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**KINDRED HEALTHCARE REPORTS SOLID FIRST QUARTER RESULTS OF
\$0.44 PER DILUTED SHARE EXCLUDING CERTAIN CHARGES**

**REPORTED FIRST QUARTER 2010 EPS OF \$0.38 INCLUDED CHARGES OF \$0.06
RELATED TO SEVERANCE, RETIREMENT AND TRANSACTION COSTS**

COMPANY MAINTAINS 2010 EPS RANGE OF \$1.20 TO \$1.35

LOUISVILLE, Ky. (May 4, 2010) – Kindred Healthcare, Inc. (the “Company”) (NYSE:KND) today announced its operating results for the first quarter ended March 31, 2010. All financial and statistical information included in this press release reflects the continuing operations of the Company’s businesses for all periods presented unless otherwise indicated.

First Quarter Highlights:

- Consolidated revenues rose 2% to \$1.1 billion
— Each operating division reported revenue growth compared to last year
- Reported diluted earnings per share totaled \$0.38, including \$0.06 of certain charges
— Excluding the charges, first quarter earnings were at the high end of the Company’s guidance range of \$0.35 to \$0.45 per diluted share
- Hospital volumes continued to improve
— Reported admissions grew 3% from last year
— Same-facility aggregate admissions grew 3%; same-facility commercial admissions grew 12%
— Volume growth in the quarter was partially offset by softer Medicare and commercial pricing
- Nursing and rehabilitation center admissions grew 5% in the first quarter compared to last year
— Reimbursement rates were generally in line with expectations
- Peoplefirst Rehabilitation continued to demonstrate consistent operating results
— Division signed 28 net additional unaffiliated contracts compared to a loss of three contracts in the first quarter last year

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First Quarter Results

Continuing Operations

Consolidated revenues for the first quarter ended March 31, 2010 rose 2% to \$1.1 billion. Income from continuing operations for the first quarter of 2010 totaled \$15.2 million or \$0.38 per diluted share compared to \$23.3 million or \$0.60 per diluted share in the first quarter last year.

First quarter 2010 operating results included certain pretax charges related to severance and retirement costs of \$2.9 million and transaction costs of \$0.8 million. The combined effect of these costs reduced income from continuing operations by \$2.3 million or \$0.06 per diluted share.

Discontinued Operations

During the past few years, the Company has entered into transactions related to the divestiture of unprofitable businesses. For accounting purposes, the historical operating results of these businesses and losses associated with these operations have been classified as discontinued operations in the Company's consolidated statement of operations for all historical periods.

Other Quarterly Information

During the first quarter of 2010, the Company received a distribution of \$22 million from its limited purpose insurance subsidiary to be used for general corporate purposes. The distribution, which had no impact on earnings, resulted primarily from the insurance subsidiary's improved professional liability underwriting results. These funds were used to repay borrowings under the Company's revolving credit facility.

Management Commentary

Paul J. Diaz, President and Chief Executive Officer of the Company, remarked, "We are pleased to report a good start to the year. Our hospital and nursing center admissions growth was solid and we generally did a good job of controlling our costs. However, the softness in reimbursement rates in both of these businesses presents a challenging environment."

Commenting on the Company's financial position, Mr. Diaz noted, "Our first quarter 2010 operating cash flows were in line with our expectations as we continued to focus on our accounts receivable collections. As a result, our accounts receivable balance at March 31, 2010 declined approximately \$27 million from a year ago while our revenues continued to grow. As we have previously indicated to investors, we believe that our operating cash flows in 2010 will fund a significant portion of our routine and development capital spending."

With respect to the Company's ongoing development activities, Mr. Diaz remarked, "We are continuing to construct four additional hospitals that will open over the next couple of years, and we acquired a combined 241-bed nursing center/assisted living facility to further expand our presence in the Cleveland market. In other cluster markets, we recently opened a new 74-bed replacement hospital in Houston and began construction of a new 120-bed transitional care center in Indianapolis. We also acquired two hospitals and two nursing centers that were previously leased during the first quarter of 2010. Finally, the ongoing development of our 5 hospital-based subacute units, 32 transitional care centers and 102 transitional care units is on track."

2010 Earnings Guidance – Continuing Operations

The Company maintained its 2010 earnings guidance for continuing operations. The Company expects consolidated revenues for 2010 to approximate \$4.5 billion. Operating income, or earnings before interest, income taxes, depreciation, amortization and rent, is expected to range from \$571 million to \$579 million. Rent expense is expected to approximate \$360 million, while depreciation, amortization and net interest expense are expected to approximate \$128 million. The Company expects to report income from continuing operations for 2010 between \$48 million to \$54 million or \$1.20 to \$1.35 per diluted share (based upon diluted shares of 39 million).

The Company also provided its earnings outlook for the second quarter of 2010, estimating income from continuing operations to range from \$12 million to \$15 million or \$0.30 to \$0.40 per diluted share (based upon diluted shares of 39 million).

As previously indicated to investors, the Company continues to believe that the typical seasonal weakness in the third quarter will likely result in earnings per diluted share between break-even and \$0.10 for the period.

The Company indicated that the earnings guidance for continuing operations reflects the operating results of \$0.38 per diluted share reported in the first quarter as well as the anticipated impact of proposed rules issued by the Centers for Medicare and Medicaid Services (“CMS”) in April 2010 related to payment rates for long-term acute care (“LTAC”) hospitals effective October 1, 2010. The Company also indicated that the earnings guidance does not reflect any other reimbursement changes, any material acquisitions or divestitures, or any repurchases of common stock.

Mr. Diaz noted, “We look forward to continued progress in each of our operating divisions as we focus on the execution of our strategic operating plan. As in the past, high satisfaction levels from our patients, residents, customers, employees and physicians will continue to drive our operating results and business success.”

