

REHABCARE GROUP INC
Form 425
February 08, 2011

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Subject Company: RehabCare Group, Inc.

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KINDRED HEALTHCARE FOURTH QUARTER RESULTS

EXCEED COMPANY'S GUIDANCE

Continuing Operations Income of \$0.50 per Diluted Share Tops Guidance of \$0.43

Quarter's Continuing Operations EPS Up 19% Over Last Year

Full Year Operating Cash Flows Exceed \$200 Million for Second Consecutive Year

LOUISVILLE, Ky. (February 8, 2011) Kindred Healthcare, Inc. (Kindred or the Company) (NYSE:KND) today announced its operating results for the fourth quarter and year ended December 31, 2010. All financial and statistical information included in this press release reflects the continuing operations of the Company's businesses for all periods presented unless otherwise indicated.

Financial and Operating Highlights:

Fourth quarter consolidated results show strong growth compared to last year

Revenues grew 6% to \$1.1 billion

Operating income rose 8% to \$158 million

Income from continuing operations increased 21% to \$20 million

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Diluted earnings per share from continuing operations grew 19% to \$0.50

Hospitals report growth from last year's fourth quarter

Recent acquisitions drove hospital revenues up 5% to \$508 million

Operating income grew 3% to \$96 million

Nursing and rehabilitation centers successfully transitioned to new Medicare payment system in fourth quarter

Revenue growth of 4% driven by increased patient acuity and a corresponding increase in the intensity of physician, nursing, respiratory and rehabilitation therapy services provided

Admissions grew 4% even as length of stay declined two days and more patients returned home faster

Division reports solid 13% growth in operating income

People*first* Rehabilitation adds to customer base and adjusts to new Medicare rules in fourth quarter

Division reports 21% revenue growth primarily driven by new customers

Operating income declined by 15% due to higher therapist costs, the RUGs IV and concurrent therapy rule changes and acquisition-related costs

Full-year operating cash flows exceed \$200 million for second consecutive year

Routine and development capital expenditures were fully funded through internal sources in both years

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Fourth Quarter Results

Continuing Operations

Consolidated revenues for the fourth quarter ended December 31, 2010 increased 6% to \$1.14 billion compared to \$1.07 billion in the same period last year. Income from continuing operations for the fourth quarter of 2010 totaled \$19.7 million or \$0.50 per diluted share compared to \$16.3 million or \$0.42 per diluted share in the fourth quarter last year. Operating results for the fourth quarter of 2010 included acquisition-related costs that reduced income from continuing operations by approximately \$1.6 million or \$0.04 per diluted share.

Discontinued Operations

From time to time, the Company enters into transactions related to the divestiture of unprofitable businesses. For accounting purposes, the historical operating results of these businesses and gains or losses associated with these operations have been classified as discontinued operations in the Company's consolidated statement of operations for all historical periods.

For the fourth quarter of 2010, the Company reported income from discontinued operations totaling \$1.1 million or \$0.03 per diluted share compared to \$2.4 million or \$0.06 per diluted share in the fourth quarter of 2009.

In the fourth quarter of 2010, the Company reported a loss of \$0.4 million or \$0.01 per diluted share related to the divestiture of discontinued operations. During the same period in 2009, the Company recorded a gain of \$0.6 million or \$0.01 per diluted share related to these divestitures.

Fiscal Year Results

Continuing Operations

Consolidated revenues for the year ended December 31, 2010 increased 2% to \$4.4 billion compared to \$4.3 billion in the previous year. Income from continuing operations totaled \$56.1 million or \$1.42 per diluted share in 2010 compared to \$62.6 million or \$1.60 per diluted share in 2009.

Operating results in 2010 included certain items that reduced income from continuing operations by approximately \$2.0 million or \$0.05 per diluted share. Operating results in 2009 included certain items that increased income from continuing operations by approximately \$1.8 million or \$0.04 per diluted share.

Discontinued Operations

The Company reported income from discontinued operations totaling \$0.8 million or \$0.02 per diluted share in 2010 and \$0.9 million or \$0.02 per diluted share in 2009.

Losses on the divestiture of discontinued operations totaled \$0.4 million or \$0.01 per diluted share for 2010 compared to \$23.4 million or \$0.60 per diluted share for 2009.

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Management Commentary

We are pleased with our fourth quarter operating results, remarked Paul J. Diaz, President and Chief Executive Officer of the Company. Our performance was particularly noteworthy in the context of a very busy quarter that included the successful transition of our nursing and rehabilitation centers and rehabilitation therapy business to the new Medicare reimbursement rules and the smooth integration of three recent cluster market acquisitions that included five hospitals, three nursing and rehabilitation centers and a home health company.

Commenting further on the Company's fourth quarter results, Mr. Diaz noted Despite continued volume challenges, our hospital business reported positive results, as we successfully added five acquired hospitals in southern California and opened a new hospital in Illinois. The successful operational and clinical transition to the new RUGs IV Medicare payment system in both our nursing and rehabilitation centers and our *Peoplefirst* rehabilitation therapy business resulted from the significant efforts of thousands of our caregivers across the Company. Finally, our 6,000 therapists in *Peoplefirst* also worked through the new Medicare rules related to RUGs IV and the related concurrent therapy policy while adding 64 more customers to our growing contract therapy business.

Mr. Diaz noted, For the second consecutive year, our operating cash flows exceeded \$200 million. As a result, all of our routine and development capital spending was funded internally, providing the Company with the additional financial flexibility to deploy its \$600 million revolving credit facility to fund cluster market acquisitions.

Mr. Diaz also commented on the Company's 2010 Quality and Social Responsibility Report, The Company is proud to issue its fourth annual Quality and Social Responsibility Report to fulfill our commitment to be transparent about our quality results and our ongoing efforts to improve the care and services for our patients and residents. Mr. Diaz noted that the Report links the Company's quality initiatives with its **Continue the Care** and cluster market strategies. Both policymakers and the private markets are demanding that healthcare providers participate in coordinated care strategies to improve quality, reduce avoidable hospitalizations and lower costs. Kindred's cluster market strategy is designed to leverage Kindred's national scale to build a continuum of post-acute services in local healthcare delivery markets to achieve these shared goals. Kindred is aggressively developing a post-acute continuum of service lines in local markets, including long-term acute care hospitals, inpatient rehabilitation facilities, subacute or transitional care, long term care, including Alzheimer's and dementia care, and home care and hospice services, in order to partner with hospitals, health systems and payors to better manage episodes of care while at the same time improving quality and lowering costs.

Acquisition of RehabCare Group, Inc.

In a separate release earlier today, the Company announced the execution of a definitive agreement to acquire RehabCare Group, Inc. (RehabCare) (NYSE:RHB).

Company Suspends 2011 Earnings Guidance

In connection with the pending acquisition of RehabCare, the Company has suspended its fiscal 2011 earnings guidance.

Conference Call

As noted in today's separate announcement of the RehabCare acquisition, a joint conference call to discuss the pending transaction will be held at 8:30 a.m. EST on Tuesday, February 8, 2011. The conference call can be accessed by dialing (913) 312-1305. Investors can access a live webcast of a conference call through a link on Kindred's website at www.kindredhealthcare.com.

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A telephone replay of the conference call will be available at approximately 11:30 a.m. on February 8 by dialing (719) 457-0820, access code: 7191328. The replay will be available through February 16.

Forward-Looking Statements

This press release includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. 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, 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 upon 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 (the "SEC").

