

KINDRED HEALTHCARE INC
Form 8-K
April 27, 2004

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): April 26, 2004

KINDRED HEALTHCARE, INC.

(Exact name of registrant as specified in its charter)

| | | |
|---|-----------------------------|--------------------------------------|
| Delaware | 001-14057 | 61-1323993 |
| (State or other jurisdiction of incorporation or organization) | (Commission File Number) | (IRS Employer Identification No.) |

680 South Fourth Street

Louisville, Kentucky

(Address of principal executive offices)

40202-2412

(Zip Code)

Registrant's telephone number, including area code: (502) 596-7300

Not Applicable

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

Item 5. Other Events and Regulation FD Disclosure.

Kindred Healthcare, Inc. (the Company) has announced earnings expectations for its continuing operations for fiscal 2004. Revenues for 2004 are expected to approximate between \$3.5 billion to \$3.6 billion. Operating income, defined as earnings before interest, income taxes, depreciation and rents, is expected to range from \$484 million to \$494 million. Depreciation and net interest costs for 2004 are expected to approximate \$100 million. Net income from continuing operations is expected between \$68 million and \$75 million, or \$1.58 to \$1.74 per diluted share (based upon diluted shares of 43 million). For fiscal 2003, the Company reported revenues of \$3.3 billion, operating income of \$426 million and net income from continuing operations of \$49.5 million or \$1.41 per diluted share (based upon diluted shares of 35 million).

In addition to the risk factors set forth under Forward Looking Statements, the Company's 2004 earnings guidance assumes no significant changes in government reimbursement as well as the successful completion of its previously announced development plans for additional hospitals and institutional pharmacy locations. Fiscal 2004 earnings estimates also assume continued progress in the Company's transition of its long-term acute care hospitals to the new Medicare prospective payment system and continued stabilization of professional liability costs that are expected to range between \$90 million and \$100 million in 2004. The Company reported professional liability costs of \$90 million in 2003.

The Company also announced that the Board of Directors has approved a 2-for-1 stock split in the form of a 100% stock dividend. The new shares will be distributed on May 27, 2004 to stockholders of record at the close of business on May 10, 2004. The earnings guidance set forth above gives effect to the stock split.

Forward Looking Statements

This Form 8-K includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. All statements regarding the Company's expected future financial position, results of operations, cash flows, financing plans, business strategy, budgets, capital expenditures, competitive positions, growth opportunities, plans and objectives of management and statements containing the words such as anticipate, approximate, believe, plan, estimate, expect, project, should, will, intend, may and other similar expressions, are forward-looking statements.

Such forward-looking statements are inherently uncertain, and stockholders and other potential investors must recognize that actual results may differ materially from the Company's expectations as a result of a variety of factors, including, without limitation, those discussed below. Such forward-looking statements are based on management's current expectations and include known and unknown risks, uncertainties and other factors, many of which the Company is unable to predict or control, that may cause the Company's actual results or performance to differ materially from any future results or performance expressed or implied by such forward-looking statements. These statements involve risks, uncertainties and other factors discussed below and detailed from time to time in the Company's filings with the Securities and Exchange Commission.

Factors that may affect the Company's plans or results include, without limitation, (a) the Company's ability to operate pursuant to the terms of its debt obligations and its master lease agreements with Ventas, Inc.; (b) the Company's ability to meet its rental and debt service obligations; (c) adverse developments with respect to the Company's results of operations or liquidity; (d) the Company's ability to attract and retain key executives and other healthcare personnel; (e) increased operating costs due to shortages in qualified nurses and other healthcare personnel; (f) the effects of healthcare reform and government regulations, interpretation of regulations and changes in the nature and enforcement of regulations governing the healthcare industry; (g) changes in the reimbursement rates or methods of payment from third party payors, including the Medicare and Medicaid programs, and changes arising from the Medicare prospective payment system for long-term acute care hospitals and the recently enacted Medicare Prescription Drug, Improvement, and Modernization Act of 2003; (h) national and regional economic conditions, including their effect on the availability and cost of labor, materials and other services; (i) the Company's ability to control costs, including labor and employee benefit costs; (j) the Company's ability to comply with the terms of its Corporate Integrity Agreement; (k) the Company's ability to integrate operations of acquired facilities; (l) the increase in the costs of defending and insuring against alleged professional liability claims and the Company's ability to predict the estimated costs related to such claims; (m) the Company's ability to successfully reduce (by divestiture of operations or otherwise) its exposure to professional liability claims; and (n) the Company's ability to successfully dispose of unprofitable facilities. 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.

Item 12. Results of Operations and Financial Condition.

On April 26, 2004, the Company issued a press release announcing its financial results for the first quarter ended March 31, 2004. The press release, dated April 26, 2004, is attached as Annex A to this Form 8-K. On April 26, 2004, the Company also included the press release on its website at www.kindredhealthcare.com.

