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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
(State or other jurisdiction
of incorporation or organization)

001-14057
(Commission File
Number)

61-1323993
(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.

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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

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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

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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

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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.

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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

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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 |

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| | | | | |
|---|---------|---------|---------|---------|
| 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 |

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| | | | | |
|---|----------|-----------|-----------|-----------|
| 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) |
| | ----- |

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| | |
|----------|--------------|
| | 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 |

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| | | |
|---|------------|-----------|
| 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 |

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| | 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)

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| | 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

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| | 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 | | | | |
| Occupancy % | 31,080 | 31,358 | 31,187 | 31,212 |
| | 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 |

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| | | | | |
|----------------------|-------|-------|-------|-------|
| 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.