In addition to the factors set forth above, other factors that may affect the Company's plans or results include, without limitation, (a) the receipt of all required licensure and regulatory approvals and the satisfaction of the closing conditions to the RehabCare acquisition, including approval of the pending transaction by the stockholders of the respective companies, and the Company's ability to complete the required financing as contemplated by the financing commitment, (b) the Company's ability to integrate the operations of the acquired hospitals and rehabilitation services operations and realize the anticipated revenues, economies of scale, cost synergies and productivity gains in connection with the RehabCare acquisition and any other acquisitions that may be undertaken during 2011, as and when planned, including the potential for unanticipated issues, expenses and liabilities associated with those acquisitions and the risk that RehabCare fails to meet its expected financial and operating targets, (c) the potential for diversion of management time and resources in seeking to complete the RehabCare acquisition and integrate its operations, (d) the potential failure to retain key employees of RehabCare, (e) the impact of the Company's significantly increased levels of indebtedness as a result of the RehabCare acquisition on the Company's funding costs, operating flexibility and ability to fund ongoing operations with additional borrowings, particularly in light of ongoing volatility in the credit and capital markets, (f) the potential for dilution to the Company's stockholders as a result of the RehabCare acquisition, (g) the impact of healthcare reform, which will initiate significant reforms to the United States healthcare system, including potential material changes to the delivery of healthcare services and the reimbursement paid for such services by the government or other third party payors. Healthcare reform will impact each of the Company's businesses in some manner. Due to the substantial regulatory changes that will need to be implemented by the Centers for Medicare and Medicaid Services and others, and the numerous processes required to implement these reforms, the Company cannot predict which healthcare initiatives will be implemented at the federal or state level, the timing of any such reforms, or the effect such reforms or any other future legislation or regulation will have on the Company's business, financial position, results of operations and liquidity, (h) changes in the reimbursement rates or the methods or timing of payment from third party payors, including commercial payors and the Medicare and Medicaid programs, changes arising from and related to the Medicare prospective payment system for long-term acute care ("LTAC") hospitals, including potential changes in the Medicare payment rules, the Medicare Prescription Drug, Improvement, and Modernization Act of 2003, and changes in Medicare and Medicaid reimbursements for nursing centers, and the expiration of the Medicare Part B therapy cap exception process, (i) the effects of additional legislative changes and government regulations, interpretation of regulations and changes in the nature and enforcement of regulations governing the healthcare industry, (j) the ability to successfully pursue development activities, including through acquisitions, and successfully integrate new operations, including the

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realization of anticipated revenues, economies of scale, cost savings and productivity gains associated with such operations, (k) the impact of the Medicare, Medicaid and SCHIP Extension Act of 2007 (the "SCHIP Extension Act"), including the ability of the Company's hospitals to adjust to potential LTAC certification, medical necessity reviews and the moratorium on future hospital development, (l) the impact of the expiration of several moratoriums under the SCHIP Extension Act which could impact the short stay rules, the budget neutrality adjustment as well as implement the policy known as the 25 Percent Rule, which would limit certain patient admissions, (m) failure of any facilities to meet applicable licensure and certification requirements, (n) the further consolidation and cost containment efforts of managed care organizations and other third party payors, (o) the ability to meet rental and debt service obligations, (p) the ability of the Company to operate pursuant to the terms of its debt obligations, including the Company's obligations under financings undertaken to complete the RehabCare acquisition, and the ability of the Company to operate pursuant to its master lease agreements with Ventas, Inc. (NYSE:VTR), (q) the condition of the financial markets, including volatility and weakness in the equity, capital and credit markets, which could limit the availability and terms of debt and equity financing sources to fund the requirements of the Company's businesses, or which could negatively impact the Company's investment portfolio, (r) national and regional economic, financial, business and political conditions, including their effect on the availability and cost of labor, credit, materials and other services, (s) the ability of the Company to control costs, particularly labor and employee benefit costs, (t) increased operating costs due to shortages in qualified nurses, therapists and other healthcare personnel, (u) the ability to attract and retain key executives and other healthcare personnel, (v) the increase in the costs of defending and insuring against alleged professional liability and other claims and the ability to predict the estimated costs related to such claims, including the impact of differences in actuarial assumptions and estimates compared to eventual outcomes, (w) the Company's ability to successfully reduce (by divestiture of operations or otherwise) its exposure to professional liability and other claims, (x) the ability to successfully dispose of unprofitable facilities, (y) events or circumstances which could result in the impairment of an asset or other charges, (z) changes in generally accepted accounting principles ("GAAP") or practices, and changes in tax accounting or tax laws (or authoritative interpretations relating to any of these matters), and (aa) the ability to maintain an effective system of internal control over financial reporting. 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.

As noted above, the Company's earnings release includes a financial measure referred to as operating income, or earnings before interest, income taxes, depreciation, amortization and rent. The Company's management uses operating income as a meaningful measure of operational performance in addition to other measures. The Company uses operating income to assess the relative performance of its operating divisions as well as the employees that operate these businesses. In addition, the Company believes this measurement is important because securities analysts and investors use this measurement to compare the Company's performance to other companies in the healthcare industry. The Company believes that income from continuing operations is the most comparable GAAP measure. Readers of the Company's financial information should consider income from continuing operations as an important measure of the Company's financial performance because it provides the most complete measure of its performance. Operating income should be considered in addition to, not as a substitute for, or superior to, financial measures based upon GAAP as an indicator of operating performance. A reconciliation of operating income to income from continuing operations provided in the Condensed Business Segment Data is included in this press release.

As noted in this earnings release, the Company presents the financial measure of free cash flows available for investment and other capital uses. The Company recognizes that free cash flows available for investment and other capital uses is a non-GAAP measurement and is not intended to replace the presentation of the Company's cash flows in accordance with GAAP. The Company believes that this non-GAAP measurement provides important information to investors related to the amount of discretionary cash flows that are available for other investing and other financing activities. In addition, management uses free cash flows available for investment and other capital uses in making decisions related to acquisitions, development capital expenditures, long-term debt repayments and other uses.

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Additional Information About this Transaction

In connection with the pending transaction with RehabCare, Kindred will file with the SEC a Registration Statement on Form S-4 that will include a joint proxy statement of Kindred and RehabCare that also constitutes a prospectus of Kindred. Kindred and RehabCare will mail the definitive proxy statement/prospectus to their respective stockholders. **WE URGE INVESTORS AND SECURITY HOLDERS TO READ THE JOINT PROXY STATEMENT/PROSPECTUS REGARDING THE PENDING TRANSACTION WHEN IT BECOMES AVAILABLE BECAUSE IT WILL CONTAIN IMPORTANT INFORMATION.** You may obtain a free copy of the joint proxy statement/prospectus (when available) and other related documents filed by Kindred and RehabCare with the SEC at the SEC's website at www.sec.gov. The joint proxy statement/prospectus (when available) and the other documents filed by Kindred and RehabCare with the SEC may also be obtained for free by accessing Kindred's website at www.kindredhealthcare.com and clicking on the "Investors" link then clicking on the link for "SEC Filings" or by accessing RehabCare's website at www.rehabcare.com and clicking on the "Investor Information" link and then clicking on the link for "SEC Filings".

Participants in this Transaction

Kindred, RehabCare and their respective directors, executive officers and certain other members of management and employees may be soliciting proxies from their respective stockholders in favor of the pending transaction. Information regarding the persons who may, under the rules of the SEC, be considered participants in the solicitation of stockholders in connection with the pending transaction will be set forth in the joint proxy statement/prospectus when it is filed with the SEC. You can find information about Kindred's executive officers and directors in Kindred's definitive proxy statement filed with the SEC on April 1, 2010. You can find information about RehabCare's executive officers and directors in its definitive proxy statement filed with the SEC on March 23, 2010. You can obtain free copies of these documents from Kindred or RehabCare, respectively, using the contact information above.

About Kindred Healthcare

Kindred Healthcare, Inc., a top-200 private employer in the United States, is a FORTUNE 500 healthcare services company based in Louisville, Kentucky with annual revenues of over \$4.3 billion and approximately 56,800 employees in 40 states. At December 31, 2010, Kindred through its subsidiaries provided healthcare services in 696 locations, including 89 long-term acute care hospitals, 226 nursing and rehabilitation centers and a contract rehabilitation services business, PeopleFirst rehabilitation services, which served 381 non-affiliated facilities. Ranked as one of Fortune magazine's Most Admired Healthcare Companies in 2009 and 2010, Kindred's mission is to promote healing, provide hope, preserve dignity and produce value for each patient, resident, family member, customer, employee and shareholder we serve. For more information, go to www.kindredhealthcare.com.