Webcast of Conference Call

As previously announced, investors and the general public can access a live webcast of the first quarter 2010 conference call through a link on the Company’s website at www.kindredhealthcare.com. The conference call will be held May 5, 2010 at 10:00 a.m. (Eastern Time).

A telephone replay of the conference call will be available at approximately 1:00 p.m. on May 5 by dialing (719) 457-0820, access code: 2183814. The replay will be available through May 13.

Investor Day

As previously announced, the Company will host its annual Investor Day in New York City on Thursday, May 6, 2010. The event will be webcast live beginning at 10:00 a.m. (Eastern Time) and conclude at approximately 1:00 p.m.

The webcast of this presentation may be accessed via the Company’s website, <http://investors.kindredhealthcare.com>, or at <http://phx.corporate-ir.net/phoenix.zhtml?c=129959&p=irol-EventDetails&EventId=2767632>.

Any written materials accompanying the Investor Day presentation will be available on the Company's website at the time of the presentation and the webcast and written materials will be archived at <http://investors.kindredhealthcare.com> following the event.

Investors interested in attending the event should contact Ms. Teresa Kappner by email: teresa.kappner@kindredhealthcare.com or phone: (502) 596-7276.

Forward-Looking Statements

This press release includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. All statements regarding the Company's expected future financial position, results of operations, cash flows, financing plans, business strategy, budgets, capital expenditures, competitive positions, growth opportunities, plans and objectives of management and statements containing the words such as "anticipate," "approximate," "believe," "plan," "estimate," "expect," "project," "could," "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 upon management's current expectations and include known and unknown risks, uncertainties and other factors, many of which the Company is unable to predict or control, that may cause the Company's actual results or performance to differ materially from any future results or performance expressed or implied by such forward-looking statements. These statements involve risks, uncertainties and other factors discussed below and detailed from time to time in the Company's filings with the Securities and Exchange Commission.

In addition to the factors set forth above, other factors that may affect the Company's plans or results include, without limitation, (a) the impact of healthcare reform, which will initiate significant reforms to the United States healthcare system, including potential material changes to the delivery of healthcare services and the reimbursement paid for such services by the government or other third party payors. Healthcare reform will impact each of the Company's businesses in some manner. Due to the substantial regulatory changes that will need to be implemented by CMS and others, and the numerous processes required to implement these reforms, the Company cannot predict which healthcare initiatives will be implemented at the federal or state level, the timing of any such reforms, or the effect such reforms or any other future legislation or regulation will have on the Company's business, financial position, results of operations and liquidity, (b) changes in the reimbursement rates or the methods or timing of payment from third party payors, including the Medicare and Medicaid programs, changes arising from and related to the Medicare prospective payment system for LTAC hospitals, including potential changes in the Medicare payment rules, the Medicare Prescription Drug, Improvement, and Modernization Act of 2003, and changes in Medicare and Medicaid reimbursements for the Company's nursing centers, and the expiration of the Medicare Part B therapy cap exception process, (c) the effects of additional legislative changes and government regulations, interpretation of regulations and changes in the nature and enforcement of regulations governing the healthcare industry, (d) the impact of the Medicare, Medicaid and SCHIP Extension Act of 2007 (the "SCHIP Extension Act"), including the ability of the Company's hospitals to adjust to potential LTAC certification, medical necessity reviews and the moratorium on future hospital development, (e) the impact of the expiration of several moratoriums under the SCHIP Extension Act which could impact the short stay rules, the budget neutrality adjustment as well as implement the policy known as the "25 Percent Rule," which would limit certain patient admissions, (f) failure of the Company's facilities to meet applicable licensure and certification requirements, (g) the further consolidation and cost containment efforts of managed care

organizations and other third party payors, (h) the Company's ability to meet its rental and debt service obligations, (i) the Company's ability to operate pursuant to the terms of its debt obligations and its master lease agreements with Ventas, Inc. (NYSE:VTR), (j) the condition of the financial markets, including volatility and deterioration in the equity, capital and credit markets, which could limit the availability and terms of debt and equity financing sources to fund the requirements of the Company's businesses, or which could negatively impact the Company's investment portfolio, (k) national and regional economic, financial, business and political conditions, including their effect on the availability and cost of labor, credit, materials and other services, (l) the Company's ability to control costs, particularly labor and employee benefit costs, (m) increased operating costs due to shortages in qualified nurses, therapists and other healthcare personnel, (n) the Company's ability to attract and retain key executives and other healthcare personnel, (o) 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, including the impact of differences in actuarial assumptions and estimates compared to eventual outcomes, (p) the Company's ability to successfully reduce (by divestiture of operations or otherwise) its exposure to professional liability claims, (q) the Company's ability to successfully pursue its development activities, including through acquisitions, and successfully integrate new operations, including the realization of anticipated revenues, economies of scale, cost savings and productivity gains associated with such operations, (r) the Company's ability to successfully dispose of unprofitable facilities, (s) events or circumstances which could result in impairment of an asset or other charges, (t) changes in generally accepted accounting principles or practices, and (u) the Company's ability to maintain an effective system of internal control over financial reporting.

In addition to the results provided in accordance with generally accepted accounting principles ("GAAP"), the Company has provided a non-GAAP measurement which presents operating results for the three months ended March 31, 2010 before certain charges or on a core basis. A reconciliation of the non-GAAP measurement to the GAAP operating results is included in this press release.

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

About Kindred Healthcare

Kindred Healthcare, Inc., a top-200 private employer in the United States, is a FORTUNE 500 healthcare services company based in Louisville, Kentucky with annual revenues of over \$4.2 billion and approximately 53,800 employees in 40 states. At March 31, 2010, Kindred through its subsidiaries provided healthcare services in 619 locations, including 83 long-term acute care hospitals, 222 nursing and rehabilitation centers and a contract rehabilitation services business, *Peoplefirst* rehabilitation services, which served 314 non-affiliated facilities. Ranked one of Fortune magazine's Most Admired Healthcare Companies in 2009 and 2010, Kindred's mission is to promote healing, provide hope, preserve dignity and produce value for each patient, resident, family member, customer, employee and shareholder we serve. For more information, go to www.kindredhealthcare.com.