Annex A is incorporated herein by reference and has been furnished, not filed.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereto duly authorized.

Date: April 27, 2004

By: /s/ Richard A. Lechleiter

Richard A. Lechleiter
Senior Vice President and Chief Financial Officer

[Kindred Logo appears here]

Contact: Richard A. Lechleiter

Senior Vice President and

Chief Financial Officer

(502) 596-7734

KINDRED HEALTHCARE ANNOUNCES FIRST QUARTER RESULTS

Company Provides 2004 Earnings Guidance

Board of Directors Declares 2-for-1 Stock Split

LOUISVILLE, Ky. (April 26, 2004) Kindred Healthcare, Inc. (the Company) (NASDAQ:KIND) today announced its operating results for the first quarter ended March 31, 2004. Share and per share data for all periods presented have been adjusted retroactively to reflect the 2-for-1 stock split discussed in this earnings release.

Continuing Operations

Revenues for the first quarter of 2004 rose 9% to \$871 million compared to \$802 million in the year-earlier period. Net income from continuing operations totaled \$16.2 million or \$0.38 per diluted share compared to \$2.5 million or \$0.07 per diluted share in the first quarter last year. Operating results for the first quarter of 2004 included pretax income of approximately \$2.2 million (\$1.3 million net of tax or \$0.03 per diluted share) related to the favorable settlement of prior year hospital Medicare cost reports. Operating results for the first quarter of 2003 included pretax charges of approximately \$8 million (\$5 million net of tax or \$0.15 per diluted share) related to changes in estimates of prior year professional liability costs.

Kindred President and Chief Executive Officer Paul J. Diaz commented, "We're continuing to make progress on our goal to deliver more consistent and predictable operating results for our patients, employees and shareholders. In the first quarter, our quality and customer service measures continued to trend favorably. We also reported increased revenues and operating income in each of our four operating divisions compared to the first quarter last year. This success is a reflection of our continuing efforts to improve employee retention, quality and customer service in all of our operations."

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As previously announced, the Company began operating *Peoplefirst* Rehabilitation, a new division in 2004, by combining the Company's external rehabilitation services operations with the rehabilitation services provided by therapists in Kindred nursing centers. Prior to 2004, the internal rehabilitation services operating results were included in the Company's nursing center operations. Mr. Diaz commented, "In its first quarter of operations, *Peoplefirst* Rehabilitation reported revenues of \$53 million and operating income of \$8.5 million. This new organization is creating a great deal of excitement within the Company around our efforts to improve the quality of care we provide to our residents and external customers. We are confident that this momentum will lead to further external growth in the future."

Discontinued Operations

Net losses from discontinued operations totaled \$2.4 million or \$0.06 per diluted share in the first quarter of 2004 compared to net losses of \$15.6 million or \$0.45 per diluted share in the first quarter of 2003.

Earnings Guidance for 2004

The Company announced earnings expectations for its continuing operations for fiscal 2004. Revenues for 2004 are expected to approximate between \$3.5 billion to \$3.6 billion. Operating income, defined as earnings before interest, income taxes, depreciation and rents, is expected to range from \$484 million to \$494 million. Depreciation and net interest costs for 2004 are expected to approximate \$100 million. Net income from continuing operations is expected between \$68 million and \$75 million, or \$1.58 to \$1.74 per diluted share (based upon diluted shares of 43 million). For fiscal 2003, the Company reported revenues of \$3.3 billion, operating income of \$426 million and net income from continuing operations of \$49.5 million or \$1.41 per diluted share (based upon diluted shares of 35 million).

In addition to the risk factors set forth under *Forward Looking Statements*, the Company's 2004 earnings guidance assumes no significant changes in government reimbursement as well as the successful completion of its previously announced development plans for additional hospitals and institutional pharmacy locations. Fiscal 2004 earnings estimates also assume continued progress in the Company's transition of its long-term acute care hospitals to the new Medicare prospective payment system and continued stabilization of professional liability costs that are expected to range between \$90 million and \$100 million in 2004. The Company reported professional liability costs of \$90 million in 2003.

Mr. Diaz also noted, "The increased stabilization of our operations also has allowed us to return to providing earnings guidance. We believe that the remainder of 2004 offers opportunities to benefit from continued reimbursement visibility, operational improvement in our hospitals and stabilization of professional liability costs in our nursing centers. We also expect our pharmacy and rehabilitation businesses to build on their strong first quarter performance. While several challenges and much work lie ahead, we are optimistic about our 2004 performance."

Stock Split

The Company also announced that the Board of Directors has approved a 2-for-1 stock split in the form of a 100% stock dividend. The new shares will be distributed on May 27, 2004 to stockholders of record at the close of business on May 10, 2004.

Related to the stock split, Mr. Diaz commented, "We believe that having more shares available from the split announced today will benefit our shareholders by increasing our trading activity and liquidity and reflects the confidence of management and the Board of Directors in our 2004 plan."