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KINDRED HEALTHCARE, INC.**Financial Summary**

(In thousands, except per share amounts)

| | Three months ended December 31, | | Year ended December 31, | |
|---|------------------------------------|--------------|----------------------------|--------------|
| | 2010 | 2009 | 2010 | 2009 |
| Revenues | \$ 1,135,484 | \$ 1,069,991 | \$ 4,359,697 | \$ 4,270,007 |
| Income from continuing operations | \$ 19,755 | \$ 16,345 | \$ 56,146 | \$ 62,612 |
| Discontinued operations, net of income taxes: | | | | |
| Income from operations | 1,125 | 2,396 | 798 | 931 |
| Gain (loss) on divestiture of operations | (456) | 567 | (453) | (23,432) |
| Net income | \$ 20,424 | \$ 19,308 | \$ 56,491 | \$ 40,111 |
| Earnings per common share: | | | | |
| Basic: | | | | |
| Income from continuing operations | \$ 0.50 | \$ 0.42 | \$ 1.42 | \$ 1.61 |
| Discontinued operations: | | | | |
| Income from operations | 0.03 | 0.06 | 0.02 | 0.02 |
| Gain (loss) on divestiture of operations | (0.01) | 0.01 | (0.01) | (0.60) |
| Net income | \$ 0.52 | \$ 0.49 | \$ 1.43 | \$ 1.03 |
| Diluted: | | | | |
| Income from continuing operations | \$ 0.50 | \$ 0.42 | \$ 1.42 | \$ 1.60 |
| Discontinued operations: | | | | |
| Income from operations | 0.03 | 0.06 | 0.02 | 0.02 |
| Gain (loss) on divestiture of operations | (0.01) | 0.01 | (0.01) | (0.60) |
| Net income | \$ 0.52 | \$ 0.49 | \$ 1.43 | \$ 1.02 |
| Shares used in computing earnings per common share: | | | | |
| Basic | 38,790 | 38,465 | 38,738 | 38,339 |
| Diluted | 39,089 | 38,693 | 38,954 | 38,502 |

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KINDRED HEALTHCARE, INC.**Condensed Consolidated Statement of Operations**

(In thousands, except per share amounts)

| | Three months ended December 31, | | Year ended December 31, | |
|---|------------------------------------|--------------|----------------------------|--------------|
| | 2010 | 2009 | 2010 | 2009 |
| Revenues | \$ 1,135,484 | \$ 1,069,991 | \$ 4,359,697 | \$ 4,270,007 |
| Salaries, wages and benefits | 652,703 | 617,961 | 2,505,690 | 2,483,086 |
| Supplies | 87,103 | 86,408 | 342,197 | 333,056 |
| Rent | 90,777 | 88,084 | 357,372 | 348,248 |
| Other operating expenses | 240,750 | 222,521 | 948,609 | 886,205 |
| Other income | (2,687) | (2,947) | (11,422) | (11,512) |
| Depreciation and amortization | 31,412 | 31,893 | 121,552 | 125,730 |
| Interest expense | 2,843 | 1,432 | 7,090 | 7,880 |
| Investment income | (342) | (1,159) | (1,245) | (4,413) |
| | 1,102,559 | 1,044,193 | 4,269,843 | 4,168,280 |
| Income from continuing operations before income taxes | 32,925 | 25,798 | 89,854 | 101,727 |
| Provision for income taxes | 13,170 | 9,453 | 33,708 | 39,115 |
| Income from continuing operations | 19,755 | 16,345 | 56,146 | 62,612 |
| Discontinued operations, net of income taxes: | | | | |
| Income from operations | 1,125 | 2,396 | 798 | 931 |
| Gain (loss) on divestiture of operations | (456) | 567 | (453) | (23,432) |
| Net income | \$ 20,424 | \$ 19,308 | \$ 56,491 | \$ 40,111 |
| Earnings per common share: | | | | |
| Basic: | | | | |
| Income from continuing operations | \$ 0.50 | \$ 0.42 | \$ 1.42 | \$ 1.61 |
| Discontinued operations: | | | | |
| Income from operations | 0.03 | 0.06 | 0.02 | 0.02 |
| Gain (loss) on divestiture of operations | (0.01) | 0.01 | (0.01) | (0.60) |
| Net income | \$ 0.52 | \$ 0.49 | \$ 1.43 | \$ 1.03 |

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| | | | | | | | | |
|---|----|---------------|----|--------|----|---------------|----|--------|
| Income from continuing operations | \$ | 0.50 | \$ | 0.42 | \$ | 1.42 | \$ | 1.60 |
| Discontinued operations: | | | | | | | | |
| Income from operations | | 0.03 | | 0.06 | | 0.02 | | 0.02 |
| Gain (loss) on divestiture of operations | | (0.01) | | 0.01 | | (0.01) | | (0.60) |
| Net income | \$ | 0.52 | \$ | 0.49 | \$ | 1.43 | \$ | 1.02 |
| Shares used in computing earnings per common share: | | | | | | | | |
| Basic | | 38,790 | | 38,465 | | 38,738 | | 38,339 |
| Diluted | | 39,089 | | 38,693 | | 38,954 | | 38,502 |

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KINDRED HEALTHCARE, INC.**Condensed Consolidated Balance Sheet**

(In thousands, except per share amounts)

| | December 31, 2010 | December 31, 2009 |
|---|----------------------|----------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 17,168 | \$ 16,303 |
| Cash - restricted | 5,494 | 5,820 |
| Insurance subsidiary investments | 76,753 | 106,834 |
| Accounts receivable less allowance for loss | 631,877 | 610,959 |
| Inventories | 24,327 | 22,303 |
| Deferred tax assets | 13,439 | 42,791 |
| Income taxes | 42,118 | 17,447 |
| Other | 24,862 | 21,194 |
| | 836,038 | 843,651 |
| Property and equipment | 1,754,170 | 1,515,700 |
| Accumulated depreciation | (857,623) | (765,602) |
| | 896,547 | 750,098 |
| Goodwill | 242,420 | 81,223 |
| Intangible assets less accumulated amortization | 92,883 | 64,491 |
| Assets held for sale | 7,167 | 8,806 |
| Insurance subsidiary investments | 101,210 | 100,223 |
| Deferred tax assets | 88,816 | 110,930 |
| Other | 72,334 | 62,802 |
| | \$ 2,337,415 | \$ 2,022,224 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$ 174,495 | \$ 161,066 |
| Salaries, wages and other compensation | 291,116 | 287,772 |
| Due to third party payors | 27,115 | 28,261 |
| Professional liability risks | 41,555 | 47,076 |
| Other accrued liabilities | 87,012 | 78,358 |
| Long-term debt due within one year | 91 | 86 |
| | 621,384 | 602,619 |
| Long-term debt | 365,556 | 147,647 |

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| | | |
|---|---------------------|--------------|
| Professional liability risks | 207,669 | 195,126 |
| Deferred credits and other liabilities | 111,047 | 110,238 |
| Stockholders' equity: | | |
| Common stock, \$0.25 par value; authorized 175,000 shares; issued 39,495 shares - December 31, 2010 and 39,104 shares - December 31, 2009 | 9,874 | 9,776 |
| Capital in excess of par value | 828,593 | 820,407 |
| Accumulated other comprehensive income (loss) | 135 | (423) |
| Retained earnings | 193,157 | 136,834 |
| | 1,031,759 | 966,594 |
| | \$ 2,337,415 | \$ 2,022,224 |

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KINDRED HEALTHCARE, INC.**Condensed Consolidated Statement of Cash Flows**

(In thousands)

| | Three months ended December 31, | | Year ended December 31, | |
|---|------------------------------------|-----------------|----------------------------|------------------|
| | 2010 | 2009 | 2010 | 2009 |
| Cash flows from operating activities: | | | | |
| Net income | \$ 20,424 | \$ 19,308 | \$ 56,491 | \$ 40,111 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | | |
| Depreciation and amortization | 31,412 | 31,893 | 121,552 | 126,404 |
| Amortization of stock-based compensation costs | 2,600 | 2,357 | 10,714 | 9,905 |
| Provision for doubtful accounts | 6,010 | 7,573 | 24,397 | 29,320 |
| Deferred income taxes | 35,190 | 16,097 | 21,446 | 10,876 |
| (Gain) loss on divestiture of discontinued operations | 456 | (567) | 453 | 23,432 |
| Other | 2,118 | 6 | 252 | (1,186) |
| Change in operating assets and liabilities: | | | | |
| Accounts receivable | (23,853) | 46,828 | (45,232) | (29,247) |
| Inventories and other assets | (6,720) | (5,631) | (14,294) | (17,386) |
| Accounts payable | 25,139 | 34 | 9,446 | (4,088) |
| Income taxes | (22,272) | (3,365) | 3,462 | 35,009 |
| Due to third party payors | (8,886) | (2,029) | 1,213 | (6,369) |
| Other accrued liabilities | (2,485) | (20,993) | 20,088 | 16,939 |
| Net cash provided by operating activities | 59,133 | 91,511 | 209,988 | 233,720 |
| Cash flows from investing activities: | | | | |
| Routine capital expenditures | (39,788) | (23,082) | (108,896) | (97,550) |
| Development capital expenditures | (27,622) | (9,669) | (67,841) | (48,058) |
| Acquisitions | (191,925) | | (279,794) | (83,432) |
| Sale of assets | 649 | 11,948 | 649 | 25,967 |
| Purchase of insurance subsidiary investments | (9,229) | (25,997) | (43,913) | (103,477) |
| Sale of insurance subsidiary investments | 9,765 | 24,733 | 82,736 | 122,410 |
| Net change in insurance subsidiary cash and cash equivalents | 2,091 | 5,153 | (8,521) | 22,005 |
| Change in other investments | | | 2 | 2,002 |
| Other | (317) | (339) | 962 | 3,538 |
| Net cash used in investing activities | (256,376) | (17,253) | (424,616) | (156,595) |
| Cash flows from financing activities: | | | | |
| Proceeds from borrowings under revolving credit | 920,900 | 261,900 | 2,030,800 | 1,214,400 |