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

| | Three months ended | |
|---|---------------------------|------------------|
| | March 31, | |
| | 2010 | 2009 |
| Revenues | \$ 1,089,837 | \$ 1,069,474 |
| Income from continuing operations | \$ 15,155 | \$ 23,341 |
| Discontinued operations, net of income taxes: | | |
| Loss from operations | (154) | (581) |
| Loss on divestiture of operations | (137) | - |
| Net income | \$ 14,864 | \$ 22,760 |
| Earnings per common share: | | |
| Basic: | | |
| Income from continuing operations | \$ 0.38 | \$ 0.60 |
| Discontinued operations: | | |
| Loss from operations | - | (0.02) |
| Loss on divestiture of operations | - | - |
| Net income | \$ 0.38 | \$ 0.58 |
| Diluted: | | |
| Income from continuing operations | \$ 0.38 | \$ 0.60 |
| Discontinued operations: | | |
| Loss from operations | - | (0.02) |
| Loss on divestiture of operations | - | - |
| Net income | \$ 0.38 | \$ 0.58 |
| Shares used in computing earnings per common share: | | |
| Basic | 38,626 | 38,184 |
| Diluted | 38,859 | 38,315 |

KINDRED HEALTHCARE, INC.
Condensed Consolidated Statement of Operations
(Unaudited)

(In thousands, except per share amounts)

| | Three months ended | |
|---|---------------------------|--------------|
| | March 31, | |
| | 2010 | 2009 |
| Revenues | \$ 1,089,837 | \$ 1,069,474 |
| Salaries, wages and benefits | 627,175 | 615,218 |
| Supplies | 85,886 | 80,336 |
| Rent | 88,319 | 85,201 |
| Other operating expenses | 234,204 | 220,405 |
| Other income | (3,084) | (2,872) |
| Depreciation and amortization | 31,121 | 30,490 |
| Interest expense | 1,307 | 2,478 |
| Investment income | (877) | (1,475) |
| | 1,064,051 | 1,029,781 |
| Income from continuing operations before income taxes | 25,786 | 39,693 |
| Provision for income taxes | 10,631 | 16,352 |
| Income from continuing operations | 15,155 | 23,341 |
| Discontinued operations, net of income taxes: | | |
| Loss from operations | (154) | (581) |
| Loss on divestiture of operations | (137) | - |
| Net income | \$ 14,864 | \$ 22,760 |
| Earnings per common share: | | |
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| Shares used in computing earnings per common share: | | |
| Basic | 38,626 | 38,184 |
| Diluted | 38,859 | 38,315 |

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

(In thousands, except per share amounts)

| | March 31, 2010 | December 31, 2009 |
|---|---------------------|----------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 14,675 | \$ 16,303 |
| Cash - restricted | 6,421 | 5,820 |
| Insurance subsidiary investments | 64,253 | 106,834 |
| Accounts receivable less allowance for loss | 663,654 | 610,959 |
| Inventories | 22,228 | 22,303 |
| Deferred tax assets | 46,391 | 42,791 |
| Income taxes | - | 17,447 |
| Other | 28,252 | 21,194 |
| | 845,874 | 843,651 |
| Property and equipment | 1,580,194 | 1,515,700 |
| Accumulated depreciation | (790,577) | (765,602) |
| | 789,617 | 750,098 |
| Goodwill | 81,382 | 81,223 |
| Intangible assets less accumulated amortization | 66,489 | 64,491 |
| Assets held for sale | 8,773 | 8,806 |
| Insurance subsidiary investments | 110,028 | 100,223 |
| Deferred tax assets | 114,966 | 110,930 |
| Other | 64,266 | 62,802 |
| | \$ 2,081,395 | \$ 2,022,224 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$ 153,969 | \$ 161,066 |
| Salaries, wages and other compensation | 266,548 | 287,772 |
| Due to third party payors | 26,589 | 28,261 |
| Professional liability risks | 43,742 | 47,076 |
| Other accrued liabilities | 77,279 | 78,358 |
| Income taxes | 12,189 | - |
| Long-term debt due within one year | 87 | 86 |
| | 580,403 | 602,619 |
| Long-term debt | 196,625 | 147,647 |
| Professional liability risks | 207,259 | 195,126 |
| Deferred credits and other liabilities | 114,278 | 110,238 |
| Stockholders' equity: | | |
| Common stock, \$0.25 par value; authorized 175,000 shares; issued 39,514 shares - March 31, 2010 and 39,104 shares - December 31, 2009 | 9,878 | 9,776 |
| Capital in excess of par value | 821,638 | 820,407 |
| Accumulated other comprehensive loss | (224) | (423) |
| Retained earnings | 151,538 | 136,834 |
| | 982,830 | 966,594 |
| | \$ 2,081,395 | \$ 2,022,224 |

