

KINDRED HEALTHCARE, INC

Form 424B3

April 26, 2011

Table of Contents

Filed Pursuant to Rule 424(b)(3)  
Registration No. 333-173050

## MERGER PROPOSED YOUR VOTE IS VERY IMPORTANT

Kindred Healthcare, Inc., which is referred to as Kindred, and RehabCare Group, Inc., which is referred to as RehabCare, have entered into an agreement and plan of merger, pursuant to which RehabCare will merge with and into Kindred, or at either party's election, a wholly owned subsidiary of Kindred, will merge with and into RehabCare. In either case, upon successful completion of the merger, each issued and outstanding share of common stock, par value \$0.01, of RehabCare (other than any shares owned by Kindred or RehabCare) will automatically be converted into the right to receive \$26.00 per share in cash and 0.471 shares of common stock, par value \$0.25, of Kindred. No fractional shares of Kindred common stock will be issued in the merger, and RehabCare stockholders will receive cash in lieu of fractional shares, if any, of Kindred common stock. Each share of Kindred common stock outstanding immediately prior to the effective time will remain outstanding and will not be affected by the merger. Upon completion of the transaction, RehabCare stockholders will own approximately 23% of Kindred's outstanding common stock (based upon the number of shares of RehabCare and Kindred outstanding common stock as of February 7, 2011).

The exchange of RehabCare common stock for cash and Kindred common stock in the merger will be a taxable transaction for U.S. federal income tax purposes to RehabCare stockholders.

Kindred is holding its annual meeting and RehabCare is holding a special meeting of stockholders in order to obtain the stockholder approvals necessary to consummate the merger. At these meetings Kindred and RehabCare will ask their respective stockholders to adopt the merger agreement. Approval of the proposal to adopt the merger agreement by the Kindred stockholders will also constitute approval of the issuance of Kindred common stock to RehabCare stockholders in the merger. The obligations of Kindred and RehabCare to complete the merger are also subject to the satisfaction (or, to the extent permissible, waiver) of several other conditions to the merger set forth in the merger agreement and described in this joint proxy statement/prospectus. More information about Kindred, RehabCare, and the proposed merger is contained in this joint proxy statement/prospectus. **We urge you to read this joint proxy statement/prospectus, and the documents incorporated by reference into this joint proxy statement/prospectus, carefully and in their entirety. In particular, we urge you to read carefully Risk Factors beginning on page 27.**

After careful consideration, each of the Kindred board of directors and the RehabCare board of directors have unanimously approved and declared advisable the merger agreement and the transactions contemplated thereby, including the merger, and have determined that the merger agreement and the transactions contemplated thereby, including the merger, are fair to, and in the best interests of the stockholders of Kindred and the stockholders of RehabCare, respectively. **Accordingly, the Kindred board of directors unanimously recommends that Kindred stockholders vote FOR the adoption of the merger agreement, and the RehabCare board of directors unanimously recommends that RehabCare stockholders vote FOR the adoption of the merger agreement.**

In addition, Kindred is holding its annual meeting of its stockholders to (1) elect the director nominees named in this joint proxy statement/prospectus; (2) ratify the appointment of PricewaterhouseCoopers LLP as Kindred's independent registered public accounting firm for fiscal year 2011; (3) hold an advisory vote on Kindred's executive compensation program; (4) hold an advisory vote on the frequency of stockholder advisory votes on Kindred's executive compensation program; (5) approve the Kindred 2011 Stock Incentive Plan; (6) approve adjournments or postponements of the Kindred annual meeting, if necessary or appropriate, to permit further solicitation of proxies if there are not sufficient votes at the time of the Kindred annual meeting to adopt the merger agreement; and (7) transact such other business as may properly come before the meeting.

**The Kindred board of directors unanimously recommends that you vote FOR the election of each of the director nominees named in this joint proxy statement/prospectus; FOR one year on the proposal regarding the advisory vote on the frequency of advisory votes to approve Kindred's executive compensation program; and FOR each of the other proposals described in this joint proxy statement/prospectus to be presented at the Kindred annual meeting.**

We are very excited about the opportunities the proposed merger brings to both Kindred stockholders and RehabCare stockholders, and we thank you for your consideration and continued support.

Paul J. Diaz  
President and Chief Executive Officer  
Kindred Healthcare, Inc.

John H. Short  
President and Chief Executive Officer  
RehabCare Group, Inc.

**Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of the merger described in the joint proxy statement/prospectus or the securities to be issued pursuant to the merger or passed upon the adequacy or accuracy of this joint proxy statement/prospectus. Any representation to the contrary is a criminal offense.**

Kindred common stock is traded on the New York Stock Exchange under the symbol KND.

This joint proxy statement/prospectus is dated April 26, 2011, and is first being mailed to Kindred stockholders and RehabCare stockholders on or about April 28, 2011.

**Table of Contents**

**REFERENCES TO ADDITIONAL INFORMATION**

Except where we indicate otherwise, as used in this joint proxy statement/prospectus, Kindred refers to Kindred Healthcare, Inc. and its consolidated subsidiaries, RehabCare refers to RehabCare Group, Inc. and its consolidated subsidiaries, and merger subsidiary refers to Kindred Healthcare Development, Inc. This joint proxy statement/prospectus incorporates important business and financial information about Kindred and RehabCare from documents that each company has filed with the Securities and Exchange Commission, which we refer to as the SEC, that have not been included in or delivered with this joint proxy statement/prospectus. For a list of documents incorporated by reference into this joint proxy statement/prospectus and how you may obtain them, see Where You Can Find More Information beginning on page 225.

This information is available to you without charge upon your written or oral request. You can also obtain the documents incorporated by reference into this joint proxy statement/prospectus by accessing the SEC's website maintained at [www.sec.gov](http://www.sec.gov).

In addition, Kindred's and RehabCare's filings with the SEC may also be obtained for free by accessing, respectively, Kindred's website at [www.kindredhealthcare.com](http://www.kindredhealthcare.com) and clicking on the Investors link then clicking on the link for SEC Filings or by accessing RehabCare's website at [www.rehabcare.com](http://www.rehabcare.com) and clicking on the Investor Information link and then clicking on the link for SEC Filings. Information contained on Kindred's website, RehabCare's website or the website of any other person is not incorporated by reference into this joint proxy statement/prospectus, and you should not consider information contained on those websites as part of this joint proxy statement/prospectus.

Kindred will provide you with copies of this information relating to Kindred, without charge, if you request them in writing or by telephone from:

Kindred Healthcare, Inc.  
680 South Fourth Street  
Louisville, Kentucky 40202  
(502) 596-7300

RehabCare will provide you with copies of this information relating to RehabCare, without charge, if you request them in writing or by telephone from:

RehabCare Group, Inc.  
7733 Forsyth Boulevard  
Suite 2300  
St. Louis, Missouri 63105  
(800) 677-1238

**If you would like to request documents, please do so by May 19, 2011 in order to receive them before the Kindred annual meeting and by May 19, 2011 in order to receive them before the RehabCare special meeting.**

Kindred has supplied all information contained in or incorporated by reference in this joint proxy statement/prospectus relating to Kindred, and RehabCare has supplied all information contained in or incorporated by reference in this joint proxy statement/prospectus relating to RehabCare.

**Table of Contents**

**KINDRED HEALTHCARE, INC.**

**680 South Fourth Street**

**Louisville, Kentucky 40202**

**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS**

**TO BE HELD ON MAY 26, 2011**

To our fellow Stockholders of Kindred Healthcare, Inc.:

We will hold our annual meeting of stockholders at the offices of Kindred Healthcare, Inc., located at 680 South Fourth Street, Louisville, Kentucky 40202, on May 26, 2011, at 10:00 a.m., local time, unless adjourned or postponed to a later date. This annual meeting will be held for the following purposes:

1. to adopt the Agreement and Plan of Merger, dated as of February 7, 2011, among Kindred Healthcare, Inc., Kindred Healthcare Development, Inc. and RehabCare Group, Inc., pursuant to which (a) RehabCare Group, Inc. will merge with and into Kindred Healthcare, Inc. (or, if either party so elects, Kindred Healthcare Development, Inc. will merge with and into RehabCare Group, Inc.) and (b) following the effective time, Kindred Healthcare, Inc. will pay cash and issue common stock to RehabCare Group, Inc. stockholders;
2. to elect the director nominees named in this joint proxy statement/prospectus;
3. to ratify the appointment of PricewaterhouseCoopers LLP as Kindred's independent registered public accounting firm for fiscal year 2011;
4. to hold an advisory vote on Kindred's executive compensation program;
5. to hold an advisory vote on the frequency of stockholder advisory votes on Kindred's executive compensation program;
6. to approve the Kindred 2011 Stock Incentive Plan;
7. to approve adjournments or postponements of the Kindred annual meeting, if necessary or appropriate, to permit further solicitation of proxies if there are not sufficient votes at the time of the Kindred annual meeting to adopt the merger agreement; and
8. to transact such other business as may properly come before the meeting.

Approval of the proposal to adopt the merger agreement by Kindred stockholders will also constitute approval of the issuance of Kindred common stock to RehabCare stockholders in the merger.

These items of business are described in the accompanying joint proxy statement/prospectus. Only stockholders of record at the close of business on April 26, 2011 are entitled to notice of the annual meeting and to vote at the Kindred annual meeting and any adjournments or postponements of the Kindred annual meeting.

**The Kindred board of directors unanimously recommends that you vote (i) FOR the proposal to adopt the Agreement and Plan of Merger; (ii) FOR the election of each of the director nominees named in this joint proxy statement/prospectus; (iii) FOR the ratification of the appointment of PricewaterhouseCoopers LLP as Kindred's independent registered public accounting firm for fiscal year 2011; (iv) FOR the approval, on an advisory basis, of Kindred's executive compensation program; (v) FOR the approval, on an advisory basis, of an annual advisory vote to approve Kindred's executive compensation program; (vi) FOR the approval of the Kindred 2011 Stock Incentive Plan; and (vii) FOR any motion to adjourn or postpone the Kindred annual meeting to a later date or dates if necessary or appropriate to solicit additional proxies.**

**Table of Contents**

In deciding to approve the merger agreement and the transactions contemplated by the merger agreement, including the merger, the Kindred board of directors considered a number of factors, including those listed beginning on page 42.

Your vote is very important. Whether or not you plan to attend the annual meeting in person, please complete, sign and date the enclosed proxy card(s) as soon as possible and return it in the postage-paid envelope provided, or vote your shares by telephone or over the internet as described in the accompanying joint proxy statement/prospectus. Submitting a proxy or voting by telephone or internet now will not prevent you from being able to vote at the annual meeting by attending in person and casting a vote. **However, if you do not return or submit your proxy or vote your shares by telephone or over the internet or vote in person at the Kindred annual meeting, the effect will be the same as a vote AGAINST the proposal to adopt the merger agreement.**

By order of the board of directors,

Joseph L. Landenwich

Senior Vice President, Corporate

Legal Affairs and Corporate Secretary

**Please vote your shares promptly. You can find instructions for voting on the enclosed proxy card.**

If you have questions, contact:

Kindred Healthcare, Inc.

680 South Fourth Street

Louisville, Kentucky 40202

(502) 596-7300

or

Georgeson Inc.

199 Water Street, 26<sup>th</sup> Floor

New York, New York 10038

(866) 767-8867

**YOUR VOTE IS VERY IMPORTANT.**

**Please complete, date, sign and return your proxy card(s) or vote your shares by telephone or over the internet at your earliest convenience so that your shares are represented at the Kindred annual meeting.**

Louisville, Kentucky, April 26, 2011

**Table of Contents**

**REHABCARE GROUP, INC.**

**7733 Forsyth Boulevard**

**Suite 2300**

**St. Louis, Missouri 63105**

**NOTICE OF SPECIAL MEETING OF STOCKHOLDERS**

**TO BE HELD ON MAY 26, 2011**

Dear Stockholder:

The officers and directors of RehabCare Group, Inc. cordially invite you to attend the special meeting of stockholders to be held at the Pierre Laclède Center, Second Floor, 7733 Forsyth Boulevard, St. Louis, Missouri 63105, on May 26, 2011 at 9:00 a.m., local time, unless adjourned or postponed to a later date. The special meeting will be held for the following purposes:

1. to adopt the Agreement and Plan of Merger, dated as of February 7, 2011, among Kindred Healthcare, Inc., Kindred Healthcare Development, Inc. and RehabCare Group, Inc., pursuant to which (a) RehabCare Group, Inc. will merge with and into Kindred Healthcare, Inc. (or, if either party so elects, Kindred Healthcare Development, Inc. will merge with and into RehabCare Group, Inc.) and (b) following the effective time, Kindred Healthcare, Inc. will pay cash and issue common stock to RehabCare Group, Inc. stockholders;
2. to approve adjournments or postponements of the RehabCare special meeting, if necessary or appropriate, to permit further solicitation of proxies if there are not sufficient votes at the time of the RehabCare special meeting to adopt the merger agreement; and
3. to transact such other business as may properly come before the special meeting.

These items of business are described in the accompanying joint proxy statement/prospectus. Only stockholders of record at the close of business on April 26, 2011, are entitled to notice of the special meeting and to vote at the special meeting and any adjournments or postponements of the special meeting.

**The RehabCare board of directors has unanimously approved and declared advisable the merger agreement and the transactions contemplated thereby, including the merger, and has unanimously determined that the merger agreement and the transactions contemplated thereby, including the merger, are fair to, and in the best interests of, RehabCare and RehabCare stockholders. The RehabCare board of directors unanimously recommends that you vote FOR the adoption of the merger agreement and FOR any motion to adjourn or postpone the RehabCare special meeting to a later date or dates if necessary or appropriate to solicit additional proxies.**

In deciding to approve the merger agreement and the transactions contemplated by the merger agreement, including the merger, the RehabCare board of directors considered a number of factors, including those listed beginning on page 45. When you consider the recommendation of the RehabCare board of directors, you should be aware that some of our directors and officers have interests in the merger that may be different from, or in addition to, the interests of RehabCare stockholders generally.

RehabCare stockholders who do not vote in favor of the proposal to adopt the merger agreement will have the right to seek appraisal of the fair value of their shares of RehabCare common stock if they deliver a demand for appraisal before the vote is taken on the merger agreement and comply with all the requirements of Delaware

**Table of Contents**

law, which are summarized in the accompanying joint proxy statement/prospectus and reproduced in their entirety in Annex E to the joint proxy statement/prospectus.

**Your vote is very important, regardless of the number of shares of RehabCare common stock you own.** The merger cannot be completed unless the merger agreement is adopted by the affirmative vote of the holders of a majority of the outstanding shares of RehabCare common stock entitled to vote thereon. Whether or not you plan to attend the special meeting in person, please complete, sign and date the enclosed proxy card(s) as soon as possible and return it in the postage-prepaid envelope provided, or vote your shares by telephone or over the internet as described in the accompanying joint proxy statement/prospectus. Submitting a proxy or voting by telephone or internet now will not prevent you from being able to vote at the special meeting by attending in person and casting a vote. **However, if you do not return or submit your proxy or vote your shares by telephone or over the internet or vote in person at the RehabCare special meeting, the effect will be the same as a vote AGAINST the proposal to adopt the merger agreement.**

By order of the board of directors,

Patricia S. Williams Senior Vice President, General Counsel and Corporate Secretary

**Please vote your shares promptly. You can find instructions for voting on the enclosed proxy card.**

If you have questions, contact:

RehabCare Group, Inc.

7733 Forsyth Boulevard

Suite 2300

St. Louis, Missouri 63105

Attention: Corporate Secretary

(800) 677-1238

or

MacKenzie Partners, Inc.

105 Madison Avenue

New York, New York 10016

proxy@mackenziepartners.com

Call Collect: (212) 929-5500

or

Toll-Free: (800) 322-2885

**YOUR VOTE IS VERY IMPORTANT.**



**Please complete, date, sign and return your proxy card(s) or vote your shares by telephone or over the internet at your earliest convenience so that your shares are represented at the RehabCare special meeting.**

St. Louis, Missouri, April 26, 2011

**Table of Contents**

**TABLE OF CONTENTS**

	<b>Page</b>
<u>QUESTIONS AND ANSWERS ABOUT THE KINDRED ANNUAL MEETING, THE REHABCARE SPECIAL MEETING AND THE MERGER</u>	1
<u>The Merger</u>	1
<u>Kindred Annual Meeting</u>	5
<u>Procedures</u>	5
<u>SUMMARY</u>	9
<u>Information About Kindred</u>	9
<u>Information About RehabCare</u>	9
<u>Information About Merger Subsidiary</u>	9
<u>The Merger</u>	9
<u>Opinions of Financial Advisors</u>	12
<u>Record Date; Outstanding Shares; Shares Entitled to Vote</u>	13
<u>Vote Required</u>	13
<u>Stock Ownership of Directors and Executive Officers</u>	14
<u>Interests of RehabCare Directors and Executive Officers in the Merger</u>	14
<u>Board of Directors and Management of Kindred Following the Merger</u>	14
<u>Listing of Kindred Common Stock and De-listing of RehabCare Common Stock</u>	15
<u>Appraisal Rights</u>	15
<u>Kindred's Dividend Policy</u>	15
<u>Conditions to Completion of the Merger</u>	15
<u>Regulatory Approvals Required for the Merger</u>	16
<u>Termination of the Merger Agreement</u>	16
<u>Termination Fees and Expenses</u>	18
<u>Litigation Related to the Merger</u>	18
<u>Material United States Federal Income Tax Consequences</u>	18
<u>Accounting Treatment</u>	18
<u>Risk Factors</u>	19
<u>Comparison of Rights of Stockholders</u>	19
<u>FINANCIAL SUMMARY</u>	20
<u>Comparative Market Price Data and Dividends</u>	20
<u>Selected Historical Consolidated Financial Data of Kindred</u>	21
<u>Selected Historical Consolidated Financial Data of RehabCare</u>	22
<u>Selected Unaudited Pro Forma Condensed Combined Financial Information</u>	23
<u>UNAUDITED COMPARATIVE PER SHARE INFORMATION</u>	25
<u>COMPARATIVE MARKET VALUE INFORMATION</u>	26
<u>RISK FACTORS</u>	27
<u>CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING STATEMENTS</u>	33
<u>THE MERGER</u>	35
<u>Overview</u>	35
<u>Background of the Merger</u>	35
<u>Kindred's Reasons for the Merger and Recommendation of Kindred's Board of Directors</u>	42
<u>RehabCare's Reasons for the Merger and Recommendation of RehabCare's Board of Directors</u>	45
<u>Opinion of Kindred's Financial Advisor</u>	49
<u>Opinion of RehabCare's Financial Advisor - CGMI</u>	55
<u>Opinion of RehabCare's Financial Advisor - RBC</u>	62
<u>Summary of RehabCare Projections</u>	71
<u>Stock Ownership of Directors and Executive Officers of Kindred and RehabCare</u>	75

**Table of Contents**

	<b>Page</b>
<u>Merger Consideration</u>	75
<u>Ownership of Kindred After the Merger</u>	75
<u>Interests of RehabCare Directors and Executive Officers in the Merger</u>	76
<u>Listing of Kindred Common Stock Issued for Share Consideration; De-listing and Deregistration of RehabCare Common Stock</u>	83
<u>Board of Directors and Management of Kindred Following the Merger</u>	83
<u>Regulatory Approvals Required for the Merger</u>	83
<u>Litigation Related to the Merger</u>	84
<u>Dividend Policy of Kindred Following the Merger</u>	85
<u>Financing Relating to the Merger</u>	85
<u>RehabCare Stockholders' Rights of Appraisal</u>	86
<u>Accounting Treatment</u>	89
<u>MATERIAL UNITED STATES FEDERAL INCOME TAX CONSEQUENCES</u>	90
<u>U.S. Holders</u>	90
<u>Non-U.S. Holders</u>	91
<u>Information Reporting and Backup Withholding</u>	92
<u>THE MERGER AGREEMENT</u>	94
<u>The Merger: Closing</u>	94
<u>Certificate of Incorporation and Bylaws of Kindred and the Surviving Corporation</u>	95
<u>Directors and Officers of the Surviving Corporation</u>	95
<u>Merger Consideration</u>	95
<u>Fractional Shares</u>	96
<u>Exchange Procedures</u>	96
<u>Exchange of Shares</u>	96
<u>Lost Stock Certificates</u>	97
<u>Effect of the Merger on RehabCare's Equity Awards</u>	97
<u>Representations and Warranties</u>	98
<u>Covenants and Agreements</u>	100
<u>Conditions to Completion of the Merger</u>	110
<u>Termination of the Merger Agreement</u>	112
<u>Termination Fees and Expenses</u>	114
<u>Amendments, Extensions and Waivers</u>	116
<u>THE KINDRED ANNUAL MEETING</u>	117
<u>Overview</u>	117
<u>Date, Time and Place of the Kindred Annual Meeting</u>	117
<u>Purposes of the Kindred Annual Meeting</u>	117
<u>Record Date; Outstanding Shares; Shares Entitled to Vote</u>	117
<u>Quorum and Vote Required</u>	117
<u>Voting of Proxies</u>	119
<u>ITEM 1 PROPOSAL TO ADOPT THE MERGER AGREEMENT</u>	119
<u>ITEM 2 PROPOSAL TO ELECT DIRECTORS</u>	119
<u>ITEM 3 PROPOSAL TO RATIFY THE APPOINTMENT OF PRICEWATERHOUSECOOPERS LLP AS KINDRED'S</u>	
<u>INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR FISCAL YEAR 2011</u>	122
<u>ITEM 4 ADVISORY VOTE ON KINDRED'S EXECUTIVE COMPENSATION PROGRAM</u>	123
<u>ITEM 5 ADVISORY VOTE ON THE FREQUENCY OF STOCKHOLDER ADVISORY VOTES ON KINDRED'S EXECUTIVE</u>	
<u>COMPENSATION PROGRAM</u>	124
<u>ITEM 6 PROPOSAL TO APPROVE THE KINDRED 2011 STOCK INCENTIVE PLAN</u>	125
<u>ITEM 7 PROPOSAL TO APPROVE ADJOURNMENT OR POSTPONEMENT OF THE KINDRED ANNUAL MEETING, IF</u>	
<u>NECESSARY OR APPROPRIATE, TO PERMIT FURTHER SOLICITATION OF PROXIES IF THERE ARE NOT SUFFICIENT</u>	
<u>VOTES AT THE TIME OF THE KINDRED ANNUAL MEETING TO ADOPT THE MERGER AGREEMENT</u>	131

**Table of Contents**

	<b>Page</b>
<u>Stock Ownership and Voting by Kindred's Directors and Executive Officers</u>	131
<u>How to Vote</u>	131
<u>Revoking Your Proxy</u>	132
<u>Other Voting Matters</u>	132
<u>Proxy Solicitations and Expenses</u>	133
<u>Adjournment or Postponement of the Kindred Annual Meeting</u>	133
<u>Stock Certificates</u>	133
<u>Other Business</u>	133
<u>Assistance</u>	133
<u>SECURITY OWNERSHIP OF CERTAIN KINDRED BENEFICIAL OWNERS AND MANAGEMENT</u>	134
<u>EXECUTIVE OFFICERS OF KINDRED</u>	136
<u>KINDRED CORPORATE GOVERNANCE AND BOARD MATTERS</u>	138
<u>Board Meetings and Committees</u>	138
<u>Compensation Committee Interlocks and Insider Participation</u>	139
<u>Director Independence</u>	139
<u>Board Leadership Structure and Role in Risk Oversight</u>	140
<u>Communications with the Board</u>	141
<u>Policies Governing Director Nominations</u>	141
<u>Director Attendance at Annual Meetings of Stockholders</u>	142
<u>Code of Business Conduct and Ethics</u>	142
<u>Section 16(a) Beneficial Ownership Reporting Compliance</u>	143
<u>KINDRED AUDIT COMMITTEE REPORT</u>	144
<u>KINDRED EXECUTIVE COMPENSATION COMMITTEE REPORT</u>	145
<u>SECURITIES AUTHORIZED FOR ISSUANCE UNDER KINDRED EQUITY COMPENSATION PLANS</u>	146
<u>KINDRED EXECUTIVE COMPENSATION</u>	148
<u>Compensation Discussion and Analysis</u>	148
<u>Evaluation of Compensation Policies and Practices as They Relate to Risk Management</u>	175
<u>2010 Summary Compensation Table</u>	176
<u>Grants of Plan-Based Awards Table Fiscal Year 2010</u>	179
<u>Outstanding Equity Awards at End of Fiscal Year 2010</u>	181
<u>Options Exercised and Stock Vested Table Fiscal Year 2010</u>	183
<u>Pension Benefits Table Fiscal Year 2010</u>	183
<u>Non-Qualified Deferred Compensation Table Fiscal Year 2010</u>	184
<u>Potential Payments upon Termination or Change in Control</u>	185
<u>Director Compensation</u>	192
<u>CERTAIN RELATIONSHIPS AND RELATED PERSON TRANSACTIONS OF KINDRED</u>	195
<u>THE REHABCARE SPECIAL MEETING</u>	196
<u>Overview</u>	196
<u>Date, Time and Place of the RehabCare Special Meeting</u>	196
<u>Purposes of the RehabCare Special Meeting</u>	196
<u>RehabCare Board of Directors Recommendation</u>	196
<u>Record Date; Outstanding Shares; Shares Entitled to Vote</u>	196
<u>Quorum and Vote Required</u>	197
<u>ITEM 1 PROPOSAL TO ADOPT THE MERGER AGREEMENT</u>	197
<u>ITEM 2 PROPOSAL TO APPROVE ADJOURNMENT OR POSTPONEMENT OF THE REHABCARE SPECIAL MEETING, IF NECESSARY OR APPROPRIATE, TO PERMIT FURTHER SOLICITATION OF PROXIES IF THERE ARE NOT SUFFICIENT VOTES AT THE TIME OF THE REHABCARE SPECIAL MEETING TO ADOPT THE MERGER AGREEMENT</u>	198

**Table of Contents**

	<b>Page</b>
<u>Stock Ownership and Voting by RehabCare's Directors and Executive Officers</u>	198
<u>How to Vote</u>	198
<u>Voting of Proxies</u>	199
<u>Revoking Your Proxy</u>	200
<u>Other Voting Matters</u>	200
<u>Proxy Solicitations and Expenses</u>	200
<u>Adjournment or Postponement of the RehabCare Special Meeting</u>	201
<u>Stock Certificates</u>	201
<u>Other Business</u>	201
<u>Assistance</u>	201
<u>INFORMATION ABOUT KINDRED</u>	202
<u>INFORMATION ABOUT REHABCARE</u>	204
<u>INFORMATION ABOUT MERGER SUBSIDIARY</u>	205
<u>COMPARISON OF RIGHTS OF STOCKHOLDERS</u>	206
<u>Material Differences in Stockholder Rights</u>	206
<u>Certain Similarities in Stockholder Rights</u>	209
<u>UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION</u>	212
<u>NOTES TO UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION</u>	216
<u>LEGAL MATTERS</u>	224
<u>EXPERTS</u>	224
<u>SUBMISSION OF FUTURE STOCKHOLDER PROPOSALS</u>	224
<u>WHERE YOU CAN FIND MORE INFORMATION</u>	225
<u>Kindred SEC Filings</u>	226
<u>RehabCare SEC Filings</u>	227
<u>ANNEXES</u>	
<u>Agreement and Plan of Merger</u>	A-1
<u>Opinion of Citigroup Global Markets Inc.</u>	B-1
<u>Opinion of RBC Capital Markets, LLC.</u>	C-1
<u>Opinion of Morgan Stanley &amp; Co. Incorporated.</u>	D-1
<u>Section 262 of the Delaware General Corporation Law.</u>	E-1
<u>Kindred 2011 Stock Incentive Plan.</u>	F-1

---

**Table of Contents**

**QUESTIONS AND ANSWERS ABOUT THE KINDRED ANNUAL MEETING, THE REHABCARE SPECIAL MEETING AND THE MERGER**

The following questions and answers briefly address some commonly asked questions about the stockholder meetings and the merger. They may not include all the information that is important to you. Kindred and RehabCare urge you to read carefully this entire joint proxy statement/prospectus, including the annexes and the other documents to which we have referred you. We have included page references in certain parts of this section to direct you to a more detailed description of each topic presented elsewhere in this joint proxy statement/prospectus.

**The Merger**

**Q: Why am I receiving this joint proxy statement/prospectus?**

A: The boards of directors of each of Kindred Healthcare, Inc., which we refer to as Kindred, and RehabCare Group, Inc., which we refer to as RehabCare, have unanimously agreed to the merger of RehabCare with and into Kindred pursuant to the terms of a merger agreement that is described in this joint proxy statement/prospectus. Either of Kindred or RehabCare may, prior to the effective time of the merger agreement, which we refer to as the effective time, elect to change the method of the transaction by providing for a merger of Kindred Healthcare Development, Inc., a wholly owned subsidiary of Kindred that we refer to as merger subsidiary, with and into RehabCare, and RehabCare will continue as the surviving corporation and a wholly owned subsidiary of Kindred. A copy of the merger agreement is attached to this joint proxy statement/prospectus as Annex A. See The Merger Agreement The Merger; Closing beginning on page 94. In order to complete the transactions contemplated by the merger agreement, including the merger, Kindred stockholders and RehabCare stockholders must adopt the merger agreement and all other conditions to the merger set forth in the merger agreement must be satisfied (or waived, to the extent permitted). Kindred stockholders will vote on the adoption of the merger agreement at the Kindred annual meeting, and RehabCare stockholders will vote on the adoption of the merger agreement at the RehabCare special meeting. Approval of the proposal to adopt the merger agreement by Kindred stockholders will also constitute approval of the issuance of Kindred common stock to RehabCare stockholders in the merger.

This joint proxy statement/prospectus also serves as a proxy statement for the annual meeting of Kindred stockholders, who will vote on matters not related to the merger. See Kindred Annual Meeting beginning on page 5 and The Kindred Annual Meeting Purposes of the Kindred Annual Meeting on page 117.

This joint proxy statement/prospectus contains important information about the merger agreement, the transactions contemplated by the merger agreement, including the merger, and the respective stockholder meetings of Kindred and RehabCare, which you should read carefully and in its entirety. The enclosed proxy materials allow you to grant a proxy or vote your shares by telephone or internet without attending your respective company's stockholder meeting in person.

**Your vote is very important. We encourage you to complete, date, sign and return your proxy card(s) or vote your shares by telephone or internet as soon as possible.**

**Q: What is the proposed transaction for which I am being asked to vote?**

A: Kindred and RehabCare stockholders are being asked to adopt the merger agreement at each respective company's stockholder meeting. Approval of the proposal to adopt the merger agreement by the Kindred stockholders will also constitute approval of the issuance of Kindred common stock to RehabCare stockholders in the merger. A copy of the merger agreement is attached to this joint proxy statement/prospectus as Annex A. The approval of the proposal to adopt the merger agreement by Kindred stockholders and RehabCare stockholders is a condition to the obligation of the parties to the merger agreement to complete the merger. See The Merger Agreement Conditions to Completion of the Merger beginning on page 110 and Summary Conditions to Completion of the Merger beginning on page 15.



---

**Table of Contents**

**Q: What will happen in the merger?**

A: In the merger, RehabCare will merge with and into Kindred, which will be the surviving corporation of the merger. However, either of Kindred or RehabCare may, prior to the effective time, elect to change the method of the transaction by providing for a merger of merger subsidiary with and into RehabCare, and RehabCare will continue as the surviving corporation and a wholly owned subsidiary of Kindred.

**Q: What will Kindred stockholders and RehabCare stockholders receive in the merger?**

A: Each share of Kindred common stock outstanding immediately prior to the effective time will remain outstanding and will not be affected by merger.

Each share of RehabCare common stock, other than shares owned by Kindred or RehabCare or their respective wholly owned subsidiaries, or shares owned by stockholders who have properly exercised and perfected appraisal rights under Delaware law, will be converted into the right to receive 0.471 shares of Kindred common stock and \$26.00 in cash, without interest. Kindred will not issue any fractional shares as a result of the merger. Instead, Kindred will pay cash for fractional shares of its common stock that RehabCare stockholders would otherwise be entitled to receive. For example, if you own 100 shares of RehabCare common stock, you will receive in exchange for your shares of RehabCare common stock (i) \$2,600 in cash, (ii) 47 shares of Kindred common stock, and (iii) the value of one share of Kindred common stock as calculated pursuant to the merger agreement, multiplied by 0.1, less any applicable withholding taxes.

**Q: How does the per share merger consideration to be received by RehabCare stockholders compare to the market price of RehabCare common stock prior to the announcement of the merger?**

A: The per share merger consideration represents a premium of 38.1% over the closing price of \$25.47 per share of RehabCare common stock on the New York Stock Exchange, which we refer to as NYSE, on February 7, 2011, the last trading day prior to the public announcement of the merger agreement, a 42.3% premium over RehabCare's volume-weighted average daily closing price of \$24.73 during the 30 trading days ending February 7, 2011, and a 60.4% premium over RehabCare's volume-weighted average daily closing price of \$21.93 during the 90 trading days ending February 7, 2011 (each based upon the closing price of \$19.48 per share of Kindred common stock on the NYSE on February 7, 2011).

**Q: Why are Kindred and RehabCare proposing the merger?**

A: The boards of directors of each of Kindred and RehabCare believe that the merger will provide strategic and financial benefits to the stockholders of both companies. The transaction will create the largest publicly traded post-acute healthcare services company in the United States with over \$6 billion in annual revenues and operations in 46 states. The transaction also will allow RehabCare stockholders to receive a significant cash payment, in addition to a continuing interest in the combined company. To review the reasons for the merger in greater detail, see The Merger Kindred's Reasons for the Merger and Recommendation of Kindred's Board of Directors beginning on page 42 and The Merger RehabCare's Reasons for the Merger and Recommendation of RehabCare's Board of Directors beginning on page 45.

**Q: What are the positions of the Kindred board of directors and the RehabCare board of directors regarding the merger and the proposals relating to the adoption of the merger agreement?**

A: Both boards of directors have unanimously approved and declared advisable the merger agreement and the transactions contemplated thereby, including the merger, and have unanimously determined that the merger agreement and the transactions contemplated thereby, including the merger, are fair to, and in the best interests of, their respective companies and stockholders. The Kindred board of directors



## Edgar Filing: KINDRED HEALTHCARE, INC - Form 424B3

unanimously recommends that Kindred stockholders vote **FOR** the proposal to adopt the merger agreement at the Kindred annual meeting. The RehabCare board of directors unanimously recommends that RehabCare stockholders vote **FOR** the proposal to adopt the merger agreement at the RehabCare special meeting. See The Merger Kindred s Reasons for the Merger and Recommendation of Kindred s Board of Directors

**Table of Contents**

beginning on page 42, The Merger RehabCare s Reasons for the Merger and Recommendation of RehabCare s Board of Directors beginning on page 45, Summary The Merger Kindred s Reasons for the Merger on page 11 and Summary The Merger RehabCare s Reasons for the Merger on page 11.

**Q: What vote is needed by Kindred stockholders to adopt the merger agreement?**

A: Kindred s adoption of the merger agreement requires the affirmative vote of a majority of the outstanding shares of Kindred common stock entitled to vote. If you are a Kindred stockholder and you fail to vote or abstain from voting, that will have the same effect as a vote **AGAINST** the adoption of the merger agreement. See The Kindred Annual Meeting Quorum and Vote Required beginning on page 117.

**Q: What vote is needed by RehabCare stockholders to adopt the merger agreement?**

A: RehabCare s adoption of the merger agreement requires the affirmative vote of a majority of the outstanding shares of RehabCare common stock entitled to vote. If you are a RehabCare stockholder and you fail to vote or abstain from voting, that will have the same effect as a vote **AGAINST** the adoption of the merger agreement. See The RehabCare Special Meeting Quorum and Vote Required on page 197.

**Q: Who will be the directors and officers of Kindred after the merger?**

A: The board of directors of Kindred will be comprised of the members elected during the Kindred annual meeting as described in more detail under The Kindred Annual Meeting Purposes of the Kindred Annual Meeting on page 117. Additionally, at or prior to the effective time, Kindred will appoint two current members of the RehabCare board of directors to serve as additional members of the Kindred board of directors, such service to be effective immediately following the effective time. Kindred anticipates that one of the two current members of the RehabCare board of directors to join the Kindred board of directors will be Dr. John Short, President and Chief Executive Officer of RehabCare, who is expected to be invited to join as non-executive vice chairman. It is anticipated that the executive officers of Kindred following the merger will be as set forth in The Merger Board of Directors and Management of Kindred Following the Merger on page 83.

