KINDRED HEALTHCARE INC
Form 8-K
March 25, 2003

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): March 24, 2003

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 9. Regulation FD Disclosure.

On March 24, 2003, the Company issued a press release announcing its financial results for the fourth quarter and fiscal year ended December 31, 2002. The press release, dated March 24, 2003, is attached as Annex A to this Item 9. On March 24, 2003, 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.

KINDRED HEALTHCARE, INC.

Date: March 24, 2003 By:/s/ Richard A. Lechleiter

Richard A. Lechleiter
Senior Vice President, Chief Financial Officer and Treasurer

Annex A

[Kindred Logo appears here]

Contact: Richard A. Lechleiter
Senior Vice President, Chief Financial Officer and Treasurer
(502) 596-7734

KINDRED HEALTHCARE ANNOUNCES FISCAL 2002 RESULTS

Fiscal Year Net Income - $34.8 million or $1.93 per Diluted Share
Fourth Quarter Net Income - $3.1 million or $0.18 per Diluted Share

LOUISVILLE, Ky. (March 24, 2003) - Kindred Healthcare, Inc. (the "Company") (NASDAQ: KIND) today announced its operating results for the fourth quarter and fiscal year ended December 31, 2002.

Fiscal Year Results

Revenues for the year ended December 31, 2002 aggregated $3.4 billion and net income totaled $34.8 million or $1.93 per diluted share. Operating results for 2002 included a $2.3 million pretax gain from the sale of property in the fourth quarter and a $0.5 million lease termination charge for an unprofitable hospital recorded in the second quarter. In addition, the Company adjusted its accrued reorganization costs in the second quarter of 2002, the effect of which increased pretax income by approximately $5.5 million. The combined impact of these items increased reported net income by approximately $4 million or $0.25 per diluted share. Net income for 2002 also included an extraordinary gain on extinguishment of debt totaling $1.4 million or $0.08 per diluted share.

As previously disclosed, the Company adopted the provisions of Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142"), which, among other things, requires that goodwill should no longer be amortized effective January 1, 2002. The adoption of SFAS 142 increased 2002 net income by approximately $6.5 million or $0.36 per diluted share.

As previously disclosed, operating results for fiscal 2002 were favorably impacted by a $12 million ($7 million net of tax or $0.41 per diluted share) settlement with a private insurance company in the third quarter related to disputed amounts owed for services rendered to patients in the Company's hospitals in prior years who were covered under Medicare supplemental insurance policies.

Operating results for the year ended December 31, 2002 were adversely impacted by a significant increase in professional liability costs, particularly in the Company's nursing center business. Professional liability costs, including the costs of insurance provided by a wholly owned limited purpose insurance subsidiary and unaffiliated commercial insurance carriers, aggregated $145 million for the year ended December 31, 2002. As discussed below, the Company's operating results for 2001 have been segregated to present separately the period prior to its emergence from bankruptcy. Aggregate professional liability costs in 2001 were $53 million for the nine months ended December 31, 2001 and $13 million for the three months ended March 31, 2001. The portion of the 2002 professional liability costs that related to changes in estimates for prior year reserves approximated $30 million. A substantial portion of the increase in professional liability costs in 2002 related to the Company's nursing centers in

Florida. Pretax losses associated with the Company's Florida nursing center operations aggregated $68 million ($42 million net of tax or $2.31 per diluted share) in 2002.

Operating results for the year ended December 31, 2002 also were adversely impacted by the expiration of certain Medicare reimbursements to the Company's nursing centers on October 1, 2002. The impact of these reimbursement changes reduced 2002 pretax income by approximately $15 million ($9 million net of tax or $0.50 per diluted share).

The Company believes that its recent increases in professional liability costs are expected to continue in the foreseeable future, particularly in the state of Florida. In addition, the expiration of certain Medicare funding on October 1, 2002 will continue to reduce materially the Company's nursing center operating income.

As a result of the Company's emergence from bankruptcy in April 2001, the reported operating results of the Company for fiscal 2001 have been segregated for accounting purposes because the reported amounts after April 1, 2001 are not comparable to the amounts reported while the Company operated in bankruptcy. For the nine months ended December 31, 2001, the Company reported revenues of $2.3 billion and net income of $51.7 million or $2.83 per diluted share. Operating results for this period included a pretax gain of $3.2 million recorded in connection with the favorable resolution of a legal dispute in the third quarter and a pretax gain of $2.2 million in connection with the resolution of a loss contingency related to a partnership interest in the fourth quarter. The combined effect of these items increased reported net income by $3.3 million or $0.18 per diluted share. Net income for the nine months ended December 31, 2001 also included an extraordinary gain on extinguishment of debt totaling $4.3 million or $0.24 per diluted share.

