

KINDRED HEALTHCARE, INC
Form 10-Q
November 07, 2008
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2008

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

Louisville, KY
(Address of principal executive offices)

(502) 596-7300

(Registrant's telephone number, including area code)

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

40202-2412
(Zip 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

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to such filing requirements for the past 90 days. 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 filer, accelerated filer, and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

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

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

| Class of Common Stock | Outstanding at October 31, 2008 |
|--------------------------------|--|
| Common stock, \$0.25 par value | 38,915,056 shares |

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Table of Contents**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, | |
|--|-------------------------------------|------------|------------------------------------|--------------|
| | 2008 | 2007 | 2008 | 2007 |
| Revenues | \$ 1,010,680 | \$ 999,418 | \$ 3,101,114 | \$ 3,183,244 |
| Salaries, wages and benefits | 606,468 | 592,234 | 1,803,880 | 1,784,669 |
| Supplies | 78,586 | 108,648 | 238,785 | 468,921 |
| Rent | 86,444 | 87,152 | 259,048 | 258,149 |
| Other operating expenses | 211,584 | 191,208 | 656,274 | 546,439 |
| Other income | (4,313) | (3,201) | (14,197) | (3,201) |
| Depreciation and amortization | 29,432 | 30,578 | 91,417 | 88,509 |
| Interest expense | 3,710 | 5,014 | 11,538 | 11,301 |
| Investment income | (672) | (3,770) | (6,257) | (11,209) |
| | 1,011,239 | 1,007,863 | 3,040,488 | 3,143,578 |
| Income (loss) from continuing operations before income taxes | (559) | (8,445) | 60,626 | 39,666 |
| Provision (benefit) for income taxes | (1,345) | (692) | 23,526 | 19,636 |
| Income (loss) from continuing operations | 786 | (7,753) | 37,100 | 20,030 |
| Discontinued operations, net of income taxes: | | | | |
| Income (loss) from operations | 12 | (1,309) | (2,663) | (6,224) |
| Loss on divestiture of operations | (22,058) | | (19,346) | (76,968) |
| Net income (loss) | \$ (21,260) | \$ (9,062) | \$ 15,091 | \$ (63,162) |
| Earnings (loss) per common share: | | | | |
| Basic: | | | | |
| Income (loss) from continuing operations | \$ 0.02 | \$ (0.20) | \$ 0.98 | \$ 0.51 |
| Discontinued operations: | | | | |
| Income (loss) from operations | | (0.03) | (0.07) | (0.16) |
| Loss on divestiture of operations | (0.58) | | (0.51) | (1.96) |
| Net income (loss) | \$ (0.56) | \$ (0.23) | \$ 0.40 | \$ (1.61) |
| Diluted: | | | | |
| Income (loss) from continuing operations | \$ 0.02 | \$ (0.20) | \$ 0.95 | \$ 0.49 |
| Discontinued operations: | | | | |
| Income (loss) from operations | | (0.03) | (0.07) | (0.15) |
| Loss on divestiture of operations | (0.56) | | (0.49) | (1.90) |
| Net income (loss) | \$ (0.54) | \$ (0.23) | \$ 0.39 | \$ (1.56) |
| Shares used in computing earnings (loss) per common share: | | | | |
| Basic | 38,034 | 39,013 | 37,732 | 39,271 |

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| | | | | |
|---------|--------|--------|--------|--------|
| Diluted | 39,369 | 39,013 | 38,994 | 40,522 |
|---------|--------|--------|--------|--------|

See accompanying notes.