**Q: Do RehabCare stockholders have appraisal rights?**

A: Yes. Under the Delaware General Corporation Law, which we refer to as the DGCL, holders of RehabCare common stock who do not vote for the adoption of the merger agreement have the right to seek appraisal of the fair value of their shares as determined by the Delaware Court of Chancery, which we refer to as the Court of Chancery, if the merger is completed, but only if they comply with all requirements of Delaware law, which are summarized in this joint proxy statement/prospectus. See The Merger RehabCare Stockholders Rights of Appraisal beginning on page 86 and Summary Appraisal Rights on page 15. Please see Annex E for the text of the applicable provisions of the DGCL as in effect with respect to this transaction.

**Q: What happens if I sell or transfer my shares of RehabCare common stock after the record date but before the special meeting?**

A: The record date for RehabCare stockholders entitled to vote at the RehabCare special meeting is earlier than both the date of the RehabCare special meeting and the consummation of the merger. If you sell or transfer your shares of RehabCare common stock after the record date but before the special meeting, you will, unless other arrangements are made (such as provision of a proxy), retain your right to vote at the special meeting but will transfer the right to receive the merger consideration to the person to whom you sell or transfer your shares.

**Q: What are the federal income tax consequences of the merger to RehabCare stockholders?**

A: In general, the exchange of shares of RehabCare common stock for cash and Kindred common stock pursuant to the merger will be a taxable transaction for U.S. federal income tax purposes. See Material

**Table of Contents**

United States Federal Income Tax Consequences beginning on page 90 for more information. We urge RehabCare stockholders to consult a tax advisor about the tax consequences of the exchange of the shares of RehabCare common stock for cash pursuant to the merger in light of the particular circumstances of each RehabCare stockholder.

**Q: When do you expect to complete the merger?**

A: If the merger agreement is adopted at the Kindred annual meeting and at the RehabCare special meeting, we expect to complete the merger as soon as possible after the satisfaction of the other conditions to the merger. The closing of the merger, which we refer to as the closing, will occur at a date and time agreed to by the parties, but no later than the third business day following the date on which all of the conditions to the merger, other than conditions that, by their nature are to be satisfied at the closing (but subject to satisfaction, or, to the extent permissible, waiver of those conditions at closing) have been satisfied or, to the extent permissible, waived, unless the parties agree on another time. Kindred and RehabCare expect that the transaction will be completed on or about June 30, 2011. However, we cannot assure you that such timing will occur or that the merger will be completed as expected. See The Merger Agreement The Merger; Closing beginning on page 94 .

**Q: What happens if the merger is not consummated?**

A: If the merger agreement is not adopted by Kindred or RehabCare stockholders or if the merger is not consummated for any other reason, RehabCare stockholders will not receive any payment for their shares in connection with the merger. Instead, RehabCare will remain an independent public company and RehabCare common stock will continue to be listed and traded on the NYSE. Under specified circumstances, RehabCare may be required to pay to Kindred, or may be entitled to receive from Kindred, a fee with respect to the termination of the merger agreement, as described under The Merger Agreement Termination Fees and Expenses beginning on page 114.

**Q: Should I send in my stock certificates now?**

A: **NO, PLEASE DO NOT SEND YOUR STOCK CERTIFICATE(S) WITH YOUR PROXY CARD(S).** If the merger is completed, RehabCare stockholders will be sent written instructions for sending in their stock certificates or, in the case of book-entry shares, for surrendering their book-entry shares. See The RehabCare Special Meeting Proxy Solicitations and Expenses on page 200, and The Merger Agreement Exchange of Shares beginning on page 96. Kindred stockholders will not need to send in their share certificates or surrender their book-entry shares.

**Q: Who can answer my questions about the merger?**

A: If you have any questions about the merger or your stockholder meeting, need assistance in voting your shares, or need additional copies of this joint proxy statement/prospectus or the enclosed proxy card(s), you should contact:  
*Kindred stockholders*

Georgeson Inc.

199 Water Street, 26<sup>th</sup> Floor

New York, New York 10038

Banks and Brokers call collect: (212) 440-9800

All others call toll-free: (866) 767-8867

**Table of Contents**

*RehabCare stockholders*

MacKenzie Partners, Inc.

105 Madison Avenue

New York, New York 10016

Call collect: (212) 929-5500 or toll-free: (800) 322-2885

**Kindred Annual Meeting**

**Q: In addition to the vote on the proposal to adopt the merger agreement what matters will be voted on at the Kindred annual meeting?**

A: In addition to the proposal to adopt the merger agreement described above, Kindred stockholders will be asked to vote on the following proposals:

the election of each of the director nominees named in this joint proxy statement/prospectus;

the ratification of the appointment of PricewaterhouseCoopers LLP as Kindred's independent registered public accounting firm for fiscal year 2011;

an advisory vote on Kindred's executive compensation program;

an advisory vote on the frequency of advisory votes on Kindred's executive compensation program;

the approval of the Kindred 2011 Stock Incentive Plan; and

approval of adjournments or postponements of the Kindred annual meeting, if necessary or appropriate, to permit further solicitation of proxies if there are not sufficient votes at the time of the Kindred annual meeting to adopt the merger agreement.

See The Kindred Annual Meeting Purposes of the Kindred Annual Meeting on page 117.

**Procedures**

**Q: When and where are the stockholder meetings?**

A: The Kindred annual meeting will be held at the offices of Kindred Healthcare, Inc., located at 680 South Fourth Street, Louisville, Kentucky 40202, at 10:00 a.m., local time, on May 26, 2011.

## Edgar Filing: KINDRED HEALTHCARE, INC - Form 424B3

The RehabCare special meeting will be held at the Pierre Laclede Center, Second Floor, 7733 Forsyth Boulevard, St. Louis, Missouri 63105, at 9:00 a.m., local time, on May 26, 2011.

**Q: Who is eligible to vote at the Kindred annual meeting and the RehabCare special meeting?**

A: Owners of Kindred common stock are eligible to vote at the Kindred annual meeting if they were stockholders of record at the close of business on April 26, 2011. See *The Kindred Annual Meeting* Record Date; Outstanding Shares; Shares Entitled to Vote on page 117. Owners of RehabCare common stock are eligible to vote at the RehabCare special meeting if they were stockholders of record at the close of business on April 26, 2011. See *The RehabCare Special Meeting* Record Date; Outstanding Shares; Shares Entitled to Vote on page 196.

**Q: What is a proxy?**

A: A proxy is a stockholder's legal designation of another person, referred to as a proxy, to vote shares of such stockholder's common stock at a stockholders' meeting. The document used to designate a proxy to vote your shares of Kindred or RehabCare common stock is called a proxy card.

**Q: What should I do now?**

A: You should read this joint proxy statement/prospectus carefully, including the annexes, and return your completed, signed and dated proxy card(s) by mail in the enclosed postage-paid envelope or submit your

## Table of Contents

voting instructions by telephone or over the internet as soon as possible so that your shares will be represented and voted at your stockholders meeting. A number of banks and brokerage firms participate in a program that also permits stockholders whose shares are held in street name to direct their vote by telephone or over the internet. This option, if available, will be reflected in the voting instructions from the bank or brokerage firm that accompany this joint proxy statement/prospectus. If your shares are held in an account at a bank or brokerage firm that participates in such a program, you may direct the vote of these shares by telephone or over the internet by following the voting instructions enclosed with the proxy form from the bank or brokerage firm. See *The Kindred Annual Meeting How to Vote* beginning on page 131 and *The RehabCare Special Meeting How to Vote* beginning on page 198.

### **Q: May I attend the stockholder meetings?**

A: All Kindred stockholders of record as of the close of business on April 26, 2011, the record date for the Kindred annual meeting, may attend the Kindred annual meeting. All RehabCare stockholders of record as of the close of business on April 26, 2011, the record date for the RehabCare special meeting, may attend the RehabCare special meeting. If your shares are held in street name by your broker, bank or other nominee, and you plan to attend the Kindred annual meeting or the RehabCare special meeting, you must present proof of your ownership of Kindred or RehabCare common stock, as applicable, such as a bank or brokerage account statement, to be admitted to the meeting. You also must present at the meeting a proxy issued to you by the holder of record of your shares.

### **Q: If I am going to attend my stockholder meeting, should I return my proxy card(s)?**

A: Yes. Returning your completed, signed and dated proxy card(s) or voting by telephone or over the internet ensures that your shares will be represented and voted at your stockholder meeting. See *The Kindred Annual Meeting How to Vote* beginning on page 131, and *The RehabCare Special Meeting How to Vote* beginning on page 198.

### **Q: How will my proxy be voted?**

A: If you complete, sign and date your proxy card(s) or vote by telephone or over the internet, your shares will be voted in accordance with your instructions. If you sign and date your proxy card(s) but do not indicate how you want to vote at your stockholder meeting:

for Kindred stockholders, your shares will be voted **FOR** the adoption of the merger agreement; **FOR** the election of the director nominees named in this joint proxy statement/prospectus; **FOR** the approval of Kindred's executive compensation program; **FOR** an annual advisory vote to approve Kindred's executive compensation program; **FOR** the adoption of the Kindred 2011 Stock Incentive Plan; **FOR** the proposal to approve adjournments or postponements of the Kindred annual meeting, if necessary or appropriate, to permit further solicitation of proxies if there are not sufficient votes at the time of the Kindred annual meeting to adopt the merger agreement; and **FOR** each of the other proposals described in this joint proxy statement/prospectus to be presented at the Kindred annual meeting; and

for RehabCare stockholders, your shares will be voted **FOR** the adoption of the merger agreement and **FOR** the proposal to approve adjournments or postponements of the RehabCare special meeting, if necessary or appropriate, to permit further solicitation of proxies if there are not sufficient votes at the time of the RehabCare special meeting to adopt the merger agreement.

### **Q: What if my broker holds my shares in street name?**

A:



## Edgar Filing: KINDRED HEALTHCARE, INC - Form 424B3

If a broker holds your shares for your benefit but not in your own name, your shares are in street name. A number of banks and brokerage firms participate in a program that also permits stockholders whose shares are held in street name to direct their vote by telephone or over the internet. If your shares are held in an account at a bank or brokerage firm that participates in such a program, you may direct the vote of these shares by telephone or over the internet by following the voting instructions enclosed with the proxy form from the bank or brokerage firm. The internet and telephone proxy procedures are designed to authenticate stockholders' identities, to allow stockholders to give their proxy voting instructions and to confirm that

## Table of Contents

those instructions have been properly recorded. Please follow the instructions from your bank or brokerage firm to vote your shares. Directing the voting of your shares will not affect your right to vote in person if you decide to attend your stockholder meeting. If your shares are held in street name by your broker, bank or other nominee, and you plan to attend the Kindred annual meeting or the RehabCare special meeting, you must present proof of your ownership of Kindred or RehabCare common stock, as applicable, such as a bank or brokerage account statement, to be admitted to the meeting. In addition, you must first obtain a signed and properly executed legal proxy from your bank, broker or other nominee to vote your shares held in street name at your stockholder meeting. Requesting a legal proxy prior to the deadline described above will automatically cancel any voting directions you have previously given by telephone or over the internet with respect to your shares.

### **Q. Can I change my vote after I mail my proxy card(s) or vote by telephone or over the internet?**

A: Yes. If you are a stockholder of record (that is, you hold your shares in your own name), you can change your vote by:

sending a written notice to the corporate secretary of the company in which you hold shares, bearing a date later than the date of the proxy, that is received prior to your stockholder meeting and states that you revoke your proxy;

voting again by telephone or over the internet by 11:59 p.m., Eastern Daylight Time, on May 25, 2011;

signing, dating and delivering a new valid proxy card(s) bearing a later date that is received prior to your stockholder meeting; or

attending your stockholder meeting and voting in person, although your attendance alone will not revoke your proxy.

If your shares of Kindred common stock or RehabCare common stock are held in street name by your broker, you will need to follow the instructions you receive from your broker to revoke or change your proxy.

### **Q. What if I don't provide my broker with instructions on how to vote?**

A: Generally, a broker may vote the shares that it holds for you only in accordance with your instructions. However, if your broker has not received your instructions, your broker has the discretion to vote on certain matters that are considered routine. A broker non-vote occurs if your broker cannot vote on a particular matter because your broker has not received instructions from you and because the proposal is not routine.

#### *Kindred stockholders*

If you wish to vote on the proposal to adopt the merger agreement, or any of the other proposals listed in the notice of Kindred's annual meeting, other than the ratification of the appointment of PricewaterhouseCoopers LLP as Kindred's independent registered public accounting firm, you must provide instructions to your broker because these proposals are not routine. If you do not provide your broker with instructions, your broker will not be authorized to vote with respect to adopting the merger agreement or the other non-routine proposals, and a broker non-vote will occur. This will have the same effect as a vote **AGAINST** the adoption of the merger agreement. A broker non-vote will have no effect on the other non-routine proposals. Broker non-votes will be counted for purposes of determining whether a quorum is present at the Kindred annual meeting.

#### *RehabCare stockholders*

If you wish to vote on the proposal to adopt the merger agreement, you must provide instructions to your broker because this proposal is not routine. If you do not provide your broker with instructions, your broker will not be authorized to vote with respect to the adoption of the merger agreement, and a broker non-vote



## **Table of Contents**

will occur. This will have the same effect as a vote **AGAINST** the adoption of the merger agreement. A broker non-vote will have no effect on the adjournment or postponement proposal. Broker non-votes will be counted for purposes of determining whether a quorum is present at the RehabCare special meeting.

### **Q: What if I abstain from voting?**

A: Your abstention from voting will have the following effect:

#### *Kindred stockholders*

Abstentions will be counted in determining whether a quorum is present at the Kindred annual meeting. If you abstain from voting with respect to the proposal to adopt the merger agreement, it will have the same effect as a vote **AGAINST** the adoption of the merger agreement. With respect to the other proposals listed in the notice of Kindred's annual meeting, abstentions will have the same effect as a vote **AGAINST** these proposals, except with respect to the proposal regarding the advisory vote on the frequency of advisory votes on Kindred's executive compensation program, for which your abstention will have no effect.

#### *RehabCare stockholders*

Abstentions will be counted in determining whether a quorum is present at the RehabCare special meeting. If you abstain from voting with respect to the proposal to adopt the merger agreement, it will have the same effect as a vote **AGAINST** the proposal to adopt the merger agreement. With respect to the proposal to adjourn or postpone the RehabCare special meeting, if necessary or appropriate, to solicit further proxies in connection with the merger agreement adoption proposal, abstentions will have the same effect as a vote **AGAINST** the proposal to adjourn or postpone the RehabCare special meeting.

### **Q: What does it mean if I receive multiple proxy cards?**

A: Your shares may be registered in more than one account, such as brokerage accounts and 401(k) accounts. It is important that you complete, sign, date and return each proxy card or voting instruction form you receive or vote using the telephone or over the internet as described in the instructions included with your proxy card(s) or voting instruction form(s).

### **Q: Where can I find more information about Kindred and RehabCare?**

A: You can find more information about Kindred and RehabCare from various sources described under "Where You Can Find More Information" beginning on page 225.

**Table of Contents**

**SUMMARY**

This summary highlights material information from this joint proxy statement/prospectus. It may not contain all of the information that is important to you. You should read carefully this entire joint proxy statement/prospectus and the other documents to which this joint proxy statement/prospectus refers to understand fully the merger and the related transactions. See *Where You Can Find More Information* beginning on page 225. Most items in this summary include a page reference directing you to a more complete description of those items.

**Information About Kindred (beginning on page 202)**

Kindred is a healthcare services company that through its subsidiaries operates hospitals, nursing and rehabilitation centers, assisted living facilities and a contract rehabilitation services business across the United States. As of December 31, 2010, Kindred's hospital division operated 89 long-term acute care (which we refer to as LTAC) hospitals (6,887 licensed beds) in 24 states and Kindred's nursing center division operated 226 nursing and rehabilitation centers and seven assisted living facilities (27,905 licensed beds) in 28 states. Kindred also operated a contract rehabilitation services business that provides rehabilitative services primarily in long-term care settings.

Kindred is headquartered in Louisville, Kentucky and was incorporated in 1998. Kindred's principal offices are located at 680 South Fourth Street, Louisville, Kentucky 40202 and its telephone number is (502) 596-7300. Kindred's website is [www.kindredhealthcare.com](http://www.kindredhealthcare.com). Kindred common stock is listed on the NYSE and trades under the symbol KND. Additional information about Kindred is included in documents incorporated by reference into this joint proxy statement/prospectus. See the section entitled *Where You Can Find More Information* beginning on page 225.

**Information About RehabCare (page 204)**

RehabCare is a leading provider of rehabilitation program management services in more than 1,250 hospitals, skilled nursing facilities, outpatient facilities and other long-term care facilities located in 42 states and Puerto Rico. RehabCare also owns and operates 29 LTAC hospitals and five rehabilitation hospitals. These hospitals provide total medical care to patients with medically complex diagnoses and to patients in need of rehabilitation.

RehabCare is headquartered in St. Louis, Missouri and was incorporated in 1982. RehabCare's principal offices are located at 7733 Forsyth Boulevard, Suite 2300, St. Louis, Missouri 63105 and its telephone number is (800) 677-1238. RehabCare's website is [www.rehabcare.com](http://www.rehabcare.com). RehabCare common stock is listed on the NYSE and trades under the symbol RHB. Additional information about RehabCare is included in documents incorporated by reference into this joint proxy statement/prospectus. See the section entitled *Where You Can Find More Information* beginning on page 225.

**Information About Merger Subsidiary (page 205)**

Kindred Healthcare Development, Inc., a wholly owned indirect subsidiary of Kindred, is a Delaware corporation formed on January 31, 2011 for the purpose of effecting the merger in case either party elects to change the method of effecting the transaction by providing for a merger of merger subsidiary with and into RehabCare, which we refer to as the subsidiary merger election. If either party makes the subsidiary merger election, then merger subsidiary will merge with and into RehabCare at the effective time with RehabCare continuing as the surviving corporation and a wholly owned subsidiary of Kindred.

**The Merger (beginning on page 35)**

Upon the terms and subject to the conditions of the merger agreement, and in accordance with Delaware law, at the effective time, RehabCare will merge with and into Kindred. The separate corporate existence of

## **Table of Contents**

RehabCare will cease and Kindred will continue as the surviving corporation after the merger. However, the merger agreement provides that either Kindred or RehabCare may make the subsidiary merger election to effect the merger by providing for merger subsidiary to merge with and into RehabCare with RehabCare continuing as the surviving corporation. We refer to the surviving corporation in this joint proxy statement/prospectus as Kindred, or in the case of a subsidiary merger election, the surviving corporation.

We encourage you to read the merger agreement, which governs the merger and is attached as Annex A to this joint proxy statement/prospectus, because it sets forth the terms of the merger.

### ***Merger Consideration (page 75)***

*Kindred Stockholders.* Each share of Kindred common stock outstanding immediately prior to the effective time will remain outstanding and will not be altered by the merger.

*RehabCare Stockholders.* At the effective time, each share of RehabCare common stock outstanding immediately prior to the effective time will be converted into the right to receive 0.471 shares of Kindred common stock (which we refer to as the exchange ratio) and \$26.00 in cash, without interest (collectively, we refer to this as the merger consideration).

No fractional shares of Kindred common stock will be issued in the merger. Instead, holders of RehabCare common stock who would otherwise be entitled to receive a fractional share of Kindred common stock will receive an amount in cash (rounded up to the nearest whole cent and without interest) determined by multiplying the fractional share interest by the volume-weighted average price (rounded to the nearest one-tenth of a cent) of one share of Kindred common stock on the NYSE for the five trading days immediately prior to the closing date of the merger.

The exchange ratio is a fixed ratio. Therefore, the number of shares of Kindred common stock to be received by holders of RehabCare common stock as a result of the merger will not change between now and the time the merger is completed to reflect changes to the trading price of Kindred common stock.

*Ownership of Kindred After the Merger.* Upon completion of the merger, former RehabCare stockholders will own approximately 23% of Kindred's outstanding common stock, based upon the number of shares of Kindred and RehabCare common stock issued and outstanding as of February 7, 2011.

### ***Effect of the Merger on RehabCare's Equity Awards (beginning on page 97)***

Upon completion of the merger, each outstanding option to purchase RehabCare common stock will be canceled in exchange for the right to receive an amount of cash equal to \$26.00 plus the value of the stock portion of the merger consideration for a share of RehabCare common stock, less the exercise price of the option. Any options with an exercise price greater than the value of the merger consideration will be canceled without consideration as of the effective time.

Each RehabCare restricted share that is outstanding immediately prior to the merger and is subject solely to time-based vesting will fully vest and the holder will be entitled to receive the merger consideration for each such restricted share. With respect to RehabCare restricted shares that are outstanding immediately prior to the merger and are subject to performance-based vesting, the number of restricted shares that would vest upon attainment of target performance will vest and the holder will be entitled to receive the merger consideration for those vested shares. Any RehabCare restricted shares that do not vest as of the effective time will be canceled without consideration as of the effective time.

Participants in the RehabCare Employee Stock Purchase Plan, or ESPP, will be entitled to receive the merger consideration for shares of RehabCare common stock purchased through the ESPP prior to the effective time. No new offering periods under the ESPP will commence after the date of the merger agreement.

## **Table of Contents**

### ***Financing Relating to the Merger (beginning on page 85)***

Funds needed to complete the merger include funds to:

pay RehabCare stockholders (and holders of RehabCare's equity-based interests and any payable cash awards) amounts due to them under the merger agreement, which based upon the shares (and RehabCare's other equity-based interests) outstanding as of February 7, 2011 would total approximately \$653 million;

refinance RehabCare's and Kindred's outstanding indebtedness, which, as of March 31, 2011, was approximately \$719 million; and

pay fees and expenses related to the merger and the debt financing, will be funded through a combination of:

receipts from the debt financing in an aggregate principal amount of approximately \$1.600 billion; and

existing cash balances of Kindred and RehabCare.

Kindred's obligation to consummate the merger is subject to receipt of the proceeds from the debt financing on the terms and conditions set forth in the debt commitment letter from J.P. Morgan Securities LLC, which we refer to as JPMorgan, JPMorgan Chase Bank, N.A., which we refer to as JPMorgan Chase Bank, Citigroup Global Markets Inc., which we refer to as CGMI, and, together with Citibank, N.A., Citicorp North America, Inc. and/or any of their affiliates, which we refer to as Citi, and Morgan Stanley Senior Funding, Inc., which we refer to as MSSF, and collectively, the debt commitment parties. The financing commitments are in an aggregate amount of \$1.900 billion and are subject to certain conditions, as further described under The Merger Financing Relating to Merger beginning on page 85. Kindred has agreed under the merger agreement to use its reasonable best efforts to obtain the financing and RehabCare has agreed under the merger agreement to cooperate with Kindred's efforts to secure the financing.

### ***Kindred's Reasons for the Merger (beginning on page 42)***

In evaluating the merger, the Kindred board of directors consulted with Kindred's management, as well as Kindred's legal and financial advisors and, in reaching its decision to approve the merger agreement and the transactions contemplated thereby and to recommend that Kindred stockholders adopt the merger agreement, the Kindred board of directors considered a number of factors, including those listed in The Merger Kindred's Reasons for the Merger and Recommendation of Kindred's Board of Directors beginning on page 42.

### ***RehabCare's Reasons for the Merger (beginning on page 45)***

In evaluating the merger, the RehabCare board of directors consulted with RehabCare's management, as well as RehabCare's legal and financial advisors and, in reaching its decision to approve the merger agreement and the transactions contemplated thereby and to recommend that RehabCare stockholders adopt the merger agreement, the RehabCare board of directors considered a number of factors, including those listed in The Merger RehabCare's Reasons for the Merger and Recommendation of RehabCare's Board of Directors beginning on page 45.

### ***Recommendations of the Boards of Directors to Kindred Stockholders and RehabCare Stockholders (beginning on page 42 for Kindred Stockholders and page 45 for RehabCare Stockholders)***

*Kindred Stockholders.* The Kindred board of directors has unanimously determined that the merger agreement and the transactions contemplated by the merger agreement, including the merger, are advisable and





## **Table of Contents**

fair to, and in the best interests of, Kindred and its stockholders and has unanimously approved the merger agreement and the transactions contemplated by the merger agreement, including the merger. The Kindred board of directors has resolved to recommend that Kindred stockholders vote **FOR** the adoption of the merger agreement. Approval of the adoption of the merger agreement by Kindred stockholders will also constitute approval of the issuance of Kindred common stock to RehabCare stockholders in the merger. The Kindred board of directors also has resolved to recommend that Kindred stockholders vote on the other proposals to be discussed at the Kindred annual meeting in the manner indicated below in *The Kindred Annual Meeting* *Purposes of the Kindred Annual Meeting* on page 117.

*RehabCare Stockholders.* The RehabCare board of directors has unanimously determined that the merger agreement and the transactions contemplated by the merger agreement, including the merger, are advisable and fair to, and in the best interests of, RehabCare and its stockholders and has unanimously approved the merger agreement and the transactions contemplated by the merger agreement, including the merger. The RehabCare board of directors has resolved to recommend that RehabCare stockholders vote **FOR** the adoption of the merger agreement.

**Opinions of Financial Advisors (beginning on page 49 for Kindred's financial advisor and page 55 for RehabCare's financial advisors)**

### ***Opinion of Kindred's Financial Advisor***

Morgan Stanley & Co. Incorporated, which we refer to as Morgan Stanley, was retained by the Kindred board of directors to provide it with financial advisory services and a financial opinion in connection with the proposed transaction. The Kindred board of directors selected Morgan Stanley to act as its financial advisor based upon Morgan Stanley's qualifications, expertise and reputation and its knowledge of the business and affairs of Kindred. On February 6, 2011, Morgan Stanley rendered its oral opinion to the Kindred board of directors, subsequently confirmed in writing, that, as of February 7, 2011, and based upon and subject to the assumptions made, matters considered and qualifications and limitations on the scope of review undertaken by Morgan Stanley as set forth in its opinion, the merger consideration to be paid by Kindred pursuant to the merger agreement was fair from a financial point of view to Kindred.

The full text of Morgan Stanley's written opinion, dated February 7, 2011, is attached as Annex D to this joint proxy statement/prospectus. You should read the opinion in its entirety for a discussion of the assumptions made, procedures followed, factors considered and limitations upon the review undertaken by Morgan Stanley in rendering the opinion. This summary is qualified in its entirety by reference to the full text of such opinion. Morgan Stanley's opinion is directed to the Kindred board of directors and addresses only the fairness from a financial point of view of the merger consideration pursuant to the merger agreement to Kindred as of the date of the opinion. It does not address any other aspects of the merger and does not constitute a recommendation to any stockholder of Kindred or RehabCare on how to vote at any stockholders' meeting related to the merger or take any other action with respect to the proposed transaction. See *The Merger* *Opinion of Kindred's Financial Advisor* beginning on page 49.

### ***Opinions of RehabCare's Financial Advisors***

*Opinion of CGMI.* In connection with the merger, RehabCare retained CGMI to render an opinion to the RehabCare board of directors as to the fairness, from a financial point of view, of the merger consideration to be received in the merger by holders of RehabCare common stock. On February 7, 2011, at a meeting of the RehabCare board of directors, CGMI rendered to the RehabCare board of directors an oral opinion, which was confirmed by delivery of a written opinion dated February 7, 2011, to the effect that, as of that date and based upon and subject to the factors, assumptions and limitations described in its opinion, the merger consideration was fair, from a financial point of view, to the holders of RehabCare common stock (other than shares of RehabCare common stock owned by RehabCare, Kindred or their wholly owned subsidiaries, or as to which dissenters' rights are perfected).

---

## **Table of Contents**

The full text of CGMI's written opinion, which is attached to this joint proxy statement/prospectus as Annex B, sets forth the assumptions made, procedures followed, matters considered and limitations on the review undertaken. The summary of CGMI's opinion in this joint proxy statement/prospectus is qualified in its entirety by reference to the full text of its written opinion. CGMI's opinion was provided to the RehabCare board of directors in connection with its evaluation of the merger consideration from a financial point of view. CGMI's opinion does not address any other aspects or implications of the merger and does not constitute a recommendation to any stockholder as to how such stockholder should vote or act on any matters relating to the proposed merger. CGMI's opinion does not address the underlying business decision of RehabCare to effect the merger, the relative merits of the merger as compared to any alternative business strategies that might exist for RehabCare or the effect of any other transaction in which RehabCare may engage. See The Merger Opinion of RehabCare's Financial Advisor CGMI beginning on page 55.

*Opinion of RBC.* On February 7, 2011, RBC Capital Markets, LLC (which we refer to as RBC) delivered its oral opinion, subsequently confirmed in writing, to the RehabCare board of directors to the effect that, as of such date, based upon and subject to the factors and assumptions made, matters considered and limits of the review undertaken by RBC set forth therein, the merger consideration was fair from a financial point of view to the holders of RehabCare common stock. The full text of RBC's written opinion, dated February 7, 2011, which, among other things, sets forth the assumptions made, procedures followed, matters considered, and limitations of the review undertaken by RBC in connection with the opinion, is attached as Annex C. RBC provided its opinion for the information and assistance of the RehabCare board of directors in connection with its consideration of the merger. All advice and opinions (written and oral) rendered by RBC were intended for the use and benefit of the RehabCare board of directors. The RBC opinion was not a recommendation to any stockholder as to how such stockholder should vote with respect to the merger. RehabCare stockholders are urged to read the RBC opinion in its entirety. See The Merger Opinion of RehabCare's Financial Advisor RBC beginning on page 62.

### **Record Date; Outstanding Shares; Shares Entitled to Vote (page 117 for Kindred and page 196 for RehabCare)**

*Kindred Stockholders.* The record date for the Kindred annual meeting is April 26, 2011. This means that you must be a stockholder of record of Kindred common stock at the close of business on April 26, 2011, in order to vote at the Kindred annual meeting. You are entitled to one vote for each share of Kindred common stock you own. At the close of business on April 25, 2011, there were 39,952,468 shares of Kindred common stock outstanding and entitled to vote at the Kindred annual meeting.

*RehabCare Stockholders.* The record date for the special meeting of RehabCare stockholders is April 26, 2011. This means that you must be a stockholder of record of RehabCare common stock at the close of business on April 26, 2011 in order to vote at the RehabCare special meeting. You are entitled to one vote for each share of RehabCare common stock you own. At the close of business on April 25, there were 25,513,079 shares of RehabCare common stock outstanding and entitled to vote at the RehabCare special meeting. A majority of the shares of RehabCare common stock outstanding at the close of business on the record date and entitled to vote, present in person or represented by proxy, at the special meeting constitutes a quorum for purposes of the special meeting.

### **Vote Required (beginning on page 117 for Kindred and page 197 for RehabCare)**

*Kindred.* Approval of the proposal to adopt the merger agreement requires the affirmative vote of at least a majority of the outstanding shares of Kindred common stock entitled to vote at the annual meeting. With respect to the election of directors, each director-nominee will be elected if the votes cast **FOR** such director-nominee's election exceed the votes cast **AGAINST** such nominee's election. With respect to the advisory vote on the frequency of stockholder advisory votes on executive compensation, the choice receiving the most **FOR** votes will be the frequency that has been selected by stockholders. Approval of all of the other proposals at the Kindred annual meeting requires the affirmative vote of a majority of the shares of Kindred common stock present in person or represented by proxy and entitled to vote at the Kindred annual meeting.

## **Table of Contents**

**RehabCare.** Approval of the proposal to adopt the merger agreement requires the affirmative vote of at least a majority of the outstanding shares of RehabCare common stock entitled to vote at the special meeting. Approval of the proposal to adjourn or postpone the special meeting requires the affirmative vote of the majority of stockholders present, in person or by proxy, and entitled to vote at the special meeting, whether or not a quorum is present.

### **Stock Ownership of Directors and Executive Officers (page 75 for Kindred and page 75 for RehabCare)**

**Kindred.** At the close of business on April 25, 2011, the directors and executive officers of Kindred beneficially owned and were entitled to vote 1,298,174 shares of Kindred common stock, collectively representing approximately 3.2% of the shares of Kindred common stock outstanding on that date.

**RehabCare.** At the close of business on April 25, 2011, the directors and executive officers of RehabCare beneficially owned and were entitled to vote 600,927 shares of RehabCare common stock, collectively representing approximately 2.4% of the shares of RehabCare common stock outstanding on that date.

### **Interests of RehabCare Directors and Executive Officers in the Merger (beginning on page 76)**

In considering the recommendation of RehabCare board of directors, you should be aware that RehabCare directors and executive officers may have financial interests in the merger that are in addition to or different from their interests as stockholders and the interests of RehabCare stockholders generally and may present actual or potential conflicts of interest. RehabCare's board of directors was aware of these interests and considered them, among other matters, in unanimously approving the merger agreement and the transactions contemplated thereby. You should consider these and other interests of RehabCare directors and executive officers that are described in this joint proxy statement/prospectus.

Such interests of RehabCare directors and executive officers include:

the accelerated vesting of restricted shares held by RehabCare directors and executive officers;

the cash payment for stock options held by RehabCare directors and executive officers;

the payment of severance benefits pursuant to agreements with RehabCare executive officers in connection with certain qualifying terminations of employment that may occur following the merger;

the accelerated vesting and payment of long-term and annual cash awards issued to RehabCare executive officers in accordance with the terms of the applicable plans pursuant to which such awards were granted;

the appointment of two current members of the RehabCare board of directors to serve as additional members of the Kindred board of directors, such service to be effective as of immediately following the effective time (Kindred anticipates that one of the two current members of the RehabCare board of directors to join the Kindred board of directors will be Dr. John Short, President and Chief Executive Officer of RehabCare, who is expected to be invited to join as non-executive vice chairman);

the appointment of three current executive officers of RehabCare to serve as officers of Kindred, such service to be effective as of immediately following the time of the merger and to be subject to the terms of new employment agreements; and

the right to continued indemnification and insurance coverage by Kindred for acts or omissions occurring prior to the merger.

### **Board of Directors and Management of Kindred Following the Merger (page 83)**

## Edgar Filing: KINDRED HEALTHCARE, INC - Form 424B3

At the effective time, the directors and officers of Kindred shall continue as the directors and officers of Kindred, respectively. The merger agreement provides that at or prior to the effective time, Kindred will appoint

---

## **Table of Contents**

two current members of the RehabCare board of directors to serve as additional members of the Kindred board of directors, such service to be effective as of immediately following the effective time. Kindred anticipates that one of the two current members of the RehabCare board of directors to join the Kindred board of directors will be Dr. John Short, who is expected to be invited to join as non-executive vice chairman. Kindred also anticipates that three of the current officers of RehabCare will become officers of Kindred following the effective time.

### **Listing of Kindred Common Stock and De-listing of RehabCare Common Stock (page 83)**

It is a condition to the merger that the shares of common stock to be issued by Kindred in connection with the merger be authorized for listing on the NYSE subject to official notice of issuance. Shares of Kindred common stock are currently traded on the NYSE under the symbol KND. Shares of RehabCare common stock are currently traded on the NYSE under the symbol RHB. If the merger is completed, RehabCare common stock will no longer be listed on the NYSE and will be deregistered under the Securities Exchange Act of 1934, as amended, which we refer to as the Exchange Act, and RehabCare will no longer file periodic reports with the SEC.

### **Appraisal Rights (beginning on page 86)**

RehabCare stockholders have the right under Delaware law to dissent from the approval and adoption of the merger agreement, to exercise appraisal rights and to receive payment in cash of the judicially determined fair value for their shares, plus interest, if any, on the amount determined to be the fair value, in accordance with Delaware law. The fair value of shares of RehabCare common stock, as determined in accordance with Delaware law, may be more or less than, or equal to, the merger consideration to be paid to non-dissenting stockholders in the merger. To preserve their rights, RehabCare stockholders who wish to exercise appraisal rights must not vote in favor of the proposal to adopt the merger agreement and must follow the specific procedures provided under Delaware law for perfecting appraisal rights. Dissenting stockholders must precisely follow these specific procedures to exercise appraisal rights or their appraisal rights may be lost. These procedures are described in this joint proxy statement/prospectus, and a copy of Section 262 of the DGCL (which we refer to as Section 262), which grants appraisal rights and governs such procedures, is attached as [Annex E](#) to this joint proxy statement/prospectus. See *The Merger RehabCare Stockholders Rights of Appraisal* beginning on page 86. Appraisal rights are not available to holders of Kindred common stock.

### **Kindred's Dividend Policy (page 85)**

Kindred and RehabCare stockholders have historically not received quarterly dividends. The payment of dividends by Kindred after the merger will be subject to the determination of the Kindred board of directors. Decisions by the Kindred board of directors regarding whether or not to pay dividends on Kindred common stock and the amount of any dividends will be based on compliance with the DGCL, compliance with agreements governing Kindred's indebtedness, earnings, cash requirements, results of operations, cash flows and financial condition and other factors that the Kindred board of directors considers important.

