

ENSIGN GROUP, INC
Form 10-Q
August 07, 2014
Table of Contents

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 June 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 August 4, 2014, 22,411,766 shares of the registrant's common stock were outstanding.

THE ENSIGN GROUP, INC.
 QUARTERLY REPORT ON FORM 10-Q
 FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2014
 TABLE OF CONTENTS

Part I. Financial Information

<u>Item 1. Financial Statements (unaudited):</u>	<u>3</u>
Condensed Consolidated Balance Sheets as of June 30, 2014 and December 31, 2013	<u>3</u>
Condensed Consolidated Statements of Income for the three and six months ended June 30, 2014 and 2013	<u>4</u>
<u>Condensed Consolidated Statements of Comprehensive Income for the three and six months ended June 30, 2014 and 2013</u>	<u>5</u>
<u>Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2014 and 2013</u>	<u>6</u>
<u>Notes to Condensed Consolidated Financial Statements</u>	<u>8</u>
<u>Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>36</u>
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	<u>64</u>
<u>Item 4. Controls and Procedures</u>	<u>64</u>
<u>Part II. Other Information</u>	
<u>Item 1. Legal Proceedings</u>	<u>65</u>
<u>Item 1A. Risk Factors</u>	<u>67</u>
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>95</u>
<u>Item 3. Defaults Upon Senior Securities</u>	<u>95</u>
<u>Item 4. Mine Safety Disclosures</u>	<u>95</u>
<u>Item 5. Other Information</u>	<u>95</u>
<u>Item 6. Exhibits</u>	<u>96</u>
<u>Signatures</u>	<u>97</u>
Exhibit 31.1	
Exhibit 31.2	
Exhibit 32.1	
Exhibit 32.2	
Exhibit 101	

Table of Contents

Part I. Financial Information

Item 1. Financial Statements

THE ENSIGN GROUP, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except par values)

(Unaudited)

	June 30, 2014	December 31, 2013
Assets		
Current assets:		
Cash and cash equivalents	\$22,393	\$65,755
Restricted cash—current	6,400	—
Accounts receivable—less allowance for doubtful accounts of \$17,909 and \$16,540 at June 30, 2014 and December 31, 2013, respectively	124,441	111,370
Investments—current	4,451	5,511
Prepaid income taxes	10,217	9,915
Prepaid expenses and other current assets	7,657	9,213
Deferred tax asset—current	8,633	9,232
Total current assets	184,192	210,996
Property and equipment, net	116,784	479,770
Insurance subsidiary deposits and investments	17,681	16,888
Escrow deposits	1,880	1,000
Deferred tax asset	10,930	4,464
Restricted cash—less current portion	1,819	—
Restricted and other assets	8,169	9,804
Intangible assets, net	6,711	5,718
Goodwill	24,326	23,935
Other indefinite-lived intangibles	8,340	7,740
Total assets	\$380,832	\$760,315
Liabilities and equity		
Current liabilities:		
Accounts payable	\$26,508	\$23,793
Accrued wages and related liabilities	44,590	40,093
Accrued self-insurance liabilities—current	14,771	15,461
Other accrued liabilities	23,697	25,698
Current maturities of long-term debt	—	7,411
Total current liabilities	109,566	112,456
Long-term debt—less current maturities	—	251,895
Accrued self-insurance liabilities—less current portion	32,792	33,642
Fair value of interest rate swap	—	1,828
Deferred rent and other long-term liabilities	3,162	3,237
Total liabilities	145,520	403,058
Commitments and contingencies (Note 17)		
Equity:		
Ensign Group, Inc. stockholders' equity:		
Common stock; \$0.001 par value; 75,000 shares authorized; 22,777 and 22,382 shares issued and outstanding at June 30, 2014, respectively, and 22,580 and	23	22

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22,113 shares issued and outstanding at December 31, 2013, respectively			
Additional paid-in capital	107,876	101,364	
Retained earnings (Note 2)	128,721	257,502	
Common stock in treasury, at cost, 203 and 237 shares at June 30, 2014 and December 31, 2013, respectively	(1,509) (1,680)
Accumulated other comprehensive loss	—	(1,112)
Total Ensign Group, Inc. stockholders' equity	235,111	356,096	
Non-controlling interest	201	1,161	
Total equity	235,312	357,257	
Total liabilities and equity	\$380,832	\$760,315	
See accompanying notes to condensed consolidated financial statements.			