Forward Looking Statements

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This press release includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. All statements regarding the Company's expected future financial position, results of operations, cash flows, financing plans, business strategy, budgets, capital expenditures, competitive positions, growth opportunities, plans and objectives of management and statements containing the words such as anticipate, approximate, believe, plan, estimate, expect, project, could, should, will, intend, may and other similar expressions, are forward-looking statements.

Such forward-looking statements are inherently uncertain, and stockholders and other potential investors must recognize that actual results may differ materially from the Company's expectations as a result of a variety of factors, including, without limitation, those discussed below. Such forward-looking statements are based on management's current expectations and include known and unknown risks, uncertainties and other factors, many of which the Company is unable to predict or control, that may cause the Company's actual results or performance to differ materially from any future results or performance expressed or implied by such forward-looking statements. These statements involve risks, uncertainties and other factors discussed below and detailed from time to time in the Company's filings with the Securities and Exchange Commission.

Factors that may affect the Company's plans or results include, without limitation, (a) the Company's ability to operate pursuant to the terms of its debt obligations and its master lease agreements with Ventas, Inc.; (b) the Company's ability to meet its rental and debt service obligations; (c) adverse developments with respect to the Company's results of operations or liquidity; (d) the Company's ability to attract and retain key executives and other healthcare personnel; (e) increased operating costs due to shortages in qualified nurses and other healthcare personnel; (f) the effects of healthcare reform and government regulations, interpretation of regulations and changes in the nature and enforcement of regulations governing the healthcare industry; (g) changes in the reimbursement rates or methods of payment from third party payors, including the Medicare and Medicaid programs, and changes arising from the Medicare prospective payment system for long-term acute care hospitals and the recently enacted Medicare Prescription Drug, Improvement, and Modernization Act of 2003; (h) national and regional economic conditions, including their effect on the availability and cost of labor, materials and other services; (i) the Company's ability to control costs, including labor and employee benefit costs; (j) the Company's ability to comply with the terms of its Corporate Integrity Agreement; (k) the Company's ability to integrate operations of acquired facilities; (l) the increase in the costs of defending and insuring against alleged professional liability claims and the Company's ability to predict the estimated costs related to such claims; (m) the Company's ability to successfully reduce (by divestiture of operations or otherwise) its exposure to professional liability claims; and (n) the Company's ability to successfully dispose of unprofitable facilities. 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.

Kindred Healthcare, Inc. is a national healthcare services company operating hospitals, nursing centers, institutional pharmacies and a contract rehabilitation services business.

KINDRED HEALTHCARE, INC.**Financial Summary (a)****(Unaudited)**

(In thousands, except per share amounts)

| | Three months ended | |
|---|--------------------|-------------|
| | March 31, | |
| | 2004 | 2003 |
| Revenues | \$ 871,262 | \$ 802,158 |
| Income from continuing operations | \$ 16,275 | \$ 2,511 |
| Loss from discontinued operations, net of income taxes | (2,435) | (15,635) |
| Net income (loss) | \$ 13,840 | \$ (13,124) |
| Earnings (loss) per common share: | | |
| Basic: | | |
| Income from continuing operations | \$ 0.46 | \$ 0.07 |
| Loss from discontinued operations | (0.07) | (0.45) |
| Net income (loss) | \$ 0.39 | \$ (0.38) |
| Diluted: | | |
| Income from continuing operations | \$ 0.38 | \$ 0.07 |
| Loss from discontinued operations | (0.06) | (0.45) |
| Net income (loss) | \$ 0.32 | \$ (0.38) |
| Shares used in computing earnings (loss) per common share: | | |
| Basic | 35,414 | 34,755 |
| Diluted | 42,721 | 34,767 |

(a) Share and per share data for all periods presented have been adjusted retroactively to reflect a 2-for-1 stock split to be distributed in May 2004.

KINDRED HEALTHCARE, INC.

Condensed Consolidated Statement of Operations (a)

(Unaudited)

(In thousands, except per share amounts)

| | Three months ended March 31, | |
|--|---------------------------------|--------------------|
| | 2004 | 2003 |
| Revenues | \$ 871,262 | \$ 802,158 |
| Salaries, wages and benefits | 492,071 | 460,752 |
| Supplies | 116,733 | 104,182 |
| Rent | 64,459 | 63,078 |
| Other operating expenses | 145,406 | 146,839 |
| Depreciation | 22,046 | 19,195 |
| Interest expense | 3,656 | 2,888 |
| Investment income | (1,218) | (1,635) |
| | 843,153 | 795,299 |
| Income from continuing operations before income taxes | 28,109 | 6,859 |
| Provision for income taxes | 11,834 | 4,348 |
| Income from continuing operations | 16,275 | 2,511 |
| Loss from discontinued operations, net of income taxes | (2,435) | (15,635) |
| Net income (loss) | \$ 13,840 | \$ (13,124) |
| Earnings (loss) per common share: | | |
| Basic: | | |
| Income from continuing operations | \$ 0.46 | \$ 0.07 |
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| Net income (loss) | \$ 0.39 | \$ (0.38) |
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| Net income (loss) | \$ 0.32 | \$ (0.38) |
| Shares used in computing earnings (loss) per common share: | | |
| Basic | 35,414 | 34,755 |
| Diluted | 42,721 | 34,767 |

(a) Share and per share data for all periods presented have been adjusted retroactively to reflect a 2-for-1 stock split to be distributed in May 2004.

