

REHABCARE GROUP INC

Form 425

March 03, 2011

1

Investor Presentation

Kindred Healthcare, Inc. (NYSE: KND)

March 3, 2011

Filed pursuant to Rule 425 under the Securities Act of 1933 and deemed filed

Edgar Filing: REHABCARE GROUP INC - Form 425

pursuant to Rule 14a-12 under the Securities Exchange Act of 1934

Filing Person: Kindred Healthcare, Inc.

Commission File No.: 001-14057

Subject Company: RehabCare Group, Inc.

Commission File No.: 001-14655

2

Forward-Looking Statements

In connection with the pending transaction with RehabCare Group, Inc. ("RehabCare"), Kindred Healthcare, Inc. ("Kindred") has filed with the Securities and Exchange Commission (the "SEC") a Registration Statement on Form S-4 that will include a joint proxy statement of Kindred and RehabCare. Kindred and RehabCare will mail the definitive proxy statement/prospectus to their respective stockholders.

You may obtain a free copy of the joint proxy statement/prospectus (when available) and other related documents filed by

Kindred and RehabCare with the SEC may also be obtained for free by accessing Kindred's website at www.kindredhealthcare.com then clicking on the link for "SEC Filings" or by accessing RehabCare's website at www.rehabcare.com and clicking on the link for "SEC Filings".

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

Information set forth in this presentation contains forward-looking statements, which involve a number of risks and uncertainties. You should understand that any forward-looking information is not a guarantee of future performance and that actual results could differ materially from those stated in this information. Such forward-looking statements include, but are not limited to, statements about the benefits of the business combination, the combined company's future financial and operating results, the combined company's plans, objectives, expectations and intentions, and historical facts.

The following factors, among others, could cause actual results to differ from those set forth in the forward-looking statements: (a) the timing and receipt of regulatory approvals and the satisfaction of the closing conditions to the acquisition of RehabCare by Kindred, including approvals from the stockholders of the respective companies, and Kindred's ability to complete the required financing as contemplated by the final agreement; (b) the ability to integrate the operations of the acquired hospitals and rehabilitation services operations and realize the anticipated revenues, economies of scale and productivity gains in connection with the RehabCare acquisition and any other acquisitions that may be undertaken during 2010; (c) the potential for unanticipated issues, expenses and liabilities associated with those acquisitions and the risk that RehabCare fails to meet its operating targets; (d) the potential for diversion of management time and resources in seeking to complete the RehabCare acquisition and the risk of a failure to retain key employees of RehabCare; (e) the impact of Kindred's significantly increased levels of indebtedness as a result of the acquisition on Kindred's funding costs, operating flexibility and ability to fund ongoing operations with additional borrowings, particularly in the current capital markets; (f) the potential for dilution to Kindred stockholders as a result of the RehabCare acquisition; and (g) the ability to meet the terms of its debt obligations, including Kindred's obligations under financings undertaken to complete the RehabCare acquisition. Kindred, pursuant to its master lease agreements with Ventas, Inc. (NYSE:VTR). Additional factors that may affect future results are contained in the proxy statement filed with the SEC,

and RehabCare disclaim any obligation to update and revise statements contained in these materials based on new information.

Additional
Information
About
this
Transaction
Kindred
and
RehabCare
with
the
SEC
at
the
SEC's
website
at
The
joint
proxy
statement/prospectus
(when
available)

and
the
other
documents
filed
by
Participants
in
this
Transaction
Forward-Looking
Statements
which
are
available
at
the
SEC's
web
site
at
Many
of
these
factors
are
beyond
the
control
of
Kindred
or
RehabCare.
Kindred
and

WE URGE INVESTORS AND SECURITY HOLDERS

TO READ THE JOINT PROXY STATEMENT/PROSPECTUS REGARDING THE PENDING TRANSACTION WHEN IT
CONTAIN IMPORTANT INFORMATION.

www.sec.gov.

www.sec.gov.

3
Kindred Update

4

Kindred Update

Kindred Healthcare, Inc. (Kindred) and RehabCare Group, Inc. (RehabCare) have announced a transaction whereby Kindred will acquire RehabCare for ~\$35/share Both Companies reported strong Q4 and 2010 clinical and financial results and share a high degree of confidence and visibility in their business plans and estimates for 2011

The combined Company will have an industry leading position in attractive post-acute business segments and growing local markets

Kindred

will

be

well

positioned

for

future

growth

in

a

changing

healthcare

landscape

with

the expansion of the combined service offerings

The transaction substantially enhances Kindred's growth and margin profile

The proposed transaction is highly accretive to Kindred's earnings and cash flows and generates strong operating cash flows providing the ability to delever quickly to below current leverage levels

5

Both Kindred and RehabCare beat 4Q and 2010 analyst estimates

Summary of Q4 and 2010 Results

Kindred

RehabCare

1)

I/B/E/S consensus as of 2/7/2011.