### **Conditions to Completion of the Merger (beginning on page 110)**

The respective obligations of Kindred and RehabCare to complete the merger are subject to the satisfaction or, if permissible, waiver, of certain conditions, including:

the adoption of the merger agreement by the Kindred stockholders at the Kindred annual meeting and by the RehabCare stockholders at the RehabCare special meeting;

the absence of legal prohibitions on the consummation of the merger;

the expiration or early termination of the waiting periods applicable to the consummation of the merger under the HSR Act (as defined below) (which waiting period was terminated on April 8, 2011) and any similar non-U.S. laws;

## **Table of Contents**

the authorization for listing on the NYSE, subject to official notice of issuance, of the shares of Kindred common stock to be issued in the merger;

the effectiveness of the registration statement on Form S-4 of which this joint proxy statement/prospectus forms a part and absence of any stop order by the SEC, or proceedings of the SEC seeking a stop order, suspending the effectiveness of such registration statement; and

the accuracy of the representations and warranties of the parties and compliance by the parties with their respective obligations under the merger agreement.

The obligation of Kindred to consummate the merger is also subject to obtaining certain regulatory approvals or licenses and delivery of certain notices by RehabCare as set forth in the merger agreement and consummation of the financing on terms contemplated by the debt commitment letter.

### **Regulatory Approvals Required for the Merger (beginning on page 83)**

The completion of the merger is subject to compliance with the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended (which we refer to as the HSR Act ), which requires the filing of notifications with the U.S. Federal Trade Commission (which we refer to as the FTC ) and the Antitrust Division of the U.S. Department of Justice (which we refer to as the Antitrust Division ) and the expiration or termination of the applicable waiting period. Kindred and RehabCare initially filed the required notifications on February 11, 2011 and, on April 8, 2011, the FTC notified Kindred that the FTC had granted early termination of the waiting period. The obligation of Kindred to consummate the merger is also subject to obtaining certain regulatory approvals or licenses and delivery of certain notices by RehabCare as set forth in the merger agreement.

### **Termination of the Merger Agreement (beginning on page 112)**

The merger agreement may be terminated at any time before the effective time, whether or not both the Kindred stockholders and the RehabCare stockholders have adopted the merger agreement:

by mutual written agreement of Kindred and RehabCare;

by either Kindred or RehabCare if:

the merger has not been consummated on or before September 30, 2011 (which we refer to as the outside date ), unless the breach of the merger agreement by the party seeking to terminate resulted in the failure to consummate the merger by the outside date;

any applicable law, judgment or decree makes consummation of the merger illegal or otherwise prohibited or permanently enjoins consummation of the merger and such injunction has become final and non-appealable, unless the breach of the merger agreement by the party seeking to terminate was the direct cause of such action;

the adoption of the merger agreement by the Kindred stockholders was not obtained at the Kindred annual stockholder meeting (or adjournment or postponement of the meeting); or

the adoption of the merger agreement by the RehabCare stockholders was not obtained at the RehabCare special meeting (or adjournment or postponement of the meeting); or

by Kindred if:

RehabCare breaches its representations or warranties or fails to perform any covenants set forth in the merger agreement, which breach or failure would cause the conditions to the closing relating to the accuracy of the representations and warranties of RehabCare or compliance by RehabCare with its obligations under the merger agreement not to be satisfied and such breach, if curable, is not cured by the earlier of the outside date or 30 days after the receipt of written notice thereof or is incapable of being cured, provided that, at the time of the delivery of written notice of breach, Kindred is not in material breach of its obligations under the merger agreement;

**Table of Contents**

the RehabCare board of directors has effected a RehabCare board adverse recommendation change (as defined on page 104);

RehabCare intentionally and knowingly breaches in any material respect its non-solicitation obligations set forth in the merger agreement;

a third party not affiliated with Kindred commences a tender or exchange offer relating to RehabCare securities, and RehabCare does not disclose a recommendation that its stockholders reject such tender or exchange offer within 10 business days after such offer is first made; or

the RehabCare board of directors fails to publicly confirm its recommendation that the RehabCare stockholders approve the adoption of the merger agreement within 10 business days of a written request by Kindred that it do so, provided that Kindred cannot make such a request more frequently than once in any 30 calendar day period;

by RehabCare if:

Kindred breaches its representations or warranties or fails to perform any covenants set forth in the merger agreement, which breach or failure would cause the conditions to the closing relating to the accuracy of the representations and warranties of Kindred or compliance by Kindred with its obligations under the merger agreement not to be satisfied and such breach, if curable, is not cured by the earlier of the outside date or 30 days after the receipt of written notice thereof or is incapable of being cured, provided that, at the time of the delivery of written notice of breach, Kindred is not in material breach of its obligations under the merger agreement;

the Kindred board of directors has effected a Kindred board adverse recommendation change (as defined on page 105);

Kindred intentionally and knowingly breaches in any material respect its obligations related to the Kindred board recommendation;

the Kindred board of directors fails to publicly confirm its recommendation that the Kindred stockholders approve the adoption of the merger agreement within 10 business days of a written request by RehabCare that it do so, provided that RehabCare cannot make such a request more frequently than once in any 30 calendar day period;

at any time prior to the adoption of the merger agreement by RehabCare stockholders, RehabCare enters into an alternative acquisition agreement with respect to a superior proposal (as defined on page 104), provided that (1) RehabCare did not violate its non-solicitation obligations under the merger agreement, (2) after receipt of the superior proposal, the RehabCare board of directors determines in good faith, after consultation with outside legal counsel, that failure to effect an adverse change in its recommendation to stockholders to adopt the merger agreement would reasonably be expected to be inconsistent with its fiduciary duties under applicable law, and the RehabCare board of directors approves or recommends to RehabCare stockholders the superior proposal, (3) RehabCare provides Kindred with a written notice that it intends to change its recommendation, (4) RehabCare thereafter satisfies its obligations to negotiate with Kindred in good faith, during a three-day period following such written notice, to make adjustments to the terms and conditions of the merger agreement, (5) the RehabCare board of directors determines in good faith, after consultation with outside counsel, after such three business day period if Kindred makes a binding proposal to amend the merger agreement, that failure to effect an adverse change in recommendation would reasonably be expected to be inconsistent with its fiduciary duties under applicable law, and (6) RehabCare, concurrently with the termination of the merger agreement, pays to Kindred the \$26 million termination fee discussed under The Merger Agreement – Termination Fees and Expenses beginning on page 114; or





---

**Table of Contents**

(1) all conditions to the obligation of Kindred to effect the merger have been satisfied (other than the conditions relating to the authorization of Kindred common stock for listing on the NYSE, the delivery of a certificate signed by an executive officer of RehabCare and the consummation of the financing contemplated by the debt commitment letter) and assuming for such purposes that the effective time shall be deemed to be the time of delivery of RehabCare's notice set forth below and the time RehabCare terminates the merger agreement, (2) the marketing period provided for with respect to the financing to be obtained by Kindred has elapsed, (3) Kindred (and in the event of a merger subsidiary election, merger subsidiary) fails to complete the closing during the period (which may not be less than three business days, commencing with the first business day) following the date on which RehabCare has given written notice to Kindred that it believes the conditions to the merger (other than conditions that by their nature are to be satisfied at the closing) have been satisfied or waived, and (4) RehabCare stands ready, willing and able to consummate the closing following delivery of such notice.

**Termination Fees and Expenses (beginning on page 114)**

If the merger agreement is terminated in certain circumstances described under [The Merger Agreement](#) [Termination of the Merger Agreement](#) beginning on page 112:

RehabCare may be obligated to pay to Kindred a termination fee of \$26 million; or

Kindred may be obligated to pay RehabCare a termination fee of \$62 million.

In general, each of Kindred and RehabCare will bear its own expenses in connection with the merger agreement and the related transactions.

**Litigation Related to the Merger (page 84)**

Kindred and RehabCare are aware of five purported class actions (of which the three filed in the Court of Chancery have been consolidated into one purported class action) filed by purported stockholders of RehabCare relating to the merger against RehabCare, RehabCare's directors, Kindred and, in one case, CGMI. The complaints allege, among other things, that RehabCare's directors breached their fiduciary duties to the RehabCare stockholders, and that RehabCare and Kindred aided and abetted RehabCare's directors in such alleged breaches of their fiduciary duties. The plaintiffs seek injunctive relief preventing the defendants from consummating the transactions contemplated by the merger agreement, or in the event the defendants consummate the transactions contemplated by the merger agreement, rescission of such transactions and attorneys' fees and expenses. Kindred, RehabCare and the other defendants believe that the lawsuits are without merit and intend to defend against them.

**Material United States Federal Income Tax Consequences (beginning on page 90)**

The merger will be a taxable transaction to U.S. holders of RehabCare common stock for U.S. federal income tax purposes. You should read [Material United States Federal Income Tax Consequences of the Merger](#) beginning on page 90 for a more complete discussion of the U.S. federal income tax consequences of the transaction. Tax matters can be complicated, and the tax consequences of the transaction to RehabCare stockholders will depend on their particular tax situations. RehabCare stockholders should consult their tax advisors to determine the tax consequences of the transaction to them.

**Accounting Treatment (page 89)**

The merger will be accounted for under the acquisition method of accounting in conformity with U.S. generally accepted accounting principles (which we refer to as GAAP), for accounting and financial reporting purposes.

**Table of Contents**

**Risk Factors (beginning on page 27)**

In evaluating the merger and the merger agreement, you should read carefully this joint proxy statement/prospectus and especially consider the factors discussed in the section titled "Risk Factors" beginning on page 27.

**Comparison of Rights of Stockholders (beginning on page 206)**

As a result of the merger, the holders of RehabCare common stock will become holders of Kindred common stock and their rights will be governed by the DGCL and by Kindred's certificate of incorporation and bylaws. Following the merger, RehabCare stockholders may have different rights as stockholders of Kindred than as stockholders of RehabCare. For a summary of the material differences between the rights of RehabCare stockholders and Kindred stockholders, see "Comparison of Rights of Stockholders" beginning on page 206.

**Table of Contents****FINANCIAL SUMMARY****Comparative Market Price Data and Dividends**

Kindred common stock is traded on the NYSE under the symbol **KND** and RehabCare common stock is traded on the NYSE under the symbol **RHB**. The following table shows the high and low daily closing sales prices per share during the period indicated for Kindred and RehabCare common stock on the NYSE. For current price information, you are urged to consult publicly available sources.

Fiscal Year Ended	Kindred		Dividends Paid	RehabCare	
	Price Range of Common Stock			Price Range of Common Stock	
	High	Low		High	Low
<b>December 31, 2009:</b>					
First Quarter	\$ 17.81	\$ 11.56		\$ 18.75	\$ 12.45
Second Quarter	16.99	10.91		23.93	16.04
Third Quarter	17.13	11.97		25.65	20.63
Fourth Quarter	19.84	14.65		31.29	18.75
<b>December 31, 2010:</b>					
First Quarter	19.59	16.30		34.19	25.10
Second Quarter	18.79	12.84		31.52	21.78
Third Quarter	13.57	11.61		22.21	16.25
Fourth Quarter	19.35	12.71		23.77	18.89
<b>December 31, 2011:</b>					
First Quarter	25.88	18.59		37.76	24.24
Second Quarter (through April 25)	24.68	23.08		37.45	36.59

The Kindred board of directors has the power to determine the amount and frequency of the payment of dividends. Decisions regarding whether to pay dividends and the amount of any dividends are based upon compliance with the DGCL, compliance with agreements governing Kindred's indebtedness, earnings, cash requirements, results of operations, cash flows and financial condition and other factors that the Kindred board of directors considers important. Kindred does not currently pay dividends. While Kindred anticipates that if the merger were not consummated it would continue not to pay dividends, it cannot assure that will be the case. Under the merger agreement, until the closing of the merger Kindred is not permitted to declare, set aside or pay any dividends on, or make any other distributions in respect of, any of its capital stock.

The RehabCare board of directors has the power to determine the amount and frequency of the payment of dividends. Decisions regarding whether to pay dividends and the amount of any dividends are based upon compliance with the DGCL, compliance with agreements governing RehabCare's indebtedness, earnings, cash requirements, results of operations, cash flows, financial condition and other factors that the board of directors considers important. While RehabCare anticipates that if the merger were not consummated it would continue not to pay dividends, it cannot assure that will be the case. Under the merger agreement, until the effective time, RehabCare will not declare, set aside or pay any dividends on, or make any other distributions in respect of, any of its capital stock.

**Table of Contents****Selected Historical Consolidated Financial Data of Kindred**

The following table shows selected historical financial data for Kindred. The selected financial data as of December 31, 2010, 2009, 2008, 2007 and 2006, and for each of the five years then ended were derived from the audited historical consolidated financial statements and related footnotes of Kindred.

Detailed historical financial information included in the audited consolidated balance sheets as of December 31, 2010 and 2009, and the consolidated statements of operations, stockholders' equity, cash flows and related notes for each of the years in the three-year period ended December 31, 2010, are included in Kindred's Annual Report on Form 10-K for the fiscal year ended December 31, 2010 and incorporated by reference in this joint proxy statement/prospectus. You should read the following selected financial data together with Kindred's historical consolidated financial statements, including the related notes, and the other information contained or incorporated by reference in this joint proxy statement/prospectus. See "Where You Can Find More Information" beginning on page 225. The selected consolidated balance sheet data as of December 31, 2008, 2007 and 2006 and the selected consolidated financial and operating data for the years ended December 31, 2007 and 2006 have been derived from Kindred's audited consolidated financial statements and related notes for such years, which have not been incorporated by reference into this joint proxy statement/prospectus.

**Kindred Selected Financial Data****(In thousands, except per share amounts)**

	<b>Year ended December 31,</b>				
	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>
<b>Statement of Operations Data:</b>					
Revenues	\$ 4,359,697	\$ 4,270,007	\$ 4,093,864	\$ 4,128,649	\$ 4,041,786
Salaries, wages and benefits	2,505,690	2,483,086	2,374,163	2,325,417	2,185,316
Supplies	342,197	333,056	317,149	542,986	669,023
Rent	357,372	348,248	338,673	337,769	289,080
Other operating expenses	948,609	886,205	854,383	730,965	650,045
Other income	(11,422)	(11,512)	(17,407)	(7,701)	
Depreciation and amortization	121,552	125,730	120,022	118,574	115,057
Interest expense	7,090	7,880	15,373	17,044	13,920
Investment income	(1,245)	(4,413)	(7,096)	(16,105)	(14,488)
	4,269,843	4,168,280	3,995,260	4,048,949	3,907,953
Income from continuing operations before income taxes	89,854	101,727	98,604	79,700	133,833
Provision for income taxes	33,708	39,115	38,144	36,567	52,739
Income from continuing operations	56,146	62,612	60,460	43,133	81,094
Discontinued operations, net of income taxes:					
Income (loss) from operations	798	931	(3,399)	(12,982)	(2,351)
Loss on divestiture of operations	(453)	(23,432)	(20,776)	(77,021)	(32)
Net income (loss)	\$ 56,491	\$ 40,111	\$ 36,285	\$ (46,870)	\$ 78,711
<b>Earnings (loss) per common share:</b>					
<b>Basic:</b>					
Income from continuing operations	\$ 1.42	\$ 1.61	\$ 1.56	\$ 1.09	\$ 2.02
Discontinued operations:					
Income (loss) from operations	0.02	0.02	(0.09)	(0.33)	(0.06)
Loss on divestiture of operations	(0.01)	(0.60)	(0.53)	(1.94)	
Net income (loss)	\$ 1.43	\$ 1.03	\$ 0.94	\$ (1.18)	\$ 1.96

Diluted:

## Edgar Filing: KINDRED HEALTHCARE, INC - Form 424B3

Income from continuing operations	\$ 1.42	\$ 1.60	\$ 1.54	\$ 1.06	\$ 1.95
Discontinued operations:					
Income (loss) from operations	0.02	0.02	(0.09)	(0.32)	(0.06)
Loss on divestiture of operations	(0.01)	(0.60)	(0.53)	(1.90)	
<b>Net income (loss)</b>	<b>\$ 1.43</b>	<b>\$ 1.02</b>	<b>\$ 0.92</b>	<b>\$ (1.16)</b>	<b>\$ 1.89</b>

Shares used in computing earnings (loss) per common share:

Basic	38,738	38,339	37,830	38,791	39,108
Diluted	38,954	38,502	38,397	39,558	40,677

**Financial Position:**

Working capital	\$ 214,654	\$ 241,032	\$ 403,917	\$ 294,878	\$ 295,389
Total assets	2,337,415	2,022,224	2,181,761	2,079,552	2,016,127
Long-term debt	365,556	147,647	349,433	275,814	130,090
Stockholders' equity	1,031,759	966,594	914,975	862,124	995,578

**Table of Contents****Selected Historical Consolidated Financial Data of RehabCare**

The following table shows selected historical financial data for RehabCare. The selected financial data as of December 31, 2010, 2009, 2008, 2007, and 2006 and for each of the five years then ended were derived from the audited historical consolidated financial statements and related footnotes of RehabCare.

Detailed historical financial information included in the audited consolidated balance sheets as of December 31, 2010 and 2009, and the consolidated statements of earnings, comprehensive income, changes in equity, cash flows and related notes for each of the years in the three-year period ended December 31, 2010, are included in RehabCare's Annual Report on Form 10-K for the fiscal year ended December 31, 2010 and incorporated by reference in this joint proxy statement/prospectus. You should read the following selected financial data together with RehabCare's historical consolidated financial statements, including the related notes, and the other information contained or incorporated by reference in this joint proxy statement/prospectus. See "Where You Can Find More Information" beginning on page 225. The selected consolidated balance sheet data as of December 31, 2008, 2007 and 2006 and the selected consolidated financial and operating data for the years ended December 31, 2007 and 2006 have been derived from RehabCare's audited consolidated financial statements and related notes for such years, which have not been incorporated by reference into this joint proxy statement/prospectus. The following table presents selected financial data for the periods indicated for RehabCare's continuing operations only.

**RehabCare Selected Financial Data****(in thousands, except per share amounts)**

	2010 (1)	2009 (1)	2008	2007	2006
<b>Consolidated statement of earnings data:</b>					
Operating revenues	\$ 1,329,443	\$ 848,612	\$ 714,030	\$ 675,600	\$ 585,923
Operating earnings	133,559	40,920	28,299	24,861	19,758
<b>Amounts attributable to RehabCare:</b>					
Earnings from continuing operations	\$ 61,213	\$ 21,590	\$ 16,711	\$ 11,402	\$ 6,500
Basic EPS from continuing operations	\$ 2.53	\$ 1.17	\$ 0.95	\$ 0.66	\$ 0.38
Diluted EPS from continuing operations	\$ 2.48	\$ 1.14	\$ 0.94	\$ 0.65	\$ 0.38
<b>Weighted average shares outstanding:</b>					
Basic	24,231	18,481	17,583	17,226	17,008
Diluted	24,706	18,862	17,798	17,459	17,243
<b>Consolidated balance sheet data:</b>					
Working capital	\$ 117,613	\$ 110,882	\$ 97,284	\$ 80,285	\$ 85,982
Total assets	1,126,569	1,109,980	438,406	408,560	428,296
Total long-term debt	390,888	455,267	57,000	74,500	120,559
Total liabilities	605,586	650,360	160,606	163,271	217,431
Total equity	520,983	459,620	277,800	245,289	210,865

- (1) Effective November 24, 2009, RehabCare acquired all of the outstanding common stock of Triumph HealthCare Holdings, Inc. ( "Triumph" ). The Triumph acquisition was among the primary reasons for the changes in the consolidated statement of earnings data in 2010 and in the balance sheet data in 2009.

**Table of Contents**

**Selected Unaudited Pro Forma Condensed Combined Financial Information**

The following selected unaudited pro forma condensed combined financial information is based upon the historical audited consolidated financial information of Kindred and RehabCare incorporated by reference in this joint proxy statement/prospectus and has been prepared to reflect the merger in which Kindred will acquire all of the outstanding common stock of RehabCare. The unaudited pro forma condensed combined balance sheet is presented as if the merger and related financing had occurred on December 31, 2010. The unaudited pro forma condensed combined statement of operations for the year ended December 31, 2010 was prepared assuming the merger occurred on January 1, 2010. The historical consolidated financial information has been adjusted to give effect to estimated pro forma events that are (1) directly attributable to the merger, (2) factually supportable, and (3) with respect to the statement of operations, expected to have a continuing impact on the combined results of operations. The historical consolidated financial statements of RehabCare have been adjusted to reflect certain reclassifications to conform with Kindred's financial statement presentation.

The following selected unaudited pro forma condensed combined financial information should be read in conjunction with the Unaudited Pro Forma Condensed Combined Financial Information beginning on page 212 and the historical consolidated financial statements and accompanying notes of Kindred and RehabCare, which are incorporated by reference in this joint proxy statement/prospectus. See [Where You Can Find More Information](#) beginning on page 225.

The following selected unaudited pro forma condensed combined financial information has been prepared for illustrative purposes only and is not necessarily indicative of the consolidated financial position or results of operations in future periods or the results that actually would have been realized had Kindred and RehabCare been a combined company during the periods specified. The pro forma adjustments are based upon estimates and current preliminary information and may differ materially from actual amounts. For purposes of this selected unaudited pro forma condensed combined financial information, the merger consideration has been preliminarily allocated to the tangible and intangible assets being acquired and liabilities being assumed based upon various estimates of fair value. The merger consideration will be allocated among the fair values of the assets acquired and liabilities assumed based upon their estimated fair values as of the date of the merger. Any excess of the merger consideration over the fair value of RehabCare identifiable net assets will be recorded as goodwill. The final allocation is dependent upon the completion of the aforementioned valuations and other analyses that cannot be completed prior to the merger. The actual amounts recorded at the completion of the merger may differ materially from the information presented in the selected unaudited pro forma condensed combined financial information and those differences could have a material impact on the unaudited pro forma condensed combined financial information and the combined company's future results of operations and financial performance. Additionally, the selected unaudited pro forma condensed combined financial information does not reflect the cost of any integration activities or benefits from synergies that may be derived from any integration activities, nor does the selected unaudited pro forma condensed combined statement of operations include the effects of any other items directly attributable to the merger that are not expected to have a continuing impact on the combined results of operations.



**Table of Contents**

(Dollars in thousands, except per share amounts)	Pro forma as of December 31, 2010
<b>Balance sheet data:</b>	
Cash and cash equivalents	\$ 40,373
Working capital	361,700
Total assets	3,971,660
Long-term debt	1,533,042
Stockholders' equity	1,244,045
	Pro forma fiscal year ended December 31, 2010
<b>Statement of operations data:</b>	
Revenues	\$ 5,689,140
Total expenses	5,569,216
Income from continuing operations	73,753
Income from continuing operations attributable to Kindred	70,076
Diluted earnings from continuing operations per common share	\$ 1.36

**Table of Contents****UNAUDITED COMPARATIVE PER SHARE INFORMATION**

The following table sets forth income from continuing operations, cash dividends declared and book value per common share separately for Kindred and RehabCare on a historical basis, on an unaudited pro forma combined basis per Kindred common share and on an unaudited pro forma combined basis per RehabCare equivalent common share. It has been assumed for purposes of the unaudited pro forma combined financial information provided below that the merger was completed on January 1, 2010 for income from continuing operations per common share purposes, and on December 31, 2010 for book value per common share purposes. The following selected unaudited pro forma financial information should be read in conjunction with the historical audited consolidated financial statements and notes thereto of Kindred, which are incorporated by reference in this joint proxy statement/prospectus, and RehabCare, which are incorporated by reference in this joint proxy statement/prospectus. See [Where You Can Find More Information](#) beginning on page 225.

The unaudited pro forma combined income from continuing operations per Kindred common share is based upon the historical weighted average number of Kindred common shares outstanding, adjusted to include the estimated number of additional shares of Kindred common stock to be issued in the merger. The unaudited pro forma combined book value per Kindred common share is based upon the number of shares of Kindred common stock outstanding as of December 31, 2010, adjusted to include the estimated number of additional shares of Kindred common stock to be issued in the merger. See [Unaudited Pro Forma Condensed Combined Financial Information](#) beginning on page 212. The unaudited pro forma combined data per RehabCare equivalent common share is based upon the unaudited pro forma combined per Kindred common share amounts, multiplied by the exchange ratio. This data shows how each share of RehabCare common stock would have participated in the income from continuing operations and book value of Kindred if the companies had been consolidated for accounting and financial reporting purposes for all periods presented.

The following unaudited pro forma information reflects the acquisition method of accounting, with Kindred treated as the acquirer. The following unaudited pro forma information reflects adjustments, which are based upon preliminary estimates, to allocate the merger consideration to RehabCare's identifiable net assets. The merger consideration allocation reflected herein is preliminary, and final allocation of the merger consideration will be based upon the actual merger consideration and the fair value of the assets and liabilities of RehabCare as of the date of the completion of the merger. Accordingly, the final acquisition accounting adjustments may differ materially from the pro forma adjustments reflected herein.

The following unaudited pro forma information is presented for illustrative purposes only and is not necessarily indicative of what Kindred's actual financial position or results of operations would have been had the merger been completed on the dates indicated above. The following unaudited pro forma information does not give effect to (1) Kindred's or RehabCare's results of operations or other transactions or developments since December 31, 2010, (2) the synergies, cost savings and one-time expenses or charges expected to result from the merger, or (3) the effects of any integration activities which may occur subsequent to the merger. The foregoing matters could cause both Kindred's pro forma historical financial position and results of operations, and Kindred's actual future financial position and results of operations, to differ materially from those presented in the following unaudited pro forma condensed combined financial information.

	<b>Kindred historical per share data</b>	<b>RehabCare historical per share data</b>	<b>Kindred pro forma</b>	<b>RehabCare equivalent pro forma</b>
<b>As of or for the year ended December 31, 2010:</b>				
Income from continuing operations per common share:				
Basic	\$ 1.42	\$ 2.53	\$ 1.37	\$ 0.65
Diluted	\$ 1.42	\$ 2.48	\$ 1.36	\$ 0.64
Cash dividends declared per common share	\$	\$	\$	\$
Book value of stockholder's equity per common share	\$ 26.12	\$ 20.58	\$ 24.30	\$ 11.45

**Table of Contents****COMPARATIVE MARKET VALUE INFORMATION**

The following table presents:

the closing prices per share of Kindred common stock and RehabCare common stock, in each case based on the last reported sales prices as reported by the NYSE on February 7, 2011, the last trading day prior to the public announcement of the proposed merger, and April 25, 2011, the last trading day for which this information could be calculated prior to the date of this joint proxy statement/prospectus; and

the implied value of the merger consideration for each share of RehabCare common stock, which was calculated by adding the cash portion of the merger consideration of \$26.00 to the product obtained by multiplying the closing price of a share of Kindred common stock on those dates by 0.471, the exchange ratio.

	<b>Kindred Common Stock</b>	<b>RehabCare Common Stock</b>	<b>Implied Value of RehabCare Common Stock</b>
February 7, 2011	\$ 19.48	\$ 25.47	\$ 35.18
April 25, 2011	\$ 24.23	\$ 37.16	\$ 37.41

**Table of Contents**

**RISK FACTORS**

In deciding whether to vote for the adoption of the merger agreement, we urge you to consider carefully all of the information included or incorporated by reference in this joint proxy statement/prospectus. See *Where You Can Find More Information* beginning on page 225. You should also read and consider the risks associated with each of the businesses of Kindred and RehabCare because these risks will also affect Kindred after the effective date. The risks associated with the business of Kindred can be found in the Kindred Annual Report on Form 10-K for the year ended December 31, 2010, which is incorporated by reference in this joint proxy statement/prospectus. The risks associated with the business of RehabCare can be found in the RehabCare Annual Report on Form 10-K for the year ended December 31, 2010, which is incorporated by reference in this joint proxy statement/prospectus.

***Kindred and RehabCare must obtain governmental and regulatory approvals to consummate the merger, which, if delayed, not granted or granted with unacceptable conditions, may jeopardize or delay the consummation of the merger, result in additional expenditure of time and resources and reduce the anticipated benefits of the acquisition.***

The merger is conditioned on the receipt of certain governmental authorizations, consents, orders and approvals, including certain state licensure and regulatory approvals. If Kindred and RehabCare do not receive such approvals, or do not receive such approvals on terms that satisfy the conditions set forth in the merger agreement, then Kindred will not be obligated to consummate the merger.

The governmental authorities from which Kindred and RehabCare must seek these regulatory approvals have broad discretion in their review of the transaction. As a condition to their approval of the merger, the governmental authorities may impose requirements, limitations or costs on the combined company, require divestitures of the combined company or place restrictions on the conduct of the business of the combined company. These requirements, limitations, costs, divestitures or restrictions could jeopardize or delay the consummation of the merger and could reduce its anticipated benefits to Kindred. Kindred cannot make any assurances that it will obtain all of the required regulatory approvals or that Kindred will obtain them on any particular terms. See *The Merger – Regulatory Approvals Required for the Merger* beginning on page 83.

***Kindred and RehabCare must obtain approval of their respective stockholders to consummate the merger, which, if delayed or not obtained, may jeopardize or delay the consummation of the merger.***

The merger is conditioned on the Kindred and RehabCare stockholders adopting the merger agreement at the Kindred annual meeting and RehabCare special meeting, respectively. If the Kindred stockholders or the RehabCare stockholders do not adopt the merger agreement, then Kindred and RehabCare cannot consummate the merger.

***Kindred may not be able to successfully integrate RehabCare's operations with its own or realize the anticipated benefits of the merger, which could materially and adversely affect Kindred's financial condition, results of operations and business prospects.***

Kindred may not be able to successfully integrate RehabCare's operations with its own, and Kindred may not realize all or any of the expected benefits of the merger as and when planned. The integration of RehabCare's operations with Kindred's will be complex, costly and time-consuming. Kindred expects that it will require significant attention from senior management and will impose substantial demands on Kindred's operations and personnel, potentially diverting attention from other important pending projects. The difficulties and risks associated with the integration of RehabCare include:

the possibility that Kindred will fail to implement its business plans for the combined company, including as a result of new legislation or regulation in the healthcare industry that affects the timing or costs associated with the operations of the combined company or its integration plan;

**Table of Contents**

possible inconsistencies in the standards, controls, procedures, policies and compensation structures of Kindred and RehabCare;

limitations prior to the consummation of the merger on the ability of management of each of Kindred and RehabCare to work together to develop an integration plan;

the increased scope and complexity of Kindred's operations;

the potential loss of key employees and the costs associated with Kindred's efforts to retain key employees;

provisions in Kindred's and RehabCare's contracts with third parties that may limit Kindred's flexibility to take certain actions;

risks and limitations on Kindred's ability to consolidate corporate and administrative infrastructures of the two companies;

the possibility that Kindred may have failed to discover liabilities of RehabCare during Kindred's due diligence investigation as part of the merger for which Kindred, as a successor owner, may be responsible;

obligations that Kindred will have to joint venture partners and other counterparties of RehabCare that arise as result of the change in control of RehabCare;

obligations that Kindred will have to its lenders under the new financing arrangements to be put in place upon the closing of the merger, including Kindred's obligations to comply with significant new financial covenants; and

the possibility of unanticipated delays, costs or inefficiencies associated with the integration of RehabCare's operations with Kindred's.

As a result of these difficulties and risks, Kindred may not accomplish the integration of RehabCare's business smoothly, successfully or within Kindred's budgetary expectations and anticipated timetable. Accordingly, Kindred may fail to realize some or all of the anticipated benefits of the merger, such as increase in Kindred's scale, diversification, cash flows and operational efficiency and meaningful accretion to Kindred's diluted earnings per share.

***Kindred may be unable to realize anticipated cost synergies or may incur additional and/or unexpected costs in order to realize them.***

Kindred expects to realize approximately \$40 million of operating synergies within a period of two years following the completion of the merger, of which \$25 million are expected to be realized within the first year. Kindred may be unable to realize all of these cost synergies within the timeframe expected, or at all, and Kindred may incur additional and/or unexpected costs in order to realize them.

***Kindred and RehabCare will incur significant transaction and merger-related integration costs in connection with the merger.***

Kindred and RehabCare expect to incur a number of costs associated with completing the merger and integrating the operations of the two companies. The substantial majority of these costs will be non-recurring expenses and will primarily consist of transaction costs related to the merger, facilities and systems consolidation costs and employment-related costs. Additional unanticipated costs may be incurred in the integration of the businesses of Kindred and RehabCare. Although Kindred and RehabCare expect that the elimination of duplicative costs, as well as the realization of other efficiencies related to the integration of the businesses, may offset incremental transaction and merger-related costs over time, this net benefit may not be achieved in the near term, or at all.



---

**Table of Contents**

***The price of Kindred common stock might decline prior to the completion of the merger, which would decrease the value of the merger consideration to be received by RehabCare stockholders in the merger.***

Upon completion of the merger, RehabCare stockholders will be entitled to receive for each share of RehabCare common stock that they own, \$26.00 in cash and 0.471 shares of Kindred common stock. The exchange ratio will not be adjusted to reflect stock price changes prior to the completion of the merger.

The market price of Kindred common stock at the time the merger is completed may vary significantly from the price on the date of the merger agreement or from the price on the date of the Kindred annual meeting and RehabCare special meeting. On February 7, 2011, the last full trading day prior to the public announcement of the proposed merger, Kindred common stock closed at \$19.48 per share as reported on the NYSE. From February 8, 2011 (the next trading day following February 7, 2011), through April 25, 2011 (the last trading day prior to the printing of this joint proxy statement/prospectus for which it was practicable to include this information), the trading price of Kindred common stock ranged from a low of \$22.09 per share to a high of \$26.27 per share.

Kindred and RehabCare are working to complete the transaction as promptly as practicable and expect that the transaction will be completed on or about June 30, 2011. Because the date when the transaction is completed will be later than the date of the Kindred annual meeting and RehabCare special meeting, Kindred and RehabCare stockholders will not know the exact value of the Kindred common stock that will be issued in the merger at the time they vote on the proposal to adopt the merger agreement. As a result, if the market price of Kindred common stock upon the completion of the merger is lower than the market price on the date of the RehabCare special meeting, the market value of the merger consideration received by RehabCare stockholders in the merger will be lower than the market value of the merger consideration at the time of the vote by the RehabCare stockholders. Moreover, during this interim period, events, conditions or circumstances could arise that could have a material impact or effect on Kindred, RehabCare, or the industries in which they operate.

***Kindred's actual financial position and results of operations may differ materially from the unaudited pro forma financial information included in this joint proxy statement/prospectus.***

The unaudited pro forma financial information included in this joint proxy statement/prospectus is presented for illustrative purposes only and is not necessarily indicative of what Kindred's actual financial position or results of operations would have been had the merger been completed on the dates indicated. This information reflects adjustments, which are based upon preliminary estimates, to allocate the merger consideration to RehabCare's identifiable net assets. The merger consideration allocation reflected in this joint proxy statement/prospectus is preliminary, and final allocation of the merger consideration will be based upon the actual merger consideration and the fair value of the assets and liabilities of RehabCare as of the date of the completion of the merger. In addition, subsequent to the closing date of the merger, there may be further refinements of the merger consideration allocation as additional information becomes available. Accordingly, the final acquisition accounting adjustments may differ materially from the pro forma adjustments reflected herein. See Unaudited Pro Forma Condensed Combined Financial Information beginning on page 212 for more information.

***The financial forecasts included in this joint proxy statement/prospectus involve risks, uncertainties and assumptions, many of which are beyond the control of Kindred and RehabCare. As a result, they may not prove to be accurate and are not necessarily indicative of current values or future performance.***

The financial forecasts of RehabCare contained in this joint proxy statement/prospectus involve risks, uncertainties and assumptions and are not a guarantee of future performance. The future financial results of RehabCare and, if the merger is completed, Kindred, may materially differ from those expressed in the financial forecasts due to factors that are beyond RehabCare's and Kindred's ability to control or predict. Neither Kindred nor RehabCare can provide any assurance that RehabCare's financial forecasts will be realized or that RehabCare's future financial results will not materially vary from the financial forecasts. The financial forecasts cover multiple years, and the information by its nature becomes subject to greater uncertainty with each

## **Table of Contents**

successive year. The financial forecasts do not take into account any circumstances or events occurring after the date they were prepared. More specifically, the financial forecasts:

necessarily make numerous assumptions, many of which are beyond the control of Kindred or RehabCare and may not prove to be accurate;

do not necessarily reflect revised prospects for RehabCare's businesses, changes in general business or economic conditions, or any other transaction or event that has occurred or that may occur and that was not anticipated at the time the forecasts were prepared;

are not necessarily indicative of current values or future performance, which may be significantly more favorable or less favorable than is reflected in the forecasts; and

should not be regarded as a representation that the financial forecasts will be achieved.