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| | | | | |
|--|------------------|-----------|--------------------|-------------|
| Repayment of borrowings under revolving credit | (720,400) | (365,300) | (1,812,800) | (1,416,100) |
| Payment of deferred financing costs | (1,417) | (251) | (2,831) | (855) |
| Issuance of common stock | 14 | 389 | 49 | 957 |
| Other | (7) | 4 | 275 | (19) |
| Net cash provided by (used in) financing activities | 199,090 | (103,258) | 215,493 | (201,617) |
| Change in cash and cash equivalents | 1,847 | (29,000) | 865 | (124,492) |
| Cash and cash equivalents at beginning of period | 15,321 | 45,303 | 16,303 | 140,795 |
| Cash and cash equivalents at end of period | \$ 17,168 | \$ 16,303 | \$ 17,168 | \$ 16,303 |

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KINDRED HEALTHCARE, INC.**Supplemental Cash Flow Data**

(In thousands)

| | Three months ended December 31, | | Year ended December 31, | |
|--|--|-------------|------------------------------------|-------------|
| | 2010 | 2009 | 2010 | 2009 |
| Reconciliation of net cash flows provided by operating activities to free cash flows: | | | | |
| Net cash provided by operating activities | \$ 59,133 | \$ 91,511 | \$ 209,988 | \$ 233,720 |
| Less routine capital expenditures | (39,788) | (23,082) | (108,896) | (97,550) |
| Free cash flows available for investment and other capital uses | \$ 19,345 | \$ 68,429 | \$ 101,092 | \$ 136,170 |

Routine capital expenditures represent expenditures necessary to maintain existing facilities that generally do not increase capacity or add services. As disclosed in the accompanying Condensed Consolidated Statement of Cash Flows, the Company also expends discretionary capital for the development of new facilities or the expansion of services at existing facilities. Due to the discretionary nature of these capital expenditures, they are excluded from the computation of free cash flows available for investment and other capital uses.

The Company recognizes that free cash flows available for investment and other capital uses is a non-GAAP measurement and is not intended to replace the presentation of the Company's cash flows in accordance with GAAP. The Company believes that this non-GAAP measurement provides important information to investors related to the amount of discretionary cash flows that are available for other investing and other financing activities. In addition, management uses free cash flows available for investment and other capital uses in making decisions related to acquisitions, development capital expenditures, long-term debt repayments and other uses.

Kindred Healthcare Fourth Quarter Results Exceed Company's Guidance

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February 8, 2011

KINDRED HEALTHCARE, INC.**Condensed Consolidated Statement of Operations**

(In thousands, except per share amounts)

| | 2009 Quarters | | | | | 2010 Quarters | | | | |
|---|---------------|--------------|--------------|--------------|--------------|---------------|--------------|--------------|--------------|--------------|
| | First | Second | Third | Fourth | Year | First | Second | Third | Fourth | Year |
| Revenues | \$ 1,069,474 | \$ 1,073,054 | \$ 1,057,488 | \$ 1,069,991 | \$ 4,270,007 | \$ 1,089,837 | \$ 1,081,364 | \$ 1,053,012 | \$ 1,135,484 | \$ 4,359,697 |
| Salaries, wages and benefits | 615,218 | 620,830 | 629,077 | 617,961 | 2,483,086 | 627,175 | 612,205 | 613,607 | 652,703 | 2,505,690 |
| Supplies | 80,336 | 83,912 | 82,400 | 86,408 | 333,056 | 85,886 | 85,455 | 83,753 | 87,103 | 342,197 |
| Rent | 85,201 | 86,882 | 88,081 | 88,084 | 348,248 | 88,319 | 88,981 | 89,295 | 90,777 | 357,372 |
| Other operating expenses | 220,405 | 221,755 | 221,524 | 222,521 | 886,205 | 234,204 | 238,687 | 234,968 | 240,750 | 948,609 |
| Other income | (2,872) | (2,823) | (2,870) | (2,947) | (11,512) | (3,084) | (2,857) | (2,794) | (2,687) | (11,422) |
| Depreciation and amortization | 30,490 | 31,355 | 31,992 | 31,893 | 125,730 | 31,121 | 29,852 | 29,167 | 31,412 | 121,552 |
| Interest expense | 2,478 | 2,229 | 1,741 | 1,432 | 7,880 | 1,307 | 1,298 | 1,642 | 2,843 | 7,090 |
| Investment (income) loss | (1,475) | (1,033) | (746) | (1,159) | (4,413) | (877) | 377 | (403) | (342) | (1,245) |
| | 1,029,781 | 1,043,107 | 1,051,199 | 1,044,193 | 4,168,280 | 1,064,051 | 1,053,998 | 1,049,235 | 1,102,559 | 4,269,843 |
| Income from continuing operations before income taxes | 39,693 | 29,947 | 6,289 | 25,798 | 101,727 | 25,786 | 27,366 | 3,777 | 32,925 | 89,854 |
| Provision (benefit) for income taxes | 16,352 | 12,409 | 901 | 9,453 | 39,115 | 10,631 | 11,230 | (1,323) | 13,170 | 33,708 |
| Income from continuing operations | 23,341 | 17,538 | 5,388 | 16,345 | 62,612 | 15,155 | 16,136 | 5,100 | 19,755 | 56,146 |
| Discontinued operations, net of income taxes: | | | | | | | | | | |
| Income (loss) from operations | (581) | (897) | 13 | 2,396 | 931 | (154) | 87 | (260) | 1,125 | 798 |

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| | | | | | | | | | | | | | | | | | | |
|--|--|----------|--|----|--|-----|--|----------|--|-------|--|----|--|----|--|-------|--|-------|
| Gain (loss) on divestiture of operations | | (24,051) | | 52 | | 567 | | (23,432) | | (137) | | 54 | | 86 | | (456) | | (453) |
|--|--|----------|--|----|--|-----|--|----------|--|-------|--|----|--|----|--|-------|--|-------|

| | | | | | | | | | | | | | | | | | | | | |
|-------------------|----|--------|----|---------|----|-------|----|--------|----|--------|----|--------|----|--------|----|-------|----|--------|----|--------|
| Net income (loss) | \$ | 22,760 | \$ | (7,410) | \$ | 5,453 | \$ | 19,308 | \$ | 40,111 | \$ | 14,864 | \$ | 16,277 | \$ | 4,926 | \$ | 20,424 | \$ | 56,491 |
|-------------------|----|--------|----|---------|----|-------|----|--------|----|--------|----|--------|----|--------|----|-------|----|--------|----|--------|

Earnings (loss) per common share:

Basic:

| | | | | | | | | | | | | | | | | | | | | |
|-----------------------------------|----|------|----|------|----|------|----|------|----|------|----|------|----|------|----|------|----|------|----|------|
| Income from continuing operations | \$ | 0.60 | \$ | 0.45 | \$ | 0.14 | \$ | 0.42 | \$ | 1.61 | \$ | 0.38 | \$ | 0.41 | \$ | 0.13 | \$ | 0.50 | \$ | 1.42 |
|-----------------------------------|----|------|----|------|----|------|----|------|----|------|----|------|----|------|----|------|----|------|----|------|

Discontinued operations:

| | | | | | | | | | | | | | | | | | | |
|-------------------------------|--|--------|--|--------|--|------|--|------|--|--|--|--|--|--------|--|------|--|------|
| Income (loss) from operations | | (0.02) | | (0.02) | | 0.06 | | 0.02 | | | | | | (0.01) | | 0.03 | | 0.02 |
|-------------------------------|--|--------|--|--------|--|------|--|------|--|--|--|--|--|--------|--|------|--|------|

| | | | | | | | | | | | | | | | | | | |
|--|--|--|--|--------|--|------|--|--------|--|--|--|--|--|--|--|--------|--|--------|
| Gain (loss) on divestiture of operations | | | | (0.62) | | 0.01 | | (0.60) | | | | | | | | (0.01) | | (0.01) |
|--|--|--|--|--------|--|------|--|--------|--|--|--|--|--|--|--|--------|--|--------|

| | | | | | | | | | | | | | | | | | | | | |
|-------------------|----|------|----|--------|----|------|----|------|----|------|----|------|----|------|----|------|----|------|----|------|
| Net income (loss) | \$ | 0.58 | \$ | (0.19) | \$ | 0.14 | \$ | 0.49 | \$ | 1.03 | \$ | 0.38 | \$ | 0.41 | \$ | 0.12 | \$ | 0.52 | \$ | 1.43 |
|-------------------|----|------|----|--------|----|------|----|------|----|------|----|------|----|------|----|------|----|------|----|------|