2)
Reflects income from continuing operations.

3)
Actual revenues exclude Miami IRF.

4)
Includes discontinued operations.

(\$MM, except EPS Data)

(\$MM, except EPS Data)

Q4 2010

2010

Consensus

(1)

Actual

% Surprise

Consensus

(1)

Actual

% Surprise

Revenues

1,121.0

1,135.5

1.3%

4,345.0

4,359.7

0.3%

EBITDA

61.0

66.8

9.5%

211.0

217.3

3.0%

EBIT

30.0

35.4

18.0%

90.0

95.7

6.3%

Net Income

(2)

16.0

19.8

23.8%

52.0

56.1

7.9%

EPS

(2)

\$0.41

\$0.50
 22.0%
 \$1.33
 \$1.42
 6.8%
 Q4 2010
 2010
 Consensus
 (1)
 Actual
 % Surprise
 Consensus
 (1)
 Actual
 % Surprise
 Revenues
 (3)
 343.0
 339.3
 -1.1%
 1,347.2
 1,329.4
 -1.3%
 EBITDA
 41.5
 44.1
 6.3%
 163.5
 164.1
 0.4%
 EBIT
 34.1
 36.1
 5.9%
 133.4
 133.6
 0.1%
 Net Income
 (4)
 14.9
 17.1
 14.8%
 60.6
 62.5
 3.1%
 EPS
 (4)
 \$0.60
 \$0.69
 15.0%

\$2.45

\$2.53

3.3%

7
~\$35
/
share
total
(\$26
/

share
in

cash;
~\$9

/

share
in

Kindred
stock)

(1)

\$1.3 billion total consideration, including assumption of net debt

Transaction Overview

Consideration

Accretion

Synergies

Kindred and RehabCare have announced a transaction whereby Kindred
will acquire RehabCare for ~\$35/share

Transaction

Substantially accretive to Kindred's earnings and operating cash flows

\$40 million in identified annual cost and operating synergies

Full run-rate achieved within two years (\$25MM achieved first year)

Excluding one time costs

Committed financing from J.P. Morgan, Morgan Stanley and Citi

Financing

Expected Close

On or about June 30, 2011

1)

Based on a fixed exchange ratio.

8
Sources and Uses
(1)
(\$MM)
Sources
% of Total
New Borrowings

1,600

88%

Equity Consideration

(3)

228

12%

Total Sources

1,828

100%

Uses

% of Total

Purchase RehabCare Equity (~\$35/share)

885

48%

Retire RehabCare Debt

399

22%

Retire Kindred Debt

367

20%

Other

179

10%

Total Uses

1,828

100%

Pro Forma Capitalization

(1)

(\$MM)

2011E

(2)

New Borrowings

1,600

Total Debt

1,600

Revenue

EBITDA

(4)

Rent Expense

EBITDAR

(4)

Total Debt / EBITDA

Adjusted

Debt

(

5)

/

EBITDAR

Transaction Overview (Cont d)

J.P. Morgan, Morgan Stanley and Citi have committed \$1.85Bn in debt financing

Key Capital Considerations

Ability to delever quickly (Pro forma adjusted leverage flat to Kindred standalone)

Maintain strong balance sheet, liquidity and financial flexibility (approximately \$250MM undrawn revolver capacity at close)

1)

Sources

and

Uses

is

as

of

12/31/10.

Pro

Forma

Capitalization

is

based

on

borrowings

expected

at

closing.

Figures

may

not

add

due

to

rounding.

2)

2010PF

figures

reflect

full

year

run

rate

of

2010

Kindred

acquisitions

(\$157MM

in

revenue,

\$44MM

in

EBITDAR,

\$7MM

in

rent

and
\$37MM
of
EBITDA
benefit)
and
RehabCare.
RehabCare
2010
results
do
not

include the results of discontinued operations (inpatient rehabilitation facility in Miami). 2011 figures display low and high end
1/1/11.

3)
Based on a fixed exchange ratio.

