

ENSIGN GROUP, INC
Form 10-Q
November 05, 2014
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2014

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: 001-33757

THE ENSIGN GROUP, INC.

(Exact Name of Registrant as Specified in Its Charter)

Delaware

33-0861263

(State or Other Jurisdiction of
Incorporation or Organization)

(I.R.S. Employer
Identification No.)

27101 Puerta Real, Suite 450
Mission Viejo, CA 92691

(Address of Principal Executive Offices and Zip Code)
(949) 487-9500

(Registrant's Telephone Number, Including Area Code)
N/A

(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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, 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. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

(Do not check if a 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 November 3, 2014, 22,478,506 shares of the registrant's common stock were outstanding.

THE ENSIGN GROUP, INC.
 QUARTERLY REPORT ON FORM 10-Q
 FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2014
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Part I. Financial Information

Item 1. Financial Statements

THE ENSIGN GROUP, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except par values)

(Unaudited)

	September 30, 2014	December 31, 2013
Assets		
Current assets:		
Cash and cash equivalents	\$39,206	\$65,755
Restricted cash—current	6,652	—
Accounts receivable—less allowance for doubtful accounts of \$19,452 and \$16,540 at September 30, 2014 and December 31, 2013, respectively	120,647	111,370
Investments—current	5,883	5,511
Prepaid income taxes	5,078	9,915
Prepaid expenses and other current assets	8,432	9,213
Deferred tax asset—current	8,033	9,232
Total current assets	193,931	210,996
Property and equipment, net	127,448	479,770
Insurance subsidiary deposits and investments	18,170	16,888
Escrow deposits	600	1,000
Deferred tax asset	11,493	4,464
Restricted and other assets	8,449	9,804
Intangible assets, net	6,560	5,718
Goodwill	25,719	23,935
Other indefinite-lived intangibles	10,509	7,740
Total assets	\$402,879	\$760,315
Liabilities and equity		
Current liabilities:		
Accounts payable	\$27,783	\$23,793
Accrued wages and related liabilities	48,159	40,093
Accrued self-insurance liabilities—current	15,642	15,461
Other accrued liabilities	26,751	25,698
Current maturities of long-term debt	110	7,411
Total current liabilities	118,445	112,456
Long-term debt—less current maturities	3,307	251,895
Accrued self-insurance liabilities—less current portion	33,658	33,642
Fair value of interest rate swap	—	1,828
Deferred rent and other long-term liabilities	3,151	3,237
Total liabilities	158,561	403,058
Commitments and contingencies (Note 16)		
Equity:		
Ensign Group, Inc. stockholders' equity:		
Common stock; \$0.001 par value; 75,000 shares authorized; 22,827 and 22,434 shares issued and outstanding at September 30, 2014, respectively, and 22,580 and 23 22,113 shares issued and outstanding at December 31, 2013, respectively		22

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Additional paid-in capital	110,090	101,364
Retained earnings (Note 2)	136,043	257,502
Common stock in treasury, at cost, 202 and 237 shares at September 30, 2014 and December 31, 2013, respectively	(1,505) (1,680)
Accumulated other comprehensive loss	—	(1,112)
Total Ensign Group, Inc. stockholders' equity	244,651	356,096
Non-controlling interest	(333) 1,161
Total equity	244,318	357,257
Total liabilities and equity	\$402,879	\$760,315

See accompanying notes to condensed consolidated financial statements.

