

NATIONAL HEALTHCARE CORP
Form 10-Q
November 08, 2018

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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, 2018

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
001-13489

(Exact name of registrant as specified in its Charter)

Delaware 52-2057472
(State or other jurisdiction of (I.R.S. Employer incorporation or organization Identification No.)

100 E. Vine Street
Murfreesboro, TN

37130
(Address of principal executive offices)
(Zip Code)

(615) 890-2020
Registrant's telephone number, including area code

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 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, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth 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

Emerging growth company []

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. []

Indicate by check mark whether the registrant is a shell company (as is defined in Rule 12b-2 of the Exchange Act).
Yes [] No [x]

15,233,254 shares of common stock of the registrant were outstanding as of November 7, 2018.

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Table of Contents**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements****NATIONAL HEALTHCARE CORPORATION****Interim Condensed Consolidated Statements of Operations***(in thousands, except share and per share amounts)**(unaudited)*

	Three Months Ended		Nine Months Ended	
	September 30		September 30	
	2018	2017	2018	2017
		<i>(as adjusted)</i>		<i>(as adjusted)</i>
Revenues:				
Net patient revenues	\$234,827	\$229,259	\$697,173	\$683,598
Other revenues	11,499	11,937	34,256	34,831
Net operating revenues	246,326	241,196	731,429	718,429
Cost and expenses:				
Salaries, wages and benefits	149,188	145,900	434,749	426,639
Other operating	64,507	63,250	192,268	188,522
Facility rent	10,190	10,106	30,691	30,273
Depreciation and amortization	10,437	10,833	31,176	31,609
Interest	1,170	1,322	3,663	3,599
Total costs and expenses	235,492	231,411	692,547	680,642
Income from operations	10,834	9,785	38,882	37,787
Other income:				
Non-operating income	8,467	6,090	11,056	16,047
Unrealized gains on marketable equity securities	3,486	—	417	—
Income before income taxes	22,787	15,875	50,355	53,834
Income tax provision	(1,700)	(4,691)	(9,792)	(19,448)
Net income	21,087	11,184	40,563	34,386
Net loss attributable to noncontrolling interest	55	168	249	349
	\$21,142	\$11,352	\$40,812	\$34,735

Net income attributable to National HealthCare Corporation

Earnings per share attributable to National HealthCare Corporation stockholders:

Basic	\$ 1.39	\$0.75	\$2.68	\$2.29
Diluted	\$ 1.39	\$0.75	\$2.68	\$2.28

Weighted average common shares outstanding:

Basic	15,225,654	15,195,394	15,221,217	15,186,315
Diluted	15,242,086	15,220,567	15,230,692	15,217,797

Dividends declared per common share	\$0.50	\$0.48	\$1.48	\$1.41
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The accompanying notes to interim condensed consolidated financial statements are an integral part of these consolidated statements.

Table of Contents**NATIONAL HEALTHCARE CORPORATION****Interim Condensed Consolidated Statements of Comprehensive Income***(unaudited – in thousands)*

	Three Months Ended		Nine Months Ended	
	September 30 2018	September 30 2017	September 30 2018	September 30 2017
Net income	\$21,087	\$11,184	\$40,563	\$34,386
Other comprehensive gain (loss):				
Unrealized gains (losses) on investments in restricted marketable debt securities	(180)	397	(3,772)	2,629
Unrealized gains (losses) on investments in marketable equity securities	–	(4,373)	–	5,751
Reclassification adjustment for realized (gains) losses on sale of securities	7	(17)	(18)	(255)
Income tax benefit (expense) related to items of other comprehensive income	36	1,572	795	(3,074)
Other comprehensive gain (loss), net of tax	(137)	(2,421)	(2,995)	5,051
Net loss attributable to noncontrolling interest	55	168	249	349
Comprehensive income attributable to National HealthCare Corporation	\$21,005	\$8,931	\$37,817	\$39,786

The accompanying notes to interim condensed consolidated financial statements are an integral part of these consolidated statements.