***The market price of Kindred and/or RehabCare common stock may decline as a result of investor perceptions of the merger.***

In response to the announcement of the merger, the market price of Kindred and/or RehabCare common stock may decline as a result of investor perceptions about the terms or benefits of the transaction.

***RehabCare officers and directors may have financial interests in the merger that are different from, or in addition to, the interests of RehabCare stockholders.***

When considering the recommendation of the RehabCare board of directors with respect to the merger, RehabCare stockholders should be aware that some directors and executive officers of RehabCare have interests in the merger that might be different from, or in addition to, their interests as stockholders and the interests of stockholders of RehabCare generally. These interests include, among others, potential payments under severance agreements, acceleration of vesting of restricted stock as a result of the merger, acceleration of annual and long-term cash incentive awards, cash payments in respect of stock options in connection with the merger, the potential to serve as directors and/or officers of Kindred, the potential to enter into new employment agreements with Kindred, and the right to continued indemnification and insurance coverage by Kindred for acts or omissions occurring prior to the merger. See "The Merger—Interests of RehabCare Directors and Executive Officers in the Merger" beginning on page 76.

As of the close of business on April 25, 2011, RehabCare directors and executive officers were entitled to vote approximately 2.4% of the then-outstanding shares of RehabCare common stock. See "The Merger—Stock Ownership of Directors and Executive Officers of Kindred and RehabCare" on page 75 and "Security Ownership of Certain Kindred Beneficial Owners and Management" beginning on page 134.

***The condition of the financial markets, including volatility and weakness in the equity, capital and credit markets, could limit the availability and terms of debt and equity financing sources to fund the capital and liquidity requirements of Kindred's businesses, including financing Kindred must undertake in connection with the merger.***

In connection with the merger, Kindred obtained the debt commitment letter from the debt commitment parties. These funds, in addition to existing cash balances, will be sufficient to finance the cash consideration to RehabCare stockholders and to refinance certain existing Kindred and RehabCare debt. Subject to certain conditions, Kindred expects to have in place approximately \$1.900 billion of long-term financing, of which approximately \$1.600 billion is expected to be outstanding at the time of consummation of the merger. Kindred cannot make assurances that it will be able to refinance indebtedness under its revolving credit facility on terms acceptable to Kindred, if at all. If an event of default was to occur under its revolving credit facility, Kindred's lenders would be entitled to take various actions, including all actions permitted to be taken by a secured creditor.



---

**Table of Contents**

In addition, Kindred may not be able to complete the planned financing of the merger on the terms and the timetable that Kindred and RehabCare anticipate. If Kindred were unable to complete these financings, Kindred would likely be unable to consummate the merger and, depending on the circumstances, could be required to pay a \$62 million termination fee to RehabCare, which would materially adversely affect Kindred's business, financial position, results of operations and liquidity. See *The Merger Agreement Termination of the Merger Agreement* and *The Merger Agreement Termination Fees and Expenses* beginning on pages 112 and 114, respectively, of this joint proxy statement/prospectus.

***Kindred expects to incur substantial additional indebtedness to finance the merger and may not be able to meet its substantial debt service requirements.***

A substantial portion of Kindred's cash flows from operations is dedicated to the payment of principal and interest obligations on its outstanding indebtedness, including its revolving credit facility. Subject to certain restrictions, Kindred also has the ability to incur substantial additional borrowings under its existing revolving credit facility. In addition, Kindred intends to incur substantial additional indebtedness in connection with the merger. If Kindred is unable to generate sufficient funds to meet its obligations or its revolving credit facility or the new debt financing entered into pursuant to the debt commitment letter otherwise becomes due and payable, Kindred may be required to refinance, restructure or otherwise amend some or all of such obligations, sell assets or raise additional cash through the sale of its equity. Kindred cannot make any assurances that it would be able to obtain such refinancing on terms as favorable as its current financing or that such restructuring activities, sales of assets or issuances of equity can be accomplished or, if accomplished, would raise sufficient funds to meet these obligations. In addition, Kindred's revolving credit facility requires and, upon consummation of the merger the new debt financing entered into pursuant to the debt commitment letter will require, Kindred to:

dedicate a substantial portion of its cash flow to payments on its interest obligations, thereby reducing the availability of cash flow to fund working capital, capital expenditures and other general corporate activities,

maintain a certain defined fixed payment ratio at a specified level, thereby reducing its financial flexibility; and

limit the amount of capital expenditures Kindred can incur in any fiscal year and also limit the aggregate amount Kindred can expend on acquisitions.

These provisions:

could have a material adverse effect on Kindred's ability to withstand competitive pressures or adverse economic conditions (including adverse regulatory changes);

could adversely affect Kindred's ability to make material acquisitions, obtain future financing or take advantage of business opportunities that may arise; and

could increase Kindred's vulnerability to a downturn in general economic conditions or in Kindred's business.

***The rights of RehabCare stockholders will change when they become stockholders of Kindred upon completion of the merger.***

Upon completion of the merger, RehabCare stockholders will become Kindred stockholders. There are numerous differences between the rights of a stockholder of RehabCare and the rights of a stockholder of Kindred. For a detailed discussion of these differences, see *Comparison of Rights of Stockholders* beginning on page 206.

**Table of Contents**

***RehabCare stockholders will have a reduced ownership and voting interest after the merger and will exercise less influence over the management and policies of Kindred than they do over RehabCare.***

RehabCare stockholders currently have the right to vote in the election of the board of directors of RehabCare and on other matters affecting RehabCare. When the merger occurs, each RehabCare stockholder that receives shares of Kindred common stock will become a stockholder of Kindred with a percentage ownership of the combined company that is much smaller than the stockholder's percentage ownership of RehabCare. It is expected that the former stockholders of RehabCare as a group will own approximately 23% of the outstanding shares of Kindred immediately after the merger, based on the number of shares of Kindred and RehabCare common stock issued and outstanding as of February 7, 2011. Because of this, RehabCare stockholders will have less influence over the management and policies of Kindred than they now have over the management and policies of RehabCare.

***Legal proceedings in connection with the merger could delay or prevent the completion of the merger.***

Purported class action lawsuits have been filed by third parties challenging the proposed merger and seeking, among other things, to enjoin the consummation of the merger. One of the conditions to the closing of the merger is that no governmental authority has enjoined the consummation of the merger. If a plaintiff is successful in obtaining an injunction prohibiting consummation of the merger, then the injunction may delay the merger or prevent the merger from being completed.

**Table of Contents**

**CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING STATEMENTS**

This joint proxy statement/prospectus includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (which we refer to as the Securities Act ) and Section 21E of the Exchange Act. All statements regarding Kindred s and RehabCare 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 words such as anticipate, approximate, believe, plan, estimate, expect, project, could, should, will, intend, may and other similar expressions, are forward-looking statements. The forward-looking statements are made based upon expectations and beliefs concerning future events affecting Kindred, RehabCare and merger subsidiary and are subject to uncertainties and factors relating to their respective operations and business environment, all of which are difficult to predict and many of which are beyond their control, that could cause their actual results to differ materially from those matters expressed or implied by these forward-looking statements. In particular, the unaudited pro forma condensed combined financial information included in, or incorporated into, this joint proxy statement/prospectus reflect assumptions and estimates by the management of Kindred and RehabCare as of the date specified in the unaudited pro forma condensed combined financial information or the date of any document incorporated by reference in this joint proxy statement/prospectus. In addition, the projections by RehabCare management included in this joint proxy statement/prospectus reflect assumptions and estimates by the management of RehabCare as of the date specified in the projections or the date of any document incorporated by reference in this joint proxy statement/prospectus. While Kindred and RehabCare, as applicable, believe these assumptions and estimates to be reasonable in light of the facts and circumstances known as of the date hereof, the projections are necessarily speculative in nature. Many of these assumptions and estimates are driven by factors beyond the control of Kindred or RehabCare, and it can be expected that one or more of them will not materialize as expected or will vary significantly from actual results. No independent accountants have provided any assurance with respect to these projections. Moreover, neither Kindred nor RehabCare undertakes any obligation to update the projections and neither intends to do so. Accordingly, you should not place undue reliance on these projections or any of the other forward-looking statements in this joint proxy statement/prospectus, which are likewise subject to numerous uncertainties, and you should consider all of such information in light of the various risks identified in this joint proxy statement/prospectus and in the reports filed by Kindred and RehabCare with the SEC, as well as the other information that Kindred and RehabCare provide with respect to the merger.

The following factors, among others, could cause actual results to differ from those set forth in the forward-looking statements:

the receipt of all required licensure and regulatory approvals and the satisfaction of the closing conditions of the merger, including approval of the merger by the stockholders of Kindred and RehabCare, and Kindred s ability to complete the required financing as contemplated by the financing commitment;

Kindred s ability to integrate the operations of the acquired operations and realize the anticipated revenues, economies of scale, cost synergies and productivity gains in connection with the merger and any other acquisitions that may be undertaken during 2011, as and when planned, including the potential for unanticipated issues, expenses and liabilities associated with those acquisitions and the risk that RehabCare fails to meet its expected financial and operating targets;

the potential for diversion of management time and resources in seeking to complete the merger and integrate its operations;

the potential failure of Kindred to retain key employees of RehabCare;

the impact of Kindred s significantly increased levels of indebtedness as a result of the merger on Kindred s funding costs, operating flexibility and ability to fund ongoing operations with additional borrowings, particularly in light of ongoing volatility in the credit and capital markets;

the potential for dilution to Kindred stockholders as a result of the merger;

**Table of Contents**

the ability of Kindred to operate pursuant to the terms of its debt obligations, including Kindred's obligations under financing undertaken to complete the merger, and the ability of Kindred to operate pursuant to its master lease agreements with Ventas, Inc.;

the calculations of, and factors that would impact the calculations of, the acquisition price in accordance with the methodologies of the provisions of the authoritative guidance for business combinations, the allocation of this acquisition price to the net assets acquired, and the effect of this allocation on future results, including Kindred's earnings per share, when calculated on a GAAP basis;

general economic conditions are less favorable than expected;

changes in both companies' businesses during the period between now and the completion of the merger might have adverse impacts on Kindred;

liability for litigation, administrative actions, and similar disputes;

the inability to obtain, renew or modify permits in a timely manner, comply with government regulations or make capital expenditures required to maintain compliance;

changes in laws and regulations or interpretations or applications thereof;

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;

changes in the reimbursement rates or the methods or timing of payment from third party payors, including commercial payors and 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 nursing centers, and the expiration of the Medicare Part B therapy cap exception process; and

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.

Additional factors that may affect future results are contained in Kindred's and RehabCare's filings with the SEC, which are available at the SEC's website at [www.sec.gov](http://www.sec.gov). Many of these factors are beyond the control of Kindred or RehabCare.

**Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof and are not guarantees of performance or results. There can be no assurance that forward-looking statements will prove to be accurate. Stockholders should also understand that it is not possible to predict or identify all risk factors and that neither this list nor the factors identified in Kindred's and RehabCare's SEC filings should be considered a complete statement of all potential risks and uncertainties. Kindred and RehabCare undertake no obligation to publicly update or release any revisions to these forward-looking statements to reflect events or circumstances after the date hereof except as required by law.**

## **Table of Contents**

### **THE MERGER**

The following is a description of the material aspects of the merger, which may not contain all of the information that is important to you and is qualified in its entirety by reference to the merger agreement attached to this joint proxy statement/prospectus as [Annex A](#). We encourage you to read carefully this entire joint proxy statement/prospectus, including the merger agreement attached to this joint proxy statement/prospectus as [Annex A](#), for a more complete understanding of the merger.

#### **Overview**

The Kindred board of directors and the RehabCare board of directors have each unanimously approved the merger agreement and the transactions contemplated by the merger agreement, including the merger. Pursuant to the merger agreement, RehabCare will be merged with and into Kindred, with Kindred surviving the merger, provided that either Kindred or RehabCare may, prior to the effective time, elect to change the method of effecting the merger to provide for the subsidiary merger election.

At the effective time, each share of RehabCare common stock outstanding immediately prior to the effective time, other than shares owned by Kindred or RehabCare or their respective wholly owned subsidiaries, or shares owned by stockholders who have properly exercised and perfected appraisal rights under Delaware law will be converted into the right to receive 0.471 shares of Kindred common stock and \$26.00 in cash, without interest. Kindred will not issue any fractional shares as a result of the merger. Instead, RehabCare stockholders will receive cash in lieu of fractional shares, if any, of Kindred common stock. Each share of Kindred common stock outstanding immediately prior to the effective time will remain outstanding and will not be affected by the merger. Upon completion of the transaction, RehabCare stockholders will own approximately 23% of Kindred's outstanding common stock.

As a result of the merger, RehabCare will cease to be a publicly traded company.

#### **Background of the Merger**

As part of its continuing evaluation of strategic alternatives, the RehabCare board of directors and management regularly evaluate RehabCare's business strategy and prospects for growth and consider opportunities to improve RehabCare's operations and financial performance in order to create value for RehabCare stockholders. As part of this process, the RehabCare board of directors, in consultation with RehabCare's management and outside legal and financial advisors, evaluates and pursues a number of opportunities to expand and diversify RehabCare's business.

In late 2007 through early 2008, senior management of RehabCare and Kindred engaged in preliminary discussions regarding a possible acquisition of RehabCare by Kindred. The parties considered the complementary aspects of their businesses and the potential benefits that a strategic business combination of RehabCare and Kindred could provide, including cost and revenue related synergies and the related potential benefits to stockholders, employees, patients and other important constituents of both companies. The parties were unable to agree on a mutually acceptable valuation for RehabCare, and those discussions were discontinued.

During the spring and summer of 2010, RehabCare's stock price dropped significantly, which management believed was caused by the general uncertainty surrounding healthcare reform. RehabCare's board of directors and management believed that the uncertainties that RehabCare was facing could limit its ability to grow, including by limiting its ability to finance large transactions which otherwise might be desirable for RehabCare's growth. Consequently, as part of its normal evaluation of strategic alternatives, the RehabCare board of directors requested that CGMI attend the regularly scheduled meeting of the RehabCare board of directors on August 2 and August 3, 2010 to discuss potential strategic alternatives for RehabCare.

## Table of Contents

The RehabCare board of directors held a regularly scheduled meeting on August 2 and August 3, 2010 and a special meeting on August 18, 2010. As part of those meetings, CGMI provided a general overview of various strategic alternatives, including analyzing various standalone alternatives, potential acquisition targets, and potential financial and strategic partners. The RehabCare board of directors discussed with management and CGMI the risks and benefits of pursuing those strategic alternatives, including the execution risks associated with pursuing the standalone alternatives and potential acquisitions, and the confidentiality risks associated with commencing a process to gauge interest in the acquisition of RehabCare. The RehabCare board of directors reviewed several healthcare companies and financial sponsors to determine if any of them would be likely partners for a business combination. With input from CGMI and RehabCare management, the RehabCare board of directors concluded that, other than Kindred, there were no logical strategic acquirors of RehabCare at that time. While the RehabCare board of directors believed that Kindred could be a potential strategic acquiror, the board was skeptical of Kindred's ability and willingness to complete an acquisition of RehabCare at an acceptable price, based in large part on the parties' prior discussions with respect to a potential transaction. At the conclusion of the August 18, 2010 meeting, the RehabCare board of directors engaged CGMI to contact certain financial sponsors to determine interest in a potential acquisition of RehabCare. Based on the RehabCare board of directors' analysis, after consultation with RehabCare management and CGMI, of the potential strategic partners and their respective ability and anticipated interest in pursuing a strategic combination, as well as concerns regarding sharing sensitive information with competitors, CGMI was directed by the RehabCare board of directors not to contact potential strategic acquirors at such time.

On September 27, 2010, RehabCare entered into a formal engagement letter with CGMI to serve as its financial advisor in connection with a possible strategic transaction.

As directed by the RehabCare board of directors, beginning on October 1, 2010, CGMI contacted nine financial sponsors to evaluate potential interest in the acquisition of RehabCare. Eight of the nine financial sponsors contacted by CGMI executed confidentiality agreements with RehabCare, and CGMI, as directed by the RehabCare board of directors, thereafter delivered additional information regarding RehabCare to those parties, including RehabCare management's financial model, a business overview and a preliminary financing analysis performed by CGMI. Management presentations were made to five of those financial sponsors, including Party A and Party B.

Throughout 2010, as part of CGMI's regular client coverage of Kindred, CGMI regularly communicated and met with Kindred senior management to discuss various potential transactions and various potential acquisition candidates, including RehabCare. As part of these conversations, CGMI or its affiliates discussed providing acquisition financing to Kindred.

On October 7, 2010, Paul Diaz, Kindred's President and Chief Executive Officer, met with representatives of CGMI, as part of this regular client coverage, to review an analysis of potential targets, including RehabCare and other potential targets, for Kindred's consideration of possible strategic alternatives. Mr. Diaz subsequently asked CGMI to prepare an analysis of a possible combination of Kindred and RehabCare for consideration by the Kindred board of directors. CGMI asked for RehabCare's permission to prepare such analysis, noting that Kindred had actively considered the combination of RehabCare and Kindred as a strategic alternative for several years. After receiving permission from Dr. John Short, President and Chief Executive Officer of RehabCare and a member of RehabCare's board of directors, CGMI prepared an analysis based on publicly available information with respect to RehabCare, including an accretion/dilution analysis of a possible combination at purchase prices ranging from \$30.00 to \$35.00 per share of RehabCare common stock. Mr. Diaz included this analysis in written materials provided to the Kindred board of directors, which discussed a possible combination with RehabCare at its regularly scheduled October 27 and 28, 2010 meeting, which CGMI did not attend. During this period, CGMI also indicated to Mr. Diaz that it had been engaged by the RehabCare board of directors to advise it in connection with strategic alternatives.

On October 28, 2010, Mr. Diaz contacted CGMI to express the Kindred board of directors' interest in exploring a combination with RehabCare and to inquire about appropriate next steps. CGMI reminded Mr. Diaz

**Table of Contents**

that it would not be able to represent Kindred in connection with a possible transaction with RehabCare, but that it would inform RehabCare of Kindred's interest. Following discussions with Dr. Short, CGMI indicated to Mr. Diaz that he should contact Dr. Short directly to communicate Kindred's desire to explore a potential transaction.

On October 29, 2010, Party A submitted a preliminary indication of interest to acquire RehabCare at a price ranging from \$25.00 to \$27.00 per share. On November 1, 2010, Party B submitted its preliminary indication of interest to acquire RehabCare at a price ranging from \$27.00 to \$30.00 per share. The other seven financial sponsors did not submit indications of interest and withdrew from the process.

On November 2, 2010, the RehabCare board of directors held a regularly scheduled meeting. At this meeting, CGMI updated the RehabCare board of directors on the status of the process with the financial sponsors, including the details of the indications of interest delivered by Party A and Party B. CGMI also discussed its contact with Mr. Diaz and Kindred's interest in pursuing a possible combination, and provided the RehabCare board of directors with preliminary pro forma financial analysis of the two companies on a combined basis, using publicly available information with respect to Kindred. The RehabCare board of directors discussed in detail the proposals received from Party A and Party B, and determined that these proposals did not provide adequate value to the RehabCare stockholders and would not be pursued further at such time. The RehabCare board of directors further discussed the contact from Kindred and the advantages and disadvantages of pursuing a transaction with Kindred. The RehabCare board of directors engaged in a preliminary discussion of the benefits of a transaction with Kindred, including the potential that such a combination would present compelling synergies, but also considered the parties' prior failed discussions. The RehabCare board of directors also discussed various other strategic alternatives, including the potential benefits and the execution risks of continuing as a stand alone entity and implementing its current strategic plans. The RehabCare board of directors tabled further discussion of pursuing a transaction with Kindred pending further contact from Kindred.

On November 4, 2010, Mr. Diaz called Dr. Short to inform him of Kindred's renewed interest in acquiring RehabCare. Mr. Diaz verbally expressed to Dr. Short that Kindred would be interested in pursuing an all cash acquisition of RehabCare, at a price ranging from \$32.00 to \$34.00 per share.

The RehabCare board of directors was informed of the verbal expression of interest made by Kindred during a special meeting held on November 13, 2010. After consideration of Kindred's proposal, the RehabCare board of directors determined to engage in further discussions with Kindred to explore a potential transaction, established a special committee of the RehabCare board of directors (whom we refer to as the RehabCare special committee), consisting of Harry Rich, Anthony Piszal and Theodore Wight, to supervise the process and any negotiations, and authorized the RehabCare special committee to retain legal counsel to represent the RehabCare board of directors in connection with consideration of a potential transaction. In addition, the RehabCare board of directors asked CGMI to prepare, and review with its internal credit committee, an analysis of the ability to finance an acquisition in the proposed range of prices.

On or about November 16, 2010, Dr. Short contacted Mr. Diaz and informed him that the RehabCare board of directors had determined to pursue discussions regarding a potential transaction. Dr. Short conveyed to Mr. Diaz that three threshold issues to be addressed were the commitment of the Kindred board of directors to the proposed transaction, Kindred's ability to finance the transaction, and the need to achieve a price for RehabCare stockholders above the \$32.00 to \$34.00 per share range. Concurrently, CGMI informed Kindred that its internal credit committee would be analyzing the financeability of the acquisition in the proposed range of prices.

On November 27, 2010, RehabCare and Kindred entered into a mutual confidentiality agreement that contained reciprocal standstill obligations of the parties. RehabCare began preparation of a data room containing due diligence materials for Kindred's review.

Dr. Short and Mr. Diaz met on November 29, 2010 in Washington, D.C. at an industry meeting of the American Hospital Association and discussed the key topics to be addressed at an upcoming meeting of representatives of their respective boards of directors. Dr. Short and Mr. Diaz also discussed potential accretion and synergies if a business combination were to occur.

## **Table of Contents**

At a November 30, 2010 meeting of the RehabCare special committee, CGMI presented its analysis of Kindred's ability to finance an acquisition of RehabCare at various prices. Based on this preliminary assessment, CGMI believed Kindred would likely need to include an equity component as part of the transaction consideration if it was to enter into a transaction at a price at or above its initial range.

On December 2, 2010, the members of the RehabCare special committee and Dr. Short met with Edward L. Kuntz, chairman of the Kindred board of directors, Dr. Thomas Cooper, Kindred's lead independent director, and Mr. Diaz to discuss the terms of a potential transaction. Among the topics discussed were transaction value, the availability of financing for the transaction, and RehabCare's request for a "go shop" feature to be included in any formal proposal to be made by Kindred. In addition, in light of the previous, failed discussions between the parties regarding a business combination, the RehabCare special committee sought assurances that the full Kindred board of directors supported the proposed transaction.

The RehabCare special committee held meetings on December 7, 2010 and December 10, 2010, with Bryan Cave LLP (whom we refer to as Bryan Cave), counsel to the RehabCare board of directors. During these meetings, Bryan Cave reviewed and discussed with the RehabCare special committee the terms of the proposed merger agreement to be provided to Kindred, and a potential timeline for the transaction. The draft merger agreement was delivered to Morgan Stanley, financial advisor to Kindred, following the RehabCare special committee meeting on December 10, 2010.

On December 12, 2010, Mr. Diaz and Dr. Short had a call to continue their discussions on the potential transaction and to discuss an agenda for the meeting between the Kindred and RehabCare management teams. Mr. Diaz updated the Kindred board of directors on the status of the discussions at the regularly scheduled Kindred board of directors meeting on December 15 and 16, 2010. On December 16, 2010, members of Kindred's management team, including representatives from Morgan Stanley, met with representatives of RehabCare's management team, including representatives from CGMI, to discuss RehabCare's businesses and operations and the potential synergies from a combination of the companies.

On or about December 16, 2010, Kindred asked each of JPMorgan, Morgan Stanley and CGMI to independently develop and submit a proposal for the potential financing of a transaction. Kindred, with a market capitalization at the time of under \$700 million, believed that these were the three banks most familiar with its operations and credit profile and therefore would be the banks that would be able to provide financing commitments that would be most favorable to Kindred, from perspectives of conditionality and pricing, as well as from the perspective of the speed with which they could make decisions relating to financing commitments to Kindred. In particular, Kindred took into account the roles, under Kindred's credit facility, of JPMorgan, as bookrunner, lead arranger and a lender, and of an affiliate of CGMI, as syndication agent and a lender.

Upon receipt of Kindred's invitation in December to submit a proposal for the potential financing of a transaction, CGMI informed Mr. Rich and Dr. Short of Kindred's request, as well as the internal procedures that CGMI and its affiliates intended to put in place in the event RehabCare consented to CGMI's or its affiliates' potential participation in the financing. These procedures would include having separate teams of representatives participate in each part of the transaction, and a requirement that RehabCare would engage a separate financial advisor to analyze the proposed transaction from a financial point of view for the RehabCare board of directors and, if appropriate, deliver an opinion to the RehabCare board of directors. Moreover, CGMI agreed that it would reduce its fees in connection with the fees that would be paid for the second financial advisor and that CGMI and its affiliates would neither lead Kindred's financing syndicate nor provide more than 50% of the total amount financed.

At meetings of the RehabCare special committee held on December 17, 2010 and December 23, 2010, Bryan Cave updated the RehabCare special committee on recent conversations with Cleary Gottlieb Steen & Hamilton LLP (whom we refer to as Cleary Gottlieb), legal counsel to Kindred, regarding process, timing and potential transaction structure. In addition, Mr. Rich advised the RehabCare special committee that the leveraged



---

**Table of Contents**

finance group of CGMI had been invited to submit a proposal to Kindred to participate in the financing syndication for the proposed transaction, and described the internal procedures CGMI had informed him would be put in place at CGMI and its affiliates regarding the potential dual roles in the transaction. The RehabCare special committee discussed the desirability of permitting CGMI's leveraged finance group to participate in Kindred's financing syndicate to enhance the certainty of Kindred's ability to finance the transaction, and discussed with Bryan Cave the need to engage an additional financial advisor to the RehabCare board of directors in the event CGMI and its affiliates participated in Kindred's financing syndicate. The RehabCare special committee concluded that if acceptable deal terms were reached with Kindred, and CGMI was invited to participate in Kindred's financing syndicate, the RehabCare board of directors would likely consent to CGMI's and its affiliates participation in Kindred's financing syndicate subject to the conditions previously discussed and subject to the requirement that the fees and expenses of the second financial advisor be fully credited against the amount RehabCare had previously agreed to pay CGMI for its financial advisory services. The RehabCare special committee directed Mr. Rich to contact certain parties to discuss potential engagement to evaluate the fairness of the proposed transaction from a financial point of view, and to confirm to CGMI that it and its affiliates were authorized to submit a proposal to Kindred, subject to the conditions discussed.

Throughout December 2010, Kindred continued its due diligence review of RehabCare and participated in various diligence meetings and telephone conferences with RehabCare management. Subsequent to the December invitation to JPMorgan, Morgan Stanley and CGMI to submit proposals to finance the transaction, senior management of Kindred engaged in regular communications with these prospective sources of debt financing, RehabCare and RehabCare's advisors regarding the proposed acquisition financing.

On December 28, 2010, Kindred delivered a written proposal to RehabCare, which proposal was for a price of \$32.00 per share, payable \$27.00 in cash and \$5.00 in Kindred common stock. Kindred's proposal included indicative terms of the debt financing commitments it expected to receive, and provided a summary of key issues identified in the draft merger agreement previously provided by RehabCare, including Kindred's requirement that the closing of the transaction be conditioned on its receipt of financing and that the "go shop" provision proposed by RehabCare be replaced with a "window shop" provision.

During a regular meeting of the RehabCare board of directors held on December 29, 2010, the RehabCare board of directors reviewed the proposal delivered by Kindred. Bryan Cave also reviewed with the RehabCare board of directors the legal duties applicable to its consideration of a potential transaction. During the meeting, CGMI reviewed with the RehabCare board of directors certain financial items relating to Kindred's proposal, and Bryan Cave reviewed various legal aspects. CGMI also described to the RehabCare board of directors its preliminary analysis of the indicative financing terms included in Kindred's proposal and confirmed CGMI's belief that at or above the price proposed by Kindred, Kindred would need to complete an equity offering before closing or include stock as a part of the consideration. The RehabCare board of directors discussed its disappointment over the price per share and other aspects of Kindred's proposal. After extensive discussion of the offer and the stand alone prospects of RehabCare, the RehabCare board of directors determined that it would not accept Kindred's offer. Dr. Short also presented an alternative transaction to the RehabCare board of directors to be considered in the event that Kindred was not able to improve its offer to a level acceptable to the RehabCare board of directors, pursuant to which RehabCare would offer to acquire Kindred. After continuing discussions regarding the advantages and disadvantages of a potential transaction with Kindred and the proposed alternative transaction, the RehabCare board of directors instructed Dr. Short to contact Mr. Diaz to determine if Kindred would be willing to increase its offer to a level that the RehabCare board of directors might find attractive, and to express RehabCare's willingness to alternatively explore an acquisition of Kindred. In addition, the RehabCare board of directors, along with Bryan Cave, discussed Kindred's invitation to CGMI's leveraged finance group to submit a proposal to participate in Kindred's financing syndicate and the desirability of permitting CGMI's leveraged finance group to participate in such financing, if chosen by Kindred to do so, in order to enhance the certainty of Kindred's ability to finance the transaction. After this discussion, the RehabCare board of directors acknowledged that, subject to satisfaction of the conditions the RehabCare special committee had previously discussed with CGMI, it would consent to CGMI's leveraged finance group participating in Kindred's financing syndicate if it were invited to do so.

## Table of Contents

Dr. Short contacted Mr. Diaz and informed him that the proposal delivered by Kindred on December 28, 2010 was viewed as inadequate and was not supported by the RehabCare board of directors. Dr. Short communicated to Mr. Diaz that the RehabCare board of directors would be willing to continue discussions with Kindred regarding a potential transaction at a price of \$35.50 per share or greater, as well as RehabCare's willingness to explore the alternative structure if Kindred was unable to improve the terms of its offer. RehabCare delivered a letter to Kindred on December 31, 2010 reflecting the principal elements of the conversation between Dr. Short and Mr. Diaz on December 28, 2010, as well as providing RehabCare's response to the key issues in the merger agreement identified by Kindred in its December 28, 2010 proposal.

During the week of January 3, 2011, representatives of RehabCare and Kindred continued to communicate regarding terms of a potential transaction. Given the proposed equity component of the merger consideration, they also discussed whether Kindred would consider providing an appropriate level of representation from the current RehabCare board of directors on the post-transaction Kindred board of directors. In addition, Kindred continued its due diligence process.

On January 7, 2011, Kindred delivered a revised proposal to RehabCare, increasing its offer price to \$35.00 per share, with \$26.00 payable in cash and \$9.00 payable in Kindred common stock. Kindred noted that its ongoing discussions with JPMorgan, Morgan Stanley and CGMI regarding acquisition financing reaffirmed its confidence that it would obtain a firm commitment on financing in the next few weeks. In addition, the revised proposal provided an updated transaction timeline, an outline of certain terms that Kindred would be including in its markup of the merger agreement, and a description of open due diligence items.

At meetings of the RehabCare special committee held on January 9 and January 10, 2011, CGMI and Bryan Cave discussed the terms of Kindred's revised proposal with the RehabCare special committee and Dr. Short. CGMI noted that the increased stock portion of the consideration proposed by Kindred would obviate the need for Kindred to undertake an equity offering between signing and closing the proposed transaction and would assist in the certainty of Kindred obtaining financing for the transaction. CGMI also described the fixed exchange ratio structure proposed by Kindred relating to the stock component, and discussed other potential alternative structures for the stock portion of the proposal that could be considered. The RehabCare special committee considered the accretive nature of the transaction on Kindred common stock, which provided an opportunity for even further value to the RehabCare stockholders from the consideration proposed by Kindred. Bryan Cave described various other aspects of the revised offer, including Kindred's proposed reverse termination fee structure related to its financing, the need for Kindred stockholder approval due to the stock component of the transaction consideration, and Kindred's refusal to allow for a "go shop" period following the execution of the merger agreement in light of the substantial premium it was offering. The RehabCare special committee discussed the appropriateness of requesting two seats on the Kindred board of directors upon completion of the transaction, given the substantial amount of Kindred common stock that RehabCare stockholders would receive under Kindred's proposal. The RehabCare special committee also discussed the need to undertake a due diligence review of Kindred in light of the amount of Kindred common stock that would be delivered to RehabCare stockholders. The RehabCare special committee discussed the advantages and disadvantages of moving forward with a transaction on the terms contained in Kindred's revised proposal. Based on the foregoing, the RehabCare special committee determined the revised offer price, including the mix of cash and stock consideration, to be adequate to continue discussions with Kindred and, after consultation with CGMI and Bryan Cave, developed a response to Kindred's revised proposal, and directed Dr. Short to present that response to Mr. Diaz.

On January 11, 2011, Dr. Short and Mr. Diaz met at an industry conference in San Francisco, California. Dr. Short informed Mr. Diaz that the RehabCare special committee had determined that Kindred's revised offer price was adequate to continue discussions. Dr. Short and Mr. Diaz then discussed the remaining key issues in Kindred's revised proposal. Mr. Diaz indicated that Kindred would respond shortly with a revised draft of the merger agreement, which would reflect his discussion with Dr. Short.

## **Table of Contents**

Beginning January 11, 2011, RehabCare began contacting additional financial advisors with respect to a potential engagement to evaluate the fairness of the proposed consideration to be received by RehabCare stockholders from a financial point of view and to deliver a fairness opinion if appropriate.

Cleary Gottlieb delivered a revised draft of the merger agreement to Bryan Cave on January 13, 2011. Between January 13 and January 17, 2011, the RehabCare special committee of the RehabCare board of directors, in consultation with CGMI and Bryan Cave, continued to evaluate a transaction based on the terms proposed by Kindred in its revised merger agreement. During this period CGMI was informed that RBC had been selected as a second financial advisor to RehabCare and its board of directors, and CGMI agreed to reduce the fee it was to receive for its financial advisory services by the full amount of the fees and expenses that would be paid to RBC for its services.

On January 17, 2011, Dr. Short and Mr. Diaz met in New York and discussed certain of the key open issues in the revised draft of the merger agreement provided by Kindred. Bryan Cave delivered a revised draft of the merger agreement to Cleary Gottlieb on January 20, 2011.

From January 20 through January 26, 2011, the parties and their respective advisors continued to engage in negotiations regarding the terms of the proposed transaction.

On or about January 24, 2011, Kindred selected JPMorgan to be the lead lender in the provision of debt financing commitments in connection with the proposed transaction. In addition, Kindred selected the leveraged finance groups at Morgan Stanley and CGMI, respectively, to provide financing commitments in connection with the proposed transaction. At this time, RehabCare confirmed its consent to allow CGMI's leveraged finance group to provide this financing commitment to Kindred.

On January 24, 2011, RBC was engaged by the RehabCare board of directors to evaluate the fairness of the proposed consideration to be received by RehabCare stockholders from a financial point of view.

Following receipt of a list of principal open issues delivered by Kindred on January 26, 2011, members of RehabCare's senior management, together with Bryan Cave and CGMI, participated in a conference call with members of Kindred's senior management, Cleary Gottlieb and Morgan Stanley to discuss those open issues. The parties resolved certain of the issues on that call, and instructed Bryan Cave and Cleary Gottlieb to continue negotiating the remaining open terms of the merger agreement. Cleary Gottlieb delivered a revised draft of the merger agreement on January 28, 2011 and an initial draft of the debt commitment letter on January 29, 2011.

At meetings of the RehabCare special committee held on February 1 and February 2, 2011, Dr. Short, Bryan Cave and CGMI updated the RehabCare special committee on the status of the ongoing negotiations with Kindred. The RehabCare special committee also reviewed the reverse due diligence regarding Kindred performed by its legal and financial advisors. The RehabCare special committee reviewed and discussed the current draft of the merger agreement and Kindred's debt financing commitment, and the remaining open issues. The RehabCare special committee then directed Dr. Short, together with Bryan Cave and CGMI, to continue negotiations with Kindred.

From February 1 through February 6, 2011, RehabCare's senior management and legal and financial advisors continued to negotiate with Kindred's senior management and its legal and financial advisors to finalize the terms of the proposed transaction, including exchanging several drafts of the merger agreement and debt commitment letters.