For the three months ended March 31, 2001 (the period prior to the Company's emergence from bankruptcy), revenues were $752 million and net income totaled $472 million or $6.59 per diluted share. For accounting purposes, the adjustments necessary to record the Company's court-approved financial restructuring were reflected in the operating results of the Company during this period. The impact of the reorganization increased net income from operations for the three months ended March 31, 2001 by approximately $53.7 million or $0.75 per diluted share. In addition, net income for this period included an extraordinary gain from the restructuring of the Company's debt of $422.8 million or $5.90 per diluted share.

Fourth Quarter Results

Revenues for the fourth quarter of 2002 grew 7% to $848 million compared to $790 million in the fourth quarter of 2001, and net income totaled $3.1 million or $0.18 per diluted share compared to $19 million or $0.98 per diluted share in the fourth quarter of 2001. Operating results for the fourth quarter of 2002 included the previously discussed gain on the sale of property totaling $2.3 million. Operating results for the fourth quarter of 2001 included the previously discussed pretax gain of $2.2 million in connection with the resolution of a loss contingency related to a partnership interest. Fourth quarter 2001 net income also included an extraordinary gain on extinguishment of debt totaling $2.9 million or $0.15 per diluted share.

The Company also recorded certain adjustments that impacted its reported operating results for the fourth quarter of 2002. As previously discussed, the expiration of certain Medicare reimbursements to the Company's nursing centers on October 1, 2002 reduced fourth quarter pretax income by approximately $15 million. In addition, certain provisions of the Balanced Budget Act of 1997 that reduced allowable hospital capital expenditures by 15% expired on October 1, 2002. As a result, hospital Medicare revenues increased approximately $2 million in the fourth quarter of 2002.

In the fourth quarter of 2002, the regular quarterly independent actuarial valuation of professional liability risks was performed. Based upon the results of the valuation, the Company recorded additional professional liability costs of $19 million, of which $10 million had been previously announced at the time of the Company's third quarter earnings release. Aggregate professional liability costs in the fourth quarter of 2002 were $37 million compared to $24 million in the fourth quarter of 2001. Most of these costs ($33 million in the fourth quarter of 2002 and $18 million in the fourth quarter of 2001) were charged to the Company's nursing center business.

Operating results for the fourth quarter of 2002 also included certain other year-end adjustments. Incentive compensation costs for 2002 were reduced by approximately $3 million in the Company's nursing center business and $6 million in corporate overhead in the fourth quarter. In addition, certain operating expense accruals related to the Company's information systems operations were adjusted, reducing corporate overhead by approximately $4 million in the fourth quarter of 2002.

The adoption of SFAS 142 increased net income by $1.6 million or $0.09 per diluted share in the fourth quarter of 2002.

Commenting on the Company's operating results for 2002, Edward L. Kuntz, Chairman and Chief Executive Officer of the Company, noted ,"Our hospital business had an outstanding year, with revenue growth of 17% and operating income growth of 23%. Our pharmacy business had a very good year as well, growing its non-Kindred customer base by 17%. We also continued to keep our overhead in line with our expectations."

With respect to the nursing center business, Mr. Kuntz remarked, "The significant increase in professional liability costs, particularly in Florida, materially impacted our operating results. In response to this difficult operating environment, we have focused on the divestiture of our Florida nursing centers. The Medicare reimbursement reductions that took effect on October 1 also impacted negatively our nursing center business. We are continuing our involvement in Washington to address the Medicare funding issues in our industry."

Florida Divestiture

As previously announced, the Company intends to divest its Florida nursing center operations during 2003. The Company operates 18 nursing centers in Florida, of which 15 are leased from Ventas, Inc. ("Ventas") (NYSE: VTR). In December 2002, the Company announced a non-binding letter of intent with a third party to sublease its Florida nursing centers. The parties continue to make progress in their negotiations of definitive agreements related to the letter of intent but have not reached agreement at this time. In addition to entering into a definitive agreement, the consummation of a proposed transaction is subject to a number of material conditions including, without limitation, the receipt of required approvals from regulators, governmental entities and other third parties. Ventas has informed the Company that it will object to the sublease transaction unless it receives a substantial and material consent fee and other lease concessions. The Company has informed Ventas that this demand is improper. The Company believes that under the master lease agreements it has the ability to sublease 12 of these facilities without Ventas's consent and that Ventas cannot unreasonably withhold its consent on the remaining three facilities.

