

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	61-1323993
(State or other jurisdiction of	(I.R.S. Employer
incorporation or organization)	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, 2015	2014	September 30, 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 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 30, 2015	December 31, 2014
ASSETS		
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 – 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 \$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
LIABILITIES AND EQUITY		
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 September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
Cash flows from operating activities:				
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
Change in operating assets and liabilities:				
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
Cash flows from investing activities:				
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.