

NATIONAL HEALTHCARE CORP
Form 10-Q
August 04, 2016

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

FORM 10-Q

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 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 001-13489

(Exact name of registrant as specified in its Charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

52-2057472
(I.R.S. Employer
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 or a smaller reporting company. See the definitions of "large accelerated file," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Smaller reporting company

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

15,279,239 shares of common stock of the registrant were outstanding as of August 1, 2016.

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

	Three Months Ended		Six Months Ended	
	June 30		June 30	
	2016	2015	2016	2015
Revenues:				
Net patient revenues	\$ 216,487	\$ 214,433	\$ 434,593	\$ 426,494
Other revenues	11,281	10,469	22,763	20,815
Net operating revenues	227,768	224,902	457,356	447,309
Cost and Expenses:				
Salaries, wages and benefits	135,068	131,914	265,088	257,630
Other operating	57,306	57,467	118,615	117,214
Facility rent	10,319	9,981	20,646	19,966
Depreciation and amortization	9,495	9,236	18,849	18,169
Interest	939	598	1,893	1,188
Total costs and expenses	213,127	209,196	425,091	414,167
Income Before Non-Operating Income	14,641	15,706	32,265	33,142
Non-Operating Income	4,925	4,130	9,698	8,352
Income Before Income Taxes	19,566	19,836	41,963	41,494
Income Tax Provision	(7,700)	(7,478)	(16,398)	(15,894)
Net Income	11,866	12,358	25,565	25,600
Dividends to Preferred Stockholders	-	(2,167)	-	(4,335)
	\$ 11,866	\$ 10,191	\$ 25,565	\$ 21,265

Net Income Available to Common
Stockholders

Earnings Per Common Share:

Basic	\$	0.78	\$	0.74	\$	1.69	\$	1.54
Diluted	\$	0.78	\$	0.71	\$	1.68	\$	1.48

Weighted Average Common Shares

Outstanding:

Basic	15,266,559	13,772,873	15,091,732	13,767,248
Diluted	15,289,104	14,381,746	15,212,275	14,336,027

Dividends Declared Per Common
Share

\$	0.45	\$	0.40	\$	0.85	\$	0.74
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The accompanying notes to interim condensed consolidated financial statements are an integral part of these consolidated statements.

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

	Three Months Ended		Six Months Ended	
	2016	2015	2016	2015
Net Income	\$ 11,866	\$ 12,358	\$ 25,565	\$ 25,600
Other Comprehensive Income (Loss):				
Unrealized gains (losses) on investments in marketable securities	18,123	(19,072)	30,627	(15,085)
Reclassification adjustment for realized gains on sale of securities	(261)	(80)	(540)	(421)
Income tax (expense) benefit related to items of other comprehensive income	(6,887)	7,379	(11,554)	6,013
Other comprehensive income (loss), net of tax	10,975	(11,773)	18,533	(9,493)
Comprehensive Income	\$ 22,841	\$ 585	\$ 44,098	\$ 16,107

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

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

	June 30, 2016 <i>unaudited</i>	December 31, 2015
Assets		
Current Assets:		
Cash and cash equivalents	\$ 37,543	\$ 38,208
Restricted cash and cash equivalents	14,364	8,793
Marketable securities	141,756	116,168
Restricted marketable securities	13,220	18,276
Accounts receivable, less allowance for doubtful accounts of \$7,336 and \$5,583, respectively	77,228	84,095
Inventories	7,137	7,568
Prepaid expenses and other assets	3,138	2,171
Notes receivable, current portion	1,977	460
Federal income tax receivable	915	3,203
Total current assets	297,278	278,942
Property and Equipment:		
Property and equipment, at cost	911,303	875,287
Accumulated depreciation and amortization	(357,979)	(339,241)
Net property and equipment	553,324	536,046
Other Assets:		
Restricted cash and cash equivalents	2,336	2,313
Restricted marketable securities	159,840	151,590
Deposits and other assets	8,213	8,451
Goodwill	17,600	17,600
Notes receivable, less current portion	12,970	12,704
Investments in limited liability companies	36,005	37,683
Total other assets	236,964	230,341
Total assets	\$ 1,087,566	\$ 1,045,329

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

NATIONAL HEALTHCARE CORPORATION

Interim Condensed Consolidated Balance Sheets (continued)

(in thousands, except share and per share amounts)

	June 30, 2016 <i>unaudited</i>	December 31, 2015
Liabilities and Stockholders' Equity		
Current Liabilities:		
Trade accounts payable	\$ 21,803	\$ 20,128
Capital lease obligations, current portion	3,378	3,279
Accrued payroll	50,005	65,338
Amounts due to third party payors	18,410	16,654
Accrued risk reserves, current portion	27,584	27,069
Other current liabilities	12,773	12,192
Dividends payable	6,876	5,996
Total current liabilities	140,829	150,656
Long-term debt	120,000	120,000
Capital lease obligations, less current portion	28,515	30,228
Accrued risk reserves, less current portion	70,930	71,439
Refundable entrance fees	9,831	9,865
Obligation to provide future services	3,440	3,440
Deferred income taxes	20,406	9,096
Other noncurrent liabilities	17,367	16,294
Deferred revenue	4,705	3,315
Stockholders' Equity:		
Common stock, \$.01 par value; 30,000,000 shares authorized; 15,279,239 and 15,000,616 shares, respectively, issued and outstanding	153	150
Capital in excess of par value	218,896	209,469
Retained earnings	380,597	368,013
Accumulated other comprehensive income	71,897	53,364
Total stockholders' equity	671,543	630,996
Total liabilities and stockholders' equity	\$ 1,087,566	\$ 1,045,329

