

KINDRED HEALTHCARE, INC  
Form 10-Q  
November 06, 2015

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, 2015

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)

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

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680 South Fourth Street Louisville, KY 40202-2412  
(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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). 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, 2015 |
|--------------------------------|---------------------------------|
| Common stock, \$0.25 par value | 83,796,755 shares               |

KINDRED HEALTHCARE, INC.

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## KINDRED HEALTHCARE, INC.

## CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS

(Unaudited)

(In thousands, except per share amounts)

|  | Three months ended    |             | Nine months ended     |             |
|--|-----------------------|-------------|-----------------------|-------------|
|  | September 30,<br>2015 | 2014        | September 30,<br>2015 | 2014        |
| Revenues   | \$1,764,516           | \$1,228,918 | \$5,273,958           | \$3,762,925 |
| Salaries, wages and benefits   | 922,140               | 601,813     | 2,704,920             | 1,826,602   |
| Supplies   | 96,551                | 70,719      | 288,059               | 215,269     |
| Rent   | 96,244                | 77,643      | 284,786               | 233,872     |
| Other operating expenses   | 207,837               | 169,582     | 617,681               | 511,786     |
| General and administrative expenses (exclusive of depreciation<br>and amortization expense included below) | 310,041               | 237,503     | 1,050,948             | 713,521     |
| Other income   | (650 )                | (260 )      | (1,699 )              | (594 )      |
| Litigation contingency expense   | 31,462                | –           | 130,387               | 4,600       |
| Impairment charges   | –                     | –           | 6,726                 | –           |
| Depreciation and amortization  | 39,329                | 38,748      | 116,889               | 117,012     |
| Interest expense   | 56,440                | 22,515      | 176,128               | 128,844     |
| Investment income  | (432 )                | (344 )      | (2,203 )              | (2,975 )    |
|  | 1,758,962             | 1,217,919   | 5,372,622             | 3,747,937   |
| Income (loss) from continuing operations before income taxes   | 5,554                 | 10,999      | (98,664 )             | 14,988      |
| Provision for income taxes   | 12,523                | 3,777       | 9,183                 | 5,289       |
| Income (loss) from continuing operations   | (6,969 )              | 7,222       | (107,847 )            | 9,699       |
| Discontinued operations, net of income taxes:  |                       |             |                       |             |
| Income (loss) from operations  | 2,269                 | (8,677 )    | (1,744 )              | (24,887 )   |
| Gain (loss) on divestiture of operations   | –                     | 1,387       | 983                   | (3,637 )    |
| Income (loss) from discontinued operations   | 2,269                 | (7,290 )    | (761 )                | (28,524 )   |
| Net loss   | (4,700 )              | (68 )       | (108,608 )            | (18,825 )   |
| (Earnings) loss attributable to noncontrolling interests:  |                       |             |                       |             |
| Continuing operations  | (9,900 )              | (4,372 )    | (30,482 )             | (13,729 )   |
| Discontinued operations  | 1                     | 78          | 32                    | 401         |
|  | (9,899 )              | (4,294 )    | (30,450 )             | (13,328 )   |
| Loss attributable to Kindred   | \$(14,599 )           | \$(4,362 )  | \$(139,058 )          | \$(32,153 ) |
| Amounts attributable to Kindred stockholders:  |                       |             |                       |             |
| Income (loss) from continuing operations   | \$(16,869 )           | \$2,850     | \$(138,329 )          | \$(4,030 )  |
| Income (loss) from discontinued operations   | 2,270                 | (7,212 )    | (729 )                | (28,123 )   |
| Net loss   | \$(14,599 )           | \$(4,362 )  | \$(139,058 )          | \$(32,153 ) |
| Earnings (loss) per common share:  |                       |             |                       |             |
| Basic:   |                       |             |                       |             |