4)
2010PF
and
2011E
includes
\$25MM
of
run
rate
synergies.

5)
Calculated with 6.0x cap rate.

6,200
6,200

470

487

422

422

892

909

3.4x

3.3x

4.6x

4.5x

5,846

444

414

857

3.6x

4.8x

1,600

1,600

2010PF

(2)

9

Skilled Nursing Rehab Services (SRS)

Hospital Rehab Services (HRS)

Program Management Services

Hospital Division

\$516

\$180

\$633

2010A Revenue (\$ MM)

(1)

39%

13%

48%

% Total Revenue

\$45

\$35

\$134

2010A

EBITDA

(\$MM)

(1)

Manages 1,112 skilled nursing facility
(SNF) programs in 38 states

Therapy services includes physical and
occupational therapy and
speech/language pathology skilled nursing
facilities

Significant same store revenue and
margin growth since completion of
Symphony integration in 2007

Focused on implementing next generation
of point-of-care technology and web-
based therapy management system

Paid by clients on negotiated per diem
rate or negotiated fee schedule based on
type of service rendered

Manages inpatient rehabilitation
facilities (IRFs) in 106 ARU hospitals
for patients with various diagnoses
including stroke, orthopedic conditions,
arthritis, spinal cord and traumatic brain
injuries

Manages 31 hospital-based and
satellite outpatient therapy programs
that complement hospitals
occupational medicine initiatives and
allow therapy to be continued for
patients discharged from IRFs

Entered rehabilitation and long-term

acute care hospital business in 2005
when the Company acquired assets
of MeadowBrook Healthcare

In November 2009, RehabCare
acquired Triumph HealthCare, which
operated 20 LTACHs, more than
doubling the size of hospital
segment

34 hospitals include

-

23 free-standing LTACHs

-

6 HIH LTACHs

-

5 IRFs

Description

% Margin

9%

19%

21%

Total

\$1,329

100%

\$214

16%

RehabCare Overview

1)

RehabCare 2010 results do not include the results of discontinued operations (inpatient rehabilitation facility in Miami).

10
Combined Company Overview
Metrics
Kindred
Kindred + RehabCare
Focus
SNF, LTAC and Contract Rehab

SNF, LTAC and Contract Rehab

Scale

(1)

States

Facilities

Beds

2010 Revenue (Pro Forma)

2010 EBITDA (Pro Forma)

40

322

34,792

\$4,517MM

(2)

\$254MM

(2)

RehabCare

Contract Rehab and LTAC

42

34

1,788

\$1,329MM

\$164MM

46

356

36,580

\$5,846MM

(2)

\$443MM

(2)(3)

Payor

Mix (09)

Business

Mix:

EBITDA

(10)

(2)

29%

13%

58%

Contract Rehab

SNF

LTAC

40%

24%

36%

Medicaid
Medicare
Commercial
LTAC
SRS
52%
27%
21%
LTAC
SRS
HRS
69%
29%
Medicaid
2%
Medicare
Commercial
45%
35%
3%
17%
LTAC
SNF
HRS
Contract Rehab
11%
8%
62%
19%
LTAC
SNF
HRS
Contract Rehab
51%
20%
29%
Commercial
Medicaid
Medicare
Business Mix:
Revenue
(10)
(2)(4)
Contract Rehab
SNF
LTAC
39%
48%
14%
HRS

47%

42%

11%

Together Kindred and RehabCare will be the premier leader in the post-acute market

(1)

RehabCare states include LTAC and IRF locations. Beds include LTACs + freestanding IRFs. Kindred facilities include owned

(2)

Includes the full year benefit of all of the acquisitions Kindred has closed in 2010 (\$157MM Revenue and \$37MM EBITDA by facility in Miami). Figures may not add due to rounding.

(3)

Includes \$25MM of run rate synergies.

(4)

Revenue excludes the effect of Kindred intercompany eliminations. EBITDA includes intercompany eliminations in Kindred s

11

Kindred and RehabCare Combined Presence

Kindred Hospitals

Kindred Nursing and Rehabilitation Centers

RehabCare Hospitals

Acute Rehabilitation Units

Source:

Company

website

(1)

Circles represent cluster strategy markets.

Enhances

Kindred s

cluster

strategy

(1)

Existing Cluster Market

Potential New Cluster Market

12

Leading Position in Attractive Growing Businesses

(1) Includes 1,112 facilities from RehabCare and 696 facilities from Kindred.