3

Table of Contents

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Revenue	\$250,043	\$220,086	\$489,696	\$438,287
Expense:				
Cost of services (exclusive of facility rent, general and administrative and depreciation and amortization expenses shown separately below)	202,057	175,913	391,795	351,974
U.S. Government inquiry settlement (Note 17)	—	—	—	33,000
Facility rent—cost of services	8,283	3,338	11,832	6,652
General and administrative expense	18,257	8,872	31,414	17,720
Depreciation and amortization	7,804	8,671	16,666	16,403
Total expenses	236,401	196,794	451,707	425,749
Income from operations	13,642	23,292	37,989	12,538
Other income (expense):				
Interest expense	(8,720)	(3,145)	(12,083)	(6,260)
Interest income	134	129	293	222
Other expense, net	(8,586)	(3,016)	(11,790)	(6,038)
Income before provision for income taxes	5,056	20,276	26,199	6,500
Provision for income taxes	3,523	7,846	11,625	4,833
Income from continuing operations	1,533	12,430	14,574	1,667
Loss from discontinued operations, net of income tax benefit of \$0 for both the three and six months ended June 30, 2014 and \$7 and \$1,119 for the three and six months ended June 30, 2013, respectively (Note 4)	—	(26)	—	(1,774)
Net income (loss)	1,533	12,404	14,574	(107)
Less: net (loss) income attributable to noncontrolling interests	(474)	37	(959)	(327)
Net income attributable to The Ensign Group, Inc.	\$2,007	\$12,367	\$15,533	\$220
Amounts attributable to The Ensign Group, Inc.:				
Income from continuing operations attributable to The Ensign Group, Inc.	\$2,007	\$12,393	\$15,533	\$1,994
Loss from discontinued operations, net of income tax	—	(26)	—	(1,774)
Net income attributable to The Ensign Group, Inc.	\$2,007	\$12,367	\$15,533	\$220
Net income per share:				
Basic:				
Income from continuing operations attributable to The Ensign Group, Inc.	\$0.09	\$0.57	\$0.70	\$0.09
Loss from discontinued operations	\$—	\$—	\$—	\$(0.08)
Net income attributable to The Ensign Group, Inc.	\$0.09	\$0.57	\$0.70	\$0.01
Diluted:				
Income from continuing operations attributable to The Ensign Group, Inc.	\$0.09	\$0.55	\$0.68	\$0.09
Loss from discontinued operations	\$—	\$—	\$—	\$(0.08)
Net income attributable to The Ensign Group, Inc.	\$0.09	\$0.55	\$0.68	\$0.01
Weighted average common shares outstanding:				
Basic	22,259	21,859	22,214	21,814

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Diluted	22,960	22,321	22,915	22,267
Dividends per share	\$0.070	\$0.065	\$0.140	\$0.130

See accompanying notes to condensed consolidated financial statements.

4

Table of Contents

THE ENSIGN GROUP, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands)

(Unaudited)

	Three Months Ended		Six Months Ended	
	June 30, 2014	2013	June 30 , 2014	2013
Net income (loss)	\$1,533	\$12,404	\$14,574	\$(107)
Other comprehensive income, net of tax:				
Unrealized (loss) gain on interest rate swap, net of income tax expense (benefit) of \$0 and (\$78) for the three and six months ended June 30, 2014, respectively, and (\$255) and (\$359) for the three and six months ended June 30, 2013, respectively.	(30)	394	89	559
Reclassification adjustment on termination of interest rate swap, net of income tax benefit of \$638 for the three and six months ended June 30, 2014.	1,023	—	1,023	—
Comprehensive income	2,526	12,798	15,686	452
Less: net (loss) income attributable to noncontrolling interests	(474)	37	(959)	(327)
Comprehensive income attributable to The Ensign Group, Inc.	\$3,000	\$12,761	\$16,645	\$779

See accompanying notes to condensed consolidated financial statements.

Table of Contents

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

	Six Months Ended	
	June 30 ,	
	2014	2013
Cash flows from operating activities:		
Net income (loss)	\$ 14,574	\$(107)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Loss from sale of discontinued operations (Note 4)	—	2,837
U.S. Government inquiry accrual (Note 17)	—	33,000
Depreciation and amortization	16,666	16,432
Amortization of deferred financing fees and debt discount	391	411
Deferred income taxes	(543)	