

KINDRED HEALTHCARE, INC  
Form 10-Q  
May 04, 2005  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, DC 20549

**FORM 10-Q**

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

**For the quarterly period ended March 31, 2005**

**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: 001-14057**

**KINDRED HEALTHCARE, INC.**

**(Exact name of registrant as specified in its charter)**

**Delaware**  
**(State or other jurisdiction of**  
  
**incorporation or organization)**  
  
**680 South Fourth Street**

**61-1323993**  
**(I.R.S. Employer**  
  
**Identification No.)**  
  
**40202-2412**

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**Louisville, KY**  
(Address of principal executive offices)

(Zip Code)

**(502) 596-7300**

(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 is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act.) Yes  No

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes  No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

<u>Class of Common Stock</u>	<u>Outstanding at April 30, 2005</u>
Common stock, \$0.25 par value	38,426,884 shares

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**Table of Contents****KINDRED HEALTHCARE, INC.****CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS****(Unaudited)****(In thousands, except per share amounts)**

	<b>Three months ended March 31,</b>	
	<b>2005</b>	<b>2004</b>
Revenues	\$ 939,989	\$ 858,015
Salaries, wages and benefits	515,020	484,049
Supplies	128,283	115,496
Rent	67,996	63,619
Other operating expenses	152,167	142,321
Depreciation and amortization	24,114	21,561
Interest expense	2,000	3,654
Investment income	(2,348)	(1,214)
	<u>887,232</u>	<u>829,486</u>
Income from continuing operations before reorganization items and income taxes	52,757	28,529
Reorganization items	(1,371)	
Income from continuing operations before income taxes	54,128	28,529
Provision for income taxes	21,868	11,996
Income from continuing operations	32,260	16,533
Income (loss) from discontinued operations, net of income taxes	4,630	(2,693)
Net income	<u>\$ 36,890</u>	<u>\$ 13,840</u>
Earnings per common share:		
Basic:		
Income from continuing operations	\$ 0.89	\$ 0.47
Income (loss) from discontinued operations	0.13	(0.08)
Net income	<u>\$ 1.02</u>	<u>\$ 0.39</u>
Diluted:		
Income from continuing operations	\$ 0.73	\$ 0.38
Income (loss) from discontinued operations	0.10	(0.06)
Net income	<u>\$ 0.83</u>	<u>\$ 0.32</u>
Shares used in computing earnings per common share:		
Basic	36,312	35,414

Diluted

44,410

42,721

See accompanying notes.

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**Table of Contents****KINDRED HEALTHCARE, INC.****CONDENSED CONSOLIDATED BALANCE SHEET****(Unaudited)****(In thousands, except per share amounts)**

	<b>March 31,</b>	<b>December 31,</b>
	<b>2005</b>	<b>2004</b>
	<b>_____</b>	<b>_____</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 15,571	\$ 69,128
Cash restricted	5,874	6,054
Insurance subsidiary investments	251,850	238,856
Accounts receivable less allowance for loss of \$65,237 March 31, 2005 and \$60,320 December 31, 2004	463,278	400,517
Inventories	36,497	35,025
Deferred tax assets	70,137	70,137
Assets held for sale	16,343	22,672
Other	44,286	31,954
	<b>_____</b>	<b>_____</b>
	903,836	874,343
Property and equipment	786,340	765,586
Accumulated depreciation	(297,629)	(273,880)
	<b>_____</b>	<b>_____</b>
	488,711	491,706
Goodwill	41,960	31,582
Insurance subsidiary investments	44,442	41,651
Deferred tax assets	91,437	91,180
Other	105,884	62,831
	<b>_____</b>	<b>_____</b>
	<b>\$ 1,676,270</b>	<b>\$ 1,593,293</b>
	<b>_____</b>	<b>_____</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 111,876	\$ 122,176
Salaries, wages and other compensation	233,999	230,056
Due to third party payors	23,331	33,910
Professional liability risks	79,115	82,609
Other accrued liabilities	75,340	76,985
Income taxes	52,068	26,748
Long-term debt due within one year	5,506	5,282
	<b>_____</b>	<b>_____</b>
	581,235	577,766
Long-term debt	56,304	32,544
Professional liability risks	203,006	204,713
Deferred credits and other liabilities	60,901	58,485
Commitments and contingencies		

