KINDRED HEALTHCARE INC
Form 8-K
July 15, 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): July 1, 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)

(502) 596-7300

(Registrant s telephone number, including area code)

Not Applicable

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

Item 2. Acquisition or Disposition of Assets.

On July 1, 2003, Kindred Healthcare, Inc. (the Company) announced that it had completed the divestiture of all of its Florida and Texas nursing center operations. In connection with these divestitures, the Company expects to record a second quarter pretax loss of approximately $55 million to $60 million.

In connection with the divestitures, the Company acquired 15 Florida nursing centers and one Texas nursing center from Ventas, Inc. (Ventas) for approximately $60 million and a $4 million lease termination fee, arrived at through negotiations with Ventas. In addition, the Company amended 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 escalators under the master leases will be paid 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 acquired facilities terminated on the closing of the purchase transaction.

For accounting purposes, the $44 million present value rent obligation to Ventas will be recorded by the Company as long-term debt. The Company financed its obligations at the closing of the purchase transaction through the use of existing cash.

The Company subsequently completed the divestiture of all of its Florida nursing center operations. The Company sold the real estate related to the 15 nursing centers it acquired from Ventas and the two nursing centers previously owned by the Company in Florida. The sale price for the real estate and related personal property associated with all of the Florida nursing center operations aggregated approximately $64 million. The real property related to the 17 Florida facilities was sold to WKTM-Florida, LLC for approximately $62 million, arrived at through negotiations with the purchaser. The personal property related to all of the Florida facilities was sold to 19 separate purchasing entities that will operate the facilities for an aggregate consideration paid to the Company of approximately $2 million.

The Company also has subleased the remaining Florida nursing center operated by the Company. The rental payments under the sublease approximate the Company s annual rental obligations under the existing lease agreement. The sublease will expire upon the expiration of the primary lease, whereupon the Company s obligation with respect to the primary lease also will terminate.

The Company also sold its accounts receivable relating to the Florida nursing centers.

The Company also announced that it had completed the divestiture of its two Texas nursing center operations. The Company has terminated the lease with respect to one facility and has entered into a lease with a third party to transfer the operations of the other Texas facility acquired from Ventas. The Company has entered into a non-binding letter of intent to sell the remaining leased facility to the same third party.

The Company previously announced certain amendments to its revolving credit agreement and its senior secured notes agreement relating to its divestiture plans. These amendments provided for, among other provisions, a $60 million repayment of the senior secured notes from the sale proceeds of the Florida and Texas divestitures. The Company completed the $60 million repayment on July 1, 2003.

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 discussed below and 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 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. 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.

A copy of the press release issued by the Company related to these transactions is attached as Exhibit 99.1.

Item 7. Financial Statements and Exhibits.

(a) Financial statements of businesses acquired.

Not applicable.

(b) Pro forma financial information.

Pro forma financial information for the Registrant, including the Unaudited Pro Forma Condensed Consolidated Statements of Operations for the three months ended March 31, 2003 and 2002, the year ended December 31, 2002 and the nine months ended December 31, 2001 for the Reorganized Company (as defined) and the three months ended March 31, 2001 and the year ended December 31, 2000 for the Predecessor Company (as defined), the Unaudited Pro Forma Condensed Consolidated Balance Sheet at March 31, 2003 and the Notes to Unaudited Pro Forma Condensed Consolidated Financial Statements, are filed herewith.

(c) Exhibits.

Exhibit 99.1 Press release dated July 1, 2003.

UNAUDITED PRO FORMA CONDENSED CONSOLIDATED

FINANCIAL STATEMENTS

The unaudited pro forma condensed consolidated statements of operations for the three months ended March 31, 2003 and 2002, the year ended December 31, 2002 and the nine months ended December 31, 2001 for the Reorganized Company (as defined) and the three months ended March 31, 2001 and the year ended December 31, 2000 for the Predecessor Company (as defined), give effect to the Company s purchase of 15 Florida nursing centers and one Texas nursing center that it leased from Ventas (the Facility Acquisitions), the divestiture of its Florida and Texas nursing center operations (the Florida and Texas Divestiture) and the repayment of $60 million of the Company s senior secured notes from a portion of the net proceeds of the Florida and Texas Divestiture (the Senior Note Repayment), assuming these transactions occurred on January 1, 2000. The unaudited pro forma condensed consolidated balance sheet gives effect to these transactions assuming they occurred on March 31, 2003. The unaudited pro forma condensed consolidated financial statements should be read in conjunction with the Company s historical consolidated financial statements and accompanying notes. The unaudited pro forma condensed consolidated financial statements may not necessarily reflect the financial position or results of operations which would have been obtained if these transactions had been consummated on the dates indicated in the unaudited pro forma condensed consolidated financial statements. In addition, the unaudited pro forma condensed consolidated financial statements do not purport to be indicative of the Company s future operating results.

