

CAPITAL SENIOR LIVING CORP

Form 10-Q

May 04, 2016

[Table of Contents](#)

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 March 31, 2016

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)
(972) 770-5600

75254
(Zip Code)

(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 April 29, 2016, the Registrant had 29,935,781 outstanding shares of its Common Stock, \$0.01 par value, per share.

Table of Contents

CAPITAL SENIOR LIVING CORPORATION

INDEX

	Page Number
<u>Part I. Financial Information</u>	
<u>Item 1. Financial Statements.</u>	
<u>Consolidated Balance Sheets March 31, 2016 and December 31, 2015</u>	3
<u>Consolidated Statements of Operations and Comprehensive Loss Three Months Ended March 31, 2016 and 2015</u>	4
<u>Consolidated Statements of Cash Flows Three Months Ended March 31, 2016 and 2015</u>	5
<u>Notes to Unaudited Consolidated Financial Statements</u>	6
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	15
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	22
<u>Item 4. Controls and Procedures</u>	22
<u>Part II. Other Information</u>	
<u>Item 1. Legal Proceedings</u>	22
<u>Item 1A. Risk Factors</u>	22
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	23
<u>Item 3. Defaults Upon Senior Securities</u>	23
<u>Item 4. Mine Safety Disclosures</u>	23
<u>Item 5. Other Information</u>	23
<u>Item 6. Exhibits</u>	23
<u>Signature</u>	24
Certifications	

Table of Contents**Part I. FINANCIAL INFORMATION****Item 1. FINANCIAL STATEMENTS.****CAPITAL SENIOR LIVING CORPORATION****CONSOLIDATED BALANCE SHEETS****(in thousands, except per share data)**

	March 31, 2016 (unaudited)	December 31, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 31,808	\$ 56,087
Restricted cash	13,163	13,159
Accounts receivable, net	10,118	9,254
Property tax and insurance deposits	9,967	14,398
Prepaid expenses and other	3,398	4,370
Total current assets	68,454	97,268
Property and equipment, net	953,352	890,572
Other assets, net	31,295	31,193
Total assets	\$ 1,053,101	\$ 1,019,033
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Accounts payable	\$ 1,575	\$ 3,362
Accrued expenses	32,962	34,300
Current portion of notes payable, net of deferred loan costs	13,480	13,634
Current portion of deferred income and resident revenue	15,628	16,059
Current portion of capital lease and financing obligations	1,201	1,257
Federal and state income taxes payable	289	111
Customer deposits	1,788	1,819
Total current liabilities	66,923	70,542
Deferred income	13,645	13,992
Capital lease and financing obligations, net of current portion	38,603	38,835
Other long-term liabilities	7,484	4,969
Notes payable, net of deferred loan costs and current portion	796,662	754,949
Commitments and contingencies		
Shareholders' equity:		
Preferred stock, \$.01 par value:		

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Authorized shares	15,000; no shares issued or outstanding		
Common stock, \$.01 par value:			
Authorized shares	65,000; issued and outstanding shares 29,940 and 29,539 in 2016 and 2015, respectively	304	299
Additional paid-in capital		162,433	159,920
Retained deficit		(29,523)	(23,539)
Treasury stock, at cost	494 and 350 shares in 2016 and 2015, respectively	(3,430)	(934)
Total shareholders equity		129,784	135,746
Total liabilities and shareholders equity		\$ 1,053,101	\$ 1,019,033

See accompanying notes to unaudited consolidated financial statements.

Table of Contents

CAPITAL SENIOR LIVING CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

(unaudited, in thousands, except per share data)

	Three Months Ended March 31,	
	2016	2015
Revenues:		
Resident revenue	\$ 109,173	\$ 98,640
Expenses:		
Operating expenses (exclusive of facility lease expense and depreciation and amortization expense shown below)	66,523	60,131
General and administrative expenses	6,248	5,013
Facility lease expense	15,205	15,256
Stock-based compensation expense	2,513	1,727
Depreciation and amortization expense	14,531	12,795
Total expenses	105,020	94,922
Income from operations	4,153	3,718
Other income (expense):		
Interest income	16	13
Interest expense	(9,985)	(8,355)
Write-off of deferred loan costs and prepayment premiums		(871)
Loss on disposition of assets, net	(31)	(106)
Other income		1
Loss before provision for income taxes	(5,847)	(5,600)
Provision for income taxes	(137)	(439)
Net loss	\$ (5,984)	\$ (6,039)
Per share data:		
Basic net loss per share	\$ (0.21)	\$ (0.21)
Diluted net loss per share	\$ (0.21)	\$ (0.21)
Weighted average shares outstanding basic	28,751	28,565
Weighted average shares outstanding diluted	28,751	28,565
Comprehensive loss	\$ (5,984)	\$ (6,039)

See accompanying notes to unaudited consolidated financial statements.

