KINDRED HEALTHCARE INC
Form 8-K
November 06, 2003

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the

Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): November 5, 2003

KINDRED HEALTHCARE, INC.

(Exact name of registrant as specified in its charter)

Delaware	**001-14057**	**61-1323993**
(State or other jurisdiction of incorporation or organization)	**(Commission File Number)**	**(IRS Employer Identification No.)**

680 South Fourth Street

Louisville, Kentucky

(Address of principal executive offices)

40202-2412

(Zip Code)

Registrant s telephone number, including area code: (502) 596-7300

Not Applicable

(Former name or former address, if changed since last report)

Item 5. Other Events and Regulation FD Disclosure.

Kindred Healthcare, Inc. (the Company) has entered into an agreement to purchase eight nursing centers and two hospitals (collectively, the Facilities) currently leased from Ventas, Inc. (Ventas). In the proposed transaction, the Company will pay $79 million to purchase the Facilities and $6 million in lease termination fees. The current annual rent of approximately $5 million on the Facilities will terminate on the closing of the proposed transaction. The Company expects to finance its obligations at closing through the use of existing cash.

The consummation of the proposed transaction is subject to several material conditions, including, but not limited to, the receipt of required approvals from the Company s lenders. The Company has provided a $1.5 million deposit to Ventas that is subject to forfeiture and has agreed to pay an additional $3.5 million termination fee if, among other things, the Company cannot obtain lender approval by November 30, 2003 or close the transaction by December 10, 2003. The deposit would be refundable to the Company in the event of a breach by Ventas.

The Company intends to dispose of the Facilities as soon as practicable. The Company has targeted June 30, 2004 to complete the divestiture of all of the Facilities. The Company expects to generate between $30 million and $40 million in proceeds from the sales of the Facilities. For the nine months ended September 30, 2003, the Facilities generated pretax losses of approximately $15 million.

The Company expects to record a loss on the proposed transaction equal to the difference between the total consideration paid to Ventas and the estimated fair value of the assets acquired. The estimation of the fair value of the assets acquired and related loss will be determined in conjunction with the Company s ongoing divestiture negotiations with third parties. Assuming the Company can successfully complete the Ventas transaction, the operations of the Facilities will be accounted for as discontinued operations.

Forward Looking Statements

This Form 8-K includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. All statements regarding the Company s expected future financial position, results of operations, cash flows, financing plans, business strategy, budgets, capital expenditures, competitive positions, growth opportunities, plans and objectives of management and statements containing the words such as anticipate, approximate, believe, plan, estimate, expect, project, should, will, intend, may and other similar expressions, are forward-looking statements.

Such forward-looking statements are inherently uncertain, and stockholders and other potential investors must recognize that actual results may differ materially from the Company s expectations as a result of a variety of factors, including, without limitation, those discussed below. Such forward-looking statements are based on management s current expectations and include known and unknown risks, uncertainties and other factors, many of which the Company is unable to predict or control, that may cause the Company s actual results or performance to differ materially from any future results or performance expressed or implied by such forward-looking statements. These statements involve risks, uncertainties and other factors detailed from time to time in the Company s filings with the Securities and Exchange Commission.

Factors that may affect the Company s plans or results include, without limitation, (a) the Company s ability to operate pursuant to the terms of its debt obligations and its master lease agreements with Ventas; (b) the Company s ability to meet its rental and debt service obligations; (c) adverse developments with respect to the Company s results of operations or liquidity; (d) the Company s ability to attract and retain key executives and other healthcare personnel; (e) increased operating costs due to shortages in qualified nurses and other healthcare personnel; (f) the effects of healthcare reform and government regulations, interpretation of regulations and changes in the nature and enforcement of regulations governing the healthcare industry; (g) changes in the reimbursement rates or methods of payment from third party payors, including the Medicare and Medicaid programs and the prospective payment system for long-term acute care hospitals; (h) national and regional economic conditions, including their effect on the availability and cost of labor, materials and other services; (i) the Company s ability to control costs, particularly labor and employee benefit costs; (j) the Company s ability to comply with the terms of its Corporate Integrity Agreement; (k) the Company s ability to integrate operations of acquired facilities; (l) the increase in the costs of defending and insuring against professional liability claims and the Company s ability to predict the estimated costs related to such claims; (m) the Company s ability to successfully reduce (by divestiture or otherwise) its exposure to professional liability claims, and (n) the Company s ability to successfully acquire and dispose of the Facilities. Many of these factors are beyond the Company s control. The Company cautions investors that any forward-looking statements made by the Company are not guarantees of future performance. The Company disclaims any obligation to update any such factors or to announce publicly the results of any revisions to any of the forward-looking statements to reflect future events or developments.

