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KINDRED HEALTHCARE INC  
Form 8-K  
May 15, 2003

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

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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): May 14, 2003

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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 9. Regulation FD Disclosure.

On May 14, 2003, the Company issued a press release announcing its financial results for the first quarter ended March 31, 2003. The press release, dated May 14, 2003, is attached as Annex A to this Item 9. On May 14, 2003, the Company also included the press release on its website at [www.kindredhealthcare.com](http://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.

KINDRED HEALTHCARE, INC.

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Date: May 14, 2003

By: /s/ Richard A. Lechleiter

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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 FIRST QUARTER RESULTS

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Company announces definitive agreement with Ventas  
to purchase nursing centers in Florida and Texas

LOUISVILLE, Ky. (May 14, 2003) - Kindred Healthcare, Inc. (the "Company") (NASDAQ: KIND) today announced its operating results for the first quarter ended March 31, 2003. The Company also announced a definitive agreement with Ventas, Inc. ("Ventas") (NYSE:VTR) to purchase 15 nursing centers in Florida and one nursing center in Texas currently owned by Ventas and operated by the Company.

First Quarter Results

Revenues for the quarter rose 6% to \$863 million compared to \$811 million in the year-earlier period. The Company reported a net loss for the current quarter of \$13 million or \$0.76 per diluted share compared to net income of \$18 million or \$0.95 per diluted share in the first quarter last year. Operating results for the first quarter of 2003 were adversely affected by reductions in nursing center Medicare reimbursement and increases in professional liability costs.

As previously disclosed, certain Medicare reimbursements to the Company's nursing centers expired on October 1, 2002, reducing operating income by approximately \$15 million in the first quarter of 2003 compared to the first quarter of 2002. Costs related to professional liability risks aggregated \$54 million in the first quarter of 2003 compared to \$16 million in the first quarter last year, of which approximately \$47 million and \$13 million, respectively, related to the Company's nursing center business. Professional liability costs recorded in the fourth quarter of 2002 aggregated \$37 million, of which approximately \$33 million were charged to the Company's nursing center business. The results of the Company's regular quarterly independent actuarial valuation indicated that the increase in nursing center professional liability costs from fourth quarter 2002 levels primarily reflected an increase in claims activity in the first quarter in certain states other than Florida. Approximately \$8 million of the first quarter 2003 nursing center provision for loss related to changes in estimates of prior year costs.

Professional liability costs in the first quarter of 2003 related to the Company's Florida nursing center operations approximated \$22 million. Pretax losses for these facilities totaled \$19 million in the first quarter of 2003.

The Company believes that the increases in professional liability costs are

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expected to continue in the foreseeable future. In addition, the expiration of certain Medicare funding on October 1, 2002 will continue to reduce materially the Company's nursing center operating income.

As previously disclosed in its 2002 Form 10-K, the Company designated its pharmacy operations as a separate operating division effective January 1, 2003. Business segment disclosures for prior periods have been reclassified to conform with the new presentation.

Cash and cash equivalents totaled \$100 million at March 31, 2003 compared to \$244 million at December 31, 2002. As previously announced, the Company funded approximately \$63 million into its limited purpose insurance subsidiary on March 31, 2003 in satisfaction of its 2002 professional liability funding requirements. Operating cash flows in the first quarter of 2003 reflected a \$53 million increase in accounts receivable. Medicare and private receivables in the Company's hospitals increased by approximately \$27 million and \$12 million, respectively, in the first quarter, while slower Medicaid payments to the Company's nursing centers accounted for approximately \$9 million of the increase.

Collections of accounts receivable are expected to improve in the second quarter of 2003, primarily through normal Medicare settlements and lump-sum payments based on recently filed annual hospital cost reports.

The Company was in compliance with the covenants related to its revolving credit facility and senior secured notes at March 31, 2003. Long-term debt at March 31, 2003 aggregated \$162 million, relatively unchanged from December 31, 2002. There were no outstanding borrowings under the Company's revolving credit facility at March 31, 2003.

Due to uncertainties associated with professional liability costs and government reimbursement, the Company does not intend to issue any earnings guidance for fiscal 2003 at this time.