Table of Contents

CAPITAL SENIOR LIVING CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited, in thousands)

	Three Months Ended March 31,	
	2016	2015
Operating Activities		
Net loss	\$ (5,984)	\$ (6,039)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	14,531	12,795
Amortization of deferred financing charges	278	306
Amortization of deferred lease costs and lease intangibles	(225)	316
Deferred income	82	(58)
Lease incentives	868	
Write-off of deferred loan costs and prepayment penalties		871
Loss on disposition of assets, net	31	106
Provision for bad debts	487	264
Stock-based compensation expense	2,513	1,727
Changes in operating assets and liabilities:		
Accounts receivable	476	(1,001)
Accounts receivable from affiliates		2
Property tax and insurance deposits	4,431	3,896
Prepaid expenses and other	972	1,860
Other assets	1,081	(226)
Accounts payable	(1,787)	1,744
Accrued expenses	(1,301)	(3,599)
Federal and state income taxes payable	178	307
Deferred resident revenue	(860)	(496)
Customer deposits	(31)	10
Net cash provided by operating activities	15,740	12,785
Investing Activities		
Capital expenditures	(13,767)	(5,503)
Cash paid for acquisitions	(64,750)	(47,810)
Proceeds from disposition of assets		35,672
Net cash used in investing activities	(78,517)	(17,641)
Financing Activities		
Proceeds from notes payable	46,300	80,488
Repayments of notes payable	(4,457)	(62,847)
Increase in restricted cash	(4)	(5)
Cash payments for capital lease obligations	(288)	(172)

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Cash proceeds from the issuance of common stock	5	8
Excess tax benefits on stock options		111
Purchases of treasury stock	(2,496)	
Deferred financing charges paid	(562)	(863)
Net cash provided by financing activities	38,498	16,720
(Decrease) Increase in cash and cash equivalents	(24,279)	11,864
Cash and cash equivalents at beginning of period	56,087	39,209
Cash and cash equivalents at end of period	\$ 31,808	\$ 51,073
Supplemental Disclosures		
Cash paid during the period for:		
Interest	\$ 9,551	\$ 7,930
Income taxes	\$ 23	\$ 18

See accompanying notes to unaudited consolidated financial statements.

Table of Contents

CAPITAL SENIOR LIVING CORPORATION

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2016

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 March 31, 2016, the Company operated 126 senior living communities in 23 states with an aggregate capacity of approximately 15,800 residents, including 76 senior living communities that the Company owned and 50 senior living communities that the Company leased. As of March 31, 2016, 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 accompanying Consolidated Balance Sheet, as of December 31, 2015, has been derived from audited consolidated financial statements of the Company for the year ended December 31, 2015, and the accompanying unaudited consolidated financial statements, as of and for the three month periods ended March 31, 2016 and 2015, 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, 2015, included in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 26, 2016.

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 March 31, 2016, results of operations for the three month periods ended March 31, 2016 and 2015, and cash flows for the three month periods ended March 31, 2016 and 2015. The results of operations for the three month period ended March 31, 2016, are not necessarily indicative of the results for the year ending December 31, 2016.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 March 31, 2016, 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 Loss includes rent expense plus amortization expense relating to leasehold acquisition costs 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 March 31, 2016.

Table of Contents*Credit Risk and Allowance for Doubtful Accounts*

The Company's resident receivables are generally due within 30 days from the date billed. Accounts receivable are reported net of an allowance for doubtful accounts, and represent the Company's estimate of the amount that ultimately will be collected. The adequacy of the Company's allowance for doubtful accounts is reviewed on an ongoing basis, using historical payment trends, write-off experience, analyses of receivable portfolios by payor source and aging of receivables, as well as a review of specific accounts, and adjustments are made to the allowance as necessary. Credit losses on resident receivables have historically been within management's estimates, and management believes that the allowance for doubtful accounts adequately provides for expected losses.

Employee Health and Dental Benefits, Workers' Compensation, and Insurance Reserves

The Company offers certain full-time employees an option to participate in its health and dental plans. The Company is self-insured up to certain limits and is insured if claims in excess of these limits are incurred. The cost of employee health and dental benefits, net of employee contributions, is shared between the corporate office and the senior living communities based on the respective number of plan participants. Funds collected are used to pay the actual program costs including estimated annual claims, third-party administrative fees, network provider fees, communication costs, and other related administrative costs incurred by the plans. Claims are paid as they are submitted to the Company's third-party administrator. The Company records a liability for outstanding claims and claims that have been incurred but not yet reported. This liability is based on the historical claim reporting lag and payment trends of health insurance claims. Management believes that the liability for outstanding losses and expenses is adequate to cover the ultimate cost of losses and expenses incurred at March 31, 2016; however, actual claims and expenses may differ. Any subsequent changes in estimates are recorded in the period in which they are determined.