KINDRED HEALTHCARE, INC.**Condensed Consolidated Balance Sheet****(Unaudited)**

(In thousands, except per share amounts)

| | March 31, 2004 | December 31, 2003 |
|--|---------------------------|------------------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 17,827 | \$ 66,524 |
| Cash restricted | 7,864 | 7,339 |
| Insurance subsidiary investments | 175,710 | 146,325 |
| Accounts receivable less allowance for loss | 475,238 | 429,304 |
| Inventories | 31,135 | 29,984 |
| Deferred tax assets | 89,836 | 89,836 |
| Assets held for sale | 27,360 | 27,400 |
| Other | 54,455 | 46,375 |
| | <u>879,425</u> | <u>843,087</u> |
| Property and equipment | 688,959 | 671,850 |
| Accumulated depreciation | (212,963) | (193,310) |
| | <u>475,996</u> | <u>478,540</u> |
| Goodwill | 31,417 | 31,417 |
| Insurance subsidiary investments | 66,157 | 74,618 |
| Deferred tax assets | 91,991 | 92,093 |
| Other | 63,066 | 65,659 |
| | <u>\$ 1,608,052</u> | <u>\$ 1,585,414</u> |
| LIABILITIES AND STOCKHOLDERS EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$ 119,057 | \$ 119,087 |
| Salaries, wages and other compensation | 207,004 | 214,113 |
| Due to third party payors | 27,669 | 31,406 |
| Professional liability risks | 71,140 | 83,725 |
| Other accrued liabilities | 83,938 | 88,333 |
| Income taxes | 46,356 | 36,684 |
| Long-term debt due within one year | 4,729 | 4,532 |
| | <u>559,893</u> | <u>577,880</u> |
| Long-term debt | 154,708 | 139,397 |
| Professional liability risks | 220,714 | 212,013 |
| Deferred credits and other liabilities | 58,974 | 58,559 |
| Stockholders' equity (a): | | |
| Common stock, \$0.25 par value; authorized 175,000 shares; issued 36,369 shares March 31, 2004 and 36,340 shares December 31, 2003 | 9,092 | 9,085 |
| Capital in excess of par value | 585,853 | 585,394 |
| Deferred compensation | (6,296) | (8,040) |
| Accumulated other comprehensive income | 496 | 348 |
| Retained earnings | 24,618 | 10,778 |

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| | | |
|--|---------------------|---------------------|
| | <u>613,763</u> | <u>597,565</u> |
| | <u>\$ 1,608,052</u> | <u>\$ 1,585,414</u> |

(a) Retroactively adjusted to reflect a 2-for-1 stock split to be distributed in May 2004.

KINDRED HEALTHCARE, INC.

Condensed Consolidated Statement of Cash Flows

(Unaudited)

(In thousands)

| | Three months ended March 31, | |
|--|---------------------------------|-------------------|
| | 2004 | 2003 |
| Cash flows from operating activities: | | |
| Net income (loss) | \$ 13,840 | \$ (13,124) |
| Adjustments to reconcile net income (loss) to net cash used in operating activities: | | |
| Depreciation | 22,046 | 20,083 |
| Amortization of deferred compensation costs | 1,743 | 1,253 |
| Provision for doubtful accounts | 8,116 | 6,288 |
| Other | (102) | 506 |
| Change in operating assets and liabilities: | | |
| Accounts receivable | (54,304) | (53,316) |
| Inventories and other assets | (9,468) | (6,387) |
| Accounts payable | (3,184) | (2,998) |
| Income taxes | 9,912 | (5,457) |
| Due to third party payors | (3,737) | 3,551 |
| Other accrued liabilities | (9,062) | 27,935 |
| Net cash used in operating activities | <u>(24,200)</u> | <u>(21,666)</u> |
| Cash flows from investing activities: | | |
| Purchase of property and equipment | (17,881) | (10,565) |
| Purchase of insurance subsidiary investments | (9,776) | (30,395) |
| Sale of insurance subsidiary investments | 5,672 | 2,333 |
| Net change in insurance subsidiary cash and cash equivalents | (16,820) | (71,911) |
| Net change in other investments | 1,777 | (4,685) |
| Other | 508 | (333) |
| Net cash used in investing activities | <u>(36,520)</u> | <u>(115,556)</u> |
| Cash flows from financing activities: | | |
| Net change in revolving credit borrowings | 16,900 | |
| Repayment of long-term debt | (1,032) | (112) |
| Payment of deferred financing costs | | (1,596) |
| Issuance of common stock | 467 | |
| Other | (4,312) | (4,967) |
| Net cash provided by (used in) financing activities | <u>12,023</u> | <u>(6,675)</u> |
| Change in cash and cash equivalents | (48,697) | (143,897) |
| Cash and cash equivalents at beginning of period | 66,524 | 244,070 |
| Cash and cash equivalents at end of period | <u>\$ 17,827</u> | <u>\$ 100,173</u> |