Multiple earnings streams, multiple avenues for growth

PF Kindred

116

3

5
94
8
8
7
5
2
0
20
40
60
80
100
120
140
13
10
97
121
Freestanding
Hospital Based
207
324
277
227
226
223
0
50
100
150
200
250
300
350
Number of Facilities
315
300
200
108
1,808
1,000
900
471
450
342
471
700
700
1,493

0
500
1,000
1,500
2,000
Third Party
Affiliated

(1)
12
6
15
18
19
111
118
0
20
40
60
80
100
120
140

Number of Facilities

#1 Operator of Hospital Based and Freestanding IRFs

#4 Operator of Skilled Nursing and Rehab Centers

#1 Skilled Nursing Contract Rehab Manager

#1 Operator of Long-Term Acute Care Hospitals

13

Diversified Services Offerings

(1)

Segment figures do not sum to totals due to eliminations / corporate expenses. RehabCare figures do not include discontinued

Kindred gains significant scale in both the Skilled Nursing

and Hospital Rehab businesses and adds to Kindred's LTAC business

Hospitals

Rehabilitation Services
 Nursing Centers
 Total
 (1)
 Nursing Center
 Based
 Hospital Based
 Total
 2010 Pro forma
 \$MM
 Revenue
 (1)
 Kindred Healthcare
 435
 84
 519
 2,093
 2,212
 4,517
 RehabCare
 516
 180
 696
 633
 0
 1,329
 Total
 951
 264
 1,215
 2,726
 2,212
 5,846
 EBITDAR
 (1)
 Kindred Healthcare
 24
 16
 40
 336
 242
 618
 RehabCare
 45
 35
 80
 134
 0
 214
 Total

69
 51
 120
 470
 242
 832
 % Margin
 7.3%
 19.3%
 9.9%
 17.2%
 10.9%
 14.2%
 EBITDA
 (1)
 Kindred Healthcare
 18
 16
 34
 176
 44
 254
 RehabCare
 45
 35
 80
 84
 0
 164
 Total
 63
 51
 114
 260
 44
 418
 % Margin
 6.6%
 19.3%
 9.4%
 9.5%
 2.0%
 7.2%
 (+) Synergies
 25
 Pro Forma EBITDA
 443

14

Rapidly Changing Post-Acute Market

Multiple Patient Discharge Destinations

SOURCE: RTI, 2009: Examining Post-Acute Care Relationships in an Integrated Hospital System

Well Positioned to Take Advantage of
Changing Healthcare Landscape
Continue
The

Patient Illness Severity
Home

Adult Day
Care
Home Health
Care
Assisted
Living
Skilled
Nursing
Facilities
In-Patient
Rehab
LTACS
Freestanding / HIH
SAU
Hospice
TRANS
CARE
ICU
Acute Care
Hospitals
Outpatient
Rehab
TCC
&
TCU
Uniquely Positioned For Bundled Or Episodic Payment Environment
15
Care
Homecare
and Hospice
Homecare
and Hospice

16

Provide superior clinical outcomes and quality care with an approach which is patient-centered, disciplined and transparent
Lower cost by reducing lengths of stay in acute care hospitals and transition patients home at the highest possible level of function
Reduce rehospitalization through our integrated and interdisciplinary care management teams and protocols

Kindred's Value Proposition
and Our **Continued** **The Care** Campaign

17

Enhances Growth Profile

(1) Standalone Kindred growth analysis compares 2011 guidance issued on 12/15/10 relative to 2010 standalone performance

Pro

forma

Kindred

growth

analysis
compares
pro
forma
2011
guidance
relative
to
2010
pro
forma
results,
in
each
case
assuming
the
RehabCare
acquisition
occurred
on
the
first
day
of
each
respective
year
and
includes
first
year
run
rate
synergies
in
both
2010
and
2011
figures.
2011
margin
figures
per
guidance
midpoint
and
compares
standalone

2011
guidance
issued
on
12/15/10
relative
to
pro
forma
2011
guidance.
2011
pro
forma
guidance
reflects
the
combined
business
as
if
the
transaction
closed
on
1/1/11
and
includes
first
year
run
rate
synergies.
EBITDAR Growth
(1)
2010
2011
3.5
5.1
2.0
4.0
6.0
Standalone Kindred
Pro Forma Kindred
(%)
EBITDA Growth
(1)
2010
2011
6.1

7.9
3.0
5.0
7.0
9.0
Standalone Kindred
Pro Forma Kindred
(%)
EBITDA Margin
(1)
2011
5.6
7.7
0.0
2.0
4.0
6.0
8.0
Standalone Kindred
Pro Forma Kindred
(%)
Net Income Margin
(1)
2011
1.3
1.7
0.0
0.6
1.2
1.8
Standalone Kindred
Pro Forma Kindred
(%)
Enhances Kindred's margin and operating profit growth profiles

18

Declining Rent and Fixed Charge Burden

Declining Rent Burden

Enhanced Margin Profile

RehabCare operates an asset-light business model

Pro forma capital intensity of business drives higher return on assets

(1)

Midpoint of guidance issued 12/15/10.