Diluted:

| | | | | | | | | | | | | | | | | | | | | |
|-----------------------------------|----|------|----|------|----|------|----|------|----|------|----|------|----|------|----|------|----|------|----|------|
| Income from continuing operations | \$ | 0.60 | \$ | 0.45 | \$ | 0.14 | \$ | 0.42 | \$ | 1.60 | \$ | 0.38 | \$ | 0.41 | \$ | 0.13 | \$ | 0.50 | \$ | 1.42 |
|-----------------------------------|----|------|----|------|----|------|----|------|----|------|----|------|----|------|----|------|----|------|----|------|

Discontinued operations:

| | | | | | | | | | | | | | | | | | | |
|-------------------------------|--|--------|--|--------|--|------|--|------|--|--|--|--|--|--------|--|------|--|------|
| Income (loss) from operations | | (0.02) | | (0.02) | | 0.06 | | 0.02 | | | | | | (0.01) | | 0.03 | | 0.02 |
|-------------------------------|--|--------|--|--------|--|------|--|------|--|--|--|--|--|--------|--|------|--|------|

| | | | | | | | | | | | | | | | | | | |
|--|--|--|--|--------|--|------|--|--------|--|--|--|--|--|--|--|--------|--|--------|
| Gain (loss) on divestiture of operations | | | | (0.62) | | 0.01 | | (0.60) | | | | | | | | (0.01) | | (0.01) |
|--|--|--|--|--------|--|------|--|--------|--|--|--|--|--|--|--|--------|--|--------|

| | | | | | | | | | | | | | | | | | | | | |
|-------------------|----|------|----|--------|----|------|----|------|----|------|----|------|----|------|----|------|----|------|----|------|
| Net income (loss) | \$ | 0.58 | \$ | (0.19) | \$ | 0.14 | \$ | 0.49 | \$ | 1.02 | \$ | 0.38 | \$ | 0.41 | \$ | 0.12 | \$ | 0.52 | \$ | 1.43 |
|-------------------|----|------|----|--------|----|------|----|------|----|------|----|------|----|------|----|------|----|------|----|------|

Shares used in computing earnings (loss) per common share:

| | | | | | | | | | | |
|---------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Basic | 38,184 | 38,307 | 38,398 | 38,465 | 38,339 | 38,626 | 38,756 | 38,778 | 38,790 | 38,738 |
| Diluted | 38,315 | 38,415 | 38,524 | 38,693 | 38,502 | 38,859 | 38,914 | 38,838 | 39,089 | 38,954 |

Kindred Healthcare Fourth Quarter Results Exceed Company's Guidance

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KINDRED HEALTHCARE, INC.**Condensed Business Segment Data**

(In thousands)

| | 2009 Quarters | | | | | 2010 Quarters | | | | |
|---|---------------|--------------|--------------|--------------|--------------|---------------|--------------|--------------|---------------|--------------|
| | First | Second | Third | Fourth | Year | First | Second | Third | Fourth | Year |
| Revenues: | | | | | | | | | | |
| Hospital division | \$ 492,509 | \$ 487,145 | \$ 468,069 | \$ 485,169 | \$ 1,932,892 | \$ 507,062 | \$ 493,401 | \$ 465,198 | \$ 507,660 | \$ 1,973,321 |
| Nursing center division | 529,942 | 537,545 | 539,217 | 543,638 | 2,150,342 | 539,321 | 542,215 | 539,914 | 566,435 | 2,187,885 |
| Rehabilitation division | 117,647 | 120,450 | 122,625 | 114,316 | 475,038 | 120,144 | 122,061 | 124,243 | 138,507 | 504,955 |
| | 1,140,098 | 1,145,140 | 1,129,911 | 1,143,123 | 4,558,272 | 1,166,527 | 1,157,677 | 1,129,355 | 1,212,602 | 4,666,161 |
| Eliminations | (70,624) | (72,086) | (72,423) | (73,132) | (288,265) | (76,690) | (76,313) | (76,343) | (77,118) | (306,464) |
| | \$ 1,069,474 | \$ 1,073,054 | \$ 1,057,488 | \$ 1,069,991 | \$ 4,270,007 | \$ 1,089,837 | \$ 1,081,364 | \$ 1,053,012 | \$ 1,135,484 | \$ 4,359,697 |
| Income from continuing operations: | | | | | | | | | | |
| Operating income (loss): | | | | | | | | | | |
| Hospital division | \$ 100,899 | \$ 91,027 | \$ 78,674 | \$ 93,211 | \$ 363,811 | \$ 95,033 | \$ 90,893 | \$ 75,373 | \$ 95,801 (a) | \$ 357,100 |
| Nursing center division | 75,574 | 79,522 | 73,383 | 77,111 | 305,590 | 70,249 | 76,493 | 69,077 | 86,853 | 302,672 |
| Rehabilitation division | 15,453 | 13,599 | 10,912 | 10,628 | 50,592 | 14,635 | 14,078 | 14,148 | 9,062 (a) | 51,923 |
| Corporate: | | | | | | | | | | |
| Overhead | (34,087) | (33,586) | (33,843) | (33,120) | (134,636) | (33,781) | (32,799) | (34,337) | (33,002) | (133,919) |
| Insurance subsidiary | (1,452) | (1,182) | (1,769) | (1,782) | (6,185) | (480) | (791) | (783) | (1,099) | (3,153) |
| | (35,539) | (34,768) | (35,612) | (34,902) | (140,821) | (34,261) | (33,590) | (35,120) | (34,101) | (137,072) |
| Operating income | 156,387 | 149,380 | 127,357 | 146,048 | 579,172 | 145,656 | 147,874 | 123,478 | 157,615 | 574,623 |
| Rent | (85,201) | (86,882) | (88,081) | (88,084) | (348,248) | (88,319) | (88,981) | (89,295) | (90,777) | (357,372) |

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| | | | | | | | | | | |
|---|-----------|-----------|----------|-----------|-----------|-----------|-----------|----------|-----------|-----------|
| Depreciation and amortization | (30,490) | (31,355) | (31,992) | (31,893) | (125,730) | (31,121) | (29,852) | (29,167) | (31,412) | (121,552) |
| Interest, net | (1,003) | (1,196) | (995) | (273) | (3,467) | (430) | (1,675) | (1,239) | (2,501) | (5,845) |
| Income from continuing operations before income taxes | 39,693 | 29,947 | 6,289 | 25,798 | 101,727 | 25,786 | 27,366 | 3,777 | 32,925 | 89,854 |
| Provision (benefit) for income taxes | 16,352 | 12,409 | 901 | 9,453 | 39,115 | 10,631 | 11,230 | (1,323) | 13,170 | 33,708 |
| | \$ 23,341 | \$ 17,538 | \$ 5,388 | \$ 16,345 | \$ 62,612 | \$ 15,155 | \$ 16,136 | \$ 5,100 | \$ 19,755 | \$ 56,146 |

(a) Includes acquisition-related costs approximating \$1.5 million for the hospital division and \$0.6 million for the rehabilitation division.

Kindred Healthcare Fourth Quarter Results Exceed Company's Guidance

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KINDRED HEALTHCARE, INC.

