

FIVE STAR QUALITY CARE INC

Form 10-Q

December 17, 2014

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 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

or

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

Commission File Number 001-16817

FIVE STAR QUALITY CARE, INC.

(Exact Name of Registrant as Specified in Its Charter)

Maryland 04-3516029
(State of Incorporation) (IRS Employer Identification No.)

400 Centre Street, Newton, Massachusetts 02458

(Address of Principal Executive Offices) (Zip Code)

(Registrant's Telephone Number, Including Area Code): 617-796-8387

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

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. (Check one):

Large accelerated filer

Non-accelerated filer

(Do not check if a smaller reporting company)

Accelerated filer

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

Number of registrant's shares of common stock, \$.01 par value, outstanding as of December 12, 2014: 48,661,042.

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As used herein the terms “we”, “us” or “our” mean Five Star Quality Care, Inc. and its consolidated subsidiaries unless the context otherwise requires.

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Part I. Financial Information

Item 1. Condensed Consolidated Financial Statements

FIVE STAR QUALITY CARE, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except share and per share amounts)

(unaudited)

	September 30, 2014	December 31, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 24,947	\$ 23,628
Accounts receivable, net of allowance of \$3,959 and \$4,281 at September 30, 2014 and December 31, 2013, respectively	35,732	36,940
Due from related persons	12,728	11,659
Investments in available for sale securities, of which \$9,125 and \$4,690 are restricted as of September 30, 2014 and December 31, 2013, respectively	24,177	19,150
Restricted cash	3,636	9,003
Prepaid and other current assets	39,491	33,799
Assets of discontinued operations	2,529	16,705
Total current assets	143,240	150,884
Property and equipment, net	354,081	340,276
Equity investment in an investee	6,806	5,913
Restricted cash	3,599	9,795
Restricted investments in available for sale securities	19,876	11,905
Goodwill and other intangible assets	26,573	26,407
Other long term assets	49,713	45,003
	\$ 603,888	\$ 590,183
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Revolving credit facility, secured, principally by real estate	\$ 25,000	\$ 35,000
Accounts payable and accrued expenses	72,079	69,343
Accrued compensation and benefits	43,344	31,888
Due to related persons	20,019	20,587
Mortgage notes payable	1,828	1,159
Accrued real estate taxes	14,453	9,934
Security deposits and current portion of continuing care contracts	7,234	8,025
Other current liabilities	22,343	18,607
Liabilities of discontinued operations	1,049	3,985
Total current liabilities	207,349	198,528

Long term liabilities:		
Mortgage notes payable	50,246	36,461
Continuing care contracts	1,387	1,531
Accrued self-insurance obligations	40,364	38,002
Other long term liabilities	4,794	5,283
Total long term liabilities	96,791	81,277

Commitments and contingencies

Shareholders' equity:

Common stock, \$.01 par value: 75,000,000 shares authorized, 48,661,042 and 48,613,442 shares issued and outstanding at September 30, 2014 and December 31, 2013, respectively	486	486
Additional paid in capital	356,519	355,570
Accumulated deficit	(60,654)	(48,996)
Accumulated other comprehensive income	3,397	3,318
Total shareholders' equity	299,748	310,378
	\$ 603,888	\$ 590,183

See accompanying notes.

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FIVE STAR QUALITY CARE, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share data)

(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Revenues:				
Senior living revenue	\$ 277,411	\$ 269,845	\$ 824,580	\$ 807,984
Management fee revenue	2,438	2,290	7,296	6,873
Reimbursed costs incurred on behalf of managed communities	54,490	52,128	163,673	156,705
Total revenues	334,339	324,263	995,549	971,562
Operating expenses:				
Senior living wages and benefits	135,507	131,026	402,469	394,309
Other senior living operating expenses	71,217	68,020	214,368	198,359
Costs incurred on behalf of managed communities	54,490	52,128	163,673	156,705
Rent expense	49,481	48,743	147,758	145,035
General and administrative	17,865	15,334	54,187	45,849
Depreciation and amortization	8,278	6,736	23,529	19,691
Impairment of long-lived assets	589	—	589	—
Total operating expenses	337,427	321,987	1,006,573	959,948
Operating (loss) income	(3,088)	2,276	(11,024)	11,614
Interest, dividend and other income	214	191	623	599
Interest and other expense	(1,324)	(1,179)	(3,803)	(3,990)
Loss on early extinguishment of debt	—	(599)	—	(599)
Gain on sale of available for sale securities reclassified from other comprehensive (loss) income	23	36	349	6
(Loss) income from continuing operations before income taxes and equity in earnings of an investee	(4,175)	725	(13,855)	7,630
Benefit from (provision for) income taxes	1,763	(164)	4,558	(1,076)
Equity in earnings of an investee	38	64	59	219
(Loss) income from continuing operations	(2,374)	625	(9,238)	6,773
Loss from discontinued operations	(634)	(1,383)	(2,420)	(3,683)
Net (loss) income	\$ (3,008)	\$ (758)	\$ (11,658)	\$ 3,090
Weighted average shares outstanding—basic and diluted	48,020	48,272	48,012	48,253