On February 6, 2011, Kindred held a special meeting of its board of directors at which the Kindred board of directors reviewed and discussed the proposed transaction with RehabCare. Kindred's management, Cleary Gottlieb and Morgan Stanley participated in the meeting. The Kindred board of directors discussed with management, Cleary Gottlieb and Morgan Stanley the proposed terms of the merger agreement, as well as the

## **Table of Contents**

proposed terms of the debt commitment letters, both of which had been provided to the Kindred board of directors prior to the meeting. Morgan Stanley reviewed with the Kindred board of directors a presentation setting forth its financial analysis of the proposed transaction and rendered its oral opinion, which was confirmed in writing on February 7, 2011, to the Kindred board of directors that, as of that date, and based upon and subject to the assumptions made, matters considered and qualifications and limitation on the scope of review undertaken by Morgan Stanley, the merger consideration was fair from a financial point of view to Kindred as discussed in the section entitled "Opinion of Kindred's Financial Advisor" beginning on page 49 (such opinion is attached hereto as [Annex D](#)). Following review of such presentation, and further discussion among Kindred's board of directors and management, the Kindred board of directors voted unanimously to approve the merger, the merger agreement and the transactions contemplated by the merger agreement.

On February 7, 2011, RehabCare held a regularly scheduled meeting of its board of directors at which, in consultation with Bryan Cave, CGMI and RBC, the RehabCare board of directors reviewed and discussed the final terms and conditions of the merger agreement and debt commitment letters. Bryan Cave reviewed with the RehabCare board of directors the terms and conditions contained in the merger agreement which had been provided to the directors prior to the meeting. CGMI and Bryan Cave also reviewed the debt commitment letters being obtained by Kindred. CGMI and RBC separately presented financial analyses of the proposed transaction, and each delivered its oral opinion to the RehabCare board of directors, which opinions were confirmed by delivery of written opinions dated February 7, 2011, to the effect that, as of such date and based upon and subject to the factors, assumptions and limitations set forth therein, the merger consideration to be received by RehabCare stockholders was fair, from a financial point of view, to holders of RehabCare common stock (other than shares of RehabCare common stock owned by RehabCare, Kindred or their wholly owned subsidiaries, or as to which dissenters' rights are perfected) as discussed in the sections entitled "Opinion of RehabCare's Financial Advisor - CGMI" beginning on page 55 (such opinion is attached hereto as [Annex B](#)) and "Opinion of RehabCare's Financial Advisor - RBC" beginning on page 62 (such opinion is attached hereto as [Annex C](#)). Following further review and discussion among the members of the RehabCare board of directors, including consideration of the factors described under RehabCare's Reasons for the Merger and Recommendation of RehabCare's Board of Directors beginning on page 45, the RehabCare board of directors determined that the merger, the merger agreement and the transactions contemplated by the merger agreement were advisable and fair to and in the best interests of RehabCare and its stockholders, and the RehabCare board of directors voted unanimously to approve the merger, the merger agreement and the transactions contemplated by the merger agreement.

The merger agreement was executed by RehabCare and Kindred on February 7, 2011. On February 8, 2011, prior to the commencement of trading on the NYSE, RehabCare and Kindred issued a joint press release announcing the signing of the merger agreement.

### **Kindred's Reasons for the Merger and Recommendation of Kindred's Board of Directors**

At the meeting of the Kindred board of directors on February 6, 2011, after careful consideration, including detailed discussions with Kindred's management and its legal and financial advisors, the Kindred board of directors unanimously determined that the merger is advisable and fair to and in the best interests of Kindred and its stockholders, approved the merger agreement and recommended that the Kindred stockholders vote **FOR** the adoption of the merger agreement.

**Table of Contents**

In evaluating the merger, the Kindred board of directors consulted with Kindred's management, as well as Kindred's legal and financial advisors and, in reaching a conclusion to approve the merger and related transactions and to recommend that Kindred stockholders adopt the merger agreement in connection with the merger, the Kindred board of directors reviewed a significant amount of information and considered a number of factors including:

its knowledge of Kindred's business, operations, financial condition, earnings and prospects both before and after the merger;

its knowledge of the current environment in the healthcare industry, including reimbursement and regulatory risks, economic conditions, the potential for continued consolidation, current financial market conditions and the likely effects of these factors on Kindred's and RehabCare's potential growth, development, productivity and strategic direction;

Kindred management's expectation that the combined company will achieve operating synergies of approximately \$40 million within a period of two years following consummation of the merger, with \$25 million expected in the first year after the closing;

the strategic nature of the acquisition, which will create a combined company:

which will be the largest post-acute healthcare services company in the United States with over \$6 billion in annual revenues and with increased geographic diversity;

which will operate 118 LTAC hospitals with 8,492 licensed beds, 226 nursing and rehabilitation centers with 27,442 licensed beds, 121 inpatient rehabilitation hospitals and 1,808 hospital, nursing center and assisted living rehabilitation therapy services across the country;

well-equipped to respond to economic, regulatory, legislative and other industry developments and with the financial strength to make continued strategic investments in the healthcare industry;

that enhances Kindred's cluster market strategy;

with the prospects for an expanded customer base and product offerings to allow for new business relationships and transactions not available to either company on a stand-alone basis;

Kindred management's view, based upon due diligence and discussions with RehabCare's management, that Kindred and RehabCare share complementary core values with respect to culture, regulatory compliance and customer satisfaction;

that the merger will join two experienced healthcare industry management teams with complementary values, established track records, and technical and operational expertise;

that, because the exchange ratio is fixed (and will not be adjusted for fluctuations in the market price of Kindred common stock or RehabCare common stock), the per share value of the merger consideration could be more or less than its implied value upon execution of the merger agreement;

the premiums paid by the acquiring entities in selected transactions;

information concerning the financial conditions, results of operations, prospects and businesses of Kindred and RehabCare, including the respective companies' cash flows from operations, recent performance of common shares and the ratio of Kindred's stock price to RehabCare's stock price over various periods;

that Dr. Short would serve on the Kindred board of directors as non-executive vice chairman, bringing his extensive experience and expertise to Kindred;

the structure of the merger and the terms and conditions of the merger agreement, including the following:

the parties' expectation that significant delays in obtaining regulatory approvals for the transaction are unlikely;

**Table of Contents**

that RehabCare agreed to pay a termination fee of \$26 million to Kindred if the merger is not consummated for certain reasons as more fully described below in [The Merger Agreement – Termination Fees and Expenses](#) beginning on page 114;

the probability that the conditions to completion of the merger would be satisfied; and

that, subject to certain exceptions, RehabCare is prohibited from taking certain actions that would be deemed to be a solicitation under the merger agreement, including solicitation, initiation, encouragement of any inquiries or the making of any proposals for certain types of business combination or acquisition of RehabCare (or entering into any agreements for such business combinations or acquisitions of RehabCare or any requirement to abandon, terminate or fail to consummate the merger).

Morgan Stanley’s oral opinion, dated February 6, 2011, subsequently confirmed in writing on February 7, 2011 to the Kindred board of directors as to the fairness, from a financial point of view and as of the date of the opinion, to Kindred of the merger consideration provided for in the merger agreement, as more fully described below in [Opinion of Kindred’s Financial Advisor](#) beginning on page 49.

The Kindred board of directors also considered the potential adverse impact of other factors weighing negatively against the proposed transaction, including, without limitation, the following:

the risks and contingencies relating to the announcement and pendency of the merger and the risks and costs to Kindred if the merger does not close timely or does not close at all, including the impact on Kindred’s relationships with employees and with third parties;

the risk that the substantial additional indebtedness to be incurred in the merger could adversely effect Kindred’s operational flexibility and increase its vulnerability to a downturn in general economic conditions or Kindred’s business;

the potential dilution to Kindred stockholders;

the risk of diverting management focus, employee attention and resources from other strategic opportunities and from operational matters while working to complete the merger and integrate the RehabCare operations;

the challenges of combining the businesses, operations and workforces of RehabCare and Kindred and realizing the anticipated cost savings and operating synergies;

the risk that the parties may incur significant costs and delays resulting from seeking governmental consents and approvals necessary for completion of the merger;

the terms and conditions of the merger agreement, including:

that Kindred must pay to RehabCare a termination fee of \$62 million if the merger agreement is terminated under circumstances specified in the merger agreement, as more fully described below in [The Merger Agreement – Termination Fees and Expenses](#) beginning on page 114;

## Edgar Filing: KINDRED HEALTHCARE, INC - Form 424B3

that Kindred is subject to certain restrictions on the conduct of its business prior to the completion of the merger;

that, under certain circumstances and subject to certain conditions more fully described below in The Merger Agreement Covenants and Agreements No Solicitation beginning on page 102, RehabCare may furnish information to, and conduct negotiations with, third parties (not affiliated with Kindred) in connection with unsolicited proposals for a business combination or acquisition of RehabCare that would reasonably expected to be a superior proposal and the RehabCare board of directors can terminate the merger agreement in order to accept a superior proposal or, under certain circumstances, change its recommendation prior to Kindred stockholders adoption of the merger agreement; and

the risks described in the section entitled Risk Factors beginning on page 27.



## **Table of Contents**

The Kindred board of directors concluded that the anticipated benefits of the merger would outweigh the preceding considerations.

The reasons set forth above are not intended to be exhaustive, but include material facts considered by the Kindred board of directors in approving the merger agreement. In view of the wide variety of factors considered in connection with its evaluation of the merger and the complexity of these matters, the Kindred board of directors did not find it useful to and did not attempt to quantify or assign any relative or specific weights to the various factors that it considered in reaching its determination to approve the merger and the merger agreement and to make its recommendations to Kindred stockholders. In addition, individual members of the Kindred board of directors may have given differing weights to different factors. The Kindred board of directors carefully considered all of the factors described above as a whole.

### **RehabCare's Reasons for the Merger and Recommendation of RehabCare's Board of Directors**

At a meeting on February 7, 2011, after careful consideration, including detailed presentations by RehabCare's management and its legal and financial advisors, the RehabCare board of directors unanimously determined that the merger is fair to, and in the best interests of, RehabCare and its stockholders and approved and declared advisable the merger agreement, the merger and other transactions contemplated by the merger agreement. The RehabCare board of directors resolved that the merger agreement be submitted for consideration by the RehabCare stockholders at a special meeting of its stockholders, and recommended that the RehabCare stockholders vote **FOR** the adoption of the merger agreement. The merger agreement was finalized and executed on behalf of RehabCare on February 7, 2011.

In evaluating the merger agreement, the merger and the other transactions contemplated by the merger agreement, the RehabCare board of directors consulted with certain members of RehabCare's senior management and its legal and financial advisors and reviewed a significant amount of information and considered a number of factors, including but not limited to the material factors discussed below (not in any relative order of importance).

### ***Financial Considerations***

The RehabCare board of directors considered the financial terms of the merger based on, among other things, the following factors:

the financial terms of the merger, including:

the fact that the value of the merger consideration represents approximately a 38.1% premium over the \$25.47 closing price of RehabCare common stock on the NYSE on February 7, 2011, the last trading day prior to the public announcement of the merger agreement, approximately a 42.3% premium over RehabCare's volume-weighted average daily closing price of \$24.73 during the 30 trading days ending on February 7, 2011, and approximately a 60.4% premium over RehabCare's volume-weighted average daily closing price of \$21.93 during the 90 trading days ending on February 7, 2011 (each based upon the closing price of \$19.48 per share of Kindred common stock on the NYSE on February 7, 2011);

that a fixed ratio for the merger consideration provides RehabCare stockholders the opportunity to benefit from any increase in the trading price of Kindred common stock between the announcement of the merger agreement and the completion of the merger;

the various background data and analyses relating to the combination of RehabCare and Kindred, reviewed with the RehabCare board of directors by RehabCare's outside financial and legal advisors and management, as well as:

CGMI's opinion rendered to the RehabCare board of directors, dated as of February 7, 2011, that, based on and subject to the various factors, assumptions and limitations described in its opinion, the merger consideration to be received by the stockholders of RehabCare in the merger was fair, from a financial point of view, to such stockholders, as more fully described below in "Opinion of RehabCare's Financial Advisor - CGMI" beginning on page 55; and



## **Table of Contents**

RBC's opinion rendered to the RehabCare board of directors, dated February 7, 2011, that, based upon and subject to the factors and assumptions made, matters considered and limits of the review undertaken by RBC set forth in its opinion, the RehabCare merger consideration to be received by the stockholders of RehabCare in the merger was fair, from a financial point of view, as of the date of the opinion, to such stockholders, as more fully described below in *Opinion of RehabCare's Financial Advisor RBC* beginning on page 62.

### ***Strategic Considerations***

The RehabCare board of directors considered a number of strategic advantages of the merger in comparison to a stand-alone strategy, including, but not limited to the following factors:

the view of RehabCare's prospects and potential future financial performance as an independent company and as a combined company, including RehabCare's dependence upon the continued relevance and economic viability of its services and succession considerations;

RehabCare's ability to compete with its current and potential future competitors within its markets, including other larger companies that may have significantly greater resources or market presence;

the concern of RehabCare's management and board that the value of RehabCare's stock in the market reflected continuing concern over healthcare reform legislation and Medicare regulations, despite RehabCare's performance against expectations;

RehabCare's management's view, based on due diligence and discussions with Kindred's management, that RehabCare and Kindred share complementary core values with respect to integrity, safety standards and practices, community development, participation in government affairs and customer satisfaction;

its knowledge of RehabCare's business, operations, financial condition, earnings and prospects and of Kindred's business, operations, financial condition, earnings and prospects, taking into account the results of RehabCare's due diligence of Kindred;

its knowledge of the current environment of the healthcare industry, including economic conditions, the potential for changing laws and regulations, current financial market conditions and the possible effects of these factors on RehabCare's and Kindred's potential growth, development, productivity and strategic options;

RehabCare's management's expectations of synergies that are anticipated to result in cost savings through administrative, sales, purchasing of goods and services and operating synergies;

information concerning the financial conditions, results of operation, prospects and businesses of RehabCare and Kindred, including the respective companies' reserves, cash flows from operations, recent performance of common shares and the ratio of per share prices over various periods; and

the significant information technology costs that RehabCare would incur during the next three to five years, and that merging information technology platforms with Kindred could save RehabCare approximately \$30 million to \$50 million over the course of that period.

### ***Other Considerations***

The RehabCare board of directors also considered the following factors, among others:

the fact that the cash portion of the merger consideration will provide RehabCare stockholders with immediate value in cash for their shares, and that the Kindred common stock issued to RehabCare stockholders will be registered, and can be freely traded after issuance;

that the merger consideration would enable RehabCare stockholders to own approximately 23% of the outstanding stock of Kindred, which will provide such stockholders the opportunity to participate in any future earnings or growth of Kindred and future appreciation in the value of Kindred common

**Table of Contents**

stock following the merger should such stockholders determine to retain the Kindred common stock payable in the merger;

the judgment of the RehabCare board of directors, after consultation with management and its advisors, that continuing discussions with Kindred or soliciting interest from additional third parties would be unlikely to lead to a better offer and could lead to the loss of Kindred's proposed offer;

the structure of the merger and the terms and conditions of the merger agreement, including the following:

the limited conditions to the parties' obligations to complete the merger and the probability that such conditions would be satisfied, including in light of the parties' agreement to use reasonable best efforts, as more fully described below in "The Merger Agreement - Covenants and Agreements - Reasonable Best Efforts; Covenants and Agreements" beginning on page 106;

the provisions that allow RehabCare, under certain circumstances, to engage in negotiations with, and provide information to, third parties, prior to the adoption of the merger agreement by its stockholders, in response to an unsolicited takeover proposal that RehabCare's board of directors determines in good faith, after consultation with outside legal counsel and its financial advisors, constitutes or would reasonably be expected to lead to a superior proposal (as defined on page 104);

the provisions that allow RehabCare, under certain circumstances, to terminate the merger agreement prior to the adoption of the merger agreement by its stockholders, in order to enter into an alternative transaction in response to an unsolicited takeover proposal that RehabCare's board of directors determines in good faith, after consultation with outside legal counsel and financial advisors, constitutes a superior proposal (as defined on page 104);

the fact that the termination date under the merger agreement allows for time that is expected to be sufficient to complete the merger;

the fact that there is a date certain for terminating the transaction if the merger has not been consummated;

the ability of RehabCare to obtain a termination fee of \$62 million from Kindred if the merger is not consummated for certain reasons as more fully described below in "The Merger Agreement - Termination Fees and Expenses" beginning on page 114;

the level of effort that Kindred must use under the merger agreement to obtain the proceeds of the financing under the terms and conditions described in the debt commitment letter, including using its reasonable best efforts to enforce its rights under the debt commitment letter;

the likelihood that the merger would be completed based on, among other things, the receipt of an executed debt commitment letter from the debt commitment parties for the merger, and the terms of the debt commitment letter and the reputation of the debt commitment parties, which, in the reasonable judgment of the RehabCare board of directors, increases the likelihood of such financing being completed;

the availability of appraisal rights under the DGCL to holders of RehabCare common stock who comply with all of the required procedures under the DGCL, which allows such holders to seek appraisal of the fair value of their shares of RehabCare common stock as determined by the Court of Chancery; and

the belief by the RehabCare board of directors that the merger is more favorable to RehabCare stockholders than the alternatives to the merger, which belief was formed based on the review by the RehabCare board of directors, with assistance of its financial advisors, of the strategic alternatives available to RehabCare.

**Table of Contents**

***Consideration of Risks and Other Potentially Negative Factors***

The RehabCare board of directors also considered a variety of risks and other potentially negative factors, including, without limitation, the following:

the risks and contingencies relating to the announcement and pendency of the merger and the risks and costs to RehabCare if the merger does not close timely or does not close at all, including the impact on RehabCare's relationships with employees and with third parties;

the risk of diverting management focus, employee attention and resources from other strategic opportunities and from operational matters while working to complete the merger;

the fact that RehabCare stockholders will have a smaller ongoing equity participation in Kindred (and, as a result, a smaller opportunity to participate in any future earnings or growth of Kindred and future appreciation in the value of Kindred common stock following the merger) than they currently have in RehabCare;

the fact that a fixed RehabCare exchange ratio means that RehabCare stockholders could be adversely affected by a decrease in the trading price of Kindred common stock between the announcement of the merger agreement and the completion of the merger;

the challenges of combining the businesses, policies, processes, systems, operations and workforces of Kindred and RehabCare and realizing the anticipated cost savings and operating synergies;

the risk that the parties may incur significant costs and unexpected delays resulting from seeking governmental consents and approvals necessary for completion of the merger;

the fact that, while RehabCare expects that the merger will be consummated, there can be no assurance that all conditions to the parties' obligations to complete the merger agreement (including the condition that the parties obtain all required regulatory approvals) will be satisfied, and, as a result, the merger may not be consummated;

the risk that Kindred may not be able to obtain the financing contemplated by the debt commitment letter;

the fact that the merger consideration would be taxable to RehabCare stockholders that are U.S. holders for U.S. federal income tax purposes;

the fact that RehabCare's directors and executive officers have interests in the merger that are different from, or in addition to, the RehabCare stockholders, as described below in [Interests of RehabCare Directors and Executive Officers in the Merger](#) beginning on page 76;

the terms and conditions of the merger agreement, including:

## Edgar Filing: KINDRED HEALTHCARE, INC - Form 424B3

that RehabCare generally conduct its business only in the ordinary course and that RehabCare is subject to a variety of other restrictions on the conduct of its business prior to the completion of the merger, any of which may delay or prevent RehabCare from pursuing business opportunities that may arise or may delay or preclude RehabCare from taking actions that would be advisable if it were to remain an independent company;

the non-solicitation covenants and the requirement that RehabCare must pay to Kindred a termination fee of \$26 million if the merger agreement is terminated under circumstances specified in the merger agreement, as described below in The Merger Agreement Termination Fees and Expenses beginning on page 114; and

the risks described in the section entitled Risk Factors beginning on page 27.

RehabCare's board of directors concluded that the anticipated benefits of the merger would outweigh the preceding considerations.

The reasons set forth above are not intended to be exhaustive, but include material facts considered by the RehabCare board of directors in approving the merger agreement. In view of the wide variety of factors



---

**Table of Contents**

considered in connection with its evaluation of the merger and the complexity of these matters, the RehabCare board of directors did not find it useful to and did not attempt to quantify or assign any relative or specific weights to the various factors that it considered in reaching its determination to approve the merger and the merger agreement and to make its recommendations to RehabCare stockholders. In addition, individual members of the RehabCare board of directors may have given differing weights to different factors. The RehabCare board of directors carefully considered all of the factors described above as a whole.

**The RehabCare board of directors unanimously recommends that you vote FOR the proposal to adopt the merger agreement and FOR the proposal to adjourn or postpone the special meeting, if necessary or appropriate, to solicit additional proxies.**

The RehabCare stockholders should be aware that RehabCare's directors and executive officers have interests in the merger that are different from, or in addition to, the RehabCare stockholders. The RehabCare board of directors was aware of and considered these interests, among other matters, in evaluating and negotiating the merger agreement and the merger, and in recommending that the merger agreement be adopted by the RehabCare stockholders, as described below in [Interests of RehabCare Directors and Executive Officers in the Merger](#) beginning on page 76.

**Opinion of Kindred's Financial Advisor**

Morgan Stanley was retained by the Kindred board of directors to provide it with financial advisory services and a financial opinion in connection with the proposed transaction. The Kindred board of directors selected Morgan Stanley to act as its financial advisor based on Morgan Stanley's qualifications, expertise and reputation and its knowledge of the business and affairs of Kindred. On February 6, 2011, Morgan Stanley rendered its oral opinion, subsequently confirmed in writing on February 7, 2011, to the Kindred board of directors that, as of that date, and based upon and subject to the assumptions made, matters considered and qualifications and limitations on the scope of review undertaken by Morgan Stanley as set forth in its opinion, the merger consideration to be paid by Kindred pursuant to the merger agreement was fair from a financial point of view to Kindred.

**The full text of Morgan Stanley's written fairness opinion, delivered following the Kindred board meeting and dated February 7, 2011, is attached as [Annex D](#) to this joint proxy statement/prospectus. You should read the opinion in its entirety for a discussion of the assumptions made, procedures followed, factors considered and limitations upon the review undertaken by Morgan Stanley in rendering the opinion. This summary is qualified in its entirety by reference to the full text of such opinion. Morgan Stanley's opinion is directed to the Kindred board of directors and addresses only the fairness from a financial point of view of the merger consideration pursuant to the merger agreement to Kindred as of the date of the opinion. It does not address any other aspects of the merger and does not constitute a recommendation to any stockholder of Kindred or RehabCare on how to vote at any stockholders' meeting related to the merger or take any other action with respect to the proposed transaction.**

In arriving at its opinion, Morgan Stanley, among other things:

reviewed certain publicly available financial statements and other business and financial information of Kindred and RehabCare, respectively;

reviewed certain internal financial statements and other financial and operating data concerning Kindred and RehabCare, respectively;

reviewed certain financial projections prepared by the managements of Kindred and RehabCare, respectively;

reviewed information relating to certain strategic, financial and operational benefits anticipated from the merger, prepared by the managements of Kindred and RehabCare, respectively;

discussed the past and current operations and financial condition and the prospects of RehabCare, with senior executives of RehabCare;



**Table of Contents**

discussed the past and current operations and financial condition and the prospects of Kindred, including information relating to certain strategic, financial and operational benefits anticipated from the merger, with senior executives of Kindred;

reviewed the pro forma impact of the merger on Kindred's earnings per share, cash flow, consolidated capitalization and financial ratios;

reviewed the reported prices and trading activity for Kindred common stock and RehabCare common stock;

compared the financial performance of Kindred and RehabCare and the prices and trading activity of Kindred common stock and RehabCare common stock with that of certain other publicly-traded companies comparable with Kindred and RehabCare, respectively, and their securities;

reviewed the financial terms, to the extent publicly available, of certain comparable acquisition transactions;

participated in certain discussions and negotiations among representatives of Kindred and RehabCare and their financial and legal advisors;

reviewed the merger agreement, the draft debt commitment letter from the debt commitment parties dated February 6, 2011 and certain related documents; and

performed such other analyses, reviewed such other information and considered such other factors as Morgan Stanley deemed appropriate.

In arriving at its opinion, Morgan Stanley assumed and relied upon, without independent verification, the accuracy and completeness of the information that was publicly available or supplied or otherwise made available to Morgan Stanley by Kindred and RehabCare, and formed a substantial basis for this opinion. With respect to the financial projections, including information relating to certain strategic, financial and operational benefits anticipated from the merger, Morgan Stanley assumed that they had been reasonably prepared on bases reflecting the best currently available estimates and judgments of the respective managements of Kindred and RehabCare of the future financial performance of Kindred and RehabCare. In addition, Morgan Stanley assumed that the merger will be consummated in accordance with the terms set forth in the merger agreement without any waiver, amendment or delay of any terms or conditions, including, among other things, that Kindred will obtain debt financing in accordance with the terms set forth in the debt commitment letter. Morgan Stanley relied upon, without independent verification, the assessment by the managements of Kindred and RehabCare of: (i) the timing and risks associated with the integration of Kindred and RehabCare; (ii) their ability to retain key employees of Kindred and RehabCare, respectively and (iii) the validity of, and risks associated with, Kindred's and RehabCare's existing and future technologies, intellectual property, products, services and business models. Morgan Stanley assumed that in connection with the receipt of all the necessary governmental, regulatory or other approvals and consents required for the proposed merger, no delays, limitations, conditions or restrictions would be imposed that would have a material adverse effect on the contemplated benefits expected to be derived in the proposed merger. Morgan Stanley is not a legal, tax, regulatory or actuarial advisor. They are financial advisors only and relied upon, without independent verification, the assessment of Kindred and RehabCare and their legal, tax, regulatory or actuarial advisors with respect to legal, tax, regulatory or actuarial matters. Morgan Stanley expressed no opinion with respect to the fairness of the amount or nature of the compensation to any of RehabCare's officers, directors or employees, or any class of such persons, relative to the merger consideration to be paid to the holders of shares of RehabCare common stock in the transaction. Morgan Stanley's opinion did not address the relative merits of the merger as compared to any other alternative business transaction, or other alternatives, or whether or not such alternatives could be achieved or were available. Morgan Stanley did not make any independent valuation or appraisal of the assets or liabilities of RehabCare, nor was Morgan Stanley furnished with any such appraisals. Morgan Stanley's opinion was necessarily based on financial, economic, market and other conditions as in effect on, and the information made available to Morgan Stanley as of, the date

of the opinion. Events occurring after the date of the opinion may affect Morgan Stanley's opinion and the assumptions used in preparing it, and Morgan Stanley did not assume any obligation to update, revise or reaffirm its opinion.



## **Table of Contents**

The following is a summary of the material financial analyses performed by Morgan Stanley in connection with preparation of its written opinion to the Kindred board of directors. The financial analyses summarized below include information presented in tabular format. In order to fully understand the financial analyses used by Morgan Stanley, the tables must be read together with the text of each summary. The tables alone do not constitute a complete description of the financial analyses. The analyses listed in the tables and described below must be considered as a whole; considering any portion of such analyses and of the factors considered, without considering all analyses and factors, could create a misleading or incomplete view of the process underlying Morgan Stanley's fairness opinion.

For purposes of its financial analyses, Morgan Stanley relied on two sets of projections with Kindred's authorization: a case based on consensus Wall Street research analyst estimates (which we refer to as the "street case") and projections from RehabCare management that were adjusted by Kindred management (which we refer to as the "base case").

### ***RehabCare Trading Range Analysis***

Morgan Stanley reviewed the historical trading range of RehabCare common stock for various periods ending February 1, 2011.

Morgan Stanley noted that, as of February 1, 2011, the closing price of RehabCare common stock was \$25.10.

Morgan Stanley also noted that, for the last twelve months ended February 1, 2011 the maximum closing price for a share of RehabCare common stock, rounded to the nearest \$1.00, was \$32.00 and the minimum closing price for a share of RehabCare common stock, rounded to the nearest \$1.00, was \$16.00.

### ***RehabCare Equity Research Price Target Analysis***

Morgan Stanley reviewed the price targets for the RehabCare common stock prepared and published by equity research analysts. These targets reflect each analyst's estimate of the future public market-trading price of RehabCare common stock and are not discounted to reflect present value. The range of undiscounted price targets for the RehabCare common stock as of February 1, 2011 was \$25.00 to \$32.00.

In order to better compare the published price targets with the merger consideration, Morgan Stanley discounted the published price targets by an assumed cost of equity of 10.5% for an illustrative one-year period. On a discounted basis, rounded to the nearest \$1.00, the range of price targets for the RehabCare common stock as of February 1, 2011 was \$23.00 to \$29.00. Including a provision for synergy value at the high end of this range, the incremental range for RehabCare common stock, rounded to the nearest \$1.00, was \$34.00 to \$40.00.

The public market trading price targets published by securities research analysts do not necessarily reflect current market trading prices for the RehabCare common stock and these estimates are subject to uncertainties, including the future financial performance of RehabCare and future financial market conditions.

### ***Comparable Company Analysis***

Morgan Stanley reviewed and compared, using publicly available information, certain current and historical financial information for RehabCare corresponding to current and historical financial information, ratios and public market multiples for other companies that share similar business characteristics with RehabCare. The following list sets forth the selected comparable companies that were reviewed in connection with this analysis:

The Ensign Group, Inc.

HealthSouth Corp.

Kindred

National Healthcare Corp.

**Table of Contents**

Select Medical Holdings Corp.

Skilled Healthcare Group, Inc.

Sun Healthcare Group Inc.

Morgan Stanley analyzed the following statistics for comparative purposes:

the ratio of the aggregate value, defined as market capitalization plus total debt and minority interest less cash and cash equivalents, to estimated earnings before interest, income taxes, depreciation, amortization and rent expense (which we refer to as EBITDAR) for calendar year 2011; and

the ratio of stock price to estimated earnings per share (which we refer to as EPS) for calendar year 2011.

The following table reflects the results of the analysis and the corresponding multiples for RehabCare based on the representative ranges of EBITDAR and EPS estimates for these companies:

	Aggregate Value / 2011E EBITDAR	Stock Price / 2011E EPS
Range Derived from Comparable Companies	6.0x - 7.0x	8.5x - 11.5x
Implied Per Share Value of RehabCare Common Stock, Rounded to the Nearest \$1.00		
- Street Case	\$23 - \$32	\$23 - \$32
- Base Case	\$22 - \$31	\$23 - \$30
Implied Per Share Value of RehabCare Common Stock, Rounded to the Nearest \$1.00, Including a Provision of Synergy Value at the High End of the Range		
- Street Case	\$37 - \$43	\$37 - \$43
- Base Case	\$36 - \$41	\$36 - \$41

No company utilized in the comparable company analysis is identical to RehabCare. In evaluating the comparable companies, Morgan Stanley made judgments and assumptions with regard to industry performance, general business, economic, market and financial conditions and other matters, many of which are beyond the control of Kindred or RehabCare, such as the impact of competition on the businesses of RehabCare and the industry generally, industry growth and the absence of any adverse material change in the financial condition and prospects of RehabCare or the industry or in the financial markets in general. Mathematical analysis (such as determining the average or median) is not in itself a meaningful method of using comparable company data.

**Discounted Cash Flow Analysis**

Morgan Stanley performed a discounted cash flow analysis, which is designed to provide an implied value of a company by calculating the present value of the estimated future cash flows and terminal value of the company. Morgan Stanley calculated a range of implied equity values per share of RehabCare common stock based on estimates of future cash flows for calendar years 2011 through 2015. In preparing its analysis, Morgan Stanley relied upon the street case and base case projections with respect to the future financial performance of RehabCare. Morgan Stanley first calculated the estimated unlevered free cash flows of RehabCare for the period from January 1, 2011 to December 31, 2015. Morgan Stanley then calculated a terminal value for RehabCare by assuming an exit valuation of 6.0x to 7.0x of aggregate value to next-twelve-months ratio of earnings before interest, taxes, depreciation and amortization (which we refer to as EBITDA). These values were then discounted to present values as of December 31, 2010 assuming a range of discount rates between 8.5% and 9.5% to calculate an aggregate value for RehabCare. This aggregate value was further adjusted for RehabCare's total debt, minority interest, cash and cash equivalents, to calculate a range of implied equity value per share, rounded to the nearest \$1.00.





**Table of Contents**

	Excluding Synergies	Including Synergies
Implied Per Share Value of RehabCare Common Stock, Rounded to the Nearest \$1.00		
- Street Case	\$ 34 - \$42	\$ 48 - \$53
- Base Case	\$ 33 - \$41	\$ 46 - \$51

**Premiums Paid Analysis**

Morgan Stanley reviewed the premiums paid in certain acquisition transactions from 1990 to 2010. The acquisition transactions reviewed by Morgan Stanley were limited to those transactions with a transaction value greater than \$1 billion where the target company was a U.S.-based public company. Morgan Stanley reviewed the premium paid to the target company's stock price four weeks prior to the announcement date for each transaction. In certain cases, the premium was adjusted to reflect the presence of information or speculation in the public domain regarding a transaction prior to the formal announcement date. Morgan Stanley noted that the 21-year average premium paid in selected transactions with all cash consideration was 39% and for all selected transactions was 36%.

Morgan Stanley applied a premium range of 30% to 50% to RehabCare's stock price as of February 1, 2011 of \$25.10. The range of implied RehabCare's stock prices, rounded to the nearest \$1.00, was \$33.00 to \$38.00.

Morgan Stanley also reviewed the price paid and calculated the ratio of aggregate value to last-twelve months EBITDA (based on publicly available information), of 15 selected transactions in the healthcare services/facilities sectors since June 30, 2003 (listed below). Based on its analysis of these transactions, Morgan Stanley selected a representative range of financial multiples implied by the precedent transactions and applied this range of multiples to the relevant RehabCare financial statistic to imply a value per share based on such range of multiples.

For this analysis Morgan Stanley reviewed the following transactions:

**Healthcare Services / Facilities Precedent Transactions**

Acquiror	Target	Announcement Date
Kindred	Vista Healthcare, LLC	08/24/10
Onex Corporation	Res-Care Inc.	08/16/10
Select Medical Holdings Corp.	Regency Hospital Company, LLC	06/21/10
Gentiva Health Services Inc.	Odyssey Healthcare Inc.	05/24/10
Universal Health Services Inc.	Psychiatric Solutions, Inc.	05/18/10
RehabCare	Triumph Healthcare LLC	11/03/09
The Carlyle Group	ManorCare, Inc.	07/02/07
Select Medical Holdings Corp.	HealthSouth's Outpatient Rehab Division	01/29/07
Psychiatric Solutions, Inc.	Horizon Health Corp.	12/20/06
Extencare Health Services, Inc.	Tendercare Michigan, Inc.	11/01/06
RehabCare	Symphony Health Services LLC	05/03/06
The Carlyle Group	LifeCare Holdings, Inc.	07/21/05
Select Medical Holdings Corp.	SemperCare, Inc.	11/19/04
Thoma Cressey Bravo / Welsh, Carson, Anderson & Stowe	Select Medical Corp.	10/18/04
Select Medical Corp.	Kessler Rehab Corp.	06/30/03

Morgan Stanley applied a multiple range of 7.5x to 11.5x to RehabCare's 2010 estimated (which we refer to as 2010E) EBITDA. The range of implied RehabCare's stock prices, rounded to the nearest \$1.00, was \$34.00 to \$60.00.

**Table of Contents**

No company or transaction utilized in the premiums paid analysis is identical to Kindred, RehabCare or this specific transaction. In evaluating the precedent transactions, Morgan Stanley made judgments and assumptions with regard to general business, market and financial conditions and other matters, which are beyond the control of Kindred and RehabCare, such as the impact of competition on the business of Kindred, RehabCare or the industry generally, industry growth and the absence of any material adverse change in the financial condition of Kindred, RehabCare or the industry or in the financial markets in general, which could affect the public trading value of the companies and the value of the transactions to which they are being compared.

***Illustrative Financial Sponsor Analysis***

Morgan Stanley performed a hypothetical leveraged buyout analysis to determine the prices at which a financial sponsor might effect a leveraged buyout of RehabCare. Morgan Stanley assumed a transaction date of December 31, 2010 and a ratio of total debt to last-twelve-months EBITDA at the transaction date of 4.5x. Morgan Stanley also assumed a subsequent exit transaction by the financial sponsor at December 31, 2015 with a valuation of RehabCare realized by the financial sponsor in such subsequent exit transaction based on a 6.0x to 7.0x aggregate value to next-twelve-months EBITDA ratio and RehabCare's estimated total debt and cash and cash equivalents balances as of December 31, 2015. The implied acquisition price per share paid by the financial sponsor was based on a target range of internal rates of return for the financial sponsor between December 31, 2010 and December 31, 2015 of 20% to 25%.

Based on this analysis, the range of implied acquisition prices per share is shown in the table below.