In addition, Ventas has informed the Florida licensure agency that it believes the proposed sublease transaction is not permitted under its master lease agreements with the Company and has requested that the agency suspend further processing of the necessary licensure applications for the change in ownership. The third party to the proposed transaction and the Company have independently informed the Florida agency that Ventas's request is improper and that it lacks the authority to make any such request. The Company believes that the Florida agency is aware that it must continue to process the change in ownership applications.

The Company is continuing to pursue the proposed sublease transaction and its divestiture of the Florida facilities. If Ventas improperly interferes with the completion of the proposed transaction or the divestiture of these facilities, the Company will seek appropriate legal remedies against Ventas as well as damages for the continuing losses sustained by the Company.

Expected Liquidity Issues in 2003

Cash and cash equivalents at December 31, 2002 aggregated $244 million. As previously discussed, the Company recorded substantial increases in the provision for loss for professional liability costs in 2002. A portion of these costs were not funded into the Company's limited purpose wholly owned insurance subsidiary in 2002. Based upon actuarially determined estimates, the Company will fund approximately $63 million into its limited purpose insurance subsidiary on March 31, 2003 to satisfy fiscal 2002 funding requirements. Consistent with its past practices, the Company intends to fund its 2003 professional liability premiums into its limited purpose insurance subsidiary each month based upon actuarially determined estimates.

As previously disclosed, substantially all of the Company's hospitals will adopt the new Medicare prospective payment system on September 1, 2003. In connection with the transition, the new system includes certain regulations that will impact the method and timing of Medicare payments to the Company's hospitals that may increase substantially the level of Medicare accounts receivable in the third and fourth quarters of 2003.

No Guidance for 2003

Due to uncertainties associated with professional liability costs and government reimbursement, the Company does not intend to issue any earnings guidance for fiscal 2003 at this time.

Credit Agreements

The Company was in compliance with the terms of its $120 million revolving credit facility and $300 million senior secured notes at December 31, 2002. As previously announced, on March 19, 2003, the Company successfully completed certain amendments to these agreements for reporting periods after December 31, 2002.

Outstanding borrowings under the senior secured notes agreement approximated $161 million at December 31, 2002 compared to approximately $211 million at December 31, 2001. There were no outstanding borrowings under the revolving credit agreement at either December 31, 2002 or December 31, 2001.

Other News

The Company also announced that Edward L. Kuntz will become Executive Chairman of the Board of Directors effective January 1, 2004. As Executive Chairman, Mr. Kuntz will coordinate all Board matters, continue his responsibility for public lobbying efforts, and advise senior management on financing, development and regulatory matters. Upon assuming the duties as Executive Chairman, Mr. Kuntz will relinquish his position as Chief Executive Officer.

The Company also announced that at its annual meeting of shareholders scheduled for May 22, 2003, the Nominating and Governance Committee of the Company's Board of Directors will recommend Paul J. Diaz and Thomas P. Cooper, M.D. as two new nominees to its Board of Directors to fill an open position created by the expected departure of David A. Tepper and an additional position to be created by the expansion of the Board. Mr. Diaz has been the Company's President and Chief Operating Officer since January 2002. Dr. Cooper, a physician, has over 30 years of experience in management positions in a number of healthcare related companies. Mr. Tepper, a current Board member, has elected not to stand for re-election to the Board.

Forward-Looking Statements

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 detailed from time to time in the Company's filings with the Securities and Exchange Commission.

Factors that may affect the plans or results of the Company include, without limitation, (a) the ability of the Company to operate pursuant to the terms of its debt obligations and its master lease agreements with Ventas; (b) the Company's ability to meet its rental and debt service obligations; (c) adverse developments with respect to the Company's liquidity or results of operations; (d) the ability of the Company 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 the new prospective payment system for long-term acute care hospitals; (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, in response to the prospective payment systems, implementation of the Company's Corporate Integrity Agreement and other regulatory actions; (j) the ability of the Company to comply with the terms of its Corporate Integrity Agreement; (k) the effect of a restatement of the Company's previously issued consolidated financial statements; (l) the Company's ability to integrate operations of acquired facilities; (m) 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; and (n) the Company's ability to successfully reduce (by divestiture or otherwise) its exposure to professional liability claims in the state of Florida and other states. Many of these factors are beyond the control of the Company and its management. 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 provider of long-term healthcare services primarily operating nursing centers and hospitals.