As more fully described in the Company s Annual Report on Form 10-K and Note 1 of the Notes to Unaudited Pro Forma Condensed Consolidated Financial Statements, the term Predecessor Company refers to the Company and its operations for periods prior to April 1, 2001, while the term Reorganized Company is used to describe the Company and its operations for periods thereafter. Accordingly, consolidated financial statements for periods after April 1, 2001 are not comparable in all respects to consolidated financial statements for periods prior thereto.

KINDRED HEALTHCARE, INC.

UNAUDITED PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS

For the three months ended March 31, 2003

(In thousands, except per share amounts)

	Historical Reorganized Company	Pro Forma Adjustments: Facility Acquisitions	Pro Forma Adjustments: Florida and Texas Divestiture	Pro Forma Adjustments: Senior Note Repayment	Pro Forma Adjustments: Elimination (i)	Pro Forma
Revenues	$ 863,078	$	$ (35,652)(d)	$	$ 1,682	$ 829,108
Salaries, wages and benefits	501,312		(22,521)(d)			478,791
Supplies	110,095		(2,155)(d)			107,940
Rent	68,392		(2,829)(d)			65,563
Other operating expenses	180,509		(28,846)(d)		1,682	153,345
Depreciation	20,083		(253)(d)			19,830
Interest expense	2,888	765 (a)		(846)(g)		2,859
				52 (h)		
Investment income	(1,638)	321 (b)	3 (d)			(1,535)
			(158)(e)			
			(63)(f)			
	881,641	1,086	(56,822)	(794)	1,682	826,793
Income (loss) before income taxes	(18,563)	(1,086)	21,170	794		2,315
Provision (benefit) for income taxes	(5,439)	(418)(c)	8,150 (c)	306 (c)		2,599
Income (loss) from operations	$ (13,124)	$ (668)	$ 13,020	$ 488	$	$ (284)
Loss per common share:						
Basic	$ (0.76)					$ (0.02)
Diluted	$ (0.76)					$ (0.02)
Shares used in computing loss per common share:						
Basic	17,377					17,377
Diluted	17,377					17,377

See notes to unaudited pro forma condensed

consolidated financial statements.

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KINDRED HEALTHCARE, INC.

UNAUDITED PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS

For the three months ended March 31, 2002

(In thousands, except per share amounts)

		Pro Forma Adjustments				
	Historical Reorganized Company	Facility Acquisitions	Florida and Texas Divestiture	Senior Note Repayment	Elimination (i)	Pro Forma
Revenues	$ 811,244	$	$ (33,670)(d)	$	$ 1,900	$ 779,474
Salaries, wages and benefits	467,401		(19,290)(d)			448,111
Supplies	101,314		(2,104)(d)			99,210
Rent	65,611		(2,726)(d)			62,885
Other operating expenses	127,297		(14,244)(d)		1,900	114,953
Depreciation	16,696		(155)(d)			16,541
Interest expense	3,732	927 (a)		(846)(g)		3,865
				52 (h)		
Investment income	(1,880)	321 (b)	1 (d)			(1,776)
			(155)(e)			
			(63)(f)			
	780,171	1,248	(38,736)	(794)	1,900	743,789
Income (loss) before income taxes	31,073	(1,248)	5,066	794		35,685
Provision (benefit) for income taxes	12,895	(480)(c)	1,950 (c)	306 (c)		14,671
Income (loss) from operations	$ 18,178	$ (768)	$ 3,116	$ 488	$	$ 21,014
Earnings per common share:						
Basic	$ 1.05					$ 1.21
Diluted	$ 0.95					$ 1.10
Shares used in computing earnings per common share:						
Basic	17,308					17,308
Diluted	19,074					19,074

See notes to unaudited pro forma condensed

consolidated financial statements.

KINDRED HEALTHCARE, INC.

UNAUDITED PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS

For the year ended December 31, 2002

(In thousands, except per share amounts)

		Pro Forma Adjustments				
	Historical Reorganized Company	Facility Acquisitions	Florida and Texas Divestiture	Senior Note Repayment	Elimination (i)	Pro Forma
Revenues	$ 3,357,822	$	$ (135,562)(d)	$	$ 7,243	$ 3,229,503