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

| | Three months ended | |
|---|---------------------------|-------------------|
| | March 31, | |
| | 2010 | 2009 |
| Cash flows from operating activities: | | |
| Net income | \$ 14,864 | \$ 22,760 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: | | |
| Depreciation and amortization | 31,121 | 30,805 |
| Amortization of stock-based compensation costs | 2,775 | 2,439 |
| Provision for doubtful accounts | 6,431 | 7,016 |
| Deferred income taxes | (7,463) | (2,179) |
| Loss on divestiture of discontinued operations | 137 | - |
| Other | (163) | 204 |
| Change in operating assets and liabilities: | | |
| Accounts receivable | (59,126) | (86,415) |
| Inventories and other assets | (11,245) | (7,535) |
| Accounts payable | (7,582) | (12,264) |
| Income taxes | 29,286 | 43,223 |
| Due to third party payors | (1,894) | 9,401 |
| Other accrued liabilities | (11,137) | (5,535) |
| Net cash provided by (used in) operating activities | <u>(13,996)</u> | <u>1,920</u> |
| Cash flows from investing activities: | | |
| Routine capital expenditures | (14,815) | (26,924) |
| Development capital expenditures | (7,567) | (13,062) |
| Acquisitions | (47,696) | (15,604) |
| Purchase of insurance subsidiary investments | (14,278) | (36,257) |
| Sale of insurance subsidiary investments | 53,211 | 54,092 |
| Net change in insurance subsidiary cash and cash equivalents | (5,575) | 20,458 |
| Other | (28) | (953) |
| Net cash used in investing activities | <u>(36,748)</u> | <u>(18,250)</u> |
| Cash flows from financing activities: | | |
| Proceeds from borrowings under revolving credit | 389,600 | 390,800 |
| Repayment of borrowings under revolving credit | (340,600) | (371,600) |
| Payment of deferred financing costs | (22) | (309) |
| Issuance of common stock | 35 | - |
| Other | 103 | 94 |
| Net cash provided by financing activities | <u>49,116</u> | <u>18,985</u> |
| Change in cash and cash equivalents | (1,628) | 2,655 |
| Cash and cash equivalents at beginning of period | 16,303 | 140,795 |
| Cash and cash equivalents at end of period | <u>\$ 14,675</u> | <u>\$ 143,450</u> |

KINDRED HEALTHCARE, INC.
Condensed Consolidated Statement of Operations
(Unaudited)

(In thousands, except per share amounts)

| | 2009 Quarters | | | | Year | First Quarter 2010 |
|---|------------------|-------------------|------------------|------------------|------------------|--------------------------|
| | First | Second | Third | Fourth | | |
| Revenues | \$ 1,069,474 | \$ 1,073,054 | \$ 1,057,488 | \$ 1,069,991 | \$ 4,270,007 | \$ 1,089,837 |
| Salaries, wages and benefits | 615,218 | 620,830 | 629,077 | 617,961 | 2,483,086 | 627,175 |
| Supplies | 80,336 | 83,912 | 82,400 | 86,408 | 333,056 | 85,886 |
| Rent | 85,201 | 86,882 | 88,081 | 88,084 | 348,248 | 88,319 |
| Other operating expenses | 220,405 | 221,755 | 221,524 | 222,521 | 886,205 | 234,204 |
| Other income | (2,872) | (2,823) | (2,870) | (2,947) | (11,512) | (3,084) |
| Depreciation and amortization | 30,490 | 31,355 | 31,992 | 31,893 | 125,730 | 31,121 |
| Interest expense | 2,478 | 2,229 | 1,741 | 1,432 | 7,880 | 1,307 |
| Investment income | (1,475) | (1,033) | (746) | (1,159) | (4,413) | (877) |
| | <u>1,029,781</u> | <u>1,043,107</u> | <u>1,051,199</u> | <u>1,044,193</u> | <u>4,168,280</u> | <u>1,064,051</u> |
| Income from continuing operations | | | | | | |
| before income taxes | 39,693 | 29,947 | 6,289 | 25,798 | 101,727 | 25,786 |
| Provision for income taxes | 16,352 | 12,409 | 901 | 9,453 | 39,115 | 10,631 |
| Income from continuing operations | 23,341 | 17,538 | 5,388 | 16,345 | 62,612 | 15,155 |
| Discontinued operations, net of income taxes: | | | | | | |
| Income (loss) from operations | (581) | (897) | 13 | 2,396 | 931 | (154) |
| Gain (loss) on divestiture of operations | - | (24,051) | 52 | 567 | (23,432) | (137) |
| Net income (loss) | <u>\$ 22,760</u> | <u>\$ (7,410)</u> | <u>\$ 5,453</u> | <u>\$ 19,308</u> | <u>\$ 40,111</u> | <u>\$ 14,864</u> |
| Earnings (loss) per common share: | | | | | | |
| Basic: | | | | | | |
| Income from continuing operations | \$ 0.60 | \$ 0.45 | \$ 0.14 | \$ 0.42 | \$ 1.61 | \$ 0.38 |
| Discontinued operations: | | | | | | |
| Income (loss) from operations | (0.02) | (0.02) | - | 0.06 | 0.02 | - |
| Gain (loss) on divestiture of operations | - | (0.62) | - | 0.01 | (0.60) | - |
| Net income (loss) | <u>\$ 0.58</u> | <u>\$ (0.19)</u> | <u>\$ 0.14</u> | <u>\$ 0.49</u> | <u>\$ 1.03</u> | <u>\$ 0.38</u> |
| Diluted: | | | | | | |
| Income from continuing operations | \$ 0.60 | \$ 0.45 | \$ 0.14 | \$ 0.42 | \$ 1.60 | \$ 0.38 |
| Discontinued operations: | | | | | | |
| Income (loss) from operations | (0.02) | (0.02) | - | 0.06 | 0.02 | - |
| Gain (loss) on divestiture of operations | - | (0.62) | - | 0.01 | (0.60) | - |
| Net income (loss) | <u>\$ 0.58</u> | <u>\$ (0.19)</u> | <u>\$ 0.14</u> | <u>\$ 0.49</u> | <u>\$ 1.02</u> | <u>\$ 0.38</u> |
| Shares used in computing earnings (loss) per common share: | | | | | | |
| Basic | 38,184 | 38,307 | 38,398 | 38,465 | 38,339 | 38,626 |
| Diluted | 38,315 | 38,415 | 38,524 | 38,693 | 38,502 | 38,859 |