Condensed Consolidating Statement of Operations

(In thousands)

| | Fourth Quarter 2009 | | | | | Fourth Quarter 2010 | | | | | | |
|---|----------------------|-------------------------------|----------------------------|---------------------------|--------------|----------------------|-------------------------------|----------------------------|---------------------------|--------------|-------------|--------------|
| | Hospital division | Nursing center division | Rehabilitation division | Corporate Eliminations | Consolidated | Hospital division | Nursing center division | Rehabilitation division | Corporate Eliminations | Consolidated | | |
| Revenues | \$ 485,169 | \$ 543,638 | \$ 114,316 | \$ | \$ (73,132) | \$ 1,069,991 | \$ 507,660 | \$ 566,435 | \$ 138,507 | \$ | \$ (77,118) | \$ 1,135,484 |
| Salaries, wages and benefits | 218,409 | 278,379 | 96,976 | 24,197 | | 617,961 | 230,385 | 274,784 | 123,767 | 23,813 | (46) | 652,703 |
| Supplies | 56,802 | 28,231 | 1,158 | 218 | (1) | 86,408 | 57,884 | 28,131 | 944 | 144 | | 87,103 |
| Rent | 37,153 | 49,525 | 1,373 | 33 | | 88,084 | 39,406 | 49,647 | 1,689 | 35 | | 90,777 |
| Other operating expenses | 116,747 | 159,917 | 5,554 | 13,434 | (73,131) | 222,521 | 123,590 | 176,667 | 4,734 | 12,831 | (77,072) | 240,750 |
| Other income | | | | (2,947) | | (2,947) | | | | (2,687) | | (2,687) |
| Depreciation and amortization | 13,127 | 12,500 | 611 | 5,655 | | 31,893 | 13,421 | 11,646 | 830 | 5,515 | | 31,412 |
| Interest expense | (1) | 32 | | 1,401 | | 1,432 | 2 | 35 | | 2,806 | | 2,843 |
| Investment income | (2) | (20) | (2) | (1,135) | | (1,159) | (2) | (14) | (2) | (324) | | (342) |
| | 442,235 | 528,564 | 105,670 | 40,856 | (73,132) | 1,044,193 | 464,686 | 540,896 | 131,962 | 42,133 | (77,118) | 1,102,559 |
| Income from continuing operations before income taxes | \$ 42,934 | \$ 15,074 | \$ 8,646 | \$ (40,856) | \$ | 25,798 | \$ 42,974 | \$ 25,539 | \$ 6,545 | \$ (42,133) | \$ | 32,925 |
| Provision for income taxes | | | | | | 9,453 | | | | | | 13,170 |
| Income from continuing operations | | | | | | \$ 16,345 | | | | | | \$ 19,755 |
| Capital expenditures, excluding | | | | | | | | | | | | |

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acquisitions
(including
discontinued
operations):

| | | | | | | | | | | | | |
|-------------|-----------|----------|--------|-----------|----|-----------|-----------|-----------|----------|-----------|----|-----------|
| Routine | \$ 6,311 | \$ 5,130 | \$ 412 | \$ 11,229 | \$ | \$ 23,082 | \$ 13,835 | \$ 12,292 | \$ 1,816 | \$ 11,845 | \$ | \$ 39,788 |
| Development | 9,606 | 63 | | | | 9,669 | 12,257 | 15,365 | | | | 27,622 |
| | \$ 15,917 | \$ 5,193 | \$ 412 | \$ 11,229 | \$ | \$ 32,751 | \$ 26,092 | \$ 27,657 | \$ 1,816 | \$ 11,845 | \$ | \$ 67,410 |

Kindred Healthcare Fourth Quarter Results Exceed Company's Guidance

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February 8, 2011

KINDRED HEALTHCARE, INC.**Condensed Consolidating Statement of Operations (Continued)**

(In thousands)

| | Year ended December 31, 2009 | | | | | Year ended December 31, 2010 | | | | | | |
|---|------------------------------|-------------------------------|----------------------------|--------------|------------------------------|------------------------------|-------------------------------|----------------------------|------------|------------------------------|--------------|--------------|
| | Hospital division | Nursing center division | Rehabilitation division | Corporate | Eliminations Consolidated | Hospital division | Nursing center division | Rehabilitation division | Corporate | Eliminations Consolidated | | |
| Revenues | \$ 1,932,892 | \$ 2,150,342 | \$ 475,038 | \$ | \$ (288,265) | \$ 4,270,007 | \$ 1,973,321 | \$ 2,187,885 | \$ 504,955 | \$ | \$ (306,464) | \$ 4,359,697 |
| Salaries, wages and benefits | 875,788 | 1,102,975 | 402,986 | 101,337 | | 2,483,086 | 894,702 | 1,080,344 | 431,224 | 99,480 | (60) | 2,505,690 |
| Supplies | 221,529 | 108,038 | 2,827 | 664 | (2) | 333,056 | 228,157 | 110,266 | 3,217 | 557 | | 342,197 |
| Rent | 147,494 | 194,835 | 5,778 | 141 | | 348,248 | 152,986 | 198,105 | 6,136 | 145 | | 357,372 |
| Other operating expenses | 471,764 | 633,739 | 18,633 | 50,332 | (288,263) | 886,205 | 493,362 | 694,603 | 18,591 | 48,457 | (306,404) | 948,609 |
| Other income | | | | (11,512) | | (11,512) | | | | (11,422) | | (11,422) |
| Depreciation and amortization | 51,932 | 48,631 | 2,291 | 22,876 | | 125,730 | 51,639 | 45,471 | 2,709 | 21,733 | | 121,552 |
| Interest expense | 2 | 130 | 1 | 7,747 | | 7,880 | 5 | 131 | | 6,954 | | 7,090 |
| Investment income | (7) | (111) | (8) | (4,287) | | (4,413) | (3) | (70) | (6) | (1,166) | | (1,245) |
| | 1,768,502 | 2,088,237 | 432,508 | 167,298 | (288,265) | 4,168,280 | 1,820,848 | 2,128,850 | 461,871 | 164,738 | (306,464) | 4,269,843 |
| Income from continuing operations before income taxes | \$ 164,390 | \$ 62,105 | \$ 42,530 | \$ (167,298) | \$ | 101,727 | \$ 152,473 | \$ 59,035 | \$ 43,084 | \$ (164,738) | \$ | 89,854 |
| Provision for income taxes | | | | | | 39,115 | | | | | | 33,708 |
| Income from continuing operations | | | | | | \$ 62,612 | | | | | | \$ 56,146 |
| Capital expenditures, excluding acquisitions | | | | | | | | | | | | |

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(including discontinued operations):

| | | | | | | | | | | | | | | | | | | | | |
|-------------|----|--------|----|--------|----|-------|----|--------|----|---------|----|--------|----|--------|----|-------|----|--------|----|---------|
| Routine | \$ | 26,716 | \$ | 39,663 | \$ | 1,043 | \$ | 30,128 | \$ | 97,550 | \$ | 36,967 | \$ | 37,024 | \$ | 2,715 | \$ | 32,190 | \$ | 108,896 |
| Development | | 42,371 | | 5,687 | | | | | | 48,058 | | 41,140 | | 26,701 | | | | | | 67,841 |
| | \$ | 69,087 | \$ | 45,350 | \$ | 1,043 | \$ | 30,128 | \$ | 145,608 | \$ | 78,107 | \$ | 63,725 | \$ | 2,715 | \$ | 32,190 | \$ | 176,737 |

Kindred Healthcare Fourth Quarter Results Exceed Company's Guidance

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February 8, 2011

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

| | 2009 Quarters | | | | | 2010 Quarters | | | | |
|--------------------------------|---------------|---------|---------|---------|-----------|---------------|---------|---------|---------|-----------|
| | First | Second | Third | Fourth | Year | First | Second | Third | Fourth | Year |
| Hospital data: | | | | | | | | | | |
| End of period data: | | | | | | | | | | |
| Number of hospitals | 82 | 82 | 82 | 83 | | 83 | 83 | 83 | 89 | |
| Number of licensed beds | 6,520 | 6,520 | 6,520 | 6,580 | | 6,580 | 6,576 | 6,563 | 6,887 | |
| Revenue mix %: | | | | | | | | | | |
| Medicare | 56 | 55 | 55 | 56 | 55 | 56 | 56 | 55 | 58 | 56 |
| Medicaid | 10 | 10 | 11 | 9 | 10 | 9 | 9 | 9 | 9 | 9 |
| Medicare Advantage | 10 | 11 | 9 | 9 | 10 | 10 | 10 | 10 | 9 | 10 |
| Commercial insurance and other | 24 | 24 | 25 | 26 | 25 | 25 | 25 | 26 | 24 | 25 |
| Admissions: | | | | | | | | | | |
| Medicare | 7,421 | 7,117 | 6,875 | 7,283 | 28,696 | 7,432 | 7,125 | 6,769 | 7,640 | 28,966 |
| Medicaid | 1,052 | 1,053 | 1,165 | 984 | 4,254 | 997 | 990 | 1,022 | 1,034 | 4,043 |
| Medicare Advantage | 1,094 | 1,091 | 926 | 919 | 4,030 | 1,129 | 1,106 | 936 | 1,071 | 4,242 |
| Commercial insurance and other | 1,921 | 1,869 | 1,969 | 2,280 | 8,039 | 2,262 | 2,048 | 1,978 | 2,020 | 8,308 |
| | 11,488 | 11,130 | 10,935 | 11,466 | 45,019 | 11,820 | 11,269 | 10,705 | 11,765 | 45,559 |
| Admissions mix %: | | | | | | | | | | |
| Medicare | 65 | 64 | 63 | 63 | 64 | 63 | 63 | 63 | 65 | 64 |
| Medicaid | 9 | 9 | 11 | 9 | 9 | 8 | 9 | 10 | 9 | 9 |
| Medicare Advantage | 9 | 10 | 8 | 8 | 9 | 10 | 10 | 9 | 9 | 9 |
| Commercial insurance and other | 17 | 17 | 18 | 20 | 18 | 19 | 18 | 18 | 17 | 18 |
| Patient days: | | | | | | | | | | |
| Medicare | 197,377 | 197,203 | 188,712 | 196,067 | 779,359 | 202,882 | 195,964 | 179,324 | 198,129 | 776,299 |
| Medicaid | 50,868 | 50,485 | 53,585 | 47,352 | 202,290 | 47,813 | 45,952 | 48,514 | 46,596 | 188,875 |
| Medicare Advantage | 35,229 | 36,806 | 29,912 | 30,315 | 132,262 | 34,524 | 36,000 | 31,186 | 32,868 | 134,578 |
| Commercial insurance and other | 65,509 | 61,960 | 65,717 | 74,253 | 267,439 | 75,483 | 70,651 | 70,198 | 69,585 | 285,917 |
| | 348,983 | 346,454 | 337,926 | 347,987 | 1,381,350 | 360,702 | 348,567 | 329,222 | 347,178 | 1,385,669 |
| Average length of stay: | | | | | | | | | | |
| Medicare | 26.6 | 27.7 | 27.4 | 26.9 | 27.2 | 27.3 | 27.5 | 26.5 | 25.9 | 26.8 |
| Medicaid | 48.4 | 47.9 | 46.0 | 48.1 | 47.6 | 48.0 | 46.4 | 47.5 | 45.1 | 46.7 |
| Medicare Advantage | 32.2 | 33.7 | 32.3 | 33.0 | 32.8 | 30.6 | 32.5 | 33.3 | 30.7 | 31.7 |
| Commercial insurance and other | 34.1 | 33.2 | 33.4 | 32.6 | 33.3 | 33.4 | 34.5 | 35.5 | 34.4 | 34.4 |