KINDRED HEALTHCARE, INC.

Condensed Consolidated Statement of Operations (a)

(Unaudited)

(In thousands, except per share amounts)

| | 2003 Quarters | | | | Year | First Quarter 2004 |
|---|---------------|-------------|------------|-------------|--------------|--------------------------|
| | First | Second | Third | Fourth | | |
| Revenues | \$ 802,158 | \$ 813,848 | \$ 837,035 | \$ 830,978 | \$ 3,284,019 | \$ 871,262 |
| Salaries, wages and benefits | 460,752 | 462,320 | 469,112 | 473,263 | 1,865,447 | 492,071 |
| Supplies | 104,182 | 104,440 | 107,701 | 113,293 | 429,616 | 116,733 |
| Rent | 63,078 | 64,215 | 64,783 | 64,230 | 256,306 | 64,459 |
| Other operating expenses | 146,839 | 140,776 | 144,368 | 131,524 | 563,507 | 145,406 |
| Depreciation | 19,195 | 19,927 | 20,407 | 21,328 | 80,857 | 22,046 |
| Interest expense | 2,888 | 2,992 | 1,054 | 3,388 | 10,322 | 3,656 |
| Investment income | (1,635) | (1,676) | (1,333) | (1,491) | (6,135) | (1,218) |
| | 795,299 | 792,994 | 806,092 | 805,535 | 3,199,920 | 843,153 |
| Income from continuing operations before reorganization items and income taxes | 6,859 | 20,854 | 30,943 | 25,443 | 84,099 | 28,109 |
| Reorganization items | | | | 1,010 | 1,010 | |
| Income from continuing operations before income taxes | 6,859 | 20,854 | 30,943 | 26,453 | 85,109 | 28,109 |
| Provision for income taxes | 4,348 | 7,710 | 12,629 | 10,968 | 35,655 | 11,834 |
| Income from continuing operations | 2,511 | 13,144 | 18,314 | 15,485 | 49,454 | 16,275 |
| Discontinued operations, net of income taxes: | | | | | | |
| Loss from operations | (15,635) | (20,555) | (5,780) | (3,407) | (45,377) | (2,435) |
| Loss on divestiture of operations | | (36,019) | (827) | (42,567) | (79,413) | |
| Net income (loss) | \$ (13,124) | \$ (43,430) | \$ 11,707 | \$ (30,489) | \$ (75,336) | \$ 13,840 |
| Earnings (loss) per common share: | | | | | | |
| Basic: | | | | | | |
| Income from continuing operations | \$ 0.07 | \$ 0.38 | \$ 0.53 | \$ 0.44 | \$ 1.42 | \$ 0.46 |
| Discontinued operations: | | | | | | |
| Loss from operations | (0.45) | (0.59) | (0.17) | (0.10) | (1.30) | (0.07) |
| Loss on divestiture of operations | | (1.04) | (0.02) | (1.21) | (2.28) | |
| Net income (loss) | \$ (0.38) | \$ (1.25) | \$ 0.34 | \$ (0.87) | \$ (2.16) | \$ 0.39 |
| Diluted: | | | | | | |
| Income from continuing operations | \$ 0.07 | \$ 0.38 | \$ 0.52 | \$ 0.38 | \$ 1.41 | \$ 0.38 |
| Discontinued operations: | | | | | | |
| Loss from operations | (0.45) | (0.59) | (0.17) | (0.08) | (1.29) | (0.06) |
| Loss on divestiture of operations | | (1.04) | (0.02) | (1.05) | (2.27) | |

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| | | | | | | |
|--|-----------|-----------|---------|-----------|-----------|---------|
| Net income (loss) | \$ (0.38) | \$ (1.25) | \$ 0.33 | \$ (0.75) | \$ (2.15) | \$ 0.32 |
| Shares used in computing earnings (loss) per common share: | | | | | | |
| Basic | 34,755 | 34,813 | 34,885 | 35,062 | 34,880 | 35,414 |
| Diluted | 34,767 | 34,828 | 35,143 | 40,685 | 35,047 | 42,721 |

(a) Share and per share data for all periods presented have been adjusted retroactively to reflect a 2-for-1 stock split to be distributed in May 2004.