### Transaction with Ventas

The Company also announced that it has entered into an agreement to purchase 15 Florida nursing centers and one Texas nursing center (the "Facilities") that it leases from Ventas. In the proposed transaction, the Company will pay approximately \$60 million to purchase the Facilities and \$4 million in lease termination fees. In addition, the Company has agreed to certain amendments to its master leases with Ventas to: (1) pay incremental rent in varying amounts generally over seven years, the net present value of which will approximate \$44 million using a discount rate of 11%, (2) provide that all annual rent escalators under the master leases will be in cash at all times, and (3) expand certain cooperation and information sharing provisions of the master leases. The current annual rent of approximately \$9 million on the Facilities to be purchased will terminate on the closing of the proposed transaction.

For accounting purposes, the \$44 million present value rent obligation to Ventas will be recorded by the Company as long-term debt upon consummation of the proposed transaction. The Company expects to record a loss on the proposed transaction equal to the difference between the present value of 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. 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

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conditions, including, but not limited to, the receipt of required approvals from the Company's lenders. The Company has agreed to provide a \$5 million deposit to Ventas that is subject to forfeiture if, among other things, the Company cannot obtain lender approval by June 25, 2003 or close the transaction by June 30, 2003. The deposit would be refundable to the Company in the event of a breach by Ventas.

### Florida Nursing Center Divestiture

As previously announced, the Company intends to divest its 18 Florida nursing centers. The Company is currently engaged in discussions with interested third parties to divest the 15 facilities to be purchased from Ventas, two owned facilities and one facility currently leased from another landlord.

### Texas Nursing Center Divestiture

The Company currently operates two leased nursing centers in Texas, one of which is leased from Ventas. Upon completion of the proposed purchase of the Ventas nursing center, the Company intends to divest the facility. The Company has recently entered into an agreement with the landlord of the other Texas nursing center to terminate the lease effective June 30, 2003. As a result of increased professional liability costs in Texas, these two nursing centers reported pretax losses of approximately \$4 million for the year ended December 31, 2002 and \$2 million in the first quarter of 2003.

### Ongoing Efforts to Enhance Shareholder Value

Edward L. Kuntz, Chairman and Chief Executive Officer of Kindred, noted the Company's continuing efforts to restructure its nursing center operations. "The successful completion of our Florida and Texas nursing center divestiture plans will have a significant positive impact on our operating results going forward. We are proceeding expeditiously to complete these transactions as soon as possible. While there are other nursing center operational and professional liability issues in other states, I am encouraged that the recent agreement with Ventas will lead to our continued discussions of these issues. In addition, the Company plans to consider various other strategic alternatives for each of its businesses that may lead to enhanced 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," "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 discussed below and detailed from

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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 new 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; and (m) the Company's ability to successfully reduce (by divestiture or otherwise) its exposure to professional liability claims in the state of Florida and other states. 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.

Kindred Healthcare, Inc. is a national provider of long-term healthcare services primarily operating nursing centers, hospitals and institutional pharmacies.

KINDRED HEALTHCARE, INC.  
Financial Summary  
(Unaudited)  
(In thousands, except per share amounts)

	Three months ended March 31,	
	2003	2002
Revenues	\$863,078	\$811,244
Net income (loss)	\$(13,124)	\$ 18,178
Earnings (loss) per common share:		
Basic	\$ (0.76)	\$ 1.05
Diluted	\$ (0.76)	\$ 0.95
Shares used in computing earnings (loss) per common share:		
Basic	17,377	17,308
Diluted	17,377	19,074

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KINDRED HEALTHCARE, INC.  
 Condensed Consolidated Statement of Operations  
 (Unaudited)  
 (In thousands, except per share amounts)

	Three months ended March 31,	
	2003	2002
Revenues	\$863,078	\$811,244
Salaries, wages and benefits	501,312	467,401
Supplies	110,095	101,314
Rent	68,392	65,611
Other operating expenses	180,509	127,297
Depreciation	20,083	16,696
Interest expense	2,888	3,732
Investment income	(1,638)	(1,880)
	881,641	780,171
Income (loss) before income taxes	(18,563)	31,073
Provision (benefit) for income taxes	(5,439)	12,895
Net income (loss)	\$ (13,124)	\$ 18,178
Earnings (loss) per common share:		
Basic	\$ (0.76)	\$ 1.05
Diluted	\$ (0.76)	\$ 0.95
Shares used in computing earnings (loss) per common share:		
Basic	17,377	17,308
Diluted	17,377	19,074