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

| | 2009 Quarters | | | | | First Quarter 2010 |
|--|---------------------|---------------------|---------------------|---------------------|---------------------|--------------------------|
| | First | Second | Third | Fourth | Year | |
| Revenues: | | | | | | |
| Hospital division | \$ 492,509 | \$ 487,145 | \$ 468,069 | \$ 485,169 | \$ 1,932,892 | \$ 507,062 |
| Nursing center division | 529,942 | 537,545 | 539,217 | 543,638 | 2,150,342 | 539,321 |
| Rehabilitation division | 117,647 | 120,450 | 122,625 | 114,316 | 475,038 | 120,144 |
| | <u>1,140,098</u> | <u>1,145,140</u> | <u>1,129,911</u> | <u>1,143,123</u> | <u>4,558,272</u> | <u>1,166,527</u> |
| Eliminations | (70,624) | (72,086) | (72,423) | (73,132) | (288,265) | (76,690) |
| | <u>\$ 1,069,474</u> | <u>\$ 1,073,054</u> | <u>\$ 1,057,488</u> | <u>\$ 1,069,991</u> | <u>\$ 4,270,007</u> | <u>\$ 1,089,837</u> |
| Income from continuing operations: | | | | | | |
| Operating income (loss): | | | | | | |
| Hospital division | \$ 100,899 | \$ 91,027 | \$ 78,674 | \$ 93,211 | \$ 363,811 | \$ 95,033 (a,b) |
| Nursing center division | 75,574 | 79,522 | 73,383 | 77,111 | 305,590 | 70,249 (a,b) |
| Rehabilitation division | 15,453 | 13,599 | 10,912 | 10,628 | 50,592 | 14,635 |
| Corporate: | | | | | | |
| Overhead | (34,087) | (33,586) | (33,843) | (33,120) | (134,636) | (33,781) (a) |
| Insurance subsidiary | (1,452) | (1,182) | (1,769) | (1,782) | (6,185) | (480) |
| | <u>(35,539)</u> | <u>(34,768)</u> | <u>(35,612)</u> | <u>(34,902)</u> | <u>(140,821)</u> | <u>(34,261)</u> |
| Operating income | 156,387 | 149,380 | 127,357 | 146,048 | 579,172 | 145,656 |
| Rent | (85,201) | (86,882) | (88,081) | (88,084) | (348,248) | (88,319) |
| Depreciation and amortization | (30,490) | (31,355) | (31,992) | (31,893) | (125,730) | (31,121) |
| Interest, net | (1,003) | (1,196) | (995) | (273) | (3,467) | (430) |
| Income from continuing operations before income taxes | 39,693 | 29,947 | 6,289 | 25,798 | 101,727 | 25,786 |
| Provision for income taxes | 16,352 | 12,409 | 901 | 9,453 | 39,115 | 10,631 |
| | <u>\$ 23,341</u> | <u>\$ 17,538</u> | <u>\$ 5,388</u> | <u>\$ 16,345</u> | <u>\$ 62,612</u> | <u>\$ 15,155</u> |

(a) Includes severance and retirement costs approximating \$1.1 million for the hospital division, \$0.5 million for the nursing center division and \$1.3 million for corporate.

(b) Includes transaction costs approximating \$0.4 million for the hospital division and \$0.4 million for the nursing center division.

KINDRED HEALTHCARE, INC.
Condensed Consolidating Statement of Operations
(Unaudited)
(In thousands)

| | First Quarter 2009 | | | | | | First Quarter 2010 | | | | | |
|---|----------------------|-------------------------------|----------------------------|--------------------|-----------------|------------------|----------------------|-------------------------------|----------------------------|--------------------|-----------------|------------------|
| | Hospital division | Nursing center division | Rehabilitation division | Corporate | Eliminations | Consolidated | Hospital division | Nursing center division | Rehabilitation division | Corporate | Eliminations | Consolidated |
| Revenues | \$ 492,509 | \$ 529,942 | \$ 117,647 | \$ - | \$ (70,624) | \$ 1,069,474 | \$ 507,062 | \$ 539,321 | \$ 120,144 | \$ - | \$ (76,690) | \$ 1,089,837 |
| Salaries, wages and benefits | 218,245 | 272,482 | 98,196 | 26,295 | - | 615,218 | 227,641 | 273,242 | 100,512 | 25,780 | - | 627,175 |
| Supplies | 54,145 | 25,552 | 487 | 152 | - | 80,336 | 57,934 | 27,128 | 687 | 137 | - | 85,886 |
| Rent | 36,445 | 47,274 | 1,451 | 31 | - | 85,201 | 37,415 | 49,392 | 1,475 | 37 | - | 88,319 |
| Other operating expenses | 119,220 | 156,334 | 3,511 | 11,964 | (70,624) | 220,405 | 126,454 | 168,702 | 4,310 | 11,428 | (76,690) | 234,204 |
| Other income | - | - | - | (2,872) | - | (2,872) | - | - | - | (3,084) | - | (3,084) |
| Depreciation and amortization | 12,512 | 11,685 | 547 | 5,746 | - | 30,490 | 13,014 | 12,113 | 585 | 5,409 | - | 31,121 |
| Interest expense | - | 40 | - | 2,438 | - | 2,478 | 2 | 31 | - | 1,274 | - | 1,307 |
| Investment income | (7) | (58) | (2) | (1,408) | - | (1,475) | (1) | (18) | (1) | (857) | - | (877) |
| | <u>440,560</u> | <u>513,309</u> | <u>104,190</u> | <u>42,346</u> | <u>(70,624)</u> | <u>1,029,781</u> | <u>462,459</u> | <u>530,590</u> | <u>107,568</u> | <u>40,124</u> | <u>(76,690)</u> | <u>1,064,051</u> |
| Income from continuing operations before income taxes | <u>\$ 51,949</u> | <u>\$ 16,633</u> | <u>\$ 13,457</u> | <u>\$ (42,346)</u> | <u>\$ -</u> | <u>39,693</u> | <u>\$ 44,603</u> | <u>\$ 8,731</u> | <u>\$ 12,576</u> | <u>\$ (40,124)</u> | <u>\$ -</u> | <u>25,786</u> |
| Provision for income taxes | | | | | | 16,352 | | | | | | 10,631 |
| Income from continuing operations | | | | | | <u>\$ 23,341</u> | | | | | | <u>\$ 15,155</u> |
| Capital expenditures, excluding acquisitions (including discontinued operations): | | | | | | | | | | | | |
| Routine | \$ 4,844 | \$ 18,264 | \$ 190 | \$ 3,626 | \$ - | \$ 26,924 | \$ 6,065 | \$ 4,049 | \$ 267 | \$ 4,434 | \$ - | \$ 14,815 |
| Development | 9,486 | 3,576 | - | - | - | 13,062 | 5,774 | 1,793 | - | - | - | 7,567 |
| | <u>\$ 14,330</u> | <u>\$ 21,840</u> | <u>\$ 190</u> | <u>\$ 3,626</u> | <u>\$ -</u> | <u>\$ 39,986</u> | <u>\$ 11,839</u> | <u>\$ 5,842</u> | <u>\$ 267</u> | <u>\$ 4,434</u> | <u>\$ -</u> | <u>\$ 22,382</u> |