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KINDRED HEALTHCARE, INC.
CONDENSED CONSOLIDATED BALANCE SHEET

(Unaudited)

(In thousands, except per share amounts)

| | September 30, 2008 | December 31, 2007 |
|---|-----------------------|----------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 19,295 | \$ 32,877 |
| Cash restricted | 4,935 | 5,360 |
| Insurance subsidiary investments | 193,911 | 231,693 |
| Accounts receivable less allowance for loss of \$30,558 September 30, 2008 and \$33,305 December 31, 2007 | 700,372 | 598,108 |
| Inventories | 22,675 | 22,035 |
| Deferred tax assets | 59,087 | 59,936 |
| Income taxes | 29,040 | 43,128 |
| Other | 22,046 | 20,510 |
| | 1,051,361 | 1,013,647 |
| Property and equipment | 1,347,223 | 1,226,111 |
| Accumulated depreciation | (627,559) | (542,773) |
| | 719,664 | 683,338 |
| Goodwill | 71,244 | 69,100 |
| Intangible assets less accumulated amortization of \$1,599 September 30, 2008 and \$1,095 December 31, 2007 | 64,584 | 79,956 |
| Assets held for sale | 11,122 | 15,837 |
| Insurance subsidiary investments | 47,409 | 49,166 |
| Deferred tax assets | 127,199 | 113,854 |
| Other | 45,822 | 54,654 |
| | \$ 2,138,405 | \$ 2,079,552 |

LIABILITIES AND STOCKHOLDERS EQUITY

| | | |
|---|------------|------------|
| Current liabilities: | | |
| Accounts payable | \$ 155,982 | \$ 180,367 |
| Salaries, wages and other compensation | 275,594 | 261,608 |
| Due to third party payors | 42,171 | 41,980 |
| Professional liability risks | 59,218 | 64,740 |
| Other accrued liabilities | 81,964 | 80,663 |
| Long-term debt and capital lease obligation due within one year | 79 | 584 |
| | 615,008 | 629,942 |
| Long-term debt | 329,054 | 275,814 |
| Capital lease obligation | | 15,760 |
| Professional liability risks | 195,533 | 186,652 |
| Deferred credits and other liabilities | 106,135 | 109,260 |
| Commitments and contingencies | | |

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Stockholders' equity:

| | | |
|---|--------------|--------------|
| Common stock, \$0.25 par value; authorized 175,000 shares; issued 38,915 shares - September 30, 2008 and 38,339 shares - December 31, 2007 | 9,729 | 9,585 |
| Capital in excess of par value | 809,201 | 790,367 |
| Accumulated other comprehensive income (loss) | (1,787) | 1,250 |
| Retained earnings | 75,532 | 60,922 |
| | 892,675 | 862,124 |
| | \$ 2,138,405 | \$ 2,079,552 |

See accompanying notes.

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

| | Three months ended September 30, | | Nine months ended September 30, | |
|--|-------------------------------------|------------|------------------------------------|-------------|
| | 2008 | 2007 | 2008 | 2007 |
| Cash flows from operating activities: | | | | |
| Net income (loss) | \$ (21,260) | \$ (9,062) | \$ 15,091 | \$ (63,162) |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: | | | | |
| Depreciation and amortization | 29,595 | 30,916 | 92,269 | 92,019 |
| Amortization of stock-based compensation costs | 2,411 | 19,547 | 9,806 | 27,699 |
| Provision for doubtful accounts | 6,877 | 6,612 | 22,037 | 23,494 |
| Deferred income taxes | 8,226 | (2,129) | (4,921) | (17,044) |
| Loss on divestiture of discontinued operations | 22,058 | | 19,346 | 76,968 |
| Other | (853) | (650) | (1,946) | (2,165) |
| Change in operating assets and liabilities: | | | | |
| Accounts receivable | (41,141) | (84,996) | (125,287) | (130,424) |
| Inventories and other assets | (422) | 16,413 | (4,880) | 13,503 |
| Accounts payable | (2,726) | 9,700 | (13,756) | (6,914) |
| Income taxes | (17,796) | (14,216) | 21,188 | 12,865 |
| Due to third party payors | 14,998 | 16,403 | 191 | 20,791 |
| Other accrued liabilities | 7,262 | 31,601 | 12,251 | 53,101 |
| Net cash provided by operating activities | 7,229 | 20,139 | 41,389 | |