KINDRED HEALTHCARE, INC.

Condensed Business Segment Data

(Unaudited)

(In thousands)

| | 2003 Quarters | | | | Year | First Quarter 2004 |
|---|-------------------|-------------------|-------------------|-------------------|---------------------|--------------------------|
| | First | Second | Third | Fourth | | |
| Revenues: | | | | | | |
| Hospital division | \$ 331,862 | \$ 338,360 | \$ 341,368 | \$ 325,619 | \$ 1,337,209 | \$ 348,648 |
| Health services division (a) | 410,832 | 416,768 | 431,978 | 433,532 | 1,693,110 | 444,994 |
| Rehabilitation division (a) | 8,502 | 8,795 | 12,065 | 14,121 | 43,483 | 52,699 |
| Pharmacy division | 66,126 | 64,850 | 67,075 | 74,382 | 272,433 | 79,746 |
| | <u>817,322</u> | <u>828,773</u> | <u>852,486</u> | <u>847,654</u> | <u>3,346,235</u> | <u>926,087</u> |
| Eliminations: | | | | | | |
| Pharmacy | (15,164) | (14,925) | (15,451) | (16,676) | (62,216) | (18,136) |
| Rehabilitation (a) | | | | | | (36,689) |
| | <u>(15,164)</u> | <u>(14,925)</u> | <u>(15,451)</u> | <u>(16,676)</u> | <u>(62,216)</u> | <u>(54,825)</u> |
| | <u>\$ 802,158</u> | <u>\$ 813,848</u> | <u>\$ 837,035</u> | <u>\$ 830,978</u> | <u>\$ 3,284,019</u> | <u>\$ 871,262</u> |
| Income from continuing operations: | | | | | | |
| Operating income (loss): | | | | | | |
| Hospital division | \$ 70,538 | \$ 75,455 | \$ 87,171 | \$ 73,702 | \$ 306,866 | \$ 80,066 |
| Health services division (a) | 43,424 | 57,235 | 54,944 | 64,436 | 220,039 | 49,469 |
| Rehabilitation division (a) | (959) | (750) | 261 | (315) | (1,763) | 8,519 |
| Pharmacy division | 6,702 | 6,133 | 6,150 | 7,508 | 26,493 | 7,609 |
| Corporate: | | | | | | |
| Overhead | (26,713) | (28,354) | (28,670) | (28,898) | (112,635) | (26,834) |
| Insurance subsidiary | (2,607) | (3,407) | (4,002) | (3,535) | (13,551) | (1,777) |
| | <u>(29,320)</u> | <u>(31,761)</u> | <u>(32,672)</u> | <u>(32,433)</u> | <u>(126,186)</u> | <u>(28,611)</u> |
| | <u>90,385</u> | <u>106,312</u> | <u>115,854</u> | <u>112,898</u> | <u>425,449</u> | <u>117,052</u> |
| Reorganization items | | | | 1,010 | 1,010 | |
| Operating income | <u>90,385</u> | <u>106,312</u> | <u>115,854</u> | <u>113,908</u> | <u>426,459</u> | <u>117,052</u> |
| Rent | (63,078) | (64,215) | (64,783) | (64,230) | (256,306) | (64,459) |
| Depreciation | (19,195) | (19,927) | (20,407) | (21,328) | (80,857) | (22,046) |
| Interest, net | (1,253) | (1,316) | 279 | (1,897) | (4,187) | (2,438) |
| | <u>6,859</u> | <u>20,854</u> | <u>30,943</u> | <u>26,453</u> | <u>85,109</u> | <u>28,109</u> |
| Income from continuing operations before income taxes | <u>6,859</u> | <u>20,854</u> | <u>30,943</u> | <u>26,453</u> | <u>85,109</u> | <u>28,109</u> |
| Provision for income taxes | <u>4,348</u> | <u>7,710</u> | <u>12,629</u> | <u>10,968</u> | <u>35,655</u> | <u>11,834</u> |
| | <u>\$ 2,511</u> | <u>\$ 13,144</u> | <u>\$ 18,314</u> | <u>\$ 15,485</u> | <u>\$ 49,454</u> | <u>\$ 16,275</u> |

(a) Financial data presented for periods prior to January 1, 2004 have not been restated to reflect the new rehabilitation business alignment.

KINDRED HEALTHCARE, INC.