Item 12. Results of Operations and Financial Condition.

On November 5, 2003, the Company issued a press release announcing its financial results for the third quarter ended September 30, 2003. The press release, dated November 5, 2003, is attached as Annex A to this Form 8-K. On November 5, 2003, the Company also included the press release on its website at www.kindredhealthcare.com.

Annex A is incorporated herein by reference and has been furnished, not filed.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereto duly authorized.

Date: November 6, 2003	By: /s/ Richard A. Lechleiter
	Richard A. Lechleiter Senior Vice President, Chief Financial Officer and Treasurer

Annex A

[Kindred Logo appears here]

Contact: Richard A. Lechleiter
Senior Vice President,
Chief Financial Officer and Treasurer
(502) 596-7734

KINDRED HEALTHCARE ANNOUNCES THIRD QUARTER RESULTS

Company to acquire for resale ten unprofitable facilities from Ventas, Inc.

LOUISVILLE, Ky. (November 5, 2003) Kindred Healthcare, Inc. (the Company) (NASDAQ: KIND) today announced its operating results for the third quarter ended September 30, 2003. As previously disclosed, the Company s divestiture of all of its Florida and Texas nursing centers (the Florida and Texas Divestiture) in the second quarter of 2003 has been reflected as discontinued operations in the consolidated financial statements.

The Company also announced that it has agreed to purchase ten unprofitable facilities currently leased from Ventas, Inc. (Ventas) (NYSE: VTR) for $85 million in cash. The Company intends to dispose of these properties as soon as practicable.

Consolidated Results

For the third quarter of 2003, the Company reported consolidated net income of $12 million or $0.67 per diluted share. Net income included income from continuing operations of $14 million or $0.78 per diluted share. Net income also included a loss from discontinued operations of $2 million or $0.11 per diluted share.

For the nine months ended September 30, 2003, the Company reported a consolidated net loss of $45 million or $2.57 per diluted share. The net loss included income from continuing operations of $23 million or $1.34 per diluted share. The net loss also included a loss from discontinued operations of $32 million or $1.84 per diluted share and the loss from the Florida and Texas Divestiture of $36 million or $2.07 per diluted share.

The Company s reported operating results for both the third quarter and nine-month periods of 2003 and 2002 were impacted by certain items discussed below.

Continuing Operations

Revenues in the third quarter of 2003 increased 4% to $860 million compared to $827 million in the third quarter of 2002. Income from continuing operations for the third quarter of 2003 totaled $14 million or $0.78 per diluted share compared to $14 million or $0.77 per diluted share in the year-earlier period.

Provisions of the Balanced Budget Refinement Act (the BBRA) and the Medicare, Medicaid, and State Child Health Insurance Program Benefits Improvement and Protection Act of 2000 (BIPA) that expired in the fourth quarter of 2002 reduced Medicare revenues in the Company s nursing centers by approximately $14 million in the third quarter of 2003 compared to the same period a year ago.

During the third quarter of 2003, the Company recorded income of approximately $10 million related to settlements of prior year hospital Medicare cost reports.

On October 1, 2002, the final regulations for a Medicare prospective payment system for long-term acute care hospitals (LTAC PPS) became effective. This new payment system became effective for all but two of the Company s long-term acute care hospitals on September 1, 2003. The Company s hospital operating results in the third quarter of 2003 included favorable Medicare reimbursement adjustments of approximately $4 million that resulted from the conversion to LTAC PPS.

Interest expense for both the third quarters of 2003 and 2002 included approximately $2 million of gains resulting from prepayments of long-term debt.

Operating results for the three months ended September 30, 2003 included a $1.3 million write-down of the ancillary services line of business in the hospital division. These operations were classified as held for sale at September 30, 2003.

Operating results for the third quarter of 2002 included income of $12 million related to an accounts receivable settlement with a private insurance company and a charge of $22 million related to additional professional liability costs.