**Implied Per Share Value of Kindred Common Stock, Rounded to the Nearest \$1.00**

- Street Case	\$ 24 - \$30
- Base Case	\$ 24 - \$31

***General***

In connection with the review of the merger by the Kindred board of directors, Morgan Stanley performed a variety of financial and comparative analyses for purposes of rendering its opinion. The preparation of a financial opinion is a complex process and is not necessarily susceptible to a partial analysis or summary description. In arriving at its opinion, Morgan Stanley considered the results of all of its analyses as a whole and did not attribute any particular weight to any analysis or factor it considered. Morgan Stanley believes that selecting any portion of its analyses, without considering all analyses as a whole, would create an incomplete view of the process underlying its analyses and opinion. In addition, Morgan Stanley may have given various analyses and factors more or less weight than other analyses and factors, and may have deemed various assumptions more or less probable than other assumptions. As a result, the ranges of valuations resulting from any particular analysis described above should not be taken to be Morgan Stanley's view of the actual value of RehabCare. In performing its analyses, Morgan Stanley made numerous assumptions with respect to industry performance, general business, regulatory, economic, market and financial conditions and other matters. Many of these assumptions are beyond the control of Kindred or RehabCare. Any estimates contained in Morgan Stanley's analyses are not necessarily indicative of future results or actual values, which may be significantly more or less favorable than those suggested by such estimates.

Morgan Stanley conducted the analyses described above solely as part of its analysis of the fairness of the merger consideration pursuant to the merger agreement from a financial point of view, to be paid by Kindred and in connection with the delivery of its opinion to the Kindred board of directors. These analyses do not purport to be appraisals or to reflect the prices at which the RehabCare common stock might actually trade.

The merger consideration was determined through arm's-length negotiations between Kindred and RehabCare and was approved by the Kindred board of directors. Morgan Stanley provided advice to the Kindred

---

**Table of Contents**

board of directors during these negotiations. Morgan Stanley did not, however, recommend any specific merger consideration to the Kindred board of directors or that any specific merger consideration constituted the only appropriate consideration for the merger.

Morgan Stanley's opinion and its presentation to the Kindred board of directors was one of many factors taken into consideration by the Kindred board of directors in deciding to approve and declare advisable the merger agreement and to recommend that Kindred stockholders approve the proposal to adopt the merger agreement. Consequently, the analyses as described above should not be viewed as determinative of the opinion of the Kindred board of directors with respect to the merger consideration or of whether the Kindred board of directors would have been willing to recommend a different merger consideration.

Morgan Stanley acted as financial advisor to the Kindred board of directors in connection with this transaction and will receive a one-time fee of \$12 million for its services, which fee is contingent upon the closing of the merger. Morgan Stanley is also entitled to receive a portion of any termination fee paid by RehabCare to Kindred pursuant to the merger agreement. In addition, Morgan Stanley expects to receive fees from Kindred for the provision of financing services related to the merger pursuant to the terms of the debt commitment letter. In the two years prior to the date hereof, Morgan Stanley provided financing services for Kindred and received fees in connection with such services. Morgan Stanley may also seek to provide financing or advisory services to Kindred and RehabCare in the future and expects to receive fees for the rendering of these services. Under the terms of its engagement letter, in addition to the fees described above, Kindred has also agreed to reimburse Morgan Stanley for its expenses incurred in performing its services. In addition, Kindred has agreed to indemnify Morgan Stanley and its affiliates, their respective directors, officers, agents and employees and each person, if any, controlling Morgan Stanley or any of its affiliates against certain liabilities and expenses, including certain liabilities under the federal securities laws, related to or arising out of Morgan Stanley's engagement.

Morgan Stanley is a global financial services firm engaged in the securities, investment management and individual wealth management businesses. Its securities business is engaged in securities underwriting, trading and brokerage activities, foreign exchange, commodities and derivatives trading, prime brokerage, as well as providing investment banking, financing and financial advisory services. Morgan Stanley, its affiliates, directors and officers may at any time invest on a principal basis or manage funds that invest, hold long or short positions, finance positions, and may trade or otherwise structure and effect transactions, for their own account or the accounts of its customers, in debt or equity securities or loans of Kindred, RehabCare, or any other company, or any currency or commodity, that may be involved in this transaction, or any related derivative instrument.

Morgan Stanley's opinion was approved by a committee of Morgan Stanley investment banking and other professionals in accordance with its customary practice. Morgan Stanley's opinion did not in any manner address the prices at which Kindred common stock will trade at any time and Morgan Stanley expressed no opinion or recommendation as to how the stockholders of Kindred and RehabCare should vote at the stockholders' meetings to be held in connection with the merger.

**Opinion of RehabCare's Financial Advisor - CGMI**

CGMI was retained to act as financial advisor to RehabCare in connection with the merger. In connection with this engagement, RehabCare requested CGMI to evaluate the fairness, from a financial point of view, of the merger consideration to be received in the merger by holders of RehabCare common stock. On February 7, 2011, at a meeting of the RehabCare board of directors, CGMI rendered to the RehabCare board of directors an oral opinion, which was confirmed by delivery of a written opinion dated February 7, 2011, to the effect that, as of that date and based on and subject to the matters described in its opinion, the merger consideration was fair, from a financial point of view, to the holders of RehabCare common stock (other than shares of RehabCare common stock owned by RehabCare, Kindred or their wholly owned subsidiaries, or as to which dissenters' rights are perfected).

---

**Table of Contents**

The full text of CGMI's written opinion, dated February 7, 2011, which describes the assumptions made, procedures followed, matters considered and limitations on the review undertaken, is attached to this joint proxy statement/prospectus as **Annex B** and is incorporated by reference in its entirety into this joint proxy statement/prospectus. You are urged to read the opinion in its entirety. CGMI's opinion was provided to the RehabCare board of directors in connection with its evaluation of the merger consideration from a financial point of view. CGMI's opinion does not address any other aspects or implications of the merger and does not constitute a recommendation to any stockholder as to how such stockholder should vote or act on any matters relating to the proposed merger. CGMI's opinion does not address the underlying business decision of RehabCare to effect the merger, the relative merits of the merger as compared to any alternative business strategies that might exist for RehabCare or the effect of any other transaction in which RehabCare may engage. The following is a summary of CGMI's opinion and the methodology that CGMI used to render its opinion.

In arriving at its opinion, CGMI, among other things:

reviewed the merger agreement;

held discussions with certain senior officers, directors and other representatives and advisors of RehabCare and certain senior officers and other representatives and advisors of Kindred concerning the businesses, operations and prospects of RehabCare and Kindred;

examined certain publicly available business and financial information relating to RehabCare and Kindred;

examined certain financial forecasts and other information and data relating to RehabCare and Kindred which were provided to or discussed with CGMI by the respective managements of RehabCare and Kindred, including information relating to the potential strategic implications and operational benefits (including the amount, timing and achievability thereof) anticipated by the managements of RehabCare and Kindred to result from the merger;

reviewed the financial terms of the merger as set forth in the merger agreement in relation to, among other things, current and historical market prices of RehabCare common stock and Kindred common stock, the historical and projected earnings and other operating data of RehabCare and Kindred and the capitalization and financial condition of RehabCare and Kindred;

considered, to the extent publicly available, the financial terms of certain other transactions which CGMI considered relevant in evaluating the merger;

analyzed certain financial, stock market and other publicly available information relating to the businesses of RehabCare, Kindred and other companies whose operations CGMI considered relevant in evaluating those of RehabCare and Kindred;

evaluated certain potential pro forma financial effects of the merger on Kindred; and

conducted such other analyses and examinations and considered such other information and financial, economic and market criteria as CGMI deemed appropriate in arriving at its opinion.

In rendering its opinion, CGMI assumed and relied, without independent verification, upon the accuracy and completeness of all financial and other information and data publicly available or provided to or otherwise reviewed by or discussed with CGMI and upon the assurances of the managements of RehabCare and Kindred that they were not aware of any relevant information that was omitted or that remained undisclosed to CGMI. With respect to financial forecasts and other information and data relating to RehabCare and Kindred provided to or otherwise reviewed by or discussed with CGMI, CGMI was advised by the respective managements of RehabCare and Kindred that such forecasts and other

## Edgar Filing: KINDRED HEALTHCARE, INC - Form 424B3

information and data were reasonably prepared on bases reflecting the best currently available estimates and judgments of the managements of RehabCare and Kindred as to the future financial performance of RehabCare and Kindred, the potential strategic implications and operational benefits (including the amount, timing and achievability thereof) anticipated to result from the merger and the other matters

## Table of Contents

covered thereby, and CGMI assumed, with RehabCare's consent, that the financial results (including such potential strategic implications and operational benefits anticipated to result from the merger) reflected in such forecasts and other information and data would be realized in the amounts and at the time anticipated.

CGMI assumed, with RehabCare's consent, that the merger would be consummated in accordance with the terms of the merger agreement, without waiver, modification or amendment of any material term, condition or agreement, including, among other things, that Kindred would obtain financing for the merger in accordance with the terms set forth in the debt commitment letter (which letter is described under "Financing Relating to the Merger" beginning on page 85) and that, in the course of obtaining the necessary regulatory or third party approvals, consents and releases for the merger, no delay, limitation, restriction or condition would be imposed that would have an adverse effect on RehabCare, Kindred or the contemplated benefits of the merger. CGMI also assumed, with RehabCare's consent, that the subsidiary merger election would occur and that the merger would be treated as a qualified stock purchase for U.S. federal income tax purposes. CGMI expressed no opinion as to what the value of Kindred common stock actually would be when issued pursuant to the merger or the price at which Kindred common stock would trade at any time subsequent to the announcement of the merger.

CGMI did not make, and it was not provided with, an independent evaluation or appraisal of the assets or liabilities (contingent or otherwise) of RehabCare or Kindred, and CGMI did not make any physical inspection of the properties or assets of RehabCare or Kindred. CGMI's opinion does not address RehabCare's underlying business decision to effect the merger, the relative merits of the merger as compared to any alternative business strategies that might exist for RehabCare or the effect of any other transaction in which RehabCare might engage. CGMI expressed no view as to, and its opinion does not address, the fairness (financial or otherwise) of the amount or nature or any other aspect of any compensation to any officers, directors or employees of any parties to the merger, or any class of such persons, relative to the merger consideration. CGMI's opinion was necessarily based upon information available to CGMI, and financial, stock market and other conditions and circumstances existing, as of the date of its opinion.

In preparing its opinion, CGMI performed a variety of financial and comparative analyses, including those described below. The summary of these analyses is not a complete description of the analyses underlying CGMI's opinion. The preparation of a financial opinion is a complex analytical process involving various determinations as to the most appropriate and relevant methods of financial analysis and the application of those methods to the particular circumstances and, therefore, a financial opinion is not readily susceptible to summary description. CGMI arrived at its ultimate opinion based on the results of all analyses undertaken by it and assessed as a whole, and did not draw, in isolation, conclusions from or with regard to any one factor or method of analysis for purposes of its opinion. Accordingly, CGMI believes that its analyses must be considered as a whole and that selecting portions of its analyses and factors or focusing on information presented in tabular format, without considering all analyses and factors or the narrative description of the analyses, could create a misleading or incomplete view of the processes underlying its analyses and opinion. Results of analyses where the merger consideration is lower in some instances (if any) than the implied ratios or values should be evaluated in combination with those instances in which the merger consideration is greater than the implied ratios or values.

In its analyses, CGMI considered industry performance, general business, economic, market and financial conditions and other matters existing as of the date of its opinion, many of which are beyond the control of RehabCare and Kindred. No company, business or transaction used in those analyses as a comparison is identical or directly comparable to RehabCare, Kindred or the merger, and an evaluation of those analyses is not entirely mathematical. Rather, the analyses involve complex considerations and judgments concerning financial and operating characteristics and other factors that could affect the acquisition, public trading or other values of the companies, business segments or transactions analyzed.

The estimates contained in CGMI's analyses and the valuation ranges resulting from any particular analysis are not necessarily indicative of actual values or predictive of future results or values, which may be significantly more or less favorable than those suggested by its analyses. In addition, analyses relating to the value of

**Table of Contents**

businesses or securities do not necessarily purport to be appraisals or to reflect the prices at which businesses or securities actually may be sold. Accordingly, the estimates used in, and the results derived from, CGMI's analyses are inherently subject to substantial uncertainty.

The type and amount of consideration payable in the merger was determined through negotiations between RehabCare and Kindred, and the decision to enter into the merger was solely that of the RehabCare board of directors. CGMI's opinion was only one of many factors considered by the RehabCare board of directors in its evaluation of the merger and should not be viewed as determinative of the views of the RehabCare board of directors or RehabCare management with respect to the merger or the merger consideration.

The following is a summary of the material financial analyses presented to the RehabCare board of directors in connection with the delivery of CGMI's opinion. The financial analyses summarized below include information presented in tabular format. In order to fully understand CGMI's financial analyses, the tables must be read together with the text of each summary. The tables alone do not constitute a complete description of the financial analyses. Considering the data below without considering the full narrative description of the financial analyses, including the methodologies and assumptions underlying the analyses, could create a misleading or incomplete view of CGMI's financial analyses.

***Valuation Analyses of RehabCare***

In connection with CGMI's financial analysis summarized below, CGMI reviewed financial forecasts and other information and data relating to RehabCare which were prepared by RehabCare's management, referred to as Case A and Case B. For purposes of the financial analyses summarized below, 2010 and 2011 estimates for RehabCare are identical for Case A and Case B and, accordingly, CGMI did not differentiate these cases for purposes of its analyses with respect to those calendar years. In addition, for purposes of the financial analyses summarized below, the term implied merger consideration refers to the total implied value of \$35.00 per share calculated by (1) multiplying the closing price of Kindred common stock on February 4, 2011 (\$19.22) by an assumed exchange ratio of 0.473, which had a value of \$9.00 per share as of such date, the time CGMI performed its analysis and (2) adding the per share cash consideration of \$26.00. The assumed exchange ratio was calculated based on Kindred's 10-day volume-weighted average stock price as of February 4, 2011. The final exchange ratio of 0.471 included in the merger agreement was calculated on February 7, 2011. The value of the merger consideration is subject to change based on Kindred's stock price.

*Historical Trading Range.* CGMI observed that during the 52-week period ended February 4, 2011, RehabCare common stock traded in a range of \$15.88 to \$31.93 per share and the closing price per share of RehabCare common stock on February 4, 2011 was \$25.19. CGMI noted that the implied merger consideration was above the 52-week trading range of RehabCare common stock.

*Research Price Targets.* CGMI compared the implied merger consideration to the 12-month price per share targets for RehabCare's common stock of nine Wall Street research analysts, as of February 4, 2011, found in publicly available equity research on RehabCare. As of that date, the nine research analysts who covered RehabCare and reported price targets published price per share targets for RehabCare's common stock between \$25.00 and \$32.00 (with a mean price target of \$29.33 and a median price target of \$30.00). CGMI noted that the implied merger consideration was above that range.

*Premia Paid Analysis.* CGMI reviewed publicly available data relating to transactions involving U.S. public targets in excess of \$500 million announced since January 1, 2006, excluding transactions where the target's principal business was as a financial institution or in real estate. CGMI reviewed the implied premia paid in the transactions over the closing stock prices of the target companies in such transactions one trading day prior to public announcement of the relevant transaction based on information publicly available at that time. CGMI observed the interquartile range of premia among the selected transactions of 13.9% (for transactions in the 25<sup>th</sup> percentile) to 39.9% (for transactions in the 75<sup>th</sup> percentile). CGMI applied such selected premia to the closing

**Table of Contents**

price of RehabCare's common stock on February 4, 2011 of \$25.19 per share. This analysis indicated the following implied per share equity value reference range for RehabCare, as compared to the implied merger consideration:

Selected Per Share Equity Reference Range for RehabCare's Common Stock		Implied Merger Consideration
\$28.75	\$35.25	\$ 35.00

*Selected Company Trading Analysis.* CGMI reviewed financial and stock market information and public market trading multiples of RehabCare and the following five selected publicly held healthcare companies:

HealthSouth Corporation

Kindred

Select Medical Holdings Corporation

Skilled Healthcare Group, Inc.

Sun Healthcare Group, Inc.

CGMI reviewed, among other information, adjusted enterprise values of the selected companies, calculated as market value based on closing stock prices on February 4, 2011, plus debt, less cash, adjusted for rent capitalized at 8.0x (which multiple was selected based on industry convention) and other adjustments, as a multiple of calendar year 2011 estimated EBITDAR. Based on its professional judgment, CGMI selected the high and low multiples of the peer group for its range of 2011 estimated EBITDAR multiples of 6.2x to 7.5x and applied such selected multiples to corresponding data of RehabCare. CGMI also noted the mean and median 2011 estimated EBITDAR multiples in the peer group of 6.9x and 7.0x, respectively. Financial data for the selected companies were based on information available from FactSet and public filings. Financial data for RehabCare were based both on RehabCare management's estimates and publicly available research analysts' estimates relating to RehabCare, referred to as RehabCare consensus estimates. This analysis indicated the following implied per share equity value reference ranges for RehabCare, as compared to the implied merger consideration:

Implied per Share Equity Value Reference Ranges for RehabCare Based on:				Implied Merger Consideration
RehabCare Management Estimates		RehabCare Consensus Estimates		
\$26.00	\$38.75	\$24.50	\$36.75	\$ 35.00

*Precedent Transaction Multiples.* Using publicly available information, Wall Street research reports and information provided by RehabCare management, CGMI reviewed financial data for the following four selected transactions. These transactions were selected generally because, as is the case with this transaction, they involved the acquisition of healthcare companies that CGMI deemed appropriate based on their general comparability (including attributes such as business and size).

Announcement Date	Acquiror	Target
August 24, 2010	Kindred	Vista Healthcare, LLC (5 hospitals)
June 21, 2010	Select Medical Holdings Corporation	Regency Hospital Company, L.L.C.
November 3, 2009	RehabCare	Triumph Healthcare LLC
July 21, 2005	The Carlyle Group	LifeCare Holdings, Inc.



## Edgar Filing: KINDRED HEALTHCARE, INC - Form 424B3

As part of its selected comparable transaction analysis, CGMI calculated and analyzed ratio of the transaction value to the target company's EBITDA as measured for the last twelve months (which we refer to as "LTM") prior to the announcement of the transaction. Based on its professional judgment, CGMI selected the high and low multiples from the selected transactions for its range of selected 2010 EBITDA multiples of 6.4x to 7.6x and applied such selected multiples to corresponding data of RehabCare. CGMI also noted the mean 2010

**Table of Contents**

EBITDA multiple of 6.9x. This analysis implied the following per share equity value reference range for RehabCare, as compared to the implied merger consideration:

Implied per Share Equity Value Reference Range for RehabCare		Implied Merger Consideration	
\$26.25	\$34.00	\$	35.00

*Discounted Cash Flow Analysis.* CGMI performed a discounted cash flow analysis to calculate the estimated present value of the standalone unlevered, after-tax free cash flow that RehabCare could generate for calendar year 2011 through calendar year 2020. The analysis was conducted on both the Company's Case A and Case B projections. CGMI calculated terminal values for RehabCare by applying to RehabCare's fiscal year 2020 estimated free cash flows a range of perpetuity growth rates of 1.75% to 2.25%, which range was selected taking into consideration long-term growth expectations for the industry. The present value of the cash flows and terminal values were then calculated using discount rates ranging from 9.8% to 11.4% based on RehabCare's weighted average cost of capital calculation. Based on this analysis, CGMI calculated the following implied per share equity reference ranges for RehabCare common stock, shown as compared to the implied merger consideration:

Implied per Share Equity Value Reference Ranges for RehabCare Based on:				Implied Merger Consideration	
Case A		Case B			
\$35.50	\$47.75	\$28.00	\$38.25	\$	35.00

**Valuation Analyses of Kindred**

*Historical Trading Range.* CGMI reviewed the daily closing prices per share of Kindred common stock to derive a 52-week trading range for Kindred for the period ended February 4, 2011. CGMI observed that the 52-week trading range for Kindred common stock for such period was \$11.50 to \$20.97 per share. CGMI noted that the closing price per share of Kindred common stock on February 4, 2011 was within that range.

*Research Price Targets.* CGMI reviewed the 12-month price per share targets for Kindred's common stock of ten Wall Street analysts, as of February 4, 2011, found in publicly available equity research on Kindred. As of that date, the ten research analysts who covered Kindred and reported price targets published price per share targets for Kindred's common stock between \$16.00 and \$26.00 (with a mean price target of \$21.40 and a median price target of \$22.00). CGMI noted that the closing price per share of Kindred's common stock on February 4, 2011 was within that range.

*Historical Price to Earnings Analysis.* Based on publicly available information, CGMI reviewed the multiple of Kindred's historical stock price to its earnings per share over a 5 year period and observed Kindred's 1-year, 3-year and 5-year average price to earnings multiples (11.0x, 12.8x and 15.1x, respectively) based on such information. Based on its professional judgment, CGMI selected the high and low multiples from the selected averages for its range of 2011 price to earnings multiples of 11.0x to 15.1x and applied such selected multiples to corresponding data of Kindred. Financial data for Kindred were based both on Kindred management's estimates and publicly available research analysts' estimates relating to Kindred, referred to as Kindred consensus estimates. This analysis indicated the following implied per share equity value reference ranges for Kindred, as compared to the closing price of Kindred common stock on February 4, 2011:

Implied per Share Equity Value Reference Ranges for Kindred Based on:				Closing Price of Kindred common stock on February 4, 2011	
Kindred Management Estimates		Kindred Consensus Estimates			
\$16.75	\$23.25	\$16.75	\$24.25	\$	19.22

**Table of Contents**

*Selected Company Trading Analysis.* CGMI reviewed financial and stock market information and public market trading multiples of Kindred and the following five selected publicly held healthcare companies:

HealthSouth Corporation

Select Medical Holdings Corporation

Skilled Healthcare Group, Inc.

Sun Healthcare Group, Inc.

RehabCare

CGMI reviewed, among other information, adjusted enterprise values of the selected companies, calculated as market value based on closing stock prices on February 4, 2011, plus debt, less cash, adjusted for rent capitalized at 8.0x (which multiple was selected based on industry convention) and other adjustments, as a multiple of calendar year 2011 estimated EBITDAR. Based on its professional judgment, CGMI selected the high and low multiples of the peer group for its range of 2011 estimated EBITDAR multiples of 6.2x to 7.5x and applied such selected multiples to corresponding data of Kindred. CGMI also noted the mean and median 2011 estimated EBITDAR multiples in the peer group of 6.9x and 7.0x, respectively. Financial data for the selected companies were based on information available from FactSet and public filings. Financial data for Kindred were based both on Kindred management's estimates and publicly available research analysts' estimates relating to Kindred, referred to as Kindred consensus estimates. This analysis indicated the following implied per share equity value reference ranges for Kindred, as compared to the closing price of Kindred common stock on February 4, 2011:

Implied per Share Equity Value Reference Ranges for Kindred Based on:				Closing Price of Kindred common stock on February 4, 2011
Kindred Management Estimates		Kindred Consensus Estimates		
\$15.25	\$35.00	\$15.25	\$33.75	\$ 19.22

***Pro Forma Earnings Per Share Impact***

CGMI calculated potential accretion/dilution of pro forma EPS of Kindred for calendar years 2011 through 2014 based on RehabCare management's Case A and Case B financial models. In each case, CGMI calculated potential accretion/dilution under two possible scenarios: (i) excluding any synergies and (ii) including RehabCare and Kindred's management estimated synergies in connection with the merger. The following table sets forth the results of this analysis:

Case A

	Excluding Synergies	Including Synergies
2011E EPS Accretion / (Dilution)%	15.9%	34.7%
2012E EPS Accretion / (Dilution)%	25.2%	51.7%
2013E EPS Accretion / (Dilution)%	33.6%	58.5%
2014E EPS Accretion / (Dilution)%	42.0%	66.1%

Case B

Edgar Filing: KINDRED HEALTHCARE, INC - Form 424B3

	<b>Excluding Synergies</b>	<b>Including Synergies</b>
2011E EPS Accretion / (Dilution)%	15.9%	34.7%
2012E EPS Accretion / (Dilution)%	15.2%	41.7%
2013E EPS Accretion / (Dilution)%	15.6%	40.5%
2014E EPS Accretion / (Dilution)%	23.2%	47.3%

---

## **Table of Contents**

### ***Miscellaneous***

Under the terms of CGMI's engagement, RehabCare has agreed to pay CGMI for its financial advisory services in connection with the merger an aggregate fee of up to approximately \$15.1 million (assuming a price per share of Kindred common stock of \$23.04 on the date of consummation of the merger), \$2.5 million of which was payable upon delivery by CGMI of the opinion and the remainder of which is payable upon consummation of the merger. CGMI agreed to reduce its aggregate fees by the amount of fees and expenses that would be payable by RehabCare to RBC in connection with the delivery of a fairness opinion by RBC. Subject to certain limitations, RehabCare also has agreed to reimburse CGMI for reasonable travel and other expenses incurred by CGMI in performing its services, including reasonable fees and expenses of its legal counsel, and to indemnify CGMI and related persons against liabilities, including liabilities under the federal securities laws, arising out of its engagement.

Citi, or one of its affiliates engaged in the commercial lending business, will be acting as an arranger and bookrunner in the financing obtained by Kindred in connection with the financing of the merger. Citi or its affiliates could receive compensation ranging from \$10 million to \$15 million in connection with their participation in the debt financing necessary for Kindred to complete the merger. The actual amount of this compensation will depend on a number of factors, including, the amount drawn on the credit facility, the syndication of the revolving credit facility and the fees payable in connection with such syndication.

Citi and its affiliates in the past have provided and currently provide services to RehabCare and Kindred unrelated to the proposed merger, for which services Citi and its affiliates have received and expect to receive compensation, including, without limitation, in July 2007, Citi acted as syndication agent in connection with the issuance of Kindred's \$500 million asset based revolving credit facility (and was a lender under such facility), and continued its participation in the amendment of this facility, in December 2010, to \$600 million. In the ordinary course of its business, Citi and its affiliates may actively trade or hold the securities of RehabCare and Kindred for their own account or for the account of their customers and, accordingly, may at any time hold a long or short position in such securities. In addition, Citi and its affiliates may maintain relationships with RehabCare, Kindred and their respective affiliates.

RehabCare selected CGMI to provide certain financial advisory services in connection with the merger based on CGMI's reputation and experience. CGMI is an internationally recognized investment banking firm which regularly engages in the valuation of businesses and their securities in connection with mergers and acquisitions, negotiated underwritings, competitive bids, secondary distributions of listed and unlisted securities, private placements and valuations for estate, corporate and other purposes. The issuance of CGMI's opinion was authorized by CGMI's fairness opinion committee.

### **Opinion of RehabCare's Financial Advisor - RBC**

On January 24, 2011, RehabCare formally retained RBC to evaluate the fairness, from a financial point of view, of the merger consideration to be received in the merger by the holders of RehabCare common stock. On February 7, 2011, RBC delivered its oral opinion, subsequently confirmed in writing, to the RehabCare board of directors to the effect that, as of such date, based upon and subject to the factors and assumptions made, matters considered and limits of the review undertaken by RBC set forth therein, the merger consideration was fair from a financial point of view to the holders of RehabCare common stock.

**The full text of RBC's written opinion, dated February 7, 2011, which, among other things, sets forth the assumptions made, procedures followed, matters considered, and limitations of the review undertaken by RBC in connection with the opinion, is attached as Annex C. RBC provided its opinion for the information and assistance of the RehabCare board of directors in connection with its consideration of the merger. All advice and opinions (written and oral) rendered by RBC were intended for the use and benefit of the RehabCare board of directors. The RBC opinion was not a recommendation to any stockholder as to how such stockholder should vote with respect to the merger. RehabCare stockholders are urged to read the RBC opinion in its entirety.**

**Table of Contents**

For the purposes of rendering its opinion, RBC undertook such review and inquiries as it deemed necessary or appropriate under the circumstances, including the following:

reviewed the financial terms of a draft of the merger agreement;

reviewed and analyzed certain publicly available financial and other data with respect to RehabCare and Kindred and certain other relevant historical operating data relating to RehabCare and Kindred made available to RBC from published sources and from the internal records of RehabCare and Kindred, respectively, and financial projections for RehabCare for the fiscal years ended 2011 through 2020, as prepared by RehabCare, and financial projections for Kindred for the fiscal years ended 2011 through 2015, as prepared by Kindred;

conducted discussions with members of the senior managements of RehabCare and Kindred with respect to the business prospects and financial outlook of RehabCare and Kindred as standalone entities;

reviewed the reported prices and trading activity for RehabCare common stock and Kindred common stock; and

performed such other studies and analyses as it deemed appropriate.

In arriving at its opinion, RBC performed the following analyses in addition to the review, inquiries and analyses referred to in the preceding paragraph:

compared selected market valuation metrics of RehabCare and other comparable publicly traded companies with the financial metrics implied by the merger consideration;

compared selected market valuation metrics of Kindred and other comparable publicly traded companies;

compared the financial metrics of selected precedent transactions with the financial metrics implied by the merger consideration for RehabCare; and

performed a discounted cash flow analysis of RehabCare and Kindred.

RBC employed several analytical methodologies in rendering its opinion, and no one method of analysis should be regarded as critical to the overall conclusion reached. Each analytical technique has inherent strengths and weaknesses, and the nature of the available information may further affect the value of particular techniques. RBC's overall conclusions were based on the analyses and factors presented, taken as a whole, and also on application of RBC's own experience and judgment. Such conclusions may have involved significant elements of subjective judgment and qualitative analysis. RBC therefore gave no opinion as to the value or merit standing alone of any one or more parts of the analysis.

In rendering its opinion, RBC assumed and relied upon the accuracy and completeness of all of the information that was publicly available to it and all of the financial, legal, tax, operating and other information provided to or discussed with it by RehabCare and Kindred (including, without limitation, the financial statements and related notes thereto of RehabCare and Kindred), and did not assume any responsibility for independently verifying, and did not independently verify, such information. RBC assumed that all projections and forecasts provided to RBC by RehabCare and Kindred were reasonably prepared and represented the best currently available estimates and good faith judgments of the managements of RehabCare and Kindred as to the future financial performance of RehabCare and Kindred, respectively, as standalone entities. RBC expressed no opinion as to such projections and forecasts or the assumptions on which they were based.

## Edgar Filing: KINDRED HEALTHCARE, INC - Form 424B3

In rendering its opinion, RBC did not assume any responsibility to perform, and did not perform, an independent evaluation or appraisal of any of the assets or liabilities of RehabCare or Kindred, and RBC was not furnished with any such valuations or appraisals. RBC did not assume any obligation to conduct, and did not

**Table of Contents**

conduct, a physical inspection of the property or facilities of RehabCare or Kindred. RBC did not investigate, and made no assumption regarding, any litigation or other claims affecting RehabCare or Kindred.

RBC assumed, in all respects material to its analysis, that:

all conditions to the consummation of the merger would be satisfied without waiver thereof;

the merger would be consummated pursuant to the subsidiary merger election; and

the executed version of the merger agreement would not differ, in any respect material to RBC's opinion, from the latest draft reviewed by RBC.

The RBC opinion speaks only as of the date thereof, is based on the conditions as they existed, and information that RBC was supplied, as of the date thereof, and is without regard to any market, economic, financial, legal, or other circumstances or event of any kind or nature which may exist or occur after such date. RBC did not undertake to reaffirm or revise its opinion or otherwise comment upon events occurring after the date thereof and does not have an obligation to update, revise or reaffirm its opinion. RBC did not express an opinion as to prices at which RehabCare common stock or Kindred common stock would trade at any time.

The RBC opinion was provided for the information and assistance of the board of directors of RehabCare in connection with the merger. The RBC opinion did not address the merits of the underlying decision by RehabCare to engage in the merger or the relative merits of the merger compared to any alternative business strategy or transaction in which RehabCare might engage. The RBC opinion addresses solely the fairness of the merger consideration, from a financial point of view, to the holders of RehabCare common stock. The RBC opinion does not in any way address other terms or arrangements of the merger or the merger agreement, including without limitation, the financial or other terms of any other agreement contemplated by, or entered into in connection with, the merger agreement. Further, in rendering its opinion, RBC expressed no opinion about the fairness of the amount or nature of the compensation to any of RehabCare's officers, directors or employees, or class of such persons, relative to the compensation to the public stockholders of RehabCare.

Set forth below is a summary of the material financial analyses performed by RBC in connection with its opinion and reviewed with the RehabCare board of directors at its meeting on February 7, 2011. The following summary, however, does not purport to be a complete description of the financial analyses performed by RBC. The order of analyses described does not represent relative importance or weight given to those analyses by RBC. Some of the summaries of the financial analyses include information presented in tabular format. The tables must be read together with the full text of each summary and are alone not a complete description of RBC's financial analyses.

For purposes of its analyses, RBC reviewed a number of financial and operating metrics, including:

Enterprise value, calculated as the value of the relevant company's outstanding equity securities (taking into account its outstanding options and other convertible securities, as applicable) based on the relevant company's closing stock price (which we refer to as equity value) plus (i) par value of debt less cash and equivalents (which we refer to as net debt) and (ii) noncontrolling interest, net of investment in unconsolidated affiliates (if any);

Adjusted enterprise value, calculated as enterprise value plus the debt equivalent of operating leases estimated at eight times annual rent expense;

Stock price;

EBITDA;



EBITDAR; and

Earnings per share.

**Table of Contents**

Unless the context indicates otherwise, enterprise values, adjusted enterprise values and stock prices derived from the comparable companies analyses described below were calculated using the closing price of RehabCare common stock or Kindred common stock, as applicable, and the common stock of the selected rehabilitation care services, senior nursing facilities services and long-term acute care hospital companies listed below as of February 4, 2011, and transaction values for the target companies derived from the comparable transactions analysis described below were calculated as of the announcement date of the relevant transactions based on the estimated enterprise value as of such date, using the purchase prices to be paid for the target companies' stock in the selected transactions, instead of closing stock prices. Accordingly, this information may not reflect current or future market conditions.

Preliminary 2010 EBITDA, EBITDAR and earnings per share for RehabCare and Kindred were based on preliminary historical financial information provided by management of RehabCare and Kindred, respectively, for fiscal year 2010. Adjusted 2010 EBITDA, EBITDAR and earnings per share for Kindred were based on preliminary 2010 EBITDA, EBITDAR and earnings per share, adjusted to include full-year impact of Kindred's 2010 acquisitions, based on Kindred management's estimates and RBC assumptions regarding depreciation and amortization as a percentage of EBITDA and RBC assumptions regarding tax rates. Estimates of 2011 EBITDA, EBITDAR and earnings per share for RehabCare and Kindred were based on estimates provided by the managements of RehabCare and Kindred, respectively, for fiscal year 2011. Estimates of 2010 and 2011 EBITDA, EBITDAR and earnings per share for the selected rehabilitation care services, senior nursing facilities services and long-term acute care hospital companies listed below were based on consensus estimates across selected Wall Street research reports (which were referred to as "Wall Street consensus estimates") for calendar years 2010 and 2011.

Enterprise value for RehabCare was calculated based on 25.3 million shares of RehabCare common stock outstanding, on a fully diluted basis, \$375 million of net debt and \$16 million noncontrolling interest, net of investment in unconsolidated affiliates. Enterprise value for Kindred was calculated based on 40.5 million shares of Kindred common stock outstanding, on a fully diluted basis, \$385 million of net debt and no noncontrolling interest, net of investment in unconsolidated affiliates.

None of the companies used in the comparable companies or comparable transactions analyses are identical to RehabCare or Kindred. Accordingly, RBC believes the analyses are not simply mathematical. Rather, they involve complex considerations and qualitative judgments, reflected in RBC's opinion, concerning differences in financial and operating characteristics of such companies and other factors that could affect the public trading value of the comparable companies or the acquisition prices of the subject companies in the comparable transactions analysis.

***RehabCare Financial Analysis***

For each of the implied per share value reference ranges for RehabCare common stock referred to below, RBC compared such ranges to an assumed merger consideration of \$35.00 per share, based on (i) the cash consideration of \$26.00 per share of RehabCare common stock, and (ii) the stock consideration of 0.471 shares of Kindred common stock, valued at \$9.00 per share of RehabCare common stock.

***RehabCare Comparable Companies Analysis***

RBC reviewed certain financial and stock market information of RehabCare and compared such information to corresponding information for a group of publicly traded companies (a "peer group"). The peer group to which RehabCare was compared consisted of the following publicly traded rehabilitation care services, senior nursing facilities services and long-term acute care hospital companies:

Kindred

HealthSouth Corp.

Select Medical Holdings Corp.

**Table of Contents**

Hanger Orthopedic Group

Skilled Healthcare Group Inc.