Table of Contents**NATIONAL HEALTHCARE CORPORATION****Interim Condensed Consolidated Balance Sheets***(in thousands)*

	September 30,	December 31,
	2018	2017
	<i>unaudited</i>	
Assets		
Current Assets:		
Cash and cash equivalents	\$55,599	\$59,118
Restricted cash and cash equivalents, current portion	10,209	6,397
Marketable equity securities	139,502	139,085
Restricted marketable debt securities, current portion	17,606	21,012
Accounts receivable, net	87,263	86,767
Inventories	7,590	7,153
Prepaid expenses and other assets	3,163	2,864
Notes receivable, current portion	1,338	1,450
Federal income tax receivable	2,203	5,465
Total current assets	324,473	329,311
Property and Equipment:		
Property and equipment, at cost	977,373	958,748
Accumulated depreciation and amortization	(436,437)	(409,429)
Net property and equipment	540,936	549,319
Other Assets:		
Restricted cash and cash equivalents, less current portion	1,925	1,906
Restricted marketable debt securities, less current portion	150,428	145,383
Deposits and other assets	5,807	4,867
Goodwill	20,995	17,600
Notes receivable, less current portion	10,031	11,801
Investments in limited liability companies	30,073	36,339
Total other assets	219,259	217,896
Total assets	\$1,084,668	\$1,096,526

The accompanying notes to interim condensed consolidated financial statements are an integral part of these consolidated statements.

Table of Contents**NATIONAL HEALTHCARE CORPORATION****Interim Condensed Consolidated Balance Sheets (continued)***(in thousands, except share and per share amounts)*

	September 30,	December 31,
	2018	2017
	<i>unaudited</i>	
Liabilities and Stockholders' Equity		
Current Liabilities:		
Trade accounts payable	\$ 19,611	\$ 15,978
Capital lease obligations, current portion	3,865	3,696
Accrued payroll	58,487	67,102
Amounts due to third party payors	17,596	17,389
Accrued risk reserves, current portion	27,815	27,409
Other current liabilities	16,561	16,194
Dividends payable	7,613	7,297
Total current liabilities	151,548	155,065
Long-term debt	75,000	100,000
Capital lease obligations, less current portion	20,132	23,052
Accrued risk reserves, less current portion	67,972	65,866
Refundable entrance fees	8,668	8,827
Obligation to provide future services	2,887	2,887
Deferred income taxes	18,648	18,376
Other noncurrent liabilities	14,703	15,795
Deferred revenue	3,892	3,226
Total liabilities	363,450	393,094
Equity:		
Common stock, \$.01 par value; 45,000,000 shares authorized; 15,225,654 and 15,212,133 shares, respectively, issued and outstanding	152	152
Capital in excess of par value	217,657	215,659
Retained earnings	505,906	419,423
Accumulated other comprehensive income (loss)	(3,692)	67,504
Total National HealthCare Corporation stockholders' equity	720,023	702,738
Noncontrolling interest	1,195	694
Total equity	721,218	703,432
Total liabilities and equity	\$ 1,084,668	\$ 1,096,526

The accompanying notes to interim condensed consolidated financial statements are an integral part of these consolidated statements.

Table of Contents**NATIONAL HEALTHCARE CORPORATION****Interim Condensed Consolidated Statements of Cash Flows***(unaudited – in thousands)*