KINDRED HEALTHCARE, INC.
Financial Summary
(In thousands, except per share amounts)

	Reorganized Company (a)			
	Three months ended December 31, 2002	Three months ended December 31, 2001	Year ended December 31, 2002	Nine months ended December 31, 2001
Revenues	$848,284	$ 789,575	$3,357,822	$2,329,019
Income from operations	$ 3,069	$ 16,054	$ 33,326	$ 47,342
Extraordinary gain on extinguishment of debt	-	2,917	1,427	4,313
Net income	3,069	18,971	34,753	51,655
Preferred stock dividend requirements	-	-	-	-
Income available to common stockholders	$ 3,069	$ 18,971	$ 34,753	$ 51,655
Earnings per common share:				
Basic:				
Income from operations	$ 0.18	$ 0.99	$ 1.92	$ 3.05

Extraordinary gain on extinguishment of debt	-	0.18	0.08	0.28
Net income	$ 0.18	$ 1.17	$ 2.00	$ 3.33
Diluted:				
Income from operations	$ 0.18	$ 0.83	$ 1.85	$ 2.59
Extraordinary gain on extinguishment of debt	-	0.15	0.08	0.24
Net income	$ 0.18	$ 0.98	$ 1.93	$ 2.83
Shares used in computing earnings per common share:				
Basic	17,377	16,210	17,361	15,505
Diluted	17,384	19,304	18,001	18,258

(a) As used in this press release, the term "Predecessor Company" refers to the Company and its operations for periods prior to April 1, 2001, while the term "Reorganized Company" is used to describe the Company and its operations for periods thereafter.

KINDRED HEALTHCARE, INC.
Consolidated Statement of Operations
(In thousands, except per share amounts)

	Reorganized Company			
	Three months ended December 31, 2002	Three months ended December 31, 2001	Year ended December 31, 2002	Nine months ended December 31, 2001
Revenues	$848,284	$789,575	$3,357,822	$2,329,019
Salaries, wages and benefits	491,121	448,203	1,924,439	1,316,581
Supplies	109,097	102,466	424,177	295,598
Rent	68,806	65,471	270,562	195,284
Other operating expenses	153,532	124,435	606,394	375,090
Depreciation and amortization	18,960	17,565	71,356	50,219
Interest expense	3,135	5,754	14,373	21,740
Investment income	(2,050)	(2,637)	(9,674)	(9,285)
	842,601	761,257	3,301,627	2,245,227
Income (loss) before reorganization items and income taxes	5,683	28,318	56,195	83,792
Reorganization items	-	-	(5,520)	-
Income before income taxes	5,683	28,318	61,715	83,792
Provision for income taxes	2,614	12,264	28,389	36,450
Income from operations	3,069	16,054	33,326	47,342

Extraordinary gain on extinguishment of debt	-	2,917	1,427	4,313
Net income	3,069	18,971	34,753	51,655
Preferred stock dividend requirements	-	-	-	-
Income available to common stockholders	$ 3,069	$ 18,971	$ 34,753	$ 51,655
Earnings per common share:				
Basic:				
Income from operations	$ 0.18	$ 0.99	$ 1.92	$ 3.05
Extraordinary gain on extinguishment of debt	-	0.18	0.08	0.28
Net income	$ 0.18	$ 1.17	$ 2.00	$ 3.33
Diluted:				
Income from operations	$ 0.18	$ 0.83	$ 1.85	$ 2.59
Extraordinary gain on extinguishment of debt	-	0.15	0.08	0.24
Net income	$ 0.18	$ 0.98	$ 1.93	$ 2.83
Shares used in computing earnings per common share:				
Basic	17,377	16,210	17,361	15,505
Diluted	17,384	19,304	18,001	18,258

KINDRED HEALTHCARE, INC.
Condensed Consolidated Balance Sheet
(In thousands, except per share amounts)

	Reorganiz
	December 31, 2002
ASSETS	
Current assets:	
Cash and cash equivalents	$ 244,070
Cash-restricted	7,908
Insurance subsidiary investments	130,415
Accounts receivable less allowance for loss	420,611
Inventories	30,460
Other	86,852
	920,316
Property and equipment	611,944
Accumulated depreciation	(115,373)