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THE ENSIGN GROUP, INC.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(In thousands, except per share data)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Revenue	\$260,841	\$229,261	\$750,537	\$667,548
Expense:				
Cost of services (exclusive of facility rent, general and administrative and depreciation and amortization expenses shown separately below)	209,737	186,172	601,532	538,146
U.S. Government inquiry settlement (Note 16)	—	—	—	33,000
Facility rent—cost of services	18,176	3,404	30,008	10,056
General and administrative expense	12,956	10,601	44,370	28,321
Depreciation and amortization	4,677	8,795	21,343	25,198
Total expenses	245,546	208,972	697,253	634,721
Income from operations	15,295	20,289	53,284	32,827
Other income (expense):				
Interest expense	(407)	(3,181)	(12,490)	(9,441)
Interest income	142	141	435	363
Other expense, net	(265)	(3,040)	(12,055)	(9,078)
Income before provision for income taxes	15,030	17,249	41,229	23,749
Provision for income taxes	6,659	6,607	18,284	11,440
Income from continuing operations	8,371	10,642	22,945	12,309
Loss from discontinued operations, net of income tax benefit of \$38 and \$1,157 for the three and nine months ended September 30, 2013, respectively (Note 17)	—	(30)	—	(1,804)
Net income	8,371	10,612	22,945	10,505
Less: net (loss) income attributable to noncontrolling interests	(535)	148	(1,494)	(179)
Net income attributable to The Ensign Group, Inc.	\$8,906	\$10,464	\$24,439	\$10,684
Amounts attributable to The Ensign Group, Inc.:				
Income from continuing operations attributable to The Ensign Group, Inc.	\$8,906	\$10,494	\$24,439	\$12,488
Loss from discontinued operations, net of income tax	—	(30)	—	(1,804)
Net income attributable to The Ensign Group, Inc.	\$8,906	\$10,464	\$24,439	\$10,684
Net income per share:				
Basic:				
Income from continuing operations attributable to The Ensign Group, Inc.	\$0.40	\$0.48	\$1.10	\$0.57
Loss from discontinued operations	\$—	\$—	\$—	\$(0.08)
Net income attributable to The Ensign Group, Inc.	\$0.40	\$0.48	\$1.10	\$0.49
Diluted:				
Income from continuing operations attributable to The Ensign Group, Inc.	\$0.38	\$0.47	\$1.06	\$0.56
Loss from discontinued operations	\$—	\$—	\$—	\$(0.08)
Net income attributable to The Ensign Group, Inc.	\$0.38	\$0.47	\$1.06	\$0.48
Weighted average common shares outstanding:				
Basic	22,415	21,941	22,282	21,857
Diluted	23,186	22,409	23,014	22,316

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Dividends per share	\$0.070	\$0.065	\$0.210	\$0.195
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See accompanying notes to condensed consolidated financial statements.

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THE ENSIGN GROUP, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands)

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30 ,	
	2014	2013	2014	2013
Net income	\$8,371	\$10,612	\$22,945	\$10,505
Other comprehensive income, net of tax:				
Unrealized (gain) loss on interest rate swap, net of income tax expense (benefit) of (\$78) for the nine months ended September 30, 2014, and \$27 and (\$332) for the three and nine months ended September 30, 2013, respectively.	—	(28) 89	531
Reclassification adjustment on termination of interest rate swap, net of income tax benefit of \$638 for the nine months ended September 30, 2014.	—	—	1,023	—
Comprehensive income	8,371	10,584	24,057	11,036
Less: net (loss) income attributable to noncontrolling interests	(535) 148	(1,494) (179
Comprehensive income attributable to The Ensign Group, Inc.	\$8,906	\$10,436	\$25,551	\$11,215

See accompanying notes to condensed consolidated financial statements.

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THE ENSIGN GROUP, INC.
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
 (In thousands)
 (Unaudited)

	Nine Months Ended September 30 ,	
	2014	2013
Cash flows from operating activities:		
Net income	\$22,945	\$10,505
Adjustments to reconcile net income to net cash provided by operating activities:		
Loss from sale of discontinued operations (Note 17)	—	2,837
U.S. Government inquiry accrual (Note 16)	—	33,000
Depreciation and amortization	21,343	25,229
Amortization of deferred financing fees and debt discount	539	616
Deferred income taxes	(510) (768
Provision for doubtful accounts	9,271)