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| | | | | | | | | | | |
|------------------|------|------|------|------|------|------|------|------|------|------|
| Weighted average | 30.4 | 31.1 | 30.9 | 30.3 | 30.7 | 30.5 | 30.9 | 30.8 | 29.5 | 30.4 |
|------------------|------|------|------|------|------|------|------|------|------|------|

Kindred Healthcare Fourth Quarter Results Exceed Company's Guidance

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February 8, 2011

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

| | 2009 Quarters | | | | | 2010 Quarters | | | | |
|--|---------------|-----------|-----------|-----------|-----------|---------------|-----------|-----------|-----------|-----------|
| | First | Second | Third | Fourth | Year | First | Second | Third | Fourth | Year |
| Hospital data (continued): | | | | | | | | | | |
| Revenues per admission: | | | | | | | | | | |
| Medicare | \$ 37,262 | \$ 37,748 | \$ 37,105 | \$ 37,620 | \$ 37,436 | \$ 38,078 | \$ 38,938 | \$ 37,675 | \$ 38,368 | \$ 38,272 |
| Medicaid | 45,160 | 45,759 | 43,640 | 43,314 | 44,465 | 45,738 | 42,774 | 42,910 | 41,704 | 43,266 |
| Medicare Advantage | 46,387 | 46,950 | 47,597 | 47,807 | 47,141 | 45,187 | 46,169 | 48,122 | 44,744 | 45,979 |
| Commercial insurance and other | 61,286 | 63,716 | 59,957 | 54,662 | 59,647 | 56,344 | 59,842 | 61,314 | 61,131 | 59,553 |
| Weighted average | 42,872 | 43,769 | 42,805 | 42,314 | 42,935 | 42,899 | 43,784 | 43,456 | 43,150 | 43,313 |
| Revenues per patient day: | | | | | | | | | | |
| Medicare | \$ 1,401 | \$ 1,362 | \$ 1,352 | \$ 1,397 | \$ 1,378 | \$ 1,395 | \$ 1,416 | \$ 1,422 | \$ 1,479 | \$ 1,428 |
| Medicaid | 934 | 954 | 949 | 900 | 935 | 954 | 922 | 904 | 925 | 926 |
| Medicare Advantage | 1,440 | 1,392 | 1,473 | 1,449 | 1,436 | 1,478 | 1,418 | 1,444 | 1,458 | 1,449 |
| Commercial insurance and other | 1,797 | 1,922 | 1,796 | 1,678 | 1,793 | 1,688 | 1,735 | 1,728 | 1,775 | 1,730 |
| Weighted average | 1,411 | 1,406 | 1,385 | 1,394 | 1,399 | 1,406 | 1,416 | 1,413 | 1,462 | 1,424 |
| Medicare case mix index (discharged patients only) | 1.22 | 1.23 | 1.19 | 1.18 | 1.21 | 1.21 | 1.21 | 1.19 | 1.17 | 1.19 |
| Average daily census | 3,878 | 3,807 | 3,673 | 3,782 | 3,785 | 4,008 | 3,830 | 3,579 | 3,774 | 3,796 |
| Occupancy % | 66.0 | 64.7 | 63.6 | 64.3 | 64.7 | 68.2 | 66.1 | 62.0 | 64.0 | 65.1 |
| Annualized employee turnover % | 21.3 | 22.1 | 22.8 | 22.1 | | 21.8 | 22.6 | 22.3 | 22.0 | |
| Nursing and rehabilitation center data: | | | | | | | | | | |
| End of period data: | | | | | | | | | | |
| Number of facilities: | | | | | | | | | | |
| Nursing and rehabilitation centers: | | | | | | | | | | |
| Owned or leased | 218 | 218 | 218 | 218 | | 218 | 219 | 222 | 222 | |
| Managed | 4 | 4 | 4 | 4 | | 4 | 4 | 4 | 4 | |
| Assisted living facilities | 6 | 6 | 6 | 6 | | 6 | 7 | 7 | 7 | |
| | 228 | 228 | 228 | 228 | | 228 | 230 | 233 | 233 | |
| Number of licensed beds: | | | | | | | | | | |
| Nursing and rehabilitation centers: | | | | | | | | | | |
| Owned or leased | 26,821 | 26,821 | 26,769 | 26,711 | | 26,711 | 26,760 | 27,030 | 26,957 | |
| Managed | 485 | 485 | 485 | 485 | | 485 | 485 | 485 | 485 | |
| Assisted living facilities | 317 | 317 | 317 | 327 | | 327 | 463 | 463 | 463 | |
| | 27,623 | 27,623 | 27,571 | 27,523 | | 27,523 | 27,708 | 27,978 | 27,905 | |
| Revenue mix %: | | | | | | | | | | |
| Medicare | 35 | 35 | 34 | 33 | 34 | 35 | 34 | 33 | 36 | 35 |

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| | | | | | | | | | | |
|--------------------|----|----|----|----|----|----|----|----|----|----|
| Medicaid | 41 | 41 | 42 | 43 | 42 | 41 | 41 | 41 | 39 | 40 |
| Medicare Advantage | 6 | 6 | 6 | 6 | 6 | 6 | 7 | 7 | 7 | 7 |
| Private and other | 18 | 18 | 18 | 18 | 18 | 18 | 18 | 19 | 18 | 18 |