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

| | 2009 Quarters | | | | Year | First Quarter 2010 |
|--------------------------------|----------------|----------------|----------------|----------------|------------------|--------------------------|
| | First | Second | Third | Fourth | | |
| Hospital data: | | | | | | |
| End of period data: | | | | | | |
| Number of hospitals | 82 | 82 | 82 | 83 | | 83 |
| Number of licensed beds | 6,520 | 6,520 | 6,520 | 6,580 | | 6,580 |
| Revenue mix %: | | | | | | |
| Medicare | 56 | 55 | 55 | 56 | 55 | 56 |
| Medicaid | 10 | 10 | 11 | 9 | 10 | 9 |
| Medicare Advantage | 10 | 11 | 9 | 9 | 10 | 10 |
| Commercial insurance and other | 24 | 24 | 25 | 26 | 25 | 25 |
| Admissions: | | | | | | |
| Medicare | 7,421 | 7,117 | 6,875 | 7,283 | 28,696 | 7,432 |
| Medicaid | 1,052 | 1,053 | 1,165 | 984 | 4,254 | 997 |
| Medicare Advantage | 1,094 | 1,091 | 926 | 919 | 4,030 | 1,129 |
| Commercial insurance and other | 1,921 | 1,869 | 1,969 | 2,280 | 8,039 | 2,262 |
| | <u>11,488</u> | <u>11,130</u> | <u>10,935</u> | <u>11,466</u> | <u>45,019</u> | <u>11,820</u> |
| Admissions mix %: | | | | | | |
| Medicare | 65 | 64 | 63 | 63 | 64 | 63 |
| Medicaid | 9 | 9 | 11 | 9 | 9 | 8 |
| Medicare Advantage | 9 | 10 | 8 | 8 | 9 | 10 |
| Commercial insurance and other | 17 | 17 | 18 | 20 | 18 | 19 |
| Patient days: | | | | | | |
| Medicare | 197,377 | 197,203 | 188,712 | 196,067 | 779,359 | 202,882 |
| Medicaid | 50,868 | 50,485 | 53,585 | 47,352 | 202,290 | 47,813 |
| Medicare Advantage | 35,229 | 36,806 | 29,912 | 30,315 | 132,262 | 34,524 |
| Commercial insurance and other | 65,509 | 61,960 | 65,717 | 74,253 | 267,439 | 75,483 |
| | <u>348,983</u> | <u>346,454</u> | <u>337,926</u> | <u>347,987</u> | <u>1,381,350</u> | <u>360,702</u> |
| Average length of stay: | | | | | | |
| Medicare | 26.6 | 27.7 | 27.4 | 26.9 | 27.2 | 27.3 |
| Medicaid | 48.4 | 47.9 | 46.0 | 48.1 | 47.6 | 48.0 |
| Medicare Advantage | 32.2 | 33.7 | 32.3 | 33.0 | 32.8 | 30.6 |
| Commercial insurance and other | 34.1 | 33.2 | 33.4 | 32.6 | 33.3 | 33.4 |
| Weighted average | 30.4 | 31.1 | 30.9 | 30.3 | 30.7 | 30.5 |