For the nine months ended September 30, 2003, revenues increased 5% to $2.5 billion from $2.4 billion in the same period a year ago. Income from continuing operations totaled $23 million or $1.34 per diluted share for the first nine months of 2003 compared to $63 million or $3.29 per diluted share in the same period a year ago.

Provisions of the BBRA and BIPA that expired in the fourth quarter of 2002 reduced Medicare revenues in the Company s nursing centers by approximately $42 million for the first nine months of 2003 compared to the same period a year ago. Professional liability costs aggregated $75 million for the nine months ended September 30, 2003 compared to $48 million in the first nine months of 2002, of which approximately $57 million and $35 million, respectively, were charged to the Company s nursing center business.

Operating results for the nine months ended September 30, 2002 included income of $5 million resulting from a change in estimate for accrued reorganization items and a lease termination charge for an unprofitable hospital.

Discontinued Operations

Net operating losses for the divested Florida and Texas nursing centers were $2 million in the third quarter of 2003 compared to $24 million in the third quarter of 2002. For the nine months ended September 30, 2003, net operating losses for the divested Florida and Texas nursing centers were $32 million compared to $31 million during the same period a year ago.

Third Quarter Commentary

Edward L. Kuntz, Chairman and Chief Executive Officer of the Company, commented on the third quarter results. We are continuing to build operational momentum in a number of key areas. First, our hospital team completed a successful transition to the new Medicare prospective payment system that began on September 1. While early in the transition, we reduced average length of stay and reimbursement rates were in line with our expectations. In addition, average hospital wage rates in the quarter were flat with a year ago as a result of reduced agency utilization and overtime costs. In our nursing center business, we continued to see stabilization in professional liability costs from levels reported in the second quarter this year. We also increased our nursing center occupancy rates to 86.3% in the third quarter from 85.1% in the second quarter of this year. Effective October 1, the 3% Medicare market basket adjustment, along with the 3.26% correction to the market basket adjustment, will help our nursing center business to keep pace with increasing labor costs. The pharmacy division turned in another solid quarter and expanded its external customer base from the second quarter level. Finally, we began to realize some benefits from overhead reductions implemented in the third quarter of this year.

Transaction with Ventas

The Company also announced that it has entered into an agreement to purchase eight nursing centers and two hospitals (collectively, the Facilities) currently leased from Ventas. In the proposed transaction, the Company will pay $79 million to purchase the Facilities and $6 million in lease termination fees. The current annual rent of approximately $5 million on the Facilities will terminate on the closing of the proposed transaction. The Company expects to finance its obligations at closing through the use of existing cash.

The consummation of the proposed transaction is subject to several material conditions, including, but not limited to, the receipt of required approvals from the Company s lenders. The Company has provided a $1.5 million deposit to Ventas that is subject to forfeiture and has agreed to pay an additional $3.5 million termination fee if, among other things, the Company cannot obtain lender approval by November 30, 2003 or close the transaction by December 10, 2003. The deposit would be refundable to the Company in the event of a breach by Ventas.

The Company intends to dispose of the Facilities as soon as practicable. The Company has targeted June 30, 2004 to complete the divestiture of all of the Facilities. The Company expects to generate between $30 million and $40 million in proceeds from the sales of the Facilities. For the nine months ended September 30, 2003, the Facilities generated pretax losses of approximately $15 million.

The Company expects to record a loss on the proposed transaction equal to the difference between the total consideration paid to Ventas and the estimated fair value of the assets acquired. The estimation of the fair value of the assets acquired and related loss will be determined in conjunction with the Company s ongoing divestiture negotiations with third parties. Assuming the Company can successfully complete the Ventas transaction, the operations of the Facilities will be accounted for as discontinued operations.

Paul J. Diaz, President and Chief Operating Officer of the Company, stated that we are pleased to have quickly structured another transaction with Ventas that will be beneficial to both companies. While we are taking the necessary steps to complete the Ventas transaction, we also are proceeding expeditiously to divest of these unprofitable facilities. We believe that these transactions will benefit our overall results in 2004. This transaction also reflects the continued improvement in the working relationship between the companies that should allow each company more opportunities to enhance shareholder value.