	496,571
Goodwill	88,259
Other	139,032
	$ 1,644,178

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:	
Accounts payable	$ 124,466
Salaries, wages and other compensation	220,124
Due to third party payors	25,177
Other accrued liabilities	150,020
Income taxes	62,111
Long-term debt due within one year	258
	582,156
Long-term debt	162,008
Professional liability risks	211,771
Deferred credits and other liabilities	56,615
Commitments and contingencies	
Stockholders' equity:	
Common stock, $0.25 par value; authorized 175,000 shares - December 31, 2002 and 39,000 shares - December 31, 2001; issued 17,649 - December 31, 2002 and 17,683 shares - December 31, 2001	4,412
Capital in excess of par value	547,609
Deferred compensation	(6,967)
Accumulated other comprehensive income	460
Retained earnings	86,114
	631,628
	$ 1,644,178

KINDRED HEALTHCARE, INC.
Condensed Consolidated Statement of Cash Flows
(In thousands)

	Reorganized Company	
	Year ended December 31, 2002	Nine months ended December 31, 2001
Cash flows from operating activities:		
Net income	$ 34,753	$ 51,655
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	71,356	50,219

Amortization of deferred compensation costs	6,778	6,698
Provision for doubtful accounts	13,551	16,346
Deferred income taxes	(17,608)	12,263
Extraordinary gain on extinguishment of debt	(1,427)	(4,313)
Unusual transactions	(1,795)	(5,425)
Reorganization items	(5,520)	-
Other	1,224	(4,655)
Change in operating assets and liabilities:		
Accounts receivable	(3,063)	(31,001)
Inventories and other assets	(11,303)	18,698
Accounts payable	11,887	(300)
Income taxes	44,626	17,582
Due to third party payors	(12,108)	(16,570)
Other accrued liabilities	122,315	79,504
Net cash provided by operating activities before reorganization items	253,666	190,701
Payment of reorganization items	(4,987)	(47,937)
Net cash provided by operating activities	248,679	142,764
Cash flows from investing activities:		
Purchase of property and equipment	(84,071)	(65,243)
Acquisition of healthcare facilities	(45,931)	(14,152)
Sale of investment in Behavioral Healthcare Corporation	-	40,000
Sale of other assets	752	7,933
Surety bond deposits	9,676	(300)
Net change in investments	(26,343)	(27,973)
Other	64	809
Net cash used in investing activities	(145,853)	(58,926)
Cash flows from financing activities:		
Repayment of long-term debt	(50,570)	(149,161)
Payment of debtor-in-possession deferred financing costs	-	-
Payment of other deferred financing costs	(1,375)	-
Issuance of common stock	159	89,796
Repurchase of common stock	(1,046)	-
Other	3,277	11,172
Net cash used in financing activities	(49,555)	(48,193)
Change in cash and cash equivalents	53,271	35,645
Cash and cash equivalents at beginning of period	190,799	155,154
Cash and cash equivalents at end of period	$ 244,070	$190,799

KINDRED HEALTHCARE, INC.
Business Segment Data
(In thousands)

	Reorganized Company			
	Three months ended	Three months ended	Year ended	Nine months ended

	December 31, 2002	December 31, 2001	December 31, 2002	December 31, 2001
Revenues:				
Health services division:				
Nursing centers	$460,595	$ 456,671	$1,854,131	$1,348,236
Rehabilitation services	9,203	9,085	34,296	27,451
	469,798	465,756	1,888,427	1,375,687
Hospital division:				
Hospitals	326,183	278,245	1,276,299	822,935
Pharmacy	68,855	60,788	257,782	176,105
	395,038	339,033	1,534,081	999,040
	864,836	804,789	3,422,508	2,374,727
Elimination of pharmacy charges to Company nursing centers	(16,552)	(15,214)	(64,686)	(45,708)
	$848,284	$789,575	$3,357,822	$2,329,019
Income from operations:				
Operating income:				
Health services division:				
Nursing centers	$ 39,035	$ 75,426	$ 226,284	$ 234,500
Rehabilitation services	921	4,125	7,531	8,112
Other ancillary services	92	179	435	508
	40,048	79,730	234,250	243,120
Hospital division:				
Hospitals	67,561	52,119	260,440	157,613
Pharmacy	6,174	7,793	23,531	20,831
	73,735	59,912	283,971	178,444
Corporate overhead	(21,569)	(27,358)	(117,204)	(85,239)
	92,214	112,284	401,017	336,325
Unusual transactions	2,320	2,187	1,795	5,425
Reorganization items	-	-	5,520	-
Operating income	94,534	114,471	408,332	341,750
Rent	(68,806)	(65,471)	(270,562)	(195,284)
Depreciation and amortization	(18,960)	(17,565)	(71,356)	(50,219)
Interest, net	(1,085)	(3,117)	(4,699)	(12,455)
Income before income taxes	5,683	28,318	61,715	83,792
Provision for income taxes	2,614	12,264	28,389	36,450
	$ 3,069	$ 16,054	$ 33,326	$ 47,342