	Nine Months Ended	
	September 30	
	2018	2017
		<i>(as adjusted)</i>
Cash Flows From Operating Activities:		
Net income	\$40,563	\$ 34,386
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	31,176	31,609
Equity in (earnings) losses of unconsolidated investments	1,860	(5,908)
Distributions from unconsolidated investments	3,830	7,748
Unrealized gains on marketable equity securities	(417)	–
Gains on sale of restricted marketable debt securities	(18)	(255)
Gain on acquisition of equity method investment	(2,050)	–
Deferred income taxes	1,067	881
Stock-based compensation	1,538	1,263
Changes in operating assets and liabilities:		
Accounts receivable	613	2,273
Income tax receivable	3,262	(1,248)
Inventories	(437)	395
Prepaid expenses and other assets	(1,336)	(942)
Trade accounts payable	3,319	(3,857)
Accrued payroll	(8,615)	(10,326)
Amounts due to third party payors	207	3,630
Accrued risk reserves	2,668	4,375
Other current liabilities	262	7,086
Other noncurrent liabilities	(1,092)	(760)
Deferred revenue	666	645
Net cash provided by operating activities	77,066	70,995
Cash Flows From Investing Activities:		
Additions to property and equipment	(22,708)	(24,328)
Acquisition of equity method investment, net of cash acquired	(527)	–
Distributions from/(investments in) unconsolidated companies	376	(176)
Collections of notes receivable	1,180	3,970
Purchase of restricted marketable securities	(9,950)	(24,874)
Sale of restricted marketable securities	4,539	46,598

Net cash (used in) provided by investing activities	(27,090)	1,190
Cash Flows From Financing Activities:		
Principal payments on debt	(25,000)	–
Principal payments under capital lease obligations	(2,751)	(2,591)
Dividends paid to common stockholders	(22,214)	(20,943)
Issuance of common shares	1,327	1,627
Repurchase of common shares	(867)	–
Equity attributable to noncontrolling interest	–	970
Entrance fee refunds	(159)	(1,097)
Net cash used in financing activities	(49,664)	(22,034)
Net Increase in Cash, Cash Equivalents, Restricted Cash, and Restricted Cash Equivalents	312	50,151
Cash, Cash Equivalents, Restricted Cash, and Restricted Cash Equivalents, Beginning of Period	67,421	31,589
Cash, Cash Equivalents, Restricted Cash, and Restricted Cash Equivalents, End of Period	\$67,733	\$81,740
Balance Sheet Classifications:		
Cash and cash equivalents	\$55,599	\$69,790
Restricted cash and cash equivalents	12,134	11,950
Total Cash, Cash Equivalents, Restricted Cash, and Restricted Cash Equivalents	\$67,733	\$81,740

The accompanying notes to interim condensed consolidated financial statements are an integral part of these consolidated statements.

Table of Contents**NATIONAL HEALTHCARE CORPORATION****Interim Condensed Consolidated Statements of Stockholders' Equity***(in thousands, except share and per share amounts)**(unaudited)*

	Common Stock		Capital in Excess of Par	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Non- controlling Interest	Total Stockholders' Equity
	Shares	Amount	Value				
Balance at January 1, 2017	15,162,938	\$ 152	\$211,457	\$391,934	\$ 66,068	\$ –	\$ 669,611
Net income attributable to National HealthCare Corporation	–	–	–	34,735	–	–	34,735
Net loss attributable to noncontrolling interest	–	–	–	–	–	(349)	(349)
Equity contributed by noncontrolling interest	–	–	–	–	–	970	970
Other comprehensive income	–	–	–	–	5,051	–	5,051
Stock-based compensation	–	–	1,263	–	–	–	1,263
Shares sold – options exercised	33,917	–	1,627	–	–	–	1,627
Dividends declared to common stockholders (\$1.41 per share)	–	–	–	(21,419)	–	–	(21,419)
Balance at September 30, 2017	15,196,855	\$ 152	\$214,347	\$405,250	\$ 71,119	\$ 621	\$ 691,489
Balance at January 1, 2018	15,212,133	\$ 152	\$215,659	\$419,423	\$ 67,504	\$ 694	\$ 703,432
Reclassification due to new accounting standards	–	–	–	68,201	(68,201)	–	–
Net income attributable to National HealthCare Corporation	–	–	–	–	–	–	–