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

| | 2009 Quarters | | | | Year | First Quarter 2010 |
|--|---------------|---------------|---------------|---------------|-----------|--------------------------|
| | First | Second | Third | Fourth | | |
| Hospital data (continued): | | | | | | |
| Revenues per admission: | | | | | | |
| Medicare | \$ 37,262 | \$ 37,748 | \$ 37,105 | \$ 37,620 | \$ 37,436 | \$ 38,078 |
| Medicaid | 45,160 | 45,759 | 43,640 | 43,314 | 44,465 | 45,738 |
| Medicare Advantage | 46,387 | 46,950 | 47,597 | 47,807 | 47,141 | 45,187 |
| Commercial insurance and other | 61,286 | 63,716 | 59,957 | 54,662 | 59,647 | 56,344 |
| Weighted average | 42,872 | 43,769 | 42,805 | 42,314 | 42,935 | 42,899 |
| Revenues per patient day: | | | | | | |
| Medicare | \$ 1,401 | \$ 1,362 | \$ 1,352 | \$ 1,397 | \$ 1,378 | \$ 1,395 |
| Medicaid | 934 | 954 | 949 | 900 | 935 | 954 |
| Medicare Advantage | 1,440 | 1,392 | 1,473 | 1,449 | 1,436 | 1,478 |
| Commercial insurance and other | 1,797 | 1,922 | 1,796 | 1,678 | 1,793 | 1,688 |
| Weighted average | 1,411 | 1,406 | 1,385 | 1,394 | 1,399 | 1,406 |
| Medicare case mix index (discharged patients only) | 1.22 | 1.23 | 1.19 | 1.18 | 1.21 | 1.21 |
| Average daily census | 3,878 | 3,807 | 3,673 | 3,782 | 3,785 | 4,008 |
| Occupancy % | 66.0 | 64.7 | 63.6 | 64.3 | 64.7 | 68.2 |
| Annualized employee turnover % | 21.3 | 22.1 | 22.8 | 22.1 | | 21.8 |
| Nursing center data: | | | | | | |
| End of period data: | | | | | | |
| Number of nursing centers: | | | | | | |
| Owned or leased | 218 | 218 | 218 | 218 | | 218 |
| Managed | 4 | 4 | 4 | 4 | | 4 |
| | <u>222</u> | <u>222</u> | <u>222</u> | <u>222</u> | | <u>222</u> |
| Number of licensed beds: | | | | | | |
| Owned or leased | 27,138 | 27,138 | 27,086 | 27,038 | | 27,038 |
| Managed | 485 | 485 | 485 | 485 | | 485 |
| | <u>27,623</u> | <u>27,623</u> | <u>27,571</u> | <u>27,523</u> | | <u>27,523</u> |
| Revenue mix %: | | | | | | |
| Medicare | 35 | 35 | 34 | 33 | 34 | 35 |
| Medicaid | 41 | 41 | 42 | 43 | 42 | 41 |
| Medicare Advantage | 6 | 6 | 6 | 6 | 6 | 6 |
| Private and other | 18 | 18 | 18 | 18 | 18 | 18 |

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

| | 2009 Quarters | | | | Year | First Quarter 2010 |
|---|------------------|------------------|------------------|------------------|------------------|--------------------------|
| | First | Second | Third | Fourth | | |
| Nursing center data (continued): | | | | | | |
| Patient days (excludes managed facilities): | | | | | | |
| Medicare | 374,853 | 375,140 | 360,009 | 353,443 | 1,463,445 | 369,102 |
| Medicaid | 1,326,654 | 1,323,157 | 1,357,596 | 1,368,198 | 5,375,605 | 1,312,517 |
| Medicare Advantage | 80,352 | 82,652 | 84,322 | 86,449 | 333,775 | 87,692 |
| Private and other | 403,320 | 415,510 | 415,467 | 403,166 | 1,637,463 | 397,550 |
| | <u>2,185,179</u> | <u>2,196,459</u> | <u>2,217,394</u> | <u>2,211,256</u> | <u>8,810,288</u> | <u>2,166,861</u> |
| Patient day mix %: | | | | | | |
| Medicare | 17 | 17 | 16 | 16 | 17 | 17 |
| Medicaid | 61 | 60 | 61 | 62 | 61 | 61 |
| Medicare Advantage | 4 | 4 | 4 | 4 | 4 | 4 |
| Private and other | 18 | 19 | 19 | 18 | 18 | 18 |
| Revenues per patient day: | | | | | | |
| Medicare Part A | \$ 457 | \$ 459 | \$ 464 | \$ 466 | \$ 461 | \$ 470 |
| Total Medicare (including Part B) | 497 | 500 | 508 | 510 | 503 | 513 |
| Medicaid | 165 | 167 | 166 | 170 | 167 | 168 |
| Medicare Advantage | 380 | 392 | 398 | 405 | 394 | 398 |
| Private and other | 235 | 232 | 234 | 239 | 235 | 238 |
| Weighted average | 243 | 245 | 243 | 246 | 244 | 249 |
| Average daily census | 24,280 | 24,137 | 24,102 | 24,035 | 24,138 | 24,076 |
| Admissions (excludes managed facilities) | 18,166 | 18,456 | 17,803 | 18,376 | 72,801 | 19,026 |
| Occupancy % | 89.3 | 88.9 | 88.9 | 88.9 | 89.0 | 89.0 |
| Medicare average length of stay | 34.8 | 35.5 | 36.3 | 35.1 | 35.4 | 33.7 |
| Annualized employee turnover % | 37.9 | 39.9 | 40.2 | 38.9 | | 36.7 |
| Rehabilitation data: | | | | | | |
| Revenue mix %: | | | | | | |
| Company-operated | 61 | 60 | 59 | 64 | 61 | 64 |
| Non-affiliated | 39 | 40 | 41 | 36 | 39 | 36 |
| Sites of service (at end of period) | 661 | 659 | 660 | 622 | | 619 |
| Revenue per site | \$ 177,984 | \$ 182,775 | \$ 185,797 | \$ 183,789 | \$ 730,345 | \$ 194,094 |
| Therapist productivity % | 84.8 | 84.8 | 83.5 | 83.8 | 84.2 | 83.8 |
| Annualized employee turnover % | 10.9 | 11.6 | 13.1 | 12.8 | | 12.6 |