KINDRED HEALTHCARE, INC.
Business Segment Data (Continued)
(In thousands)

	Reorganized Company			
	Three months ended December 31, 2002	Three months ended December 31, 2001	Year ended December 31, 2002	Nine months ended December 31, 2001
Rent:				
Health services division:				
Nursing centers	$43,093	$ 41,546	$169,242	$ 123,047
Rehabilitation services	42	24	101	75
Other ancillary services	-	-	-	4
	43,135	41,570	169,343	123,126
Hospital division:				
Hospitals	24,375	22,883	96,899	68,571
Pharmacy	1,230	1,001	4,106	2,953
	25,605	23,884	101,005	71,524
Corporate	66	17	214	634
	$68,806	$ 65,471	$270,562	$ 195,284
Depreciation and amortization:				
Health services division:				
Nursing centers	$ 6,619	$ 5,925	$ 25,446	$ 16,693
Rehabilitation services	13	11	37	24
Other ancillary services	-	-	-	-
	6,632	5,936	25,483	16,717
Hospital division:				
Hospitals	7,087	6,087	27,080	17,519
Pharmacy	616	523	2,387	1,446
	7,703	6,610	29,467	18,965
Corporate	4,625	5,019	16,406	14,537
	$18,960	$ 17,565	$ 71,356	$ 50,219
Capital expenditures:				
Health services division	$10,785	$ 3,602	$ 24,127	$ 13,315
Hospital division	12,262	7,942	30,124	19,830
Corporate:				
Information systems	9,140	9,290	25,576	20,266
Other	1,691	1,184	4,244	11,832
	$33,878	$ 22,018	$ 84,071	$ 65,243

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

Reorganized Company

	Three months ended December 31, 2002	Three months ended December 31, 2001	Year ended December 31, 2002	Nine months ended December 31, 2001
Nursing Center Data:				
End of period data:				
Number of nursing centers:				
Owned or leased	278	282		
Managed	7	23		
	285	305		
Number of licensed beds:				
Owned or leased	36,573	36,926		
Managed	803	2,367		
	37,376	39,293		
Revenue mix %:				
Medicare	31	31	33	32
Medicaid	50	48	48	47
Private and other	19	21	19	21
Patient days (excludes managed facilities):				
Medicare	420,916	402,157	1,728,232	1,218,663
Medicaid	1,945,576	1,945,232	7,656,980	5,750,949
Private and other	492,888	537,582	1,998,116	1,613,658
	2,859,380	2,884,971	11,383,328	8,583,270
Revenues per patient day:				
Medicare	$ 334	$ 357	$ 353	$ 349
Medicaid	119	113	116	111
Private and other	181	174	180	175
Weighted average	161	158	163	157
Average daily census	31,080	31,358	31,187	31,212
Occupancy %	84.7	85.1	84.7	84.9
Hospital Data:				
End of period data:				
Number of hospitals	65	57		
Number of licensed beds	5,385	4,961		
Revenue mix %:				
Medicare	61	59	59	57
Medicaid	9	6	9	9
Private and other	30	35	32	34
Patient days:				
Medicare	211,990	178,985	835,597	534,583
Medicaid	34,733	33,480	134,822	103,377
Private and other	57,279	56,399	229,605	164,465
	304,002	268,864	1,200,024	802,425
Revenues per patient day (a):				
Medicare	$ 940	$ 920	$ 907	$ 877
Medicaid	821	511	836	733
Private and other	1,719	1,712	1,767	1,693

Weighted average	1,073	1,035	1,064	1,026
Average daily census	3,304	2,922	3,288	2,918
Occupancy %	64.2	62.4	65.3	62.6

(a) Certain reclassifications recorded in the fourth quarter of 2001 increased Medicare revenues per patient day by $34, reduced Medicaid revenues per patient day by $255 and increased Private and Other revenues per patient day by $44.