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Basic and diluted (loss) income per share from:

Continuing operations	\$ (0.05)	\$ 0.01	\$ (0.19)	\$ 0.14
Discontinued operations	(0.01)	(0.03)	(0.05)	(0.07)
Net (loss) income per share—basic and diluted	\$ (0.06)	\$ (0.02)	\$ (0.24)	\$ 0.07

See accompanying notes.

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FIVE STAR QUALITY CARE, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(in thousands)

(unaudited)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2014	2013	2014	2013
Net (loss) income	\$ (3,008)	\$ (758)	\$ (11,658)	\$ 3,090
Other comprehensive (loss) income:				
Unrealized (loss) gain on investments in available for sale securities, net of tax	(234)	108	287	(65)
Unrealized (loss) gain on equity investment in an investee	(33)	13	8	(68)
Less: Realized gain on investments in available for sale securities reclassified and included in net (loss) income, net of tax	(14)	(22)	(216)	(4)
Other comprehensive (loss) income	(281)	99	79	(137)
Comprehensive (loss) income	\$ (3,289)	\$ (659)	\$ (11,579)	\$ 2,953
See accompanying notes.				

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FIVE STAR QUALITY CARE, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

	Nine Months Ended September 30,	
	2014	2013
Cash flows from operating activities:		
Net (loss) income	\$ (11,658)	\$ 3,090
Adjustments to reconcile net (loss) income to cash provided by operating activities:		
Depreciation and amortization	24,313	20,589
Loss on early extinguishment of debt	—	599
Loss from discontinued operations before income tax	3,927	5,840
Gain on sale of available for sale securities	(349)	(6)
Impairment of long-lived assets	589	—
Equity in earnings of an investee	(59)	(219)
Stock-based compensation	949	792
Deferred income taxes	(6,726)	(2,282)
Provision for losses on receivables	1,998	4,414
Changes in assets and liabilities:		
Accounts receivable	(790)	(3,435)
Prepaid expenses and other assets	(4,620)	4,690
Accounts payable and accrued expenses	1,858	(3,988)
Accrued compensation and benefits	11,456	4,668
Due (to) from related persons, net	(1,952)	209
Other current and long term liabilities	9,347	3,118
Cash provided by operating activities	28,283	38,079
Cash flows from investing activities:		
Payments into restricted cash and investment accounts, net	11,563	1,617
Acquisition of property and equipment	(39,189)	(37,267)
Acquisition of senior living community, net of liabilities assumed	(5,926)	—
Purchase of available for sale securities	(21,349)	(13,416)
Investment in Affiliates Insurance Company	(825)	—
Proceeds from sale of property and equipment to Senior Housing Properties Trust	23,776	19,934
Proceeds from sale of available for sale securities	8,737	5,925
Cash used in investing activities	(23,213)	(23,207)
Cash flows from financing activities:		
Proceeds from borrowings on credit facilities	10,000	60,000
Repayments of borrowings on credit facilities	(20,000)	(50,000)
Purchase and retirement of convertible senior notes	—	(24,872)
Repayments of mortgage notes payable	(1,064)	(813)
Cash used in financing activities	(11,064)	(15,685)

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Cash flows from discontinued operations:

Net cash provided by (used in) operating activities	7,020	(4,314)
Net cash provided by investing activities	293	7,603
Net cash used in financing activities	—	(7,534)
Net cash flows provided by (used in) discontinued operations	7,313	(4,245)