(2)

Midpoint of pro forma guidance which reflects combined business as if the transaction closed 1/1/11.

2011 Operating Leverage

(\$MM)

Kindred

(1)

Pro Forma

(2)

Revenue

\$4,800

\$6,200

EBITDAR

640

899

% Margin

13.3%

14.5%

Rent

370

423

% Margin

7.7%

6.8%

EBITDA

270

476

% Margin

5.6%

7.7%

D&A

140

185

% Margin

2.9%

3.0%

EBIT

130

291

% Margin

2.7%

4.7%

19
Strong Asset Base Including Owned Real Estate
16 Facilities
43 Facilities
0
10
20

30

40

50

2006

Current Kindred

Kindred has been focused on adding high
quality real estate to balance sheet

Acquisitions

Development of state-of-the-art LTACHs
and TCCs

Exercise of in-the-money purchase
options

Own 16 Hospitals; 25 Nursing Centers and
2 assisted living facilities

Combined company has total PP&E book
value of approximately \$1Bn

Kindred

has

Pro

Forma

EBITDA

(1)

of

approximately \$100MM from owned real
estate

(1) Only includes Kindred facilities

20
2011 Kindred Guidance
Stand Alone
(2)
Pro Forma
(3)
(\$MM)

Low
 High
 Low
 High
 Revenue
 4,800
 4,800
 6,200
 6,200
 EBITDA
 265
 275
 470
 487
 (-) Interest
 26
 26
 118
 118
 (-) Taxes
 40
 44
 66
 73
 Cash Flow
 199
 205
 286
 296
 Cash Flow Margin
 4.1%
 4.3%
 4.6%
 4.8%
 Strong Free Cash Flows and Ability to Delever
 3.5
 4.3
 4.2
 3.9
 4.4
 0.0
 2.0
 4.0
 6.0
 2006
 2007
 2008
 2009
 2010
 Stand Alone Kindred

(x)

Historical

Adjusted

Debt

/

EBITDAR

(1)

(1)

Calculated with 6.0x cap rate.

(2)

Per guidance midpoint, issued 12/15/2010.

(3)

2011 guidance reflects the combined business as if the transaction closed on 1/1/2011.

Cash Flow Profile

Kindred has operated comfortably with a levered balance sheet

Routine CapEx declines as a % of revenue, improving free cash flow profile

21
84
125
34
31
31
153

194
177
247
265
69
69
143
216
234
0
100
200
300
400
2010A
2011E
2012E
2013E
2014E
124
131
121
110
108
0
100
200
300
400
2010A
2011E
2012E
2013E
2014E
277
325
298
357
373
0
100
200
300
400
2010A
2011E
2012E
2013E
2014E
Strong Free Cash Flows (cont'd)

Cash Flow Available for Discretionary CapEx and Debt Paydown

(\$MM)

Discretionary CapEx

(1)

Available for Debt Paydown

Routine CapEx

(\$MM)

Cash Flow From Operations

(\$MM)

(1)

Does not include acquisition capex of \$1MM, \$13MM and \$4MM in 2011, 2012 and 2013, respectively.

Note: 2010 estimated cash flow from operations based on 2010A actual, does not include impact of Vista acquisition.

22
Significant EPS Accretion
(1)
Previous
guidance
shown
is

Kindred
standalone
guidance
issued
on
12/15/10.

(2)

2011 guidance reflects the combined business as if the transaction closed on 1/1/11.