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

NATIONAL HEALTHCARE CORPORATION

Interim Condensed Consolidated Statements of Cash Flows

(unaudited – in thousands)

	Six Months Ended	
	2016	June 30 2015
Cash Flows From Operating Activities:		
Net income	\$ 25,565	\$ 25,600
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	18,849	18,169
Provision for doubtful accounts receivable	3,795	3,763
Equity in earnings of unconsolidated investments	(3,120)	(2,386)
Distributions from unconsolidated investments	5,635	4,749
Gains on sale of restricted marketable securities	(540)	(421)
Deferred income taxes	(244)	(4,869)
Stock-based compensation	494	1,132
Changes in operating assets and liabilities, net of the effect of acquisitions:		
Restricted cash and cash equivalents	(10,342)	(5,701)
Accounts receivable	3,072	(2,877)
Income tax receivable	2,288	4,727
Inventories	431	(146)
Prepaid expenses and other assets	(967)	(699)
Trade accounts payable	1,675	1,244
Accrued payroll	(15,333)	(10,849)
Amounts due to third party payors	1,756	2,526
Other current liabilities and accrued risk reserves	609	3,295
Other noncurrent liabilities	1,073	1,386
Deferred revenue	1,390	1,533
Net cash provided by operating activities	36,086	40,176
Cash Flows From Investing Activities:		
Additions to property and equipment	(36,127)	(23,046)
Investments in unconsolidated limited liability companies	(904)	(323)
Investments in notes receivable	(2,144)	(4,237)
Collections of notes receivable	428	228
Change in restricted cash and cash equivalents	4,748	5,738
Purchase of restricted marketable securities	(23,852)	(35,952)
Sale of restricted marketable securities	25,697	28,296
Net cash used in investing activities	(32,154)	(29,296)
Cash Flows From Financing Activities:		
Tax (expense) benefit from stock-based compensation	(1,134)	342
Principal payments under capital lease obligations	(1,614)	(1,521)
Dividends paid to preferred stockholders	-	(4,335)
Dividends paid to common stockholders	(12,101)	(9,667)
Issuance of common shares	10,070	5,743

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Entrance fee deposits	(34)	(203)
Change in deposits	216	494
Net cash used in financing activities	(4,597)	(9,147)
Net (Decrease) Increase in Cash and Cash Equivalents	(665)	1,733
Cash and Cash Equivalents, Beginning of Period	38,208	69,767
Cash and Cash Equivalents, End of Period	\$ 37,543	\$ 71,500

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

NATIONAL HEALTHCARE CORPORATION

Interim Condensed Consolidated Statements of Stockholders' Equity

(in thousands, except share and per share amounts)

(unaudited)

	Preferred Stock		Common Stock		Capital in	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
	Shares	Amount	Shares	Amount	Excess of Par Value			
Balance at January 1, 2015	10,836,659	\$ 170,494	14,110,859	\$ 140	\$ 154,965	\$ 343,941	\$ 64,608	\$ 734,148
Net income	–	–	–	–	–	25,600	–	25,600
Other comprehensive income	–	–	–	–	–	–	(9,493)	(9,493)
Stock-based compensation	–	–	–	–	1,132	–	–	1,132
Tax benefit from exercise of stock options	–	–	–	–	342	–	–	342
Shares sold – options exercised	–	–	123,001	2	5,741	–	–	5,743
Shares issued in conversion of preferred stock to common stock	(63,947)	(1,015)	15,476	–	1,015	–	–	–
Dividends declared to preferred stockholders (\$0.40 per share)	–	–	–	–	–	(4,335)	–	(4,335)
Dividends declared to common stockholders (\$0.74 per share)	–	–	–	–	–	(10,534)	–	(10,534)
Balance at June 30, 2015	10,772,712	\$ 169,479	14,249,336	\$ 142	\$ 163,195	\$ 354,672	\$ 55,115	\$ 742,603

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Balance at January 1, 2016	-\$	-15,000,616	\$	150	\$	209,469	\$	368,013	\$	53,364	\$	630,996
Net income	-	-	-	-	-	-	25,565	-	-	-	-	25,565
Other comprehensive income	-	-	-	-	-	-	-	-	-	18,533	-	18,533
Stock-based compensation	-	-	-	-	-	494	-	-	-	-	-	494
Tax expense from exercise of stock options	-	-	-	-	-	-	-	-	-	-	-	-