KINDRED HEALTHCARE, INC.
Earnings Per Common Share Reconciliation (a)
(Unaudited)
(In thousands, except per share amounts)

| | Three months ended March 31, | | | |
|--|-------------------------------------|------------------|------------------|------------------|
| | 2010 | | 2009 | |
| | Basic | Diluted | Basic | Diluted |
| Earnings: | | | | |
| Income from continuing operations: | | | | |
| As reported in Statement of Operations | \$ 15,155 | \$ 15,155 | \$ 23,341 | \$ 23,341 |
| Allocation to participating unvested restricted stockholders | (277) | (275) | (441) | (440) |
| Available to common stockholders | <u>\$ 14,878</u> | <u>\$ 14,880</u> | <u>\$ 22,900</u> | <u>\$ 22,901</u> |
| Discontinued operations, net of income taxes: | | | | |
| Loss from operations: | | | | |
| As reported in Statement of Operations | \$ (154) | \$ (154) | \$ (581) | \$ (581) |
| Allocation to participating unvested restricted stockholders | 3 | 3 | 11 | 11 |
| Available to common stockholders | <u>\$ (151)</u> | <u>\$ (151)</u> | <u>\$ (570)</u> | <u>\$ (570)</u> |
| Loss on divestiture of operations: | | | | |
| As reported in Statement of Operations | \$ (137) | \$ (137) | \$ - | \$ - |
| Allocation to participating unvested restricted stockholders | 2 | 2 | - | - |
| Available to common stockholders | <u>\$ (135)</u> | <u>\$ (135)</u> | <u>\$ -</u> | <u>\$ -</u> |
| Net income: | | | | |
| As reported in Statement of Operations | \$ 14,864 | \$ 14,864 | \$ 22,760 | \$ 22,760 |
| Allocation to participating unvested restricted stockholders | (272) | (270) | (430) | (429) |
| Available to common stockholders | <u>\$ 14,592</u> | <u>\$ 14,594</u> | <u>\$ 22,330</u> | <u>\$ 22,331</u> |
| Shares used in the computation: | | | | |
| Weighted average shares outstanding - basic computation | <u>38,626</u> | 38,626 | <u>38,184</u> | 38,184 |
| Dilutive effect of employee stock options | | 233 | | 131 |
| Adjusted weighted average shares outstanding - diluted computation | | <u>38,859</u> | | <u>38,315</u> |
| Earnings per common share: | | | | |
| Income from continuing operations | \$ 0.38 | \$ 0.38 | \$ 0.60 | \$ 0.60 |
| Discontinued operations: | | | | |
| Loss from operations | - | - | (0.02) | (0.02) |
| Loss on divestiture of operations | - | - | - | - |
| Net income | <u>\$ 0.38</u> | <u>\$ 0.38</u> | <u>\$ 0.58</u> | <u>\$ 0.58</u> |

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

KINDRED HEALTHCARE, INC.
Reconciliation of Non-GAAP Measurements to GAAP Results
(Unaudited)

(In thousands, except per share amounts and statistics)

In addition to the results provided in accordance with GAAP, the Company has provided a non-GAAP measurement which presents operating results for the three months ended March 31, 2010 before certain charges or on a core basis. The charges that were excluded from core operating results for the three months ended March 31, 2010 relate to severance, retirement and transaction costs.

This non-GAAP measurement is not intended to replace the presentation of the Company's financial results in accordance with GAAP. The Company believes that the presentation of core operating results provides additional information to investors to facilitate the comparison between periods by excluding certain charges for the three months ended March 31, 2010 that the Company believes are not representative of its ongoing operations due to the materiality and nature of the charges. The Company's core operating results also represent a key performance measure for the purposes of evaluating performance internally.

| | Three months ended March 31, 2010 |
|--|--|
| Detail of charges excluded from core operating results: | |
| Severance and retirement costs | (\$2,906) |
| Transaction costs | (770) |
| | (3,676) |
| Income tax benefit | 1,415 |
| Charges net of income taxes | (2,261) |
| Allocation to participating unvested restricted stockholders | 42 |
| Available to common stockholders | (\$2,219) |
| Weighted average diluted shares outstanding | 38,859 |
| Diluted loss per common share related to charges | (\$0.06) |
| Reconciliation of income from continuing operations before charges: | |
| Income from continuing operations before charges | \$17,416 |
| Charges | (2,261) |
| Reported income from continuing operations | \$15,155 |
| Reconciliation of diluted earnings per common share from continuing operations before charges: | |
| Diluted earnings per common share before charges | \$0.44 |
| Charges | (0.06) |
| Reported diluted earnings per common share | \$0.38 |
| Reconciliation of effective income tax rate before charges: | |
| Effective income tax rate before charges | 40.9% |
| Impact on effective income tax rate as a result of charges | 0.3% |
| Reported effective income tax rate | 41.2% |

KINDRED HEALTHCARE, INC.
Reconciliation of Earnings Guidance for 2010 - Continuing Operations
(Unaudited)

(In millions, except per share amounts)

| | Earnings Guidance Ranges (a) | | | |
|--|------------------------------|--------------|-------------------------|--------------|
| | As of May 4, 2010 | | As of February 22, 2010 | |
| | Low | High | Low | High |
| Operating income | \$ 571 | \$ 579 | \$ 571 | \$ 579 |
| Rent | 360 | 360 | 360 | 360 |
| Depreciation and amortization | 123 | 123 | 123 | 123 |
| Interest, net | 5 | 5 | 5 | 5 |
| Income from continuing operations before income taxes | 83 | 91 | 83 | 91 |
| Provision for income taxes | 35 | 37 | 35 | 37 |
| Income from continuing operations | 48 | 54 | 48 | 54 |
| Allocation to participating unvested restricted stockholders | 1 | 1 | 1 | 1 |
| Available to common stockholders | <u>\$ 47</u> | <u>\$ 53</u> | <u>\$ 47</u> | <u>\$ 53</u> |
| | | | | |
| Earnings per diluted share | \$ 1.20 | \$ 1.35 | \$ 1.20 | \$ 1.35 |
| Shares used in computing earnings per diluted share | 39.0 | 39.0 | 39.0 | 39.0 |

(a) The Company indicated that the earnings guidance reflects the operating results of \$0.38 per diluted share reported in the first quarter as well as the anticipated impact of proposed rules issued by CMS in April 2010 related to payment rates for LTAC hospitals effective October 1, 2010. The Company also indicated that the earnings guidance does not reflect any other reimbursement changes, any material acquisitions or divestitures, or any repurchases of common stock.