KINDRED HEALTHCARE, INC.  
 Condensed Consolidated Balance Sheet  
 (Unaudited)  
 (In thousands, except per share amounts)

	March 31, 2003	December 31, 2002
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 100,173	\$ 244,070
Cash-restricted	8,000	7,908
Insurance subsidiary investments	209,379	130,415
Accounts receivable less allowance for loss	467,240	420,611
Inventories	30,491	30,460
Other	91,425	86,852

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	906,708	920,316
Property and equipment	622,830	611,944
Accumulated depreciation	(135,479)	(115,373)
	-----	-----
	487,351	496,571
Goodwill	88,658	88,259
Other	168,162	139,032
	-----	-----
	\$1,650,879	\$1,644,178
	=====	=====

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:

Accounts payable	\$ 120,700	\$ 124,466
Salaries, wages and other compensation	206,470	220,124
Due to third party payors	28,728	25,177
Other accrued liabilities	164,378	150,020
Income taxes	56,613	62,111
Long-term debt due within one year	162	258
	-----	-----
	577,051	582,156

Long-term debt	161,992	162,008
Professional liability risks	234,073	211,771
Deferred credits and other liabilities	58,153	56,615

Stockholders' equity:

Common stock, \$0.25 par value; authorized 175,000 shares - March 31 and December 31; issued 17,649 shares - March 31 and December 31	4,412	4,412
Capital in excess of par value	547,569	547,609
Deferred compensation	(5,674)	(6,967)
Accumulated other comprehensive income	313	460
Retained earnings	72,990	86,114
	-----	-----
	619,610	631,628
	-----	-----
	\$1,650,879	\$1,644,178
	=====	=====

KINDRED HEALTHCARE, INC.  
Condensed Consolidated Statement of Cash Flows  
(Unaudited)  
(In thousands)

	Three months ended March 31,	
	2003	2002
	-----	-----
Cash flows from operating activities:		
Net income (loss)	\$ (13,124)	\$ 18,178
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation	20,083	16,696
Amortization of deferred compensation costs	1,253	2,586
Provision for doubtful accounts	6,288	4,284
Other	506	55

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Change in operating assets and liabilities:		
Accounts receivable	(53,316)	599
Inventories and other assets	(6,387)	(16,991)
Accounts payable	(2,998)	15,527
Income taxes	(5,457)	4,307
Due to third party payors	3,551	(7,404)
Other accrued liabilities	28,330	(2,678)
	-----	-----
Net cash provided by (used in) operating activities before reorganization items	(21,271)	35,159
Payment of reorganization items	(395)	(2,462)
	-----	-----
Net cash provided by (used in) operating activities	(21,666)	32,697
	-----	-----
Cash flows from investing activities:		
Purchase of property and equipment	(10,565)	(9,868)
Net change in insurance subsidiary investments	(99,973)	908
Net change in other investments	(4,685)	756
Other	(333)	159
	-----	-----
Net cash used in investing activities	(115,556)	(8,045)
	-----	-----
Cash flows from financing activities:		
Repayment of long-term debt	(112)	(101)
Payment of deferred financing costs	(1,596)	--
Other	(4,967)	(4,494)
	-----	-----
Net cash used in financing activities	(6,675)	(4,595)
	-----	-----
Change in cash and cash equivalents	(143,897)	20,057
Cash and cash equivalents at beginning of period	244,070	190,799
	-----	-----
Cash and cash equivalents at end of period	\$ 100,173	\$210,856
	=====	=====

KINDRED HEALTHCARE, INC.  
Condensed Business Segment Data  
(Unaudited)  
(In thousands)

	Three months ended March 31,	
	2003	2002 (a)
	-----	-----
Revenues:		
Health services division:		
Nursing centers	\$460,559	\$461,887
Rehabilitation services	8,502	7,830
	-----	-----
	469,061	469,717
Hospital division:		
Hospitals	340,855	296,442
Ancillary services	1,759	1,870
	-----	-----
	342,614	298,312
Pharmacy division	68,828	59,178