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Stockholders' equity:

Common stock, \$0.25 par value; authorized 175,000 shares; issued 38,273 shares	March 31, 2005 and		
37,189 shares	December 31, 2004	9,568	9,297
Capital in excess of par value		654,120	636,015
Deferred compensation		(7,118)	(7,353)
Accumulated other comprehensive income		6	468
Retained earnings		118,248	81,358
		<u>774,824</u>	<u>719,785</u>
		<u>\$ 1,676,270</u>	<u>\$ 1,593,293</u>

See accompanying notes.

**Table of Contents****KINDRED HEALTHCARE, INC.****CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS****(Unaudited)****(In thousands)**

	<b>Three months ended</b>	
	<b>March 31,</b>	
	<b>2005</b>	<b>2004</b>
Cash flows from operating activities:		
Net income	\$ 36,890	\$ 13,840
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	24,114	22,046
Amortization of deferred compensation costs	1,912	1,743
Provision for doubtful accounts	4,987	8,116
Reorganization items	(1,371)	
Other	(186)	(102)
Change in operating assets and liabilities:		
Accounts receivable	(59,132)	(54,304)
Inventories and other assets	(10,359)	(9,468)
Accounts payable	(2,445)	(3,184)
Income taxes	25,332	9,912
Due to third party payors	(10,579)	(3,737)
Other accrued liabilities	8,791	(9,062)
Net cash provided by (used in) operating activities	17,954	(24,200)
Cash flows from investing activities:		
Purchase of property and equipment	(17,963)	(17,881)
Acquisition of institutional pharmacy	(27,600)	
Acquisition deposit	(31,500)	
Sale of assets	1,055	370
Purchase of insurance subsidiary investments	(113,884)	(9,776)
Sale of insurance subsidiary investments	84,591	5,672
Net change in insurance subsidiary cash and cash equivalents	13,111	(16,820)
Net change in other investments		1,777
Other	(99)	138
Net cash used in investing activities	(92,289)	(36,520)
Cash flows from financing activities:		
Net change in revolving credit borrowings	25,200	16,900
Repayment of long-term debt	(1,216)	(1,032)
Issuance of common stock	16,699	467
Other	(19,905)	(4,312)
Net cash provided by financing activities	20,778	12,023



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Change in cash and cash equivalents	(53,557)	(48,697)
Cash and cash equivalents at beginning of period	69,128	66,524
	<u>          </u>	<u>          </u>
Cash and cash equivalents at end of period	\$ 15,571	\$ 17,827
	<u>          </u>	<u>          </u>
Supplemental information:		
Interest payments	\$ 1,034	\$ 3,272
Income tax payments (refunds)	(566)	398

See accompanying notes.

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**KINDRED HEALTHCARE, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**NOTE 1 BASIS OF PRESENTATION**

*Business*

Kindred Healthcare, Inc. ( Kindred or the Company ) is a healthcare services company that through its subsidiaries operates hospitals, nursing centers, institutional pharmacies and a contract rehabilitation services business across the United States. At March 31, 2005, the Company's hospital division operated 73 hospitals in 24 states. The Company's health services division operated 249 nursing centers in 29 states. The Company's pharmacy division operated an institutional pharmacy business with 36 pharmacies in 23 states and a pharmacy management business servicing substantially all of the Company's hospitals. The Company also operated a contract rehabilitation services business which began operating as a separate division on January 1, 2004.

During 2004 and 2003, the Company completed several transactions related to the divestiture of unprofitable hospitals, nursing centers and other healthcare businesses. For accounting purposes, the operating results of these businesses and the losses associated with these transactions have been classified as discontinued operations in the accompanying unaudited condensed consolidated statement of operations for all periods presented. Assets not sold at March 31, 2005 have been measured at the lower of carrying value or estimated fair value less costs of disposal and have been classified as held for sale in the accompanying unaudited condensed consolidated balance sheet. See Note 2.