National Healthcare Corp.

Ensign Group Inc.

Sun Healthcare Group Inc.

U.S. Physical Therapy Inc.

RBC calculated the following multiples based on the reviewed financial and stock market information of RehabCare's peer group:

Enterprise value as a multiple of calendar year (which we refer to as CY ) 2010E EBITDA.

Enterprise value as a multiple of CY 2011 estimated (which we refer to as 2011E ) EBITDA.

Adjusted enterprise value as a multiple of CY 2010E EBITDAR.

Adjusted enterprise value as a multiple of CY 2011E EBITDAR.

Share price as a multiple of CY 2010E earnings per share.

Share price as a multiple of CY 2011E earnings per share.

The following table sets forth the high, low, mean and median multiples of RehabCare's peer group derived by RBC, based on historical financial information and Wall Street consensus estimates:

	<b>Peer Group High</b>	<b>Peer Group Mean</b>	<b>Peer Group Median</b>	<b>Peer Group Low</b>
Enterprise value as a multiple of CY 2010E EBITDA (1)	10.5x	7.7x	8.0x	4.7x
Enterprise value as a multiple of CY 2011E EBITDA	8.9x	6.5x	6.8x	3.7x
Adjusted enterprise value as a multiple of CY 2010E EBITDAR (1)(2)	9.8x	7.9x	8.0x	6.7x
Adjusted enterprise value as a multiple of CY 2011E EBITDAR (2)	8.8x	7.1x	7.1x	6.1x
	17.2x	14.2x	13.6x	11.7x

## Edgar Filing: KINDRED HEALTHCARE, INC - Form 424B3

Price per share as a multiple of CY 2010E  
earnings per share (1)

Price per share as a multiple of CY 2011E  
earnings per share

14.7x

12.0x

12.0x

9.5x

- (1) CY 2010E EBITDA, EBITDAR and earnings per share were not meaningful for Sun Healthcare Group Inc. due to a REIT spin-off transaction in November 2010.
- (2) Rent or occupancy expense was not disclosed by a majority of the research analysts covering the stock of Select Medical Holdings Corp., Hanger Orthopedic Group and U.S. Physical Therapy Inc. RBC estimated 2010 and 2011 rent/occupancy expense for these companies based on trailing three-year average rent/occupancy expense as percentage of sales multiplied by 2010 and 2011 Wall Street consensus sales estimates.

**Table of Contents**

RBC applied the following multiple ranges to RehabCare preliminary 2010 and estimated 2011 EBITDA, EBITDAR, earnings per share and other corresponding financial data for RehabCare, after reviewing the comparable companies analysis, which yielded the following implied per share equity value reference ranges for RehabCare common stock:

	Selected Multiple Range	Implied Per Share Equity Value Reference Range
Enterprise value as a multiple of CY 2010E EBITDA	6.0x - 8.5x	\$ 23.62 - \$39.65
Enterprise value as a multiple of CY 2011E EBITDA	5.5x - 8.0x	\$ 25.23 - \$43.44
Adjusted enterprise value as a multiple of CY 2010E EBITDAR	6.7x - 8.5x	\$ 25.56 - \$40.63
Adjusted enterprise value as a multiple of CY 2011E EBITDAR	6.1x - 8.0x	\$ 25.92 - \$43.44
Price per share as a multiple of CY 2010E earnings per share	12.0x - 16.5x	\$ 29.73 - \$40.88
Price per share as a multiple of CY 2011E earnings per share	9.5x - 14.5x	\$ 27.80 - \$42.43

*RehabCare Comparable Transactions Analysis*

RBC reviewed selected financial information for the following selected, publicly announced rehabilitation care services, senior nursing facilities services and long-term acute care hospital transactions:

Announced	Acquiror	Target / Divestor
08/24/2010	Kindred Healthcare	5 LTAC Hospitals / Vista Healthcare LLC
08/16/2010	Onex Corporation	Res-Care Inc. (75.1%) (1)
06/21/2010	Select Medical Holdings	Regency Hospital Company
11/03/2009	RehabCare Group Inc.	Triumph Healthcare Inc.
07/02/2007	Carlyle Group Inc.	Manor Care, Inc.
01/16/2007	Formation Capital, JER Partners	Genesis HealthCare Corporation
10/19/2006	Sun Healthcare Group Inc.	Harborside Healthcare Corp / Investcorp
07/12/2006	Formation Capital, JER Partners	Tandem Healthcare / Behrman Capital
10/24/2005	Onex Partners and Management	Skilled Healthcare Group
03/22/2006	Vestar Capital and Management	National Mentor Holdings / Madison Dearborn Partners
11/21/2005	Fillmore Capital Partners	Beverly Enterprises
07/21/2005	Carlyle Group Inc.	LifeCare Holdings / GTCR
10/18/2004	Thoma Cressey Bravo/Welsh, Carson, Anderson & Stowe	Select Medical Corp

(1) Onex and affiliates already owned common stock and convertible preferred stock representing approximately 24.9% of Res-Care Inc. shares on an as converted basis.

RBC calculated certain multiples based on the reviewed financial information of the comparable transactions including:

Enterprise value as a multiple of EBITDA for LTM for which financial information had been made public as of the date of announcement of the applicable transaction.

**Table of Contents**

The following table sets forth the high, low, mean and median multiples of the comparable transactions derived by RBC, based on available historical financial information:

	Comparable Transactions High	Comparable Transactions Mean	Comparable Transactions Median	Comparable Transactions Low
Enterprise value as a multiple of LTM EBITDA	12.7x	8.4x	7.6x	5.9x

RBC applied the following multiple range to RehabCare preliminary 2010 EBITDA and other corresponding financial data for RehabCare, after reviewing the comparable transactions, which yielded the following implied per share equity value reference ranges for RehabCare common stock:

	Selected Multiple Range	Implied Per Share Equity Value Reference Range
Enterprise value as a multiple of LTM EBITDA	6.0x - 11.0x	\$ 23.62 - \$55.62

*RehabCare Discounted Cash Flow Analysis*

RBC performed a discounted cash flow analysis of RehabCare to calculate the estimated present value of the standalone unlevered, after-tax free cash flows that RehabCare was forecasted to generate through the fiscal year ending December 31, 2020, based on estimates provided by RehabCare's management. Management provided RBC with two sets (which we refer to as Case A and Case B) of estimates. Relative to Case B, Case A reflected higher volume growth and more favorable reimbursement environment beginning in 2012. See Summary of RehabCare Projections beginning on page 71 below for a detailed discussion of the estimates and the assumptions underlying such estimates.

For purposes of the RehabCare discounted cash flow analysis, enterprise value was calculated as equity value plus net debt. RBC did not subtract noncontrolling interest, net of investment in unconsolidated affiliates, in order to reach implied per share equity value, as the discounted cash flow analysis excluded distributions to noncontrolling interests. RBC performed its discounted cash flow analysis of RehabCare based on perpetual growth rates ranging from 1.00% to 2.00% and applied discount rates reflecting a weighted-average cost of capital (which we refer to as WACC) ranging from 9.0% to 12.0% (discounted to December 31, 2010). The range of discount rates was based on RBC's estimate of RehabCare's equity cost of capital after taking into account the estimated five-year historical betas of selected comparable publicly traded companies. These calculations indicated the following implied per share equity value reference ranges for RehabCare common stock:

	Implied Per Share Equity Value Reference Range
Case A	\$ 31.36 - \$53.04
Case B	\$ 24.40 - \$42.25

**Kindred Financial Analysis**

In order to form a view as to the value of the stock component of the merger consideration, RBC performed certain financial analyses with respect to Kindred common stock.

**Table of Contents**

*Kindred Comparable Companies Analysis*

RBC reviewed certain financial and stock market information of Kindred and compared such information to corresponding information for a peer group. The peer group to which Kindred was compared consisted of the following publicly traded rehabilitation care services, senior nursing facilities services and long-term acute care hospital companies:

RehabCare

HealthSouth Corp.

Select Medical Holdings Corp.

Hanger Orthopedic Group

Skilled Healthcare Group Inc.

National Healthcare Corp.

Ensign Group Inc.

Sun Healthcare Group Inc.

U.S. Physical Therapy Inc.

RBC calculated the following multiples based on the reviewed financial and stock market information of Kindred's peer group:

Enterprise value as a multiple of CY 2010E EBITDA.

Enterprise value as a multiple of CY 2011E EBITDA.

Adjusted enterprise value as a multiple of CY 2010E EBITDAR.

Adjusted enterprise value as a multiple of CY 2011E EBITDAR.

Share price as a multiple of CY 2010E earnings per share.

## Edgar Filing: KINDRED HEALTHCARE, INC - Form 424B3

Share price as a multiple of CY 2011E earnings per share.

The following table sets forth the high, low, mean and median multiples of Kindred's peer group derived by RBC, based on historical financial information and Wall Street consensus estimates:

	Peer Group High	Peer Group Mean	Peer Group Median	Peer Group Low
Enterprise value as a multiple of CY 2010E EBITDA (1)	10.5x	7.9x	8.0x	6.1x
Enterprise value as a multiple of CY 2011E EBITDA	8.9x	6.6x	6.8x	3.7x
Adjusted enterprise value as a multiple of CY 2010E EBITDAR (1)(2)	9.8x	7.9x	8.0x	6.7x
Adjusted enterprise value as a multiple of CY 2011E EBITDAR (2)	8.8x	7.1x	7.1x	6.0x
Price per share as a multiple of CY 2010E earnings per share (1)	17.2x	13.9x	13.6x	10.2x
Price per share as a multiple of CY 2011E earnings per share	14.7x	11.7x	11.8x	8.6x

- (1) CY 2010E EBITDA, EBITDAR and earnings per share were not meaningful for Sun Healthcare Group Inc. due to a REIT spin-off transaction in November 2010.



**Table of Contents**

- (2) Rent or occupancy expense was not disclosed by a majority of the research analysts covering the stock of Select Medical Holdings Corp., Hanger Orthopedic Group and U.S. Physical Therapy Inc. RBC estimated 2010 and 2011 rent/occupancy expense for these companies based on trailing three-year average rent/occupancy expense as percentage of sales multiplied by 2010 and 2011 Wall Street consensus sales estimates.

RBC applied the following multiple ranges to Kindred adjusted 2010 and estimated 2011 EBITDA, EBITDAR, earnings per share and other corresponding financial data for Kindred, after reviewing the comparable companies analysis, which yielded the following implied per share equity value reference ranges for Kindred common stock:

	Selected Multiple Range	Implied Per Share Equity Value Reference Range
Enterprise value as a multiple of CY 2010E EBITDA	6.1x - 8.5x	\$ 27.95 - \$42.06
Enterprise value as a multiple of CY 2011E EBITDA	5.5x - 8.0x	\$ 27.93 - \$44.22
Adjusted enterprise value as a multiple of CY 2010E EBITDAR	6.7x - 8.5x	\$ 20.17 - \$46.37
Adjusted enterprise value as a multiple of CY 2011E EBITDAR	6.0x - 8.0x	\$ 13.32 - \$44.22
Price per share as a multiple of CY 2010E earnings per share	12.0x - 16.5x	\$ 18.46 - \$25.38
Price per share as a multiple of CY 2011E earnings per share	9.0x - 14.5x	\$ 14.40 - \$23.19

*Kindred Discounted Cash Flow Analysis*

RBC performed a discounted cash flow analysis of Kindred to calculate the estimated present value of the standalone unlevered, after-tax free cash flows that Kindred was forecasted to generate through the fiscal year ending December 31, 2015, based on estimates provided by Kindred's management. RBC performed its discounted cash flow analysis of Kindred based on perpetual growth rates ranging from 1.00% to 2.00% and applied discount rates reflecting a WACC ranging from 8.5% to 11.5% (discounted to December 31, 2010). The range of discount rates was based on RBC's estimate of Kindred's equity cost of capital after taking into account the estimated five-year historical betas of selected comparable publicly traded companies. These calculations indicated an implied per share equity value reference range for Kindred common stock of \$22.76 to \$41.27.

**General**

The foregoing summary describes all the analyses and factors that RBC deemed material in its presentation to the RehabCare board of directors, but is not a comprehensive description of all analyses performed or factors considered by RBC in connection with preparing its opinion. The preparation of a fairness opinion is a complex process involving the application of subjective business judgment in determining the most appropriate and relevant methods of financial analysis and the application of those methods to the particular circumstances and, therefore, is not readily susceptible to summary description. RBC believes that its analyses must be considered as a whole and that considering any portion of such analyses and of the factors considered without considering all of such analyses and factors could create a misleading view of the process underlying the opinion. In arriving at its fairness determination, RBC did not assign specific weights to any particular analyses.

In conducting its analyses and arriving at its opinion, RBC used a variety of generally accepted valuation methods. The analyses were prepared for the purpose of enabling RBC to provide its opinion to the RehabCare board of directors as to the fairness, from a financial point of view, of the merger consideration to the holders of RehabCare common stock and do not purport to be appraisals or necessarily reflect the prices at which businesses or securities actually may be sold, which are inherently subject to uncertainty. In connection with its analyses, RBC made, and was provided by RehabCare management with, numerous assumptions with respect to industry

---

**Table of Contents**

performance, general business and economic conditions and other matters, many of which are beyond the control of RBC or RehabCare. Analyses based on estimates or forecasts of future results are not necessarily indicative of actual past or future values or results, which may be significantly more or less favorable than suggested by such analyses. Because such analyses are inherently subject to uncertainty, being based upon numerous factors or events beyond the control of RehabCare or its advisors, neither RehabCare nor RBC nor any other person assumes responsibility if future results or actual values are materially different from these forecasts or assumptions.

The terms of the merger agreement were determined through arm's length negotiations between Kindred and RehabCare and were approved by the RehabCare board of directors. The decision to enter into the merger agreement was solely that of the RehabCare board of directors. As described above, the opinion and presentation of RBC to the RehabCare board of directors were only one of a number of factors taken into consideration by the RehabCare board of directors in making its determination to approve the merger agreement.

RehabCare selected RBC to provide the opinion based on RBC's qualifications, expertise, reputation and experience in mergers and acquisitions. RehabCare retained RBC pursuant to a letter agreement, dated January 24, 2011, which is referred to below as the engagement letter. RBC has earned a fee of \$250,000 for rendering its opinion, payable upon delivery of the opinion, regardless of whether the merger is consummated. Regardless of whether the merger is completed, RehabCare has agreed to reimburse RBC for all reasonable travel, legal and other out-of-pocket expenses incurred in performing the services described in the engagement letter, including reasonable fees and disbursements of RBC's legal counsel. RehabCare also agreed to indemnify RBC and certain related persons against certain liabilities related to or arising out of any matter contemplated by RBC's engagement, RBC's opinion or otherwise in connection with services provided with respect to a proposed acquisition of RehabCare by Kindred.

In the ordinary course of business, RBC may act as a market maker and broker in the publicly traded securities of RehabCare and Kindred and receive customary compensation, and may also actively trade securities of RehabCare and Kindred for its own account and the accounts of its customers. Accordingly, RBC and its affiliates may hold a long or short position in such securities. RBC has provided investment banking and financial advisory services to RehabCare in the past, for which it received customary fees, including, in the past two years, (i) RBC participated in RehabCare's refinancing related to RehabCare's acquisition of Triumph Healthcare in 2009, (ii) RBC acted as joint lead arranger and joint bookrunner on RehabCare's \$575 million existing credit facility, (iii) RBC's parent, Royal Bank of Canada, is currently a lender under the credit facility, and (iv) RBC acted as a co-manager in RehabCare's \$149 million follow-on offering of RehabCare common stock in 2009.

**Summary of RehabCare Projections**

RehabCare does not as a matter of course publicly disclose long-term forecasts or internal projections as to future performance, revenues, earnings or financial condition. However, certain prospective financial information, which is referred to as the RehabCare management forecast, was prepared by RehabCare's management and reviewed with, discussed among and provided to members of the RehabCare's board of directors, CGMI and RBC. RehabCare's management provided two alternative sets of the RehabCare management forecast, referred to as the Case A, which reflects more favorable reimbursement environment and higher volume growth, and the Case B, which reflects less favorable reimbursement environment and lower volume growth. These projections were provided to the RehabCare board of directors, CGMI, RBC, and Kindred, and were the basis upon which CGMI and RBC prepared certain analysis of RehabCare as more fully described under Opinion of RehabCare's Financial Advisor CGMI and Opinion of RehabCare's Financial Advisor RBC beginning on pages 55 and 62, respectively. RehabCare management's key assumptions supporting the Case A and Case B are discussed below.

The material portions of the RehabCare management forecast are included below in order to give RehabCare and Kindred stockholders access to this information as well. The inclusion of the prospective

## **Table of Contents**

financial information below should not be regarded as an indication that RehabCare, RehabCare's management team, the RehabCare board of directors or Kindred, or any of their respective representatives considered, or now considers, the RehabCare management forecast to be predictive of actual future results.

RehabCare management's internal financial forecasts, upon which the prospective financial information set forth below is based, are subjective in many respects. The prospective financial information set forth below reflects numerous assumptions with respect to industry performance, competition, general business, economic, regulatory, market and financial conditions and other matters, all of which are difficult to predict and beyond the control of RehabCare and Kindred.

The prospective financial information set forth below also reflects numerous estimates and assumptions related to RehabCare's business that are inherently subject to significant economic, political and competitive uncertainties, all of which are difficult to predict and many of which are beyond the control of RehabCare or Kindred. As a result, although the prospective financial information set forth below was prepared in good faith based on assumptions believed to be reasonable at the time the information was prepared, there can be no assurance that the assumptions made in preparing such information will prove accurate or that the projected results reflected therein will be realized.

The prospective financial information set forth below was not prepared with a view toward public disclosure. Accordingly, the prospective financial information set forth below was not prepared with a view toward complying with the published guidelines of the SEC regarding projections or the guidelines established by the American Institute of Certified Public Accountants for preparation and presentation of prospective financial information or GAAP. Some of the projections present financial metrics that were not prepared in accordance with GAAP. Neither RehabCare's independent auditor nor any other independent accountants have compiled, examined or performed any procedures with respect to the prospective financial information contained herein, nor have they expressed any opinion or any other form of assurance on such information or its achievability, and they assume no responsibility for, and disclaim any association with, the prospective financial information.

The prospective financial information set forth below does not take into account any circumstances or events occurring since the date such information was prepared or which may occur in the future, and, in particular, does not take into account any revised prospects of RehabCare's business, changes in general business, regulatory or economic conditions, competition or any other transaction or event that has occurred since the date on which such information was prepared or which may occur in the future.

Prospective financial information are forward-looking statements and are based on estimates and assumptions that are inherently subject to factors such as industry performance, competition, general business, economic, regulatory, market and financial conditions, as well as changes to the business, financial condition or results of operation of RehabCare, including the factors described under **Cautionary Statement Concerning Forward-Looking Statements** beginning on page 33, and other risk factors as disclosed in RehabCare's filings with the SEC that could cause actual results to differ materially from those shown below. Since the prospective financial information set forth below covers multiple years, such information by its nature is subject to greater uncertainty with each successive year. In addition, the projections do not take into account any of the transactions contemplated by the merger agreement, including the merger, which might also cause actual results to differ materially.

RehabCare has made publicly available its actual results for the 2010 fiscal year ended December 31, 2010. You should review RehabCare's Annual Report on Form 10-K for the year ended December 31, 2010 to obtain this information. See **Where You Can Find More Information** beginning on page 225. You are cautioned not to place undue reliance on the specific portions of the prospective financial information set forth in the RehabCare management forecast. No one has made or makes any representation to any stockholder regarding the information included in the prospective financial information set forth in the RehabCare management forecast.

---

**Table of Contents**

For the foregoing reasons, as well as the bases and assumptions on which the prospective financial information set forth in the RehabCare management forecast was compiled, the inclusion of RehabCare's prospective financial information in this joint proxy statement/prospectus should not be regarded as an indication that such information will be predictive of actual future results or events, and it should not be relied on as such. Except as required by applicable securities laws, neither Kindred nor RehabCare have updated nor do Kindred or RehabCare intend to update or otherwise revise the prospective financial information set forth below, including, without limitation, to reflect circumstances existing after the date such information was prepared or to reflect the occurrence of future events, including, without limitation, changes in general economic, regulatory or industry conditions, even in the event that any or all of the assumptions underlying the prospective financial information is shown to be in error.

RehabCare's management employed the following key assumptions in preparing the Case A projections summarized in the table below:

**Reimbursement:**

Hospital Division, (a) net 1% lower Medicare reimbursement adjustment for LTAC hospitals and 2.4% increase for inpatient rehabilitation facilities (which we refer to as IRFs) for rate year (which we refer to as RY) 2011, (b) 1% Medicare reimbursement increase for LTAC hospitals and IRFs for RY 2012 thru 2014 and (c) commercial insurance rate reflects no increase in fiscal year (FY) 2011 and a 1% increase in FY 2012 thru 2014;

Skilled Nursing Rehabilitation Services (SRS) Division, (a) 1.7% increase in RY 2011 and 1% in RY 2012 thru 2014 for Medicare Part A, (b) Multiple Procedure Payment Reduction (MPPR) decreases Medicare Part B reimbursement by a net \$2 million to \$3 million in FY 2011, (c) approximately 1% increase in Medicare Part B reimbursement in FY 2012 thru 2014; and

Hospital Rehabilitation Services (HRS) Division, 2% increase in revenue per inpatient discharge in FY 2011 thru 2014;

**Volume:**

Hospital Division, 7.0% increase in patient days in FY 2011 and a 1.5% to 2.5% increase in patient days for FY 2012 thru 2014;

SRS Division, (a) 1.0% growth in same store minutes for FY 2011 thru 2014 and (b) approximately 60 net new contracts per year for FY 2011 thru 2014; and

HRS Division, (a) 3.9% growth in inpatient discharges per unit for FY 2011 and 3.0% increase in inpatient discharges per unit for FY 2012 thru 2014 and (b) four net new IRF contracts for FY 2011 thru 2014;

Consolidated selling, general and administrative expense grows at 2.3% for FY 2011 and 2.0% for FY 2012 thru 2014;

Consolidated EBITDA (1) margin as a percentage of revenue increases from approximately 13.0% in FY 2011 to approximately 14.7% in FY 2014; and

Edgar Filing: KINDRED HEALTHCARE, INC - Form 424B3

Effective tax rate, after consideration of noncontrolling interests, remains constant at 38.25% in FY 2011 thru 2014.

**Table of Contents****Case A**

(dollars in millions, except per share amounts)

	Projected Year Ending December 31,			
	2011E	2012E	2013E	2014E
Revenue	\$ 1,438	\$ 1,516	\$ 1,598	\$ 1,674
EBITDAR(1)	\$ 236	\$ 257	\$ 278	\$ 298
EBITDA(2)	\$ 187	\$ 205	\$ 226	\$ 246
EPS	\$ 2.93	\$ 3.40	\$ 3.98	\$ 4.55

RehabCare's management utilized the Case A key assumptions in preparing the Case B projections summarized in the table below with the following exceptions:

**Reimbursement:**

Hospital Division, (a) productivity and coding adjustments lead to a 1% decrease in LTAC hospital margin and rebasing of prospective payment results in a 0.75% reduction in IRF margin in 2012 and (b) LTAC hospital facility, service and patient criteria is not approved as anticipated in Case A resulting in a 3.7% revenue neutrality rate reduction in 2013;

SRS Division, (a) CMS increases the MPPR reduction from 25% to 50% in 2012 resulting in an additional \$2 million to \$3 million decrease in Medicare Part B reimbursement and (b) RUGs IV rate reduction in 2012 results in a 0.50% decrease in Medicare Part A reimbursement; and

The Hospital Division and SRS Division are successful in mitigating their reimbursement pressures by 50%; and

**Volume:**

1% decrease in volume growth across the Hospital, SRS and HRS Divisions.

**Case B**

(dollars in millions, except per share amounts)

	Projected Year Ending December 31,			
	2011E	2012E	2013E	2014E
Revenue	\$ 1,438	\$ 1,475	\$ 1,518	\$ 1,576
EBITDAR(1)	\$ 236	\$ 242	\$ 248	\$ 265
EBITDA(2)	\$ 187	\$ 190	\$ 196	\$ 213
EPS	\$ 2.93	\$ 3.01	\$ 3.21	\$ 3.72

(1) EBITDAR is not a recognized financial measure under GAAP. EBITDAR is a generally accepted metric in the industry in which RehabCare operates and is used by RehabCare's management to measure operating performance.

(2)

Edgar Filing: KINDRED HEALTHCARE, INC - Form 424B3

EBITDA is not a recognized financial measure under GAAP. EBITDA is a generally accepted metric in the industry in which RehabCare operates and is used by RehabCare's management to measure operating performance.

## **Table of Contents**

### **Stock Ownership of Directors and Executive Officers of Kindred and RehabCare**

#### ***Kindred***

At the close of business on April 25, 2011, the directors and executive officers of Kindred beneficially owned and were entitled to vote approximately 1,298,174 shares of Kindred common stock, collectively representing 3.2% of the shares of Kindred common stock outstanding on that date. Further information about ownership of Kindred common stock by directors and executive officers of Kindred may be found under

The Kindred Annual Meeting Stock Ownership and Voting by Kindred's Directors and Executive Officers on page 131 and Security Ownership of Certain Kindred Beneficial Owners and Management beginning on page 134.

#### ***RehabCare***

At the close of business on April 25, 2011, the directors and executive officers of RehabCare beneficially owned and were entitled to vote approximately 600,927 shares of RehabCare common stock, collectively representing approximately 2.4% of the shares of RehabCare common stock outstanding on that date. Further information about ownership of RehabCare common stock by directors and executive officers of RehabCare may be found in RehabCare's definitive proxy statement for its 2010 annual meeting, which is incorporated by reference in this joint proxy statement/prospectus. See Where You Can Find More Information beginning on page 225.

### **Merger Consideration**

#### ***Kindred Stockholders***

Each share of Kindred common stock outstanding immediately prior to the effective time will remain outstanding and will not be altered by the merger.

#### ***RehabCare Stockholders***

At the effective time, each share of RehabCare common stock outstanding immediately prior to the effective time, other than shares owned by Kindred or RehabCare or their respective wholly owned subsidiaries, or shares owned by stockholders who have properly exercised and perfected appraisal rights under Delaware law, will be converted into the right to receive the merger consideration.

Kindred will not issue any fractional shares as a result of the merger. Instead, holders of RehabCare common stock who would otherwise be entitled to receive a fractional share of Kindred common stock will receive an amount in cash (rounded up to the nearest whole cent and without interest) determined by multiplying the fractional share interest by the volume-weighted average price (rounded to the nearest one-tenth of a cent) of one share of Kindred common stock on the NYSE for the five trading days immediately prior to the closing date of the merger.

The exchange ratio is a fixed ratio. Therefore, the number of shares of Kindred common stock to be received by holders of RehabCare common stock as a result of the merger will not change between now and the time the merger is completed to reflect changes to the trading price of Kindred common stock.

### **Ownership of Kindred After the Merger**

Based on the number of shares of Kindred common stock and RehabCare common stock issued and outstanding as of February 7, 2011, after completion of the merger former RehabCare stockholders will own approximately 23% of Kindred's outstanding common stock.



## Table of Contents

### **Interests of RehabCare Directors and Executive Officers in the Merger**

When considering the unanimous recommendation of the RehabCare board of directors with respect to the approval of the merger agreement and the transactions contemplated by the merger agreement, including the merger, RehabCare stockholders should be aware that some directors and executive officers of RehabCare have interests in the transactions contemplated by the merger agreement that may be different from, or in addition to, their interests as stockholders and the interests of RehabCare stockholders generally. Such interests relate to, or arise from, among other things, the following:

the fact that restricted shares held by RehabCare's directors and executive officers will fully vest (except that certain restricted shares subject to performance-based vesting conditions held by Dr. John Short, RehabCare's President and Chief Executive Officer, will vest assuming target level performance) and be treated as described below in "The Merger Agreement - Effect of the Merger on RehabCare's Equity Awards" beginning on page 97;

the fact that stock options held by RehabCare's directors and executive officers will be entitled to a cash payment in connection with cancellation of such stock options;

the fact that RehabCare's executive officers may receive severance payments pursuant to agreements with such executive officers or a severance plan in the event of a qualified termination of employment following the merger;

the fact that payment of cash incentive awards under annual and long-term incentive plans will be accelerated and paid according to the terms and conditions of the incentive plans pursuant to which such award agreements were granted;

the fact that at or prior to the effective time, Kindred will appoint two current members of the RehabCare board of directors to serve as additional members of the Kindred board of directors, such service to be effective as of immediately following the effective time (Kindred anticipates that one of the two current members of the RehabCare board of directors to join the Kindred board of directors will be Dr. John Short, President and Chief Executive Officer of RehabCare, who is expected to be invited to join as non-executive vice chairman);

the fact that three of RehabCare's executive officers may become officers of Kindred, and will be offered new employment agreements with Kindred effective following the effective time; and

the fact that RehabCare's directors and executive officers will be entitled to continued indemnification and insurance coverage by Kindred for acts or omissions occurring prior to the merger for a period of six years following the effective time.

The RehabCare board of directors was aware of the interests of RehabCare's directors and executive officers during its deliberations on the merits of the merger and in deciding to recommend that RehabCare stockholders vote **FOR** the adoption of the merger agreement at the RehabCare special meeting. For purposes of all of the agreements and plans described below, the completion of the transactions contemplated by the merger agreement will constitute a change in control.

#### ***Agreements with Executive Officers and Severance Plan***

Pursuant to RehabCare's termination compensation agreement with Dr. Short, if Dr. Short is terminated without cause or resigns for good reason (as defined in the agreement) within two years after a change in control, he will be entitled to:

## Edgar Filing: KINDRED HEALTHCARE, INC - Form 424B3

a lump-sum cash payment equal to the sum of (i) 2.99 times his then current annual base salary, plus (ii) 2.99 times the average of his annual bonuses paid in the last three fiscal years preceding the calendar year of the completion of the merger;

a lump-sum cash payment equal to his target bonus percentage for the year in which the change in control occurs multiplied by his then-current annual base salary, prorated for the portion of the year prior to the termination date;

**Table of Contents**

24 months of continued health benefits; and

12 months of outplacement services.

The agreement also provides for gross-up payments to Dr. Short for excise taxes incurred under Section 4999 of the Internal Revenue Code (which we refer to as the Code) in connection with any change in control payments. All change in control payments are subject to Dr. Short's compliance with the non-competition and confidentiality provisions of the agreement.

Pursuant to RehabCare's termination compensation agreements with Jay W. Shreiner, Patricia M. Henry, and Brock Hardaway, if Mr. Shreiner, Ms. Henry or Mr. Hardaway is terminated without cause or resigns for good reason (as defined in the respective agreement) within two years after a change in control, each will be entitled to:

a lump-sum cash payment equal to the sum of (i) 1.5 times his or her then current annual base salary, plus (ii) 1.5 times the target bonus for the calendar year of the completion of the merger;

a lump-sum cash payment equal to his or her target bonus percentage for the year in which the change in control occurs multiplied by his or her then-current annual base salary, prorated for the portion of the year prior to the termination date;

18 months of continued health benefits; and

12 months of outplacement services.

These agreements also provide for gross-up payments to Mr. Shreiner, Mr. Hardaway and Ms. Henry for excise taxes incurred under Section 4999 of the Code in connection with any change in control payments. All change in control payments are subject to Mr. Shreiner's, Mr. Hardaway's and Ms. Henry's compliance with the non-competition and confidentiality provisions of their respective agreements. As part of Mr. Hardaway's and Ms. Henry's anticipated employment with Kindred following the effective time, Kindred expects to enter into a change in control agreement with them, the terms of which have not been established as of the date of this joint proxy statement/prospectus, but which would replace the change in control benefits described above.

Pursuant to RehabCare's agreements with its other executive officers (except for the Vice President, Treasurer, who does not have an agreement with RehabCare, but has certain rights under a severance plan as described in more detail below) providing for change in control benefits, if such executive officer is terminated without cause or resigns for good reason (as defined in the agreement) within two years after a change in control, he or she will be entitled to:

a lump-sum cash payment equal to the sum of (i) 12 months of his or her then current annual base salary, plus (ii) the target bonus for the calendar year of the completion of the merger;

a lump-sum cash payment equal to his or her target bonus percentage for the year in which the change in control occurs multiplied by his or her then-current annual base salary, prorated for the portion of the year prior to the termination date;

12 months of continued health benefits; and

12 months of outplacement services.

## Edgar Filing: KINDRED HEALTHCARE, INC - Form 424B3

The agreements also provide for gross-up payments to the executive officers for excise taxes incurred under Section 4999 of the Code in connection with any change in control payments. All change in control payments are subject to the executive's compliance with the non-competition and confidentiality provisions of the respective agreement. As part of her anticipated employment with Kindred following the effective time, Kindred expects to enter into a change in control agreement with Ms. Welch, the terms of which have not been established as of the date of this joint proxy statement/prospectus, but which would replace the change in control benefits described above.

**Table of Contents**

Pursuant to RehabCare's Severance Plan for Company Vice Presidents, the Vice President, Treasurer is entitled to certain severance payments if his employment is terminated without cause or if he resigns for good reason (as defined in the severance plan), whether or not in connection with a change in control. Upon such termination or resignation, he will be entitled to:

severance pay equal to nine months' base salary, payable on a monthly basis;

9 months of continued health benefits; and

12 months of outplacement services.

The payments and benefits payable upon termination following a change of control described above will not be increased as a result of the completion of the transaction contemplated by the merger agreement. Three members of the RehabCare management team have agreed to the basic terms of their employment with Kindred following the effective time, as discussed below, and it is possible that certain other members of the RehabCare management team could be presented with, and will discuss with Kindred, proposed terms for terminating their existing agreements and continuing with future employment in a different capacity subsequent to the date of this joint proxy statement/prospectus. It is anticipated that the executive officers of Kindred following the merger will be as set forth in Board of Directors and Management of Kindred Following the Merger on page 83.

For illustrative purposes only, it is currently estimated that, assuming the closing of the merger will occur on June 30, 2011 and the employment of each of RehabCare's executive officers is terminated immediately following consummation of the merger, RehabCare's executive officers would be entitled to receive, in the aggregate, approximately \$13 million in termination payments and benefits, excluding payments related to long-term cash incentive plans and equity-based incentive awards discussed separately below. The following table sets forth, using the same assumptions, such payments for the chief executive officer, the chief financial officer, the three other most highly compensated executives (which we collectively refer to as named executive officers), and other executive officers as a group:

Executive	Cash severance payment	Bonus payment	Value of continued health benefits	Value of outplacement services	Excise Tax Gross-Up Payments	Total Value
Dr. John H. Short, President and Chief Executive Officer	\$ 4,038,139	\$ 369,750	\$ 31,245	\$ 20,000	\$ 3,273,491(1)	\$ 7,732,625
Jay W. Shreiner, Executive Vice President and Chief Financial Officer	891,675	97,688	7,813	20,000		1,017,176
Brock Hardaway, Executive Vice President, Operations	1,032,750	113,144	23,801	20,000		1,189,695
Patricia M. Henry, Executive Vice President, Skilled Nursing Rehabilitation Services	877,950	96,184	16,639	20,000		1,010,773
Patricia S. Williams, Senior Vice President, General Counsel and Corporate Secretary	379,120	53,402	15,867	20,000		468,389
All other executive officers as a group	1,278,835	195,876	49,547	75,000		1,599,258

- (1) The estimated value of the tax gross-up payment is based on the estimated payments to Dr. Short based on the assumptions described above and related to the tables below regarding estimated payments pursuant to the restricted stock awards. No other executive officer would be expected to receive a tax gross-up payment.



**Table of Contents****Long-Term Cash Incentive Plans**

Pursuant to the terms of the RehabCare 2009 through 2011, 2010 through 2012 and 2011 through 2013 Corporate Long Term Cash Incentive Plans, upon a change in control, all executive officers of RehabCare are entitled to a lump sum prorated payment of the long-term cash incentive awards, payable in accordance with the terms and conditions of such plans.