Kindred Healthcare Fourth Quarter Results Exceed Company's Guidance

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

| | 2009 Quarters | | | | | 2010 Quarters | | | | |
|--|---------------|-----------|-----------|-----------|-----------|---------------|-----------|-----------|-----------|-----------|
| | First | Second | Third | Fourth | Year | First | Second | Third | Fourth | Year |
| Nursing and rehabilitation center data (continued): | | | | | | | | | | |
| Patient days (excludes managed facilities): | | | | | | | | | | |
| Medicare | 374,853 | 375,140 | 360,009 | 353,443 | 1,463,445 | 369,102 | 363,149 | 346,837 | 344,018 | 1,423,106 |
| Medicaid | 1,326,654 | 1,323,157 | 1,357,596 | 1,368,198 | 5,375,605 | 1,312,517 | 1,292,246 | 1,289,643 | 1,287,739 | 5,182,145 |
| Medicare Advantage | 80,352 | 82,652 | 84,322 | 86,449 | 333,775 | 87,692 | 92,051 | 91,643 | 94,336 | 365,722 |
| Private and other | 403,320 | 415,510 | 415,467 | 403,166 | 1,637,463 | 397,550 | 415,921 | 437,413 | 453,357 | 1,704,241 |
| | 2,185,179 | 2,196,459 | 2,217,394 | 2,211,256 | 8,810,288 | 2,166,861 | 2,163,367 | 2,165,536 | 2,179,450 | 8,675,214 |
| Patient day mix %: | | | | | | | | | | |
| Medicare | 17 | 17 | 16 | 16 | 17 | 17 | 17 | 16 | 16 | 16 |
| Medicaid | 61 | 60 | 61 | 62 | 61 | 61 | 60 | 60 | 59 | 60 |
| Medicare Advantage | 4 | 4 | 4 | 4 | 4 | 4 | 4 | 4 | 4 | 4 |
| Private and other | 18 | 19 | 19 | 18 | 18 | 18 | 19 | 20 | 21 | 20 |
| Revenues per patient day: | | | | | | | | | | |
| Medicare Part A | \$ 457 | \$ 459 | \$ 464 | \$ 466 | \$ 461 | \$ 470 | \$ 469 | \$ 468 | \$ 534 | \$ 485 |
| Total Medicare (including Part B) | 497 | 500 | 508 | 510 | 503 | 513 | 515 | 519 | 587 | 533 |
| Medicaid | 165 | 167 | 166 | 170 | 167 | 168 | 171 | 171 | 171 | 170 |
| Medicare Advantage | 380 | 392 | 398 | 405 | 394 | 398 | 400 | 405 | 432 | 409 |
| Private and other | 235 | 232 | 234 | 239 | 235 | 238 | 234 | 232 | 228 | 233 |
| Weighted average | 243 | 245 | 243 | 246 | 244 | 249 | 250 | 249 | 260 | 252 |
| Average daily census | 24,280 | 24,137 | 24,102 | 24,035 | 24,138 | 24,076 | 23,773 | 23,538 | 23,690 | 23,768 |
| Admissions (excludes managed facilities) | 18,166 | 18,456 | 17,803 | 18,376 | 72,801 | 19,026 | 18,924 | 19,383 | 19,118 | 76,451 |
| Occupancy % | 89.3 | 88.9 | 88.9 | 88.9 | 89.0 | 89.0 | 87.3 | 86.8 | 86.4 | 87.4 |
| Medicare average length of stay | 34.8 | 35.5 | 36.3 | 35.1 | 35.4 | 33.7 | 35.2 | 34.3 | 33.0 | 34.0 |
| Annualized employee turnover | 37.9 | 39.9 | 40.2 | 38.9 | | 36.7 | 38.8 | 39.8 | 39.6 | |

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%

Rehabilitation

data:

Revenue mix %:

| | | | | | | | | | | |
|------------------|----|----|----|----|----|----|----|----|----|----|
| Company-operated | 61 | 60 | 59 | 64 | 61 | 64 | 63 | 61 | 56 | 61 |
| Non-affiliated | 39 | 40 | 41 | 36 | 39 | 36 | 37 | 39 | 44 | 39 |

Sites of service (at end of period)

| | | | | | | | | | | |
|------------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| | 661 | 659 | 660 | 622 | | 619 | 633 | 650 | 696 | |
| Revenue per site | \$ 177,984 | \$ 182,775 | \$ 185,797 | \$ 183,789 | \$ 730,345 | \$ 194,094 | \$ 192,829 | \$ 191,142 | \$ 199,004 | \$ 777,069 |

| | | | | | | | | | | |
|--------------------------|------|------|------|------|------|------|------|------|------|------|
| Therapist productivity % | 84.8 | 84.8 | 83.5 | 83.8 | 84.2 | 83.8 | 84.2 | 82.1 | 78.6 | 82.0 |
|--------------------------|------|------|------|------|------|------|------|------|------|------|

Annualized employee turnover %

| | | | | | | | | | | |
|--|------|------|------|------|--|------|------|------|------|--|
| | 10.9 | 11.6 | 13.1 | 12.8 | | 12.6 | 14.2 | 15.4 | 14.4 | |
|--|------|------|------|------|--|------|------|------|------|--|

Kindred Healthcare Fourth Quarter Results Exceed Company's Guidance

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KINDRED HEALTHCARE, INC.**Earnings Per Common Share Reconciliation (a)**

(In thousands, except per share amounts)

| | Three months ended December 31, | | | | Year ended December 31, | | | |
|--|---------------------------------|-----------|-----------|-----------|-------------------------|-----------|-------------|-------------|
| | 2010 | | 2009 | | 2010 | | 2009 | |
| | Basic | Diluted | Basic | Diluted | Basic | Diluted | Basic | Diluted |
| Earnings: | | | | | | | | |
| Income from continuing operations: | | | | | | | | |
| As reported in Statement of Operations | \$ 19,755 | \$ 19,755 | \$ 16,345 | \$ 16,345 | \$ 56,146 | \$ 56,146 | \$ 62,612 | \$ 62,612 |
| Allocation to participating unvested restricted stockholders | (347) | (344) | (260) | (259) | (1,015) | (1,009) | (1,094) | (1,090) |
| Available to common stockholders | \$ 19,408 | \$ 19,411 | \$ 16,085 | \$ 16,086 | \$ 55,131 | \$ 55,137 | \$ 61,518 | \$ 61,522 |
| Discontinued operations, net of income taxes: | | | | | | | | |
| Income from operations: | | | | | | | | |
| As reported in Statement of Operations | \$ 1,125 | \$ 1,125 | \$ 2,396 | \$ 2,396 | \$ 798 | \$ 798 | \$ 931 | \$ 931 |
| Allocation to participating unvested restricted stockholders | (20) | (20) | (38) | (38) | (14) | (14) | (16) | (16) |
| Available to common stockholders | \$ 1,105 | \$ 1,105 | \$ 2,358 | \$ 2,358 | \$ 784 | \$ 784 | \$ 915 | \$ 915 |
| Gain (loss) on divestiture of operations: | | | | | | | | |
| As reported in Statement of Operations | \$ (456) | \$ (456) | \$ 567 | \$ 567 | \$ (453) | \$ (453) | \$ (23,432) | \$ (23,432) |
| Allocation to participating unvested restricted stockholders | 8 | 8 | (9) | (9) | 8 | 8 | 409 | 408 |
| Available to common stockholders | \$ (448) | \$ (448) | \$ 558 | \$ 558 | \$ (445) | \$ (445) | \$ (23,023) | \$ (23,024) |
| Net income: | | | | | | | | |
| As reported in Statement of Operations | \$ 20,424 | \$ 20,424 | \$ 19,308 | \$ 19,308 | \$ 56,491 | \$ 56,491 | \$ 40,111 | \$ 40,111 |
| Allocation to participating unvested restricted stockholders | (359) | (356) | (307) | (306) | (1,021) | (1,015) | (701) | (698) |
| Available to common stockholders | \$ 20,065 | \$ 20,068 | \$ 19,001 | \$ 19,002 | \$ 55,470 | \$ 55,476 | \$ 39,410 | \$ 39,413 |
| Shares used in the computation: | | | | | | | | |
| Weighted average shares outstanding - basic computation | 38,790 | 38,790 | 38,465 | 38,465 | 38,738 | 38,738 | 38,339 | 38,339 |
| Dilutive effect of employee stock options | | 137 | | 158 | | 135 | | 128 |
| Dilutive effect of performance-based restricted shares | | 162 | | 70 | | 81 | | 35 |
| Adjusted weighted average shares outstanding - diluted computation | | 39,089 | | 38,693 | | 38,954 | | 38,502 |
| Earnings per common share: | | | | | | | | |
| Income from continuing operations | \$ 0.50 | \$ 0.50 | \$ 0.42 | \$ 0.42 | \$ 1.42 | \$ 1.42 | \$ 1.61 | \$ 1.60 |

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Discontinued operations:

| | | | | | | | | |
|--|---------|---------|---------|---------|---------|---------|---------|---------|
| Income from operations | 0.03 | 0.03 | 0.06 | 0.06 | 0.02 | 0.02 | 0.02 | 0.02 |
| Gain (loss) on divestiture of operations | (0.01) | (0.01) | 0.01 | 0.01 | (0.01) | (0.01) | (0.60) | (0.60) |
| Net income | \$ 0.52 | \$ 0.52 | \$ 0.49 | \$ 0.49 | \$ 1.43 | \$ 1.43 | \$ 1.03 | \$ 1.02 |

- (a) Earnings per common share are based upon the weighted average number of common shares outstanding during the respective periods. The diluted calculation of earnings per common share includes the dilutive effect of stock options. On January 1, 2009, the Company adopted the provisions of the authoritative guidance for determining whether instruments granted in share-based payment transactions are participating securities, which requires that certain unvested restricted stock be included as a participating security in the basic and diluted earnings per common share calculation pursuant to the two-class method.