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|  |            |            |            |            |
|--|------------|------------|------------|------------|
| Income (loss) from continuing operations                   | \$ (0.20 ) | \$ 0.04    | \$ (1.65 ) | \$ (0.07 ) |
| Discontinued operations:                                   |            |            |            |            |
| Income (loss) from operations                              | 0.03       | (0.13 )    | (0.02 )    | (0.44 )    |
| Gain (loss) on divestiture of operations                   | –          | 0.02       | 0.01       | (0.06 )    |
| Income (loss) from discontinued operations                 | 0.03       | (0.11 )    | (0.01 )    | (0.50 )    |
| Net loss   | \$ (0.17 ) | \$ (0.07 ) | \$ (1.66 ) | \$ (0.57 ) |
| Diluted:   |            |            |            |            |
| Income (loss) from continuing operations                   | \$ (0.20 ) | \$ 0.04    | \$ (1.65 ) | \$ (0.07 ) |
| Discontinued operations:                                   |            |            |            |            |
| Income (loss) from operations                              | 0.03       | (0.13 )    | (0.02 )    | (0.44 )    |
| Gain (loss) on divestiture of operations                   | –          | 0.02       | 0.01       | (0.06 )    |
| Income (loss) from discontinued operations                 | 0.03       | (0.11 )    | (0.01 )    | (0.50 )    |
| Net loss   | \$ (0.17 ) | \$ (0.07 ) | \$ (1.66 ) | \$ (0.57 ) |
| Shares used in computing earnings (loss) per common share: |            |            |            |            |
| Basic  | 86,184     | 62,863     | 83,960     | 56,443     |
| Diluted  | 86,184     | 62,902     | 83,960     | 56,443     |
| Cash dividends declared and paid per common share          | \$ 0.12    | \$ 0.12    | \$ 0.36    | \$ 0.36    |

See accompanying notes.

## KINDRED HEALTHCARE, INC.

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE LOSS

(Unaudited)

(In thousands)

|  | Three months ended |            | Nine months ended  |             |
|--|--------------------|------------|--------------------|-------------|
|  | September 30, 2015 | 2014       | September 30, 2015 | 2014        |
| Net loss   | \$(4,700 )         | \$(68 )    | \$(108,608 )       | \$(18,825 ) |
| Other comprehensive income (loss):   |                    |            |                    |             |
| Available-for-sale securities (Note 9):  |                    |            |                    |             |
| Change in unrealized investment gains (losses)                                     | (978 )             | 93         | (841 )             | 577         |
| Reclassification of gains realized in net loss                                     | –                  | (27 )      | –                  | (2,130 )    |
| Net change   | (978 )             | 66         | (841 )             | (1,553 )    |
| Interest rate swaps (Note 1):  |                    |            |                    |             |
| Change in unrealized gains (losses)  | (909 )             | 2,162      | (2,173 )           | (884 )      |
| Reclassification of ineffectiveness realized in net loss                           | 59                 | –          | 88                 | 84          |
| Reclassification of losses realized in net loss, net of payments                   | 12                 | 12         | –                  | 809         |
| Net change   | (838 )             | 2,174      | (2,085 )           | 9           |
| Income tax (expense) benefit related to items of other comprehensive income (loss) | 699                | (846 )     | 1,149              | 891         |
| Other comprehensive income (loss)  | (1,117 )           | 1,394      | (1,777 )           | (653 )      |
| Comprehensive income (loss)  | (5,817 )           | 1,326      | (110,385 )         | (19,478 )   |
| Earnings attributable to noncontrolling interests                                  | (9,899 )           | (4,294 )   | (30,450 )          | (13,328 )   |
| Comprehensive loss attributable to Kindred   | \$(15,716 )        | \$(2,968 ) | \$(140,835 )       | \$(32,806 ) |

See accompanying notes.

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## KINDRED HEALTHCARE, INC.

## CONDENSED CONSOLIDATED BALANCE SHEET

(Unaudited)

(In thousands, except per share amounts)

|  | September<br>30,<br>2015 | December<br>31,<br>2014 |
|--|--------------------------|-------------------------|
| <b>ASSETS</b>  |                          |                         |
| Current assets:  |                          |                         |
| Cash and cash equivalents  | \$ 120,891               | \$ 164,188              |
| Insurance subsidiary investments   | 103,856                  | 99,951                  |
| Accounts receivable less allowance for loss of \$51,531 – September 30, 2015 and \$52,855 –<br>December 31, 2014     | 1,216,214                | 944,219                 |
| Inventories  | 27,252                   | 25,702                  |
| Deferred tax assets  | 74,221                   | 82,391                  |
| Income taxes   | 10,571                   | 8,575                   |
| Interest deposit on senior unsecured notes held in escrow  | –                        | 23,438                  |
| Other  | 66,891                   | 41,598                  |
|  | 1,619,896                | 1,390,062               |
| Property and equipment   | 2,120,809                | 1,978,153               |
| Accumulated depreciation   | (1,164,969)              | (1,076,049)             |
|  | 955,840                  | 902,104                 |
| Goodwill   | 2,646,766                | 997,597                 |
| Intangible assets less accumulated amortization of \$88,779 – September 30, 2015 and<br>\$68,043 – December 31, 2014 | 783,774                  | 400,700                 |
| Assets held for sale   | 1,526                    | 3,475                   |
| Insurance subsidiary investments   | 201,026                  | 166,045                 |
| Deferred tax assets  | –                        | 11,174                  |
| Proceeds from senior unsecured notes held in escrow  | –                        | 1,350,000               |
| Acquisition deposit  | –                        | 195,000                 |
| Other  | 295,168                  | 236,807                 |
| Total assets (a)   | \$ 6,503,996             | \$ 5,652,964            |
| <b>LIABILITIES AND EQUITY</b>  |                          |                         |
| Current liabilities:   |                          |                         |
| Accounts payable   | \$ 182,154               | \$ 175,725              |
| Salaries, wages and other compensation   | 442,730                  | 358,857                 |
| Due to third party payors  | 59,498                   | 43,957                  |
| Professional liability risks   | 62,020                   | 64,137                  |
| Other accrued liabilities  | 346,309                  | 189,980                 |
| Long-term debt due within one year   | 32,527                   | 24,607                  |
|  | 1,125,238                | 857,263                 |
| Long-term debt   | 3,126,359                | 2,852,531               |