Acquisition is significantly accretive at the contemplated transaction value

and financing structure on both an EPS

and cash flow basis

Low End of

Guidance

Pro-Forma

Impact

Mid Point

High End of

Guidance

2011 EPS Impact

\$

%

\$0.50

\$0.52

\$0.55

34%

34%

34%

2011 EPS Guidance

Prev

(1)

New

(2)

\$1.45

\$1.53

\$1.60

\$1.95

\$2.05

\$2.15

23

Strong operating cash
flows and ability to
delever

Management intends to delever, but is comfortable at expected leverage levels and has successfully
operated business at higher levels in the past

Enhanced operating cash flow provides the ability to significantly delever over time

Strong track record of successfully growing operating cash flow in highly regulated environment
Well diversified service offering
Diversified across four critical segments in the post-acute continuum with leadership positions in each segment
RehabCare adds IRF and ARU capabilities to Kindred's already strong set of capabilities
Decreased reimbursement risk profile via diversified revenue across multiple segments and payors
Leading position in attractive growing businesses
Largest provider of post-acute services in US with broadest service offering across post-acute continuum
Multiple avenues for growth, multiple earnings streams
Long-term growth prospects supported by strong demographic trends and significant increase in the incidence of chronic diseases
Enhances growth and margin profile
Enhanced margins throughout income statement; accelerated growth prospects
Scale economies and related combination synergies help to accelerate operating profit and earnings growth of combined company
Declining rent and fixed charge burden
Rent expense declines as a % of revenues;
Routine CapEx

declines
as
a
%
of
revenues
Book
value
of
PP&E
is
approximately
\$1.0Bn

Significant
operating
cash
flow
generated
by
assets
that
are
unencumbered by leases

Transaction enhances Kindred's cluster market strategy

Best-positioned to compete in a potentially bundled payment environment given broad service capabilities

Kindred can deliver the right care at the right site at the right time

Well positioned to take
advantage of changing
healthcare landscape

Significant accretion

Significantly accretive to EPS & operating cash flow / share

Transaction Enhances Growth Prospects, is EPS

& FCF Accretive and Strengthens Credit Profile

25

Kindred Q4 10 Highlights

Continuing operations income of \$0.50 per diluted share tops guidance of \$0.43

Q4 2010 continuing operations EPS up 19% over same period last year

Fourth quarter consolidated revenues grew 6% to \$1.1 billion

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

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

26

Kindred Q4 10 Highlights (cont'd)

Hospitals report growth from last year's Q4

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

Operating income grew 3% to \$96 million

Nursing and rehabilitation centers successfully transitioned to new Medicare payment system in Q4

Division reports solid 13% growth in operating income

Revenue growth of 4% driven by increased patient acuity and clinical services and 4% growth in admissions

Peoplefirst

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

Revenue growth of 21% primarily driven by new customers

27

Excluding transaction related expenses in the 2009 fourth quarter, net earnings per diluted share increased 86.5% year over year to \$0.69

Hospital division improved EBITDA margin to 15.2% in the fourth quarter from 12.9% in the third quarter

Impacted by regulatory changes, Skilled Nursing Rehabilitation

Services division reported 5.8% operating earnings margin in the quarter, consistent with expectations

Hospital Rehabilitation Services division delivered near record operating earnings margin of 20.6%

Cash flow from operations of \$103.8 million in 2010 allowed the Company to pay down debt by \$65.7 million and lower debt to EBITDA ratio to 2.4

RehabCare Q4 10 Financial Results

28
Reconciliation of
Non-GAAP Measures
Year ended December 31,
Operating income (loss):
2006
2007

2008
 2009
 Hospital division
 Nursing center division
 Rehabilitation division
 Pharmacy division
 Corporate:
 Overhead
 Insurance subsidiary
 Operating income
 Rent
 Depreciation and amortization
 Interest, net
 Income before income taxes
 Income taxes
 Income from cont. ops.
 \$364
 305
 51
 -
 (135)
 (6)
 (141)
 579
 (348)
 (126)
 (3)
 102
 39
 \$63
 \$ Millions
 2010
 Fourth
 Quarter
 2009
 \$93
 77
 11
 -
 (33)
 (2)
 (35)
 146
 (88)
 (32)
 -
 26
 9
 \$17
 \$96

87
9
-
(33)
(1)
(34)
158
(90)
(32)
(3)
33
13
\$20
Fourth
Quarter
2010
\$383
239
30
49
(157)
(7)
(164)
537
(289)
(115)
1
134
53
\$81
\$365
295
34
18
(168)
(7)
(175)
537
(338)
(118)
(1)
80
37
\$43
\$346
322
38
-
(133)
(7)

(140)

566

(339)

(120)

(8)

99

39

\$60

\$357

303

52

-

(134)

(3)

(137)

575

(357)

(122)

(6)

90

34

\$56