Forward Looking Statements

This press release includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as

amended. All statements regarding the Company s expected future financial position, results of operations, cash flows, financing plans, business strategy, budgets, capital expenditures, competitive positions, growth opportunities, plans and objectives of management and statements containing the words such as anticipate, approximate, believe, plan, estimate, expect, project, could, should, will, intend, expressions, are forward-looking statements.

Such forward-looking statements are inherently uncertain, and stockholders and other potential investors must recognize that actual results may differ materially from the Company s expectations as a result of a variety of factors, including, without limitation, those discussed below. Such forward-looking statements are based on management s current expectations and include known and unknown risks, uncertainties and other factors, many of which the Company is unable to predict or control, that may cause the Company s actual results or performance to differ materially from any future results or performance expressed or implied by such forward-looking statements. These statements involve risks, uncertainties and other factors detailed from time to time in the Company s filings with the Securities and Exchange Commission.

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Kindred Healthcare, Inc. is a national healthcare services company primarily operating hospitals, nursing centers and institutional pharmacies.

KINDRED HEALTHCARE, INC.

Financial Summary

(Unaudited)

(In thousands, except per share amounts)

	Three months ended September 30,		Nine months ended September 30,	
	2003	**2002**	**2003**	**2002**
Revenues	**$ 860,264**	$ 827,141	**$ 2,528,590**	$ 2,413,159
Income from continuing operations	**$ 13,711**	$ 14,080	**$ 23,269**	$ 62,726
Discontinued operations, net of income taxes:				
Loss from operations	**(2,004)**	(24,236)	**(32,097)**	(31,042)
Loss on divestiture of operations			**(36,019)**	
Net income (loss)	**$ 11,707**	$ (10,156)	**$ (44,847)**	$ 31,684
Earnings (loss) per common share:				
Basic:				
Income from continuing operations	**$ 0.79**	$ 0.81	**$ 1.34**	$ 3.62
Discontinued operations:				
Loss from operations	**(0.12)**	(1.39)	**(1.85)**	(1.79)
Loss on divestiture of operations			**(2.07)**	
Net income (loss)	**$ 0.67**	$ (0.58)	**$ (2.58)**	$ 1.83
Diluted:				
Income from continuing operations	**$ 0.78**	$ 0.77	**$ 1.34**	$ 3.29
Discontinued operations:				
Loss from operations	**(0.11)**	(1.32)	**(1.84)**	(1.63)
Loss on divestiture of operations			**(2.07)**	
Net income (loss)	**$ 0.67**	$ (0.55)	**$ (2.57)**	$ 1.66
Shares used in computing earnings (loss) per common share:				
Basic	**17,443**	17,380	**17,409**	17,345
Diluted	**17,572**	18,395	**17,427**	19,084

KINDRED HEALTHCARE, INC.

Condensed Consolidated Statement of Operations

(Unaudited)

(In thousands, except per share amounts)

	Three months ended September 30,		Nine months ended September 30,	
	2003	**2002**	**2003**	**2002**
Revenues	**$ 860,264**	$ 827,141	**$ 2,528,590**	$ 2,413,159
Salaries, wages and benefits	**486,217**	467,276	**1,445,045**	1,374,407
Supplies	**110,764**	106,113	**326,622**	308,627
Rent	**67,093**	65,357	**199,084**	192,953
Other operating expenses	**152,065**	145,079	**453,155**	380,723
Depreciation	**20,947**	18,052	**61,135**	51,842
Interest expense	**1,054**	1,368	**6,937**	8,918
Investment income	**(1,334)**	(2,343)	**(4,645)**	(7,618)
	836,806	800,902	**2,487,333**	2,309,852
Income from continuing operations before reorganization items and income taxes	**23,458**	26,239	**41,257**	103,307
Reorganization items				(5,520)
Income from continuing operations before income taxes	**23,458**	26,239	**41,257**	108,827
Provision for income taxes	**9,747**	12,159	**17,988**	46,101
Income from continuing operations	**13,711**	14,080	**23,269**	62,726
Discontinued operations, net of income taxes:				
Loss from operations	**(2,004)**	(24,236)	**(32,097)**	(31,042)
Loss on divestiture of operations			**(36,019)**	
Net income (loss)	**$ 11,707**	$ (10,156)		