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	-----	-----
	880,503	827,207
Elimination of pharmacy charges to Company nursing centers (b)	(17,425)	(15,963)
	-----	-----
	\$863,078	\$811,244
	=====	=====
Net income (loss):		
Operating income (loss):		
Health services division:		
Nursing centers	\$ 24,055	\$ 82,727
Rehabilitation services	(959)	(66)
	-----	-----
	23,096	82,661
Hospital division:		
Hospitals	70,304	59,574 (c)
Ancillary services	180	135
	-----	-----
	70,484	59,709
Pharmacy division	6,902	5,537
Corporate overhead	(29,320)	(32,675) (d)
	-----	-----
Operating income	71,162	115,232
Rent	(68,392)	(65,611)
Depreciation	(20,083)	(16,696)
Interest, net	(1,250)	(1,852)
	-----	-----
Income (loss) before income taxes	(18,563)	31,073
Provision (benefit) for income taxes	(5,439)	12,895
	-----	-----
	\$ (13,124)	\$ 18,178
	=====	=====

- 
- (a) Certain prior year amounts have been reclassified to conform with the current year presentation.
- (b) As previously disclosed in the Company's 2002 Form 10-K, new intercompany pharmacy pricing arrangements with Company-operated nursing centers became effective on January 1, 2003.
- (c) Includes \$1.5 million of insurance proceeds.
- (d) Includes \$1.5 million of severance costs.

KINDRED HEALTHCARE, INC.  
Condensed Business Segment Data (Continued)  
(Unaudited)  
(In thousands)

	Three months ended March 31,	
	-----	-----
	2003	2002 (a)
	-----	-----
Rent:		
Health services division:		
Nursing centers	\$43,129	\$41,276
Rehabilitation services	69	24
	-----	-----
	43,198	41,300
Hospital division:		

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Hospitals	24,204	23,336
Ancillary services	201	225
	-----	-----
	24,405	23,561
Pharmacy division	725	717
Corporate	64	33
	-----	-----
	\$68,392	\$65,611
	=====	=====
Depreciation:		
Health services division:		
Nursing centers	\$ 6,927	\$ 6,076
Rehabilitation services	16	9
	-----	-----
	6,943	6,085
Hospital division:		
Hospitals	7,255	6,361
Ancillary services	119	146
	-----	-----
	7,374	6,507
Pharmacy division	531	397
Corporate	5,235	3,707
	-----	-----
	\$20,083	\$16,696
	=====	=====
Capital expenditures, excluding acquisitions:		
Health services division	\$ 3,273	\$ 2,116
Hospital division	2,822	3,316
Pharmacy division	616	396
Corporate:		
Information systems	3,207	3,330
Other	647	710
	-----	-----
	\$10,565	\$ 9,868
	=====	=====

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(a) Certain prior year amounts have been reclassified to conform with the current year presentation.

KINDRED HEALTHCARE, INC.  
Condensed Business Segment Data (Continued)  
(Unaudited)

	Three months ended March 31,	
	2003	2002
	-----	-----
Nursing Center Data:		
End of period data:		
Number of nursing centers:		
Owned or leased	278	280
Managed	7	14
	-----	-----
	285	294
	=====	=====
Number of licensed beds:		

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Owned or leased	36,549	36,615
Managed	803	1,417
	-----	-----
	37,352	38,032
	=====	=====
Revenue mix %:		
Medicare	33	34
Medicaid	48	46
Private and other	19	20
Patient days (excludes managed facilities):		
Medicare	448,291	439,715
Medicaid	1,875,858	1,883,679
Private and other	462,782	502,996
	-----	-----
	2,786,931	2,826,390
	=====	=====
Revenues per patient day:		
Medicare	\$ 337	\$ 358
Medicaid	119	114
Private and other	187	179
Weighted average	165	163
Average daily census	30,966	31,404
Occupancy %	84.4	85.0
Hospital Data:		
End of period data:		
Number of hospitals	65	57
Number of licensed beds	5,408	4,961
Revenue mix %:		
Medicare	60	58
Medicaid	8	10
Private and other	32	32
Patient days:		
Medicare	222,919	196,057
Medicaid	32,266	33,864
Private and other	58,369	58,437
	-----	-----
	313,554	288,358
	=====	=====
Revenues per patient day:		
Medicare	\$ 918	\$ 880
Medicaid	825	880
Private and other	1,877	1,609
Weighted average	1,087	1,028
Average daily census	3,484	3,204
Occupancy %	67.3	67.6
Pharmacy Data:		
Number of customer licensed beds at end of period:		
Company-operated	29,804	30,471
Non-affiliated	28,365	25,695
	-----	-----
	58,169	56,166
	=====	=====