$ (20,225)

See accompanying notes to unaudited consolidated financial statements.

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CAPITAL SENIOR LIVING CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited, in thousands)

	Nine Months Ended September 30,	
	2015	2014
Operating Activities		
Net loss	\$ (8,334)	\$ (20,225)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	38,985	35,607
Amortization of deferred financing charges	853	999
Amortization of deferred lease costs and lease intangibles	987	922
Deferred income	(308)	(220)
Write-off of deferred loan costs and prepayment premiums	973	6,979
Joint venture equity investment valuation gain		(1,519)
(Gain) Loss on disposition of assets, net	(6,247)	11
Equity in earnings of unconsolidated joint ventures		(105)
Provision for bad debts	873	517
Stock-based compensation expense	6,745	5,676
Changes in operating assets and liabilities:		
Accounts receivable	(3,240)	(2,481)
Accounts receivable from affiliates	2	410
Property tax and insurance deposits	35	376
Prepaid expenses and other	2,076	3,080
Other assets	(324)	756
Accounts payable	(1,853)	249
Accrued expenses	2,683	3,203
Federal and state income taxes receivable/payable	(356)	(91)
Deferred resident revenue	(1,526)	824
Customer deposits	451	117
Net cash provided by operating activities	32,475	35,085
Investing Activities		
Capital expenditures	(23,665)	(13,394)
Cash paid for acquisitions	(124,460)	(145,555)
Proceeds from disposition of assets	43,460	4
Proceeds from SHPIII/CSL Transaction		2,532
Distributions from unconsolidated joint ventures		102
Net cash used in investing activities	(104,665)	(156,311)
Financing Activities		
Proceeds from notes payable	150,034	267,685
Repayments of notes payable	(78,705)	(128,553)

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Increase in restricted cash	(914)	(43)
Cash payments for capital lease and financing obligations	(697)	(630)
Cash proceeds from the issuance of common stock	42	169
Excess tax benefits on stock option exercised	7	(82)
Deferred financing charges paid	(2,099)	(3,115)
Net cash provided by financing activities	67,668	135,431
(Decrease) Increase in cash and cash equivalents	(4,522)	14,205
Cash and cash equivalents at beginning of period	39,209	13,611
Cash and cash equivalents at end of period	\$ 34,687	\$ 27,816
Supplemental Disclosures		
Cash paid during the period for:		
Interest	\$ 24,707	\$ 20,873
Income taxes	\$ 1,028	\$ 714
Non-cash transactions:		
Assumption of debt related to disposition of assets (Sedgwick Sale Transaction)	\$ 6,764	\$

See accompanying notes to unaudited consolidated financial statements.

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CAPITAL SENIOR LIVING CORPORATION

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2015

1. BASIS OF PRESENTATION

Capital Senior Living Corporation, a Delaware corporation (together with its subsidiaries, the Company), is one of the largest operators of senior living communities in the United States in terms of resident capacity. The Company owns, operates and manages senior living communities in geographically concentrated regions throughout the United States. As of September 30, 2015, the Company operated 120 senior living communities in 23 states with an aggregate capacity of approximately 15,300 residents, including 70 senior living communities that the Company owned and 50 senior living communities that the Company leased. As of September 30, 2015, the Company also operated one home care agency. The accompanying consolidated financial statements include the financial statements of Capital Senior Living Corporation and its wholly owned subsidiaries. All material intercompany balances and transactions have been eliminated in consolidation. The Company accounted for significant investments in unconsolidated companies, in which the Company had significant influence, using the equity method of accounting.

The accompanying Consolidated Balance Sheet, as of December 31, 2014, has been derived from audited consolidated financial statements of the Company for the year ended December 31, 2014, and the accompanying unaudited consolidated financial statements, as of and for the three and nine month periods ended September 30, 2015 and 2014, have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and note disclosures normally included in the annual financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted pursuant to those rules and regulations. For further information, refer to the financial statements and notes thereto for the year ended December 31, 2014, included in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 27, 2015.

In the opinion of the Company, the accompanying consolidated financial statements contain all adjustments (all of which were normal recurring accruals) necessary to present fairly the Company's financial position as of September 30, 2015, results of operations for the three and nine month periods ended September 30, 2015 and 2014, and cash flows for the nine month periods ended September 30, 2015 and 2014. The results of operations for the three and nine month periods ended September 30, 2015, are not necessarily indicative of the results for the year ending December 31, 2015.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Assets Held for Sale

Assets are classified as held for sale when the Company has determined all of the held-for-sale criteria have been met. The Company determines the fair value, net of costs of disposal, of an asset on the date the asset is categorized as held for sale, and the asset is recorded at the lower of its fair value, net of cost of disposal, or carrying value on that date. The Company periodically reevaluates assets held for sale to determine if the assets are still recorded at the lower of fair value, net of cost of disposal, or carrying value. The fair values are generally determined based on market rates, industry trends and recent comparable sales transactions. The actual sales price of these assets could differ significantly from the Company's estimates.

During the fourth quarter of fiscal 2014, the Company classified four senior living communities as held for sale and determined the assets had an aggregate fair value, net of cost of disposal, that exceeded the carrying values, using level 2 inputs as defined in the accounting standards codification, and a remeasurement write-down of approximately \$0.6 million was recorded to adjust the carrying values of the assets held for sale to \$35.8 million at December 31, 2014. The four senior living communities were sold during the first quarter of fiscal 2015 in a single transaction for its carrying value. See further discussion at Note 4, Dispositions.

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Lease Accounting

The Company determines whether to account for its leases as either operating, capital or financing leases depending on the underlying terms of each lease agreement. This determination of classification is complex and requires significant judgment relating to certain information including the estimated fair value and remaining economic life of the community, the Company's cost of funds, minimum lease payments and other lease terms. As of September 30, 2015, the Company leased 50 senior living communities, 48 of which the Company classified as operating leases and two of which the Company classified as capital lease and financing obligations. The Company incurs lease acquisition costs and amortizes these costs over the term of the respective lease agreement. Certain leases entered into by the Company qualified as sale/leaseback transactions, and as such, any related gains have been deferred and are being amortized over the respective lease term. Facility lease expense in the Company's Consolidated Statements of Operations and Comprehensive Income (Loss) includes rent expense plus amortization expense relating to leasehold acquisition costs slightly offset by the amortization of deferred gains and lease incentives. There are various financial covenants and other restrictions in the Company's lease agreements. The Company was in compliance with all of its lease covenants at September 30, 2015.

Credit Risk and Allowance for Doubtful Accounts