Condensed Business Segment Data (Continued)

(Unaudited)

(In thousands)

| | 2003 Quarters | | | | Year | First Quarter 2004 |
|--|------------------|------------------|------------------|------------------|-------------------|--------------------------|
| | First | Second | Third | Fourth | | |
| Rent: | | | | | | |
| Hospital division | \$ 23,284 | \$ 23,706 | \$ 23,441 | \$ 22,753 | \$ 93,184 | \$ 22,844 |
| Health services division (a) | 39,031 | 39,808 | 40,459 | 40,530 | 159,828 | 40,283 |
| Rehabilitation division (a) | 69 | 95 | 123 | 185 | 472 | 611 |
| Pharmacy division | 630 | 547 | 698 | 703 | 2,578 | 662 |
| Corporate | 64 | 59 | 62 | 59 | 244 | 59 |
| | <u>\$ 63,078</u> | <u>\$ 64,215</u> | <u>\$ 64,783</u> | <u>\$ 64,230</u> | <u>\$ 256,306</u> | <u>\$ 64,459</u> |
| Depreciation: | | | | | | |
| Hospital division | \$ 7,054 | \$ 7,450 | \$ 7,684 | \$ 8,257 | \$ 30,445 | \$ 8,464 |
| Health services division (a) | 6,373 | 6,569 | 6,688 | 6,740 | 26,370 | 6,893 |
| Rehabilitation division (a) | 16 | 20 | 22 | 25 | 83 | 33 |
| Pharmacy division | 517 | 539 | 561 | 560 | 2,177 | 530 |
| Corporate | 5,235 | 5,349 | 5,452 | 5,746 | 21,782 | 6,126 |
| | <u>\$ 19,195</u> | <u>\$ 19,927</u> | <u>\$ 20,407</u> | <u>\$ 21,328</u> | <u>\$ 80,857</u> | <u>\$ 22,046</u> |
| Capital expenditures, excluding acquisitions (including discontinued operations): | | | | | | |
| Hospital division | \$ 2,822 | \$ 4,133 | \$ 5,773 | \$ 13,388 | \$ 26,116 | \$ 5,406 |
| Health services division (a) | 3,222 | 6,375 | 9,768 | 9,804 | 29,169 | 8,450 |
| Rehabilitation division (a) | 51 | 47 | 35 | 11 | 144 | 47 |
| Pharmacy division | 616 | 522 | 815 | 2,254 | 4,207 | 773 |
| Corporate: | | | | | | |
| Information systems | 3,207 | 5,992 | 4,071 | 8,223 | 21,493 | 2,651 |
| Other | 647 | 408 | 361 | 1,551 | 2,967 | 554 |
| | <u>\$ 10,565</u> | <u>\$ 17,477</u> | <u>\$ 20,823</u> | <u>\$ 35,231</u> | <u>\$ 84,096</u> | <u>\$ 17,881</u> |

(a) Financial data presented for periods prior to January 1, 2004 have not been restated to reflect the new rehabilitation business alignment.

KINDRED HEALTHCARE, INC.

Condensed Business Segment Data (Continued)

(Unaudited)

| | 2003 Quarters | | | | Year | First Quarter 2004 |
|--|----------------|----------------|----------------|----------------|------------------|--------------------------|
| | First | Second | Third | Fourth | | |
| Hospital data: | | | | | | |
| End of period data: | | | | | | |
| Number of hospitals | 63 | 63 | 64 | 66 | | 68 |
| Number of licensed beds | 5,076 | 5,098 | 5,129 | 5,219 | | 5,323 |
| Revenue mix % (a): | | | | | | |
| Medicare | 60 | 59 | 62 | 63 | 61 | 66 |
| Medicaid | 8 | 8 | 7 | 8 | 8 | 7 |
| Private and other | 32 | 33 | 31 | 29 | 31 | 27 |
| Admissions: | | | | | | |
| Medicare | 6,612 | 6,346 | 6,053 | 6,681 | 25,692 | 6,900 |
| Medicaid | 648 | 604 | 670 | 661 | 2,583 | 715 |
| Private and other | 1,281 | 1,322 | 1,333 | 1,359 | 5,295 | 1,460 |
| | <u>8,541</u> | <u>8,272</u> | <u>8,056</u> | <u>8,701</u> | <u>33,570</u> | <u>9,075</u> |
| Patient days: | | | | | | |
| Medicare | 216,266 | 214,116 | 193,069 | 191,904 | 815,355 | 207,052 |
| Medicaid | 31,764 | 32,470 | 31,362 | 29,488 | 125,084 | 27,754 |
| Private and other | 56,225 | 59,339 | 54,080 | 52,725 | 222,369 | 52,391 |
| | <u>304,255</u> | <u>305,925</u> | <u>278,511</u> | <u>274,117</u> | <u>1,162,808</u> | <u>287,197</u> |
| Average length of stay: | | | | | | |
| Medicare | 32.7 | 33.7 | 31.9 | 28.7 | 31.7 | 30.0 |
| Medicaid | 49.0 | 53.8 | 46.8 | 44.6 | 48.4 | 38.8 |
| Private and other | 43.9 | 44.9 | 40.6 | 38.8 | 42.0 | 35.9 |
| Weighted average | 35.6 | 37.0 | 34.6 | 31.5 | 34.6 | 31.6 |
| Revenues per admission (a): | | | | | | |
| Medicare | \$ 30,050 | \$ 31,594 | \$ 35,157 | \$ 30,987 | \$ 31,878 | \$ 33,321 |
| Medicaid | 40,547 | 44,766 | 36,974 | 37,825 | 39,910 | 33,228 |
| Private and other | 83,449 | 83,830 | 77,860 | 68,870 | 78,395 | 65,054 |
| Weighted average | 38,855 | 40,904 | 42,374 | 37,423 | 39,833 | 38,419 |
| Revenues per patient day (a): | | | | | | |
| Medicare | \$ 919 | \$ 936 | \$ 1,102 | \$ 1,079 | \$ 1,004 | \$ 1,110 |
| Medicaid | 827 | 833 | 790 | 848 | 824 | 856 |
| Private and other | 1,901 | 1,868 | 1,919 | 1,775 | 1,867 | 1,813 |
| Weighted average | 1,091 | 1,106 | 1,226 | 1,188 | 1,150 | 1,214 |
| Medicare case mix index (discharged patients only) | N/A | N/A | N/A | 1.20 | N/A | 1.26 |
| Average daily census | 3,381 | 3,362 | 3,027 | 2,980 | 3,186 | 3,156 |
| Occupancy % | 69.8 | 69.0 | 61.9 | 59.9 | 65.1 | 62.4 |