|  |             |             |
|--|-------------|-------------|
| Professional liability risks   | 273,874     | 243,614     |
| Deferred tax liabilities   | 20,850      | –           |
| Deferred credits and other liabilities   | 307,164     | 213,584     |
| Commitments and contingencies (Note 12)  |             |             |
| Equity:  |             |             |
| Stockholders' equity:  |             |             |
| Common stock, \$0.25 par value; authorized 175,000 shares; issued 83,759 shares – September 30, 2015 and 69,977 shares – December 31, 2014 | 20,940      | 17,494      |
| Capital in excess of par value   | 1,741,736   | 1,586,692   |
| Accumulated other comprehensive loss   | (4,328 )    | (2,551 )    |
| Accumulated deficit  | (301,878 )  | (159,768 )  |
|  | 1,456,470   | 1,441,867   |
| Noncontrolling interests   | 194,041     | 44,105      |
| Total equity   | 1,650,511   | 1,485,972   |
| Total liabilities (a) and equity   | \$6,503,996 | \$5,652,964 |

(a) The Company's consolidated assets as of September 30, 2015 include total assets of variable interest entities of \$376.2 million, which can only be used to settle the obligations of the variable interest entities. The Company's consolidated liabilities as of September 30, 2015 include total liabilities of variable interest entities of \$35.8 million. See note 1 of the notes to unaudited condensed consolidated financial statements.

See accompanying notes.

## KINDRED HEALTHCARE, INC.

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

(Unaudited)

(In thousands)

|   | Three months ended<br>September 30, |           | Nine months ended<br>September 30, |             |
|---|-------------------------------------|-----------|------------------------------------|-------------|
|   | 2015                                | 2014      | 2015                               | 2014        |
| <b>Cash flows from operating activities:</b>                                    |                                     |           |                                    |             |
| Net loss  | \$(4,700 )                          | \$(68 )   | \$(108,608 )                       | \$(18,825 ) |
| Adjustments to reconcile net loss to net cash provided by operating activities: |                                     |           |                                    |             |
| Depreciation and amortization   | 39,595                              | 39,579    | 117,521                            | 121,805     |
| Amortization of stock-based compensation costs                                  | 3,194                               | 694       | 15,764                             | 9,657       |
| Amortization of deferred financing costs  | 3,554                               | 1,982     | 10,155                             | 21,211      |
| Payment of capitalized lender fees related to debt issuance                     | —                                   | —         | (28,012 )                          | (19,125 )   |
| Provision for doubtful accounts   | 11,014                              | 14,695    | 29,817                             | 35,588      |
| Deferred income taxes   | 3,556                               | (32,777 ) | (894 )                             | (11,274 )   |
| Impairment charges  | —                                   | 9         | 6,726                              | 673         |
| (Gain) loss on divestiture of discontinued operations                           | —                                   | (1,387 )  | (983 )                             | 3,637       |
| Other   | 3,485                               | 175       | 10,457                             | 2,289       |
| <b>Change in operating assets and liabilities:</b>                              |                                     |           |                                    |             |
| Accounts receivable   | 25,990                              | 10,392    | (13,399 )                          | (102,503 )  |
| Inventories and other assets  | 8,767                               | (2,899 )  | 44,181                             | (12,886 )   |
| Accounts payable  | (353 )                              | (3,592 )  | (12,788 )                          | (22,469 )   |
| Income taxes  | 37,491                              | 29,832    | 33,646                             | 18,769      |
| Due to third party payors   | 15,008                              | 28,907    | (3,965 )                           | 14,540      |
| Other accrued liabilities   | (14,311 )                           | 4,497     | (6,551 )                           | (16,765 )   |
| Net cash provided by operating activities                                       | 132,290                             | 90,039    | 93,067                             | 24,322      |
| <b>Cash flows from investing activities:</b>                                    |                                     |           |                                    |             |
| Routine capital expenditures  | (35,422 )                           | (21,263 ) | (80,691 )                          | (67,425 )   |
| Development capital expenditures  | (5,760 )                            | (1,570 )  | (12,066 )                          | (2,693 )    |
| Acquisitions, net of cash acquired  | (2,002 )                            | (38 )     | (663,757 )                         | (24,136 )   |
| Acquisition deposit   | —                                   | —         | 195,000                            | —           |
| Sale of assets  | 3,884                               | 8,948     | 7,061                              | 22,909      |
| Proceeds from senior unsecured notes offering held in escrow                    | —                                   | —         | 1,350,000                          | —           |
| Interest in escrow for senior unsecured notes                                   | —                                   | —         | 23,438                             | —           |
| Purchase of insurance subsidiary investments                                    | (16,357 )                           | (74,101 ) | (59,186 )                          | (97,394 )   |
| Sale of insurance subsidiary investments  | 15,987                              | 8,447     | 50,780                             | 34,967      |
| Net change in insurance subsidiary cash and cash equivalents                    | (2,633 )                            | 65,928    | (8,396 )                           | 54,372      |
| Proceeds from note receivable   | 25,000                              | —         | 25,000                             | —           |
| Change in other investments   | 176                                 | 317       | 375                                | 1,027       |
| Other   | 1,383                               | (3 )      | 590                                | (537 )      |
| Net cash provided by (used in) investing activities                             | (15,744 )                           | (13,335 ) | 828,148                            | (78,910 )   |