The Company uses a combination of insurance and self-insurance for workers' compensation. Determining the reserve for workers' compensation losses and costs that the Company has incurred as of the end of a reporting period involves significant judgments based on projected future events including potential settlements for pending claims, known incidents which may result in claims, estimates of incurred but not yet reported claims, changes in insurance premiums, estimated litigation costs and other factors. The Company regularly adjusts these estimates to reflect changes in the foregoing factors. However, since this reserve is based on estimates, the actual expenses incurred may differ from the amounts reserved. Any subsequent changes in estimates are recorded in the period in which they are determined.

Income Taxes

Income taxes are computed using the asset and liability method and current income taxes are recorded based on amounts refundable or payable in the current year. The effective tax rates for the first quarters of fiscal 2016 and 2015 differ from the statutory tax rates due to state income taxes, permanent tax differences, and changes in the deferred tax asset valuation allowance. The Company is impacted by the Texas Margin Tax (TMT), which effectively imposes tax on modified gross revenues for communities within the State of Texas. During each of the first quarters of fiscal 2016 and 2015, the Company consolidated 37 Texas communities and the TMT increased the overall provision for income taxes.

Deferred income taxes are recorded based on the estimated future tax effects of loss carryforwards and temporary differences between financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using enacted tax rates that are expected to apply to taxable income in the years in which we expect those carryforwards and temporary differences to be recovered or settled. Management regularly evaluates the future realization of deferred tax assets and provides a valuation allowance, if

considered necessary, based on such evaluation. As part of the evaluation, management has evaluated taxable income in carryback years, future reversals of taxable temporary differences, feasible tax planning strategies, and future expectations of income. Based upon this analysis, an adjustment to the valuation allowance of \$1.9 million and \$2.5 million was recorded during the first quarters of fiscal 2016 and 2015, respectively, to increase the valuation allowance provided to \$24.1 million and \$19.8 million at March 31, 2016 and 2015, respectively, and reduce the Company's net deferred tax assets to the amount that is more likely than not to be realized. However, in the event that we were to determine that it would be more likely than not that the Company would realize the benefit of deferred tax assets in the future in excess of their net recorded amounts, adjustments to deferred tax assets would increase net income in the period such determination was made. The benefits of the net deferred tax assets might not be realized if actual results differ from expectations.

Table of Contents

The Company evaluates uncertain tax positions through consideration of accounting and reporting guidance on criteria, measurement, derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition that is intended to provide better financial statement comparability among different companies. The Company is required to recognize a tax benefit in its financial statements for an uncertain tax position only if management's assessment is that such position is more likely than not (i.e., a greater than 50% likelihood) to be upheld on audit based only on the technical merits of the tax position. The Company's policy is to recognize interest related to unrecognized tax benefits as interest expense and penalties as income tax expense. The Company is generally no longer subject to federal and state income tax audits for tax years prior to 2012.

Net Loss Per Share

Basic net loss per common share is computed by dividing net loss by the weighted average number of common shares outstanding for the period. Potentially dilutive securities consist of unvested restricted shares and shares that could be issued under outstanding stock options. Potentially dilutive securities are excluded from the computation of net loss per common share if their effect is antidilutive.

The following table sets forth the computation of basic and diluted net loss per share (in thousands, except for per share amounts):

	Three Months Ended March 31,	
	2016	2015
Net loss	\$ (5,984)	\$ (6,039)
Net loss allocable to unvested restricted shares		(168)
Undistributed net loss attributable to common shares	\$ (5,984)	\$ (5,871)
Weighted average shares outstanding - basic	28,751	28,565
Effects of dilutive securities:		
Employee equity compensation plans		
Weighted average shares outstanding - diluted	28,751	28,565
Basic net loss per share	\$ (0.21)	\$ (0.21)
Diluted net loss per share	\$ (0.21)	\$ (0.21)

Awards of unvested restricted stock representing approximately 1,034,000 and 801,000 shares were outstanding for the three months ended March 31, 2016 and 2015, respectively, and were antidilutive. During fiscal 2015, the unvested restricted stock did not meet all of the requirements to be deemed participating securities. Therefore, for current and future reporting periods, (losses) earnings per share will be calculated under the treasury method and the two-class method will no longer be utilized by the Company.

Treasury Stock

The Company accounts for treasury stock under the cost method and includes treasury stock as a component of stockholders' equity. During the three months ended March 31, 2016, the Company repurchased 144,315 shares of its common stock in open market transactions.

Recently Issued Accounting Guidance

In March 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-09, *Improvements to Employee Share-based Payment Accounting*. ASU 2016-09 simplifies several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The amendments in ASU 2016-09 are effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. Early application is permitted. The Company is currently evaluating the impact the adoption of ASU 2014-09 will have on