(a) Includes income of \$14 million in the third quarter of 2003 and \$2 million in the first quarter of 2004 related to certain Medicare reimbursement issues.

N/A not available.

KINDRED HEALTHCARE, INC.

Condensed Business Segment Data (Continued)

(Unaudited)

| | 2003 Quarters | | | | Year | First Quarter 2004 |
|--|------------------|------------------|------------------|------------------|-------------------|--------------------------|
| | First | Second | Third | Fourth | | |
| Nursing center data: | | | | | | |
| End of period data: | | | | | | |
| Number of nursing centers: | | | | | | |
| Owned or leased | 248 | 248 | 248 | 248 | | 247 |
| Managed | 7 | 7 | 7 | 7 | | 7 |
| | <u>255</u> | <u>255</u> | <u>255</u> | <u>255</u> | | <u>254</u> |
| Number of licensed beds: | | | | | | |
| Owned or leased | 32,293 | 32,124 | 32,118 | 32,124 | | 32,009 |
| Managed | 803 | 803 | 803 | 803 | | 803 |
| | <u>33,096</u> | <u>32,927</u> | <u>32,921</u> | <u>32,927</u> | | <u>32,812</u> |
| Revenue mix %: | | | | | | |
| Medicare | 33 | 33 | 32 | 33 | 32 | 36 |
| Medicaid | 48 | 48 | 50 | 48 | 49 | 46 |
| Private and other | 19 | 19 | 18 | 19 | 19 | 18 |
| Patient days (excludes managed facilities): | | | | | | |
| Medicare | 398,646 | 399,150 | 394,957 | 397,254 | 1,590,007 | 433,162 |
| Medicaid | 1,699,726 | 1,707,907 | 1,757,580 | 1,737,615 | 6,902,828 | 1,675,706 |
| Private and other | 410,378 | 418,824 | 422,529 | 426,890 | 1,678,621 | 407,684 |
| | <u>2,508,750</u> | <u>2,525,881</u> | <u>2,575,066</u> | <u>2,561,759</u> | <u>10,171,456</u> | <u>2,516,552</u> |
| Revenues per patient day: | | | | | | |
| Medicare | \$ 338 | \$ 342 | \$ 344 | \$ 364 | \$ 347 | \$ 372 |
| Medicaid | 117 | 118 | 123 | 120 | 119 | 121 |
| Private and other | 188 | 189 | 188 | 190 | 189 | 197 |
| Weighted average | 164 | 165 | 168 | 169 | 167 | 177 |
| Average daily census | 27,875 | 27,757 | 27,990 | 27,845 | 27,867 | 27,654 |
| Occupancy % | 86.0 | 85.6 | 86.8 | 86.4 | 86.2 | 86.0 |
| Rehabilitation data: | | | | | | |
| Revenue mix %: | | | | | | |
| Company-operated | N/A | N/A | N/A | N/A | N/A | 70 |
| Non-affiliated | N/A | N/A | N/A | N/A | N/A | 30 |
| Pharmacy data: | | | | | | |
| Number of customer licensed beds at end of period: | | | | | | |
| Company-operated | 29,804 | 27,566 | 27,886 | 28,280 | | 28,188 |
| Non-affiliated | 28,365 | 28,848 | 29,507 | 33,127 | | 35,102 |
| | <u>58,169</u> | <u>56,414</u> | <u>57,393</u> | <u>61,407</u> | | <u>63,290</u> |

N/A not applicable.