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Cash flows from financing activities:

|   |            |           |             |             |
|---|------------|-----------|-------------|-------------|
| Proceeds from borrowings under revolving credit                                     | 259,700    | 311,500   | 1,414,850   | 1,468,515   |
| Repayment of borrowings under revolving credit                                      | (349,700)  | (355,100) | (1,319,850) | (1,724,615) |
| Proceeds from issuance of term loan, net of discount                                | –          | –         | 199,000     | 997,500     |
| Proceeds from issuance of senior unsecured notes                                    | –          | –         | –           | 500,000     |
| Repayment of Gentiva debt   | –          | –         | (1,177,363) | –           |
| Repayment of senior unsecured notes   | –          | –         | –           | (550,000 )  |
| Repayment of term loan  | (3,003 )   | (2,500 )  | (9,008 )    | (786,063 )  |
| Repayment of other long-term debt   | (500 )     | (58 )     | (1,400 )    | (215 )      |
| Payment of deferred financing costs   | (301 )     | (504 )    | (3,284 )    | (3,152 )    |
| Equity offering, net of offering costs  | –          | 16,376    | –           | 220,353     |
| Issuance of common stock in connection with employee benefit plans                  | 329        | 1,530     | 534         | 6,217       |
| Payment of costs associated with issuance of common stock and tangible equity units | –          | –         | (915 )      | –           |
| Payment of dividend for mandatory redeemable preferred stock                        | (2,703 )   | –         | (8,135 )    | –           |
| Dividends paid  | (10,065 )  | (7,754 )  | (30,067 )   | (20,840 )   |
| Contributions made by noncontrolling interests                                      | 1,492      | –         | 1,492       | –           |
| Distributions to noncontrolling interests   | (10,685 )  | (4,009 )  | (31,823 )   | (9,604 )    |
| Other   | 245        | 183       | 1,457       | 2,304       |
| Net cash provided by (used in) financing activities                                 | (115,191)  | (40,336 ) | (964,512 )  | 100,400     |
| Change in cash and cash equivalents   | 1,355      | 36,368    | (43,297 )   | 45,812      |
| Cash and cash equivalents at beginning of period                                    | 119,536    | 45,416    | 164,188     | 35,972      |
| Cash and cash equivalents at end of period  | \$ 120,891 | \$ 81,784 | \$ 120,891  | \$ 81,784   |
| Supplemental information:   |            |           |             |             |
| Interest payments   | \$ 81,474  | \$ 12,222 | \$ 147,924  | \$ 91,888   |
| Income tax payments (refunds)   | (27,414 )  | 909       | (26,275 )   | (20,656 )   |
| Issuance of common stock in Gentiva Merger (see Note 2)                             | 15         | –         | 177,456     | –           |

See accompanying notes.