For illustrative purposes only, it is currently estimated that, assuming the closing of the merger will occur on June 30, 2011, and calculating the pro-rated payments under the long-term cash incentive plans based on the target level performance, or if greater and to the extent determinable, actual performance, RehabCare's executive officers would be entitled to receive, in the aggregate, approximately \$994,400 in payments under the long-term cash incentive plans. The following table sets forth, using the same assumptions, such payments for the named executive officers and other executive officers as a group:

<b>Executive Officer</b>	<b>Payment under the long-term cash incentive plans</b>
Dr. John H. Short, President and Chief Executive Officer	\$
Jay W. Shreiner, Executive Vice President and Chief Financial Officer	195,720
Brock Hardaway, Executive Vice President, Operations	66,908
Patricia M. Henry, Executive Vice President, Skilled Nursing Rehabilitation Services	193,637
Patricia S. Williams, Senior Vice President, General Counsel and Corporate Secretary	133,957
All other executive officers as a group (4 persons)	404,241

**Stock Options**

Certain of RehabCare's executive officers and directors hold options, issued pursuant to the RehabCare Directors' Stock Option Plan and the Second Amended and Restated 1996 Long-Term Performance Plan, to purchase shares of RehabCare common stock. All such options are currently vested and exercisable. At the effective time, each RehabCare stock option outstanding immediately prior to such time will be canceled in exchange for the right to receive an amount of cash equal to the product of (1) the number of shares of RehabCare common stock subject to the option and (2) the excess, if any of (a) the sum of (i) the exchange ratio, multiplied by the volume-weighted average price of the Kindred common stock as reported by the NYSE for the five trading days prior to the closing date of the merger and (ii) the cash consideration, over (b) the exercise price per share of the RehabCare stock option, without interest and less any applicable taxes. The following chart sets forth, as of March 4, 2011, for each of RehabCare's directors, named executive officers, and all other executive officers as a group:

the number of shares subject to outstanding options for RehabCare common stock held by such person;

the weighted average exercise price for such options; and

the aggregate value of such options (without regard to deductions or withholdings for applicable taxes), assuming the closing of the merger as of March 4, 2011, calculated by multiplying (1) the number of shares of RehabCare common stock subject to the options by (2) the excess, if any, of (a) the sum of (i) 0.471 multiplied by \$25.34 per share of Kindred common stock, i.e. its closing price on the NYSE as of March 4, 2011 and (ii) \$26.00, over (b) the weighted average exercise price per share of such options.

**Table of Contents****Non-Employee Directors and Executive Officers**

	Shares	Stock Options Weighted Average Exercise Price	Value
Colleen Conway-Welch, Director	35,800	\$ 22.91	\$ 537,965
Christopher T. Hjelm, Director			
Anthony S. Pizsel, Director			
Suzan L. Rayner, Director			
Harry E. Rich, Director			
Larry Warren, Director			
Theodore M. Wight, Director			
Dr. John H. Short, President and Chief Executive Officer			
Jay W. Shreiner, Executive Vice President and Chief Financial Officer			
Brock Hardaway, Executive Vice President, Operations			
Patricia M. Henry, Executive Vice President, Skilled Nursing Rehabilitation Services			
Patricia S. Williams, Senior Vice President, General Counsel and Corporate Secretary			
All other executive officers as a group (4 persons)	5,000	\$ 40.00	\$ 0.00

**RehabCare Restricted Stock**

RehabCare's directors and executive officers, including its named executive officers and non-employee directors, hold shares of restricted common stock, all of which were granted under the RehabCare Group, Inc. 2006 Equity Incentive Plan. Immediately prior to the completion of the merger, each unvested RehabCare restricted share held by RehabCare's directors and executive officers subject solely to time-based vesting will fully vest and be converted into the right to receive the merger consideration. RehabCare restricted shares held by Dr. Short that are subject to performance-based vesting conditions will vest assuming target level performance (as set forth in the award agreement) and such vested shares will be converted to the right to receive merger consideration. For a more detailed overview of the treatment of these equity-based awards at the effective time, see "The Merger Agreement - Effect of the Merger on RehabCare's Equity Awards" beginning on page 97. The following chart sets forth, as of March 4, 2011, for each of RehabCare's directors, named executive officers, and all other executive officers as a group:

the number of unvested shares of restricted stock held by that person that will fully vest and no longer be subject to forfeiture as a result of the merger; and

assuming the closing of the merger as of March 4, 2011, the total cash value of the merger consideration payable to the director or executive officer with respect to those shares of restricted stock that will vest in connection with the merger, which merger consideration equals \$26.00 in cash and 0.471 shares of Kindred common stock for each share of RehabCare common stock (assuming the value of \$25.34 per share of Kindred common stock, i.e. its closing price on the NYSE as of March 4, 2011).



**Table of Contents**

Non-employee Directors and Executive Officers Name	Restricted Stock That Will Vest as a Result of the Merger	
	Shares	Value
Colleen Conway-Welch, Director	3,200	\$ 121,392
Christopher T. Hjelm, Director	3,200	121,392
Anthony S. Pizsel, Director	3,200	121,392
Suzan L. Rayner, Director	3,200	121,392
Harry E. Rich, Director	3,200	121,392
Larry Warren, Director	3,200	121,392
Theodore M. Wight, Director	3,200	121,392
Dr. John H. Short, President and Chief Executive Officer(1)	155,998	5,917,806
Jay W. Shreiner, Executive Vice President and Chief Financial Officer	50,070	1,899,413
Brock Hardaway, Executive Vice President, Operations	45,650	1,731,739
Patricia M. Henry, Executive Vice President, Skilled Nursing Rehabilitation Services	49,480	1,877,031
Patricia S. Williams, Senior Vice President, General Counsel and Corporate Secretary	25,680	974,175
All other executive officers as a group (4 persons)	57,750	\$ 2,190,752

- (1) Dr. Short holds 77,999 RehabCare restricted shares subject solely to time-based vesting conditions, all of which will vest at the effective time; and 136,499 RehabCare restricted shares subject to performance-based vesting conditions, 77,999 of which will vest at the effective time.

**Employee Benefits**

The merger agreement requires Kindred to continue to provide certain compensation and benefits for the period commencing on the effective time and ending on December 31, 2011, as well as take certain actions in respect of employee benefits provided to the RehabCare's employees, including its executive officers. For a more detailed description of these requirements, see The Merger Agreement Covenants and Agreements Employee Benefit Matters on page 108.

**Designation of Directors and Officers of Kindred**

On or prior to the effective time, the Kindred board of directors shall appoint two current members of the RehabCare board of directors to serve as members of the Kindred board of directors, such service to be effective as of immediately following the effective time. Kindred anticipates that one of the two current members of the RehabCare board of directors to join the Kindred board of directors will be Dr. John Short, who is expected to be invited to join as non-executive vice chairman.

Following the effective time, Kindred anticipates that three current executive officers of RehabCare, Brock Hardaway, Mary Pat Welc and Patricia Henry, will become officers of Kindred. For a summary of the expected terms of their employment, see below.

**New Employment Arrangements with Kindred**

Kindred has entered into term sheet agreements with three executive officers of RehabCare, Brock Hardaway, Mary Pat Welc and Patricia Henry, which provide for the terms of each officer's employment with Kindred, effective following the effective time.

The term sheet agreement with Brock Hardaway states that his position with Kindred following the effective time will be Executive Vice President, Operations, Hospital Division. Mr. Hardaway's annual base salary will be \$400,000, with a short-term incentive plan target of 55% of his annual base salary, and a long-term incentive plan target of 30% of his annual base salary. The term sheet agreement includes a recommendation of a grant of 10,000 time-based restricted shares, and provides for a one-time transition performance bonus of \$600,000, to be

## **Table of Contents**

paid in March 2012, subject to his continued employment through such date. The term sheet agreement also includes a sign-on bonus of \$600,000 to be paid 30 days following the closing, which amount would be required to be repaid if Mr. Hardaway voluntarily terminates his employment within one year following the effective time. The term sheet agreement also states that he is eligible for an employment agreement and a change in control agreement, which will replace any benefits he would have been entitled to under his change in control agreement with RehabCare, the terms of which have not been established as of the date of this joint proxy statement/prospectus.

The term sheet agreement with Mary Pat Welc states that her position with Kindred following the effective time will be Senior Vice President, Operations, HRS. Ms. Welc's annual base salary will be \$267,000, with a short-term incentive plan target of 55% of her annual base salary, and a long-term incentive plan target of 30% of her annual base salary. The term sheet agreement includes a recommendation of a grant of 7,500 time-based restricted shares, and provides for a one-time transition performance bonus of \$267,000, to be paid in March 2012, subject to her continued employment through such date. The term sheet agreement also states that she is eligible for an employment agreement and a change in control agreement, which will replace any benefits she would have been entitled to under her termination compensation agreement with RehabCare, the terms of which have not been established as of the date of this filing.

The term sheet agreement with Patricia Henry states that her position with Kindred following the effective time will be Executive Vice President, SRS. Ms. Henry's annual base salary will be \$391,000, with a short-term incentive plan target of 55% of her annual base salary, and a long-term incentive plan target of 30% of her annual base salary. The term sheet agreement includes a recommendation of a grant of 12,000 time-based restricted shares, and provides for a one-time transition performance bonus of \$391,000, to be paid in March 2012, subject to her continued employment through such date. The term sheet agreement also states that she is eligible for an employment agreement and a change in control agreement, which will replace any benefits she would have been entitled to under her change in control agreement with RehabCare, the terms of which have not been established as of the date of this filing.

## ***Indemnification and Insurance***

For a period of six years following the effective time, Kindred shall, or in the event of a subsidiary merger election, shall cause the surviving corporation to, indemnify and hold harmless each current and former officer and director of RehabCare and each person who served as a fiduciary under or with respect to any employee benefit plan of RehabCare, against any costs or expenses (including advancing reasonable attorneys' fees and expenses upon receipt of an undertaking to repay such amount if it shall be ultimately determined that the indemnified person is not entitled to be indemnified), judgments, fines, losses, claims, damages, liabilities and amounts paid in settlement in connection with any actual or threatened action or investigation in respect of or arising out of acts or omissions occurring or alleged to have occurred at or prior to the effective time, in connection with such indemnified person's service as an officer or director of RehabCare or as a fiduciary of such plan, to the fullest extent permitted by Delaware law or any other applicable law or provided under RehabCare's organizational documents in effect on the date of merger agreement.

All rights in existence under RehabCare's organizational documents on the date of the merger agreement regarding elimination of liability of directors, indemnification and exculpation of officers, directors and employees and advancement of expenses to them shall survive the merger for a period of six years from the effective time.

For six years after the effective time, Kindred shall, and in the event of a subsidiary merger election, shall cause the surviving corporation to, maintain officers' and directors' liability, fiduciary liability and similar insurance (which we refer to as "D&O insurance") in respect of acts or omissions occurring prior to the effective time covering each indemnified person covered as of the date of the merger agreement by RehabCare's D&O insurance policies on terms with respect to coverage and amount no less favorable than those of such policy in

## **Table of Contents**

effect on the date of the merger agreement, as well as covering claims brought against each indemnified person under the Employee Retirement Income Security Act of 1974, as amended (which we refer to as ERISA ). Alternatively, RehabCare may purchase such tail policy at its option prior to the effective time and pay the premium due thereon when due, provided that the surviving corporation shall not be obligated to pay annual premiums in the aggregate in excess of 300% of the amount per annum RehabCare paid in its last full fiscal year.

For additional information about the indemnification rights of RehabCare directors and executive officers under the merger agreement, see The Merger Agreement Covenants and Agreements Indemnification and Insurance beginning on page 107.

## **Listing of Kindred Common Stock Issued for Share Consideration; De-listing and Deregistration of RehabCare Common Stock**

It is a condition to the merger that the shares of Kindred common stock in connection with the merger be authorized for issuance on the NYSE subject to official notice of issuance. Shares of Kindred common stock are currently traded on the NYSE under the symbol KND. If the merger is completed, RehabCare common stock will no longer be listed on the NYSE, will be deregistered under the Exchange Act and RehabCare will no longer file periodic reports with the SEC.

## **Board of Directors and Management of Kindred Following the Merger**

At the effective time, the directors and officers of Kindred shall continue as the directors of Kindred and the officers of Kindred shall continue as the officers of Kindred. At or prior to the effective time, Kindred will appoint two current members of the RehabCare board of directors to serve as additional members of the Kindred board of directors, such service to be effective as of immediately following the effective time. Kindred anticipates that one of the two current members of the RehabCare board of directors to join the Kindred board of directors will be Dr. John Short, who is expected to be invited to join as non-executive vice chairman. Kindred also anticipates that three current executive officers of RehabCare will become officers of Kindred immediately following the effective time. For more information about their employment arrangements, see Interests of RehabCare Directors and Executive Officers in the Merger New Employment Arrangements with Kindred beginning on page 81.

## **Regulatory Approvals Required for the Merger**

Kindred and RehabCare have agreed to use their reasonable best efforts, subject to specified limitations, to take, or cause to be taken, all actions necessary, proper or advisable under applicable law and regulations to complete the merger in the most expeditious manner practicable. See The Merger Agreement Covenants and Agreements beginning on page 100.

Under the merger agreement, the use of such reasonable best efforts does not require that Kindred be obligated to accept any undertaking, enter into any consent order, make any divestiture or accept any operational restriction, or take or commit to take any action (1) the effectiveness or consummation of which is not conditional on the consummation of the merger, (2) that is not necessary at such time to permit the effective time to occur by the last business day before September 30, 2011, or (3) that individually or in the aggregate would be expected to be material to RehabCare, Kindred or to Kindred s ownership or operation of RehabCare.

The completion of the merger is subject to compliance with the HSR Act. The notifications required under the HSR Act were initially filed with the FTC and the Antitrust Division on February 11, 2011 and the FTC obtained clearance to review the transaction. In order to allow the FTC additional time to review the transaction without issuing a second request, Kindred withdrew its notification of the transaction on March 14, 2011 and refiled the notification on March 16, 2011. On April 8, 2011, the FTC notified Kindred that the FTC had concluded its investigation and granted early termination of the waiting period.

---

## **Table of Contents**

The obligation of Kindred to consummate the merger is also subject to:

approval by the Illinois Health Facilities and Services Review Board of the change of ownership of the Greater Peoria Specialty Hospital; the application for such approval was declared complete on February 10, 2011 and a hearing of the Planning Board to consider the change of ownership application has been scheduled for May 10, 2011; and

the issuance of a license by the Colorado Department of Public Health and Environment.

See The Merger Agreement Conditions to Completion of the Merger beginning on page 110.

### **Litigation Related to the Merger**

Kindred and RehabCare are aware of five lawsuits relating to the merger.

On February 10, 2011, Arthur I. Murphy, Jr., a purported stockholder of RehabCare, filed a purported class action lawsuit in the Circuit Court of St. Louis County, Missouri (which we refer to as the Circuit Court ) against RehabCare, RehabCare's directors and Kindred (which we refer to as the Murphy litigation ); and on March 2, 2011, Alfred T. Kowalewski, a purported stockholder of RehabCare, filed a purported class action lawsuit in the Circuit Court, Missouri against RehabCare, RehabCare's directors and Kindred (which we refer to as the Kowalewski litigation and, together with the Murphy litigation, the Missouri litigation ). On February 15, 2011, the Norfolk County Retirement System, a purported stockholder of RehabCare, filed a purported class action lawsuit in the Court of Chancery against RehabCare, RehabCare's directors and Kindred (which we refer to as the Norfolk County litigation ); on February 28, 2011, City of Pontiac General Employees Retirement System, a purported stockholder of RehabCare, filed a purported class action lawsuit in the Court of Chancery against RehabCare, RehabCare's directors and Kindred (which we refer to as the City of Pontiac litigation ); and on March 4, 2011, Plumbers & Pipefitters National Pension Fund, a purported stockholder of RehabCare, filed a purported class action lawsuit in the Court of Chancery against RehabCare, RehabCare's directors and Kindred (which we refer to as the Plumbers & Pipefitters litigation and, together with the Norfolk County litigation and the City of Pontiac litigation, the Delaware litigation ).

The complaints in the Missouri litigation and Delaware litigation contain similar allegations, including among other things, that RehabCare's directors breached their fiduciary duties to the RehabCare stockholders, including their duties of loyalty, due care, independence, good faith and fair dealing, by entering into a merger agreement which provides for inadequate consideration to RehabCare stockholders, and that RehabCare and Kindred aided and abetted RehabCare's directors alleged breaches of their fiduciary duties. The plaintiffs seek injunctive relief preventing the defendants from consummating the transactions contemplated by the merger agreement, or in the event the defendants consummate the transactions contemplated by the merger agreement, rescission of such transactions and attorneys' fees and expenses. Kindred, RehabCare and the other defendants have not yet responded to the complaints. Kindred, RehabCare and the other defendants believe that the lawsuits are without merit and intend to defend them.

On March 8, 2011, the plaintiffs in the Kowalewski litigation filed a motion with the Circuit Court to consolidate the Missouri litigation and to appoint lead counsel. On March 31, 2011, the plaintiffs in the Kowalewski litigation filed an amended complaint and a motion for expedited discovery and on April 11, 2011, the plaintiffs in the Murphy litigation filed an amended complaint and a motion for expedited discovery. This April 11, 2011 amended complaint in the Murphy litigation also added CGMI as a named defendant in the litigation. On April 7, 2011, the defendants filed a motion to dismiss and/or stay the Missouri litigation. On April 8, 2011, the Circuit Court held a hearing on the motion to appoint a lead plaintiff; the Circuit Court agreed to consolidate the Missouri litigation but, in light of the defendants' pending motion to dismiss and/or stay the Missouri litigation, the Circuit Court postponed a decision on appointing a lead plaintiff. On April 25, 2011, the Circuit Court granted the defendants' motion to stay the Missouri litigation.

On March 9, 2011, the Court of Chancery consolidated the Delaware litigation under the caption *In Re RehabCare Group, Inc. Shareholders Litigation* and plaintiffs filed a verified consolidated class action complaint

## **Table of Contents**

on April 5, 2011. Defendants commenced document production on March 30, 2011 and substantially completed it by April 22, 2011. Depositions are scheduled to take place between April 25, 2011 and May 5, 2011. All briefs in connection with plaintiffs' motion for a preliminary injunction are due by May 20, 2011 and the Court of Chancery has scheduled a hearing on the motion on May 23, 2011.

### **Dividend Policy of Kindred Following the Merger**

The payment of dividends by Kindred after the merger is subject to the determination of its board of directors. Decisions regarding whether to pay dividends and the amount of any dividends will be based on compliance with the DGCL, compliance with agreements governing Kindred's indebtedness, earnings, cash requirements, results of operations, cash flows and financial condition and other factors that the Kindred board of directors may consider important.

### **Financing Relating to the Merger**

Kindred has entered into a debt commitment letter with the debt commitment parties, pursuant to which the debt commitment parties have committed, subject to customary conditions as further described below, to underwrite senior credit facilities in an aggregate amount of \$1.900 billion, comprising a senior secured asset-based revolving credit facility, a senior secured term loan facility and a senior unsecured bridge loan facility. The new debt financing will be used, in addition to existing cash balances, to fund the cash portion of the merger consideration, refinance certain Kindred and RehabCare existing debt, and pay transaction fees and expenses. A copy of the debt commitment letter was filed as an exhibit to the Current Report on Form 8-K filed by Kindred on February 8, 2011, which is incorporated by reference herein. This summary of terms and conditions of the debt financing commitments is qualified in its entirety by reference to the full text of the debt commitment letter.

The aggregate commitments of the debt commitment parties total \$650 million (of which up to \$400 million may be drawn at closing) under the asset-based revolving credit facility and \$700 million under the term loan facility. The term of the asset-based revolving credit facility and term loan facility are five years and seven years, respectively. Subject to final documentation and satisfaction of closing conditions, Kindred anticipates finalizing these facilities prior to the Kindred annual meeting and the RehabCare special meeting.

The aggregate commitments of the debt commitment parties under the unsecured bridge facility total \$550 million, which will be available if and to the extent Kindred has not completed a planned \$550 million senior unsecured notes offering prior to the closing of the merger. The unsecured bridge facility, if drawn, will mature initially on the first anniversary of the closing of the merger, at which time the maturity of any outstanding loans thereunder will be extended automatically to the eighth anniversary of the closing of the merger and may be exchanged by the lenders for notes due on such eighth anniversary.

The debt financing commitments are subject to:

the non-occurrence of a material adverse effect regarding RehabCare;

the closing occurring no later than September 30, 2011;

the receipt of certain governmental and third party consents required under the merger agreement in connection with the closing;

the consummation of the merger in accordance with the terms of the merger agreement;

the repayment of certain indebtedness of Kindred and RehabCare and the termination of commitments thereunder;

a 30 consecutive day period for marketing of senior notes after delivery by Kindred of an offering memorandum or preliminary prospectus and other marketing materials for such notes; and

other customary financing conditions more fully set forth in the debt commitment letter.

---

## **Table of Contents**

In the merger agreement, Kindred has agreed to use its reasonable best efforts to obtain debt financing on the terms and conditions described in the debt commitment letter. Kindred may amend, replace or otherwise modify, or waive its rights under the debt commitment letter, unless such amendment, replacement, modification or waiver would:

reduce the aggregate amount of the debt financing; or

amend the conditions to the drawdown of the debt financing in a manner adverse to the interests of RehabCare in any material respect, or which would otherwise in any other respect reasonably be expected to impair, materially delay or prevent the consummation of the transactions contemplated by the merger agreement.

Kindred's obligation to consummate the merger is subject to its consummation of, and receipt of the proceeds from, the debt financing described in the debt commitment letter. However, under certain conditions, Kindred may be required to pay a termination fee of \$62 million if Kindred fails to consummate the debt financing, as described under "The Merger Agreement - Termination Fees and Expenses" beginning on page 114.

### **RehabCare Stockholders' Rights of Appraisal**

If the merger is consummated, dissenting holders of RehabCare common stock who follow the procedures specified in Section 262 within the appropriate time periods will be entitled to have their shares of RehabCare common stock appraised by the Court of Chancery, and to receive the fair value of such shares in cash as determined by the Court of Chancery, together with a fair rate of interest, if any, to be paid on the amount determined to be the fair value, in lieu of the merger consideration that such stockholder would otherwise be entitled to receive pursuant to the merger agreement. The fair value of RehabCare common stock as determined by the Court of Chancery may be more or less than, or the same as, the merger consideration that you are otherwise entitled to receive under the terms of the merger agreement.

This section provides a brief summary of Section 262, which sets forth the procedures for dissenting from the merger and demanding and perfecting appraisal rights. Failure to follow the procedures set forth in Section 262 precisely will result in the loss of appraisal rights. This summary is not a complete statement regarding the appraisal rights of RehabCare stockholders or the procedures that they must follow in order to seek and perfect appraisal rights under Delaware law and is qualified in its entirety by reference to the text of Section 262, a copy of which is attached to this joint proxy statement/prospectus as Annex E. The following summary does not constitute any legal or other advice, nor does it constitute a recommendation that RehabCare stockholders exercise appraisal rights under Section 262.

**IF YOU WISH TO EXERCISE APPRAISAL RIGHTS OR WISH TO PRESERVE YOUR RIGHT TO DO SO, YOU SHOULD REVIEW ANNEX E CAREFULLY AND SHOULD CONSULT YOUR LEGAL ADVISOR, AS FAILURE TO TIMELY COMPLY WITH THE PROCEDURES SET FORTH IN ANNEX E WILL RESULT IN THE LOSS OF YOUR APPRAISAL RIGHTS.**

Under Section 262, where a merger is to be submitted for adoption at a meeting of stockholders, such as the RehabCare special meeting, not less than 20 days prior to the meeting a constituent corporation, such as RehabCare, must notify each of its stockholders for whom appraisal rights are available that such appraisal rights are available and include in each such notice a copy of Section 262. This joint proxy statement/prospectus constitutes such notice to holders of RehabCare common stock concerning the availability of appraisal rights under Section 262. Appraisal rights are not available to holders of Kindred common stock.

RehabCare stockholders wishing to assert appraisal rights must hold the shares of RehabCare common stock on the date of making the written demand for appraisal rights with respect to such shares and must continuously hold such shares through the effective time. RehabCare stockholders who desire to exercise appraisal rights must also satisfy all of the conditions of Section 262. A written demand for appraisal of shares must be delivered to

## Table of Contents

RehabCare before the vote on the merger occurs. This written demand for appraisal of shares must be in addition to and separate from a vote against the proposal to adopt the merger agreement, or an abstention or failure to vote for the proposal to adopt the merger agreement. RehabCare stockholders electing to exercise their appraisal rights must not vote FOR the adoption of the merger agreement. A vote against the adoption of the merger agreement will not constitute a demand for appraisal within the meaning of Section 262. A proxy that is submitted and does not contain voting instructions will, unless revoked, be voted in favor of the proposal to adopt the merger agreement, and it will constitute a waiver of the stockholder's right of appraisal and will nullify any previously delivered written demand for appraisal. Therefore, a RehabCare stockholder who submits a proxy and who wishes to exercise appraisal rights must either submit a proxy containing instructions to vote against the proposal to adopt the merger agreement or abstain from voting on the proposal to adopt the merger agreement.

To be effective, a demand for appraisal by a RehabCare stockholder must be made by, or in the name of, the stockholder of record, fully and correctly, as the stockholder's name appears on the stockholder's stock certificate(s) or in the transfer agent's records, in the case of uncertificated shares. The demand cannot be made by the beneficial owner if he or she does not also hold the shares of RehabCare common stock of record. The beneficial holder must, in such cases, have the registered owner, such as a bank, brokerage firm or other nominee, submit the required demand in respect of those shares of RehabCare common stock. **If you hold your shares of RehabCare common stock through a bank, brokerage firm or other nominee and you wish to exercise appraisal rights, you should consult with your bank, brokerage firm or the other nominee to determine the appropriate procedures for the making of a demand for appraisal by the nominee.**

If shares of RehabCare common stock are owned of record in a fiduciary capacity, such as by a trustee, guardian or custodian, execution of a demand for appraisal should be made in that capacity. If the shares of RehabCare common stock are owned of record by more than one person, as in a joint tenancy or tenancy in common, the demand should be executed by or for all joint owners. An authorized agent, including an authorized agent for two or more joint owners, may execute the demand for appraisal for a stockholder of record; however, the agent must identify the record owner or owners and expressly disclose the fact that, in executing the demand, he or she is acting as agent for the record owner. A record owner, such as a bank, brokerage firm or other nominee, who holds shares of RehabCare common stock as a nominee for others, may exercise his or her right of appraisal with respect to the shares of RehabCare common stock held for one or more beneficial owners, while not exercising this right for other beneficial owners. In that case, the written demand should state the number of shares of RehabCare common stock as to which appraisal is sought. Where no number of shares of RehabCare common stock is expressly mentioned, the demand will be presumed to cover all shares of RehabCare common stock held in the name of the record owner.

All demands for appraisal should be addressed to RehabCare Group, Inc., 7733 Forsyth Boulevard, Suite 2300, St. Louis, Missouri 63105, Attention: Patricia S. Williams, Corporate Secretary. The demand must reasonably inform RehabCare of the identity of the RehabCare stockholder as well as the stockholder's intention to demand an appraisal of the fair value of the shares held by the stockholder. A stockholder's failure to make the written demand prior to the taking of the vote on the adoption of the merger agreement at the special meeting will constitute a waiver of appraisal rights.

Within 10 days after the effective time, RehabCare must provide notice of the effective time to all of its stockholders who have complied with Section 262 and have not voted FOR the adoption of the merger agreement. At any time within 60 days after the effective time, any RehabCare stockholder who has not commenced an appraisal proceeding or joined an appraisal proceeding as a named party will have the right to withdraw his, her or its demand for appraisal and to accept the merger consideration specified in the merger agreement. After this period, a RehabCare stockholder may withdraw his, her or its demand for appraisal and receive payment for his, her or its shares as provided in the merger agreement only with the consent of the surviving corporation. Unless the demand is properly withdrawn by the RehabCare stockholder within 60 days after the effective time, no appraisal proceeding in the Court of Chancery will be dismissed as to any RehabCare stockholder without the approval of the Court of Chancery, with such approval conditioned upon such terms as the Court of Chancery deems just. If the surviving corporation does not approve a request to withdraw a demand



## **Table of Contents**

for appraisal when that approval is required, or if the Court of Chancery does not approve the dismissal of an appraisal proceeding, the RehabCare stockholder will be entitled to receive only the appraised value determined in any such appraisal proceeding, which value could be less than, equal to or more than the consideration offered pursuant to the merger agreement.

Within 120 days after the effective time (but not thereafter), either the surviving corporation or any RehabCare stockholder who has complied with the requirements of Section 262 and who is otherwise entitled to appraisal rights may commence an appraisal proceeding by filing a petition in the Court of Chancery demanding a determination of the fair value of the shares of RehabCare common stock owned by stockholders entitled to appraisal rights. The surviving corporation has no obligation to file such a petition if demand for appraisal is made, and holders should not assume that it will file a petition. If no petition for appraisal is filed with the Court of Chancery within 120 days after the effective time, stockholders' rights to appraisal (if available) will cease. Accordingly, it is the obligation of the holders of RehabCare common stock to initiate all necessary action to perfect their appraisal rights in respect of shares of RehabCare common stock within the time prescribed in Section 262.

Within 120 days after the effective time, any RehabCare stockholder who has complied with Section 262 will be entitled, upon written request, to receive from the surviving corporation a statement listing the aggregate number of shares not voted in favor of the merger and with respect to which demands for appraisal have been received and the aggregate number of holders of such shares. The statement must be mailed within 10 days after a written request therefore has been received by the surviving corporation. A person who is the beneficial owner of shares of RehabCare common stock held either in a voting trust or by a nominee on behalf of such person may, in such person's own name, file a petition for appraisal or request from the surviving corporation the statement described in this paragraph.

Upon the filing of any petition by a RehabCare stockholder in accordance with Section 262, service of a copy must be made upon the surviving corporation. The surviving corporation must, within 20 days after service, file in the office of the Delaware Register in Chancery in which the petition was filed a duly verified list containing the names and addresses of all stockholders who have demanded payment for their shares of RehabCare common stock and with whom RehabCare has not reached agreements as to the value of their shares. The Court of Chancery may require the stockholders who have demanded an appraisal for their shares (and who hold stock represented by certificates) to submit their stock certificates to the Register in Chancery for notation of the pendency of the appraisal proceedings and the Court of Chancery may dismiss the proceedings as to any stockholder that fails to comply with such direction.

After notice to the stockholders as required by the Court of Chancery, the Court of Chancery is empowered to conduct a hearing on the petition to determine those stockholders who have complied with Section 262 and who have become entitled to appraisal rights thereunder. After the Court of Chancery determines the holders of RehabCare common stock entitled to appraisal, the appraisal proceeding shall be conducted in accordance with the rules of the Court of Chancery, including any rules specifically governing appraisal proceedings. Through such proceeding, the Court of Chancery shall determine the fair value of shares of RehabCare common stock as of the effective time, after taking into account all relevant factors, exclusive of any element of value arising from the accomplishment or expectation of the merger, together with a fair rate of interest, if any, to be paid upon the amount determined to be the fair value. Unless the Court of Chancery in its discretion determines otherwise for good cause shown, interest from the effective time through the date of payment of the judgment shall be compounded quarterly and shall accrue at 5% over the Federal Reserve discount rate (including any surcharge) as established from time to time during the period between the effective time and the date of payment of the judgment.

RehabCare stockholders considering seeking appraisal of their shares should note that the fair value of their shares determined under Section 262 could be more or less than, or equal to, the consideration they would receive pursuant to the merger agreement if they did not seek appraisal of their shares of RehabCare common stock. Stockholders should be aware that an investment banking opinion as to fairness from a financial point of view is not necessarily an opinion as to fair value under Section 262. Although RehabCare believes that the merger consideration is fair, no representation is made as to the outcome of the appraisal of fair value as

## Table of Contents

determined by the Court of Chancery. Moreover, RehabCare does not anticipate offering more than the merger consideration to any stockholder exercising appraisal rights and reserves the right to assert, in any appraisal proceeding, that, for purposes of Section 262, the fair value of a share of RehabCare common stock is less than the merger consideration. In determining fair value, the Court of Chancery is required to take into account all relevant factors. In *Weinberger v. UOP, Inc.*, the Delaware Supreme Court discussed the factors that could be considered in determining fair value in an appraisal proceeding, stating that proof of value by any techniques or methods which are generally considered acceptable in the financial community and otherwise admissible in court should be considered and that fair price obviously requires consideration of all relevant factors involving the value of a company. The Delaware Supreme Court has stated that in making this determination of fair value the court must consider market value, asset value, dividends, earnings prospects, the nature of the enterprise and any other facts which could be ascertained as of the date of the merger which throw any light on future prospects of the merged corporation. Section 262 provides that fair value is to be exclusive of any element of value arising from the accomplishment or expectation of the merger. In *Cede & Co. v. Technicolor, Inc.*, the Delaware Supreme Court stated that such exclusion is a narrow exclusion [that] does not encompass known elements of value, but which rather applies only to the speculative elements of value arising from such accomplishment or expectation. In *Weinberger*, the Delaware Supreme Court construed Section 262 to mean that elements of future value, including the nature of the enterprise, which are known or susceptible of proof as of the date of the merger and not the product of speculation, may be considered.

The costs of the appraisal proceeding (which do not include attorneys fees or the fees and expenses of experts) may be determined by the Court of Chancery and taxed against the parties as the Court of Chancery deems equitable under the circumstances. Upon application of a dissenting stockholder, the Court of Chancery may order all or a portion of the expenses incurred by any dissenting stockholder in connection with the appraisal proceeding, including reasonable attorneys fees and the fees and expenses of experts, to be charged pro rata against the value of all shares entitled to appraisal. In the absence of a contrary determination, each party bears his, her or its own expenses.

Any RehabCare stockholder who has demanded appraisal will not, after the effective time, be entitled to vote for any purpose the shares of RehabCare common stock subject to demand or to receive payment of dividends or other distributions on such shares, except for dividends or distributions payable to stockholders of record at a date prior to the effective time.

Failure by any RehabCare stockholder to comply fully with the procedures of Section 262 of the DGCL (as reproduced in Annex E to this joint proxy statement/prospectus) may result in termination of such stockholder's appraisal rights and the stockholder will be entitled to receive the merger consideration (without interest) for his, her or its shares of RehabCare common stock pursuant to the merger agreement.

**THE PROCESS OF DISSENTING REQUIRES STRICT COMPLIANCE WITH TECHNICAL PREREQUISITES. THOSE INDIVIDUALS OR ENTITIES WISHING TO DISSENT AND TO EXERCISE THEIR APPRAISAL RIGHTS SHOULD CONSULT WITH THEIR OWN LEGAL COUNSEL IN CONNECTION WITH COMPLIANCE UNDER SECTION 262 OF THE DGCL. TO THE EXTENT THERE ARE ANY INCONSISTENCIES BETWEEN THE FOREGOING SUMMARY AND SECTION 262 OF THE DGCL, THE DGCL WILL CONTROL.**

### **Accounting Treatment**

The merger will be accounted for under the acquisition method of accounting, in conformity with GAAP. Under the acquisition method of accounting, the assets (including identifiable intangible assets) and liabilities (including executory contracts and other commitments) of RehabCare as of the effective time will be recorded at their respective fair values and added to those of Kindred. Any excess of purchase price over the fair value of the assets is recorded as goodwill. Financial statements of Kindred issued after the merger would reflect these fair values and would not be restated retroactively to reflect the historical financial position or results of operations of RehabCare.

---

**Table of Contents**

**MATERIAL UNITED STATES FEDERAL INCOME TAX CONSEQUENCES**

The following is a summary of the material U. S. federal income tax consequences of the merger and ownership of Kindred common stock to U.S. holders and non-U.S. holders (as defined below) of RehabCare common stock who hold their stock as a capital asset (generally, assets held for investment). This summary is based on the provisions of the Code, Treasury regulations, administrative rulings and judicial authority, all as in effect as of the date hereof, and all of which are subject to change, possibly with retroactive effect. No assurances can be given that any change in these laws or authorities will not affect the accuracy of the discussion set forth herein.

This summary is not a complete description of all the tax consequences of the merger and, in particular, may not address U.S. federal income tax considerations applicable to holders of RehabCare common stock who are subject to special treatment under U.S. federal income tax law, including, for example certain U.S. expatriates, financial institutions, an S corporation, partnership, limited liability company taxed as a partnership, or other pass-through entity (or an investor in such pass-through entity), dealers in securities, traders in securities that elect mark-to-market treatment, insurance companies, tax-exempt entities, persons whose functional currency is not the U.S. dollar, holders who acquired RehabCare common stock pursuant to the exercise of an employee stock option or right or otherwise as compensation, holders exercising dissenters' rights or appraisal rights, and holders who hold RehabCare common stock as part of a hedge, straddle, constructive sale or conversion transaction.

This summary does not address U.S. federal income tax considerations applicable to holders of options to purchase RehabCare common stock, or holders of debt instruments convertible into RehabCare common stock. In addition, this summary does not address any aspect of state, local or non-U.S. laws or estate, gift, excise or other non-income tax laws. Neither Kindred nor RehabCare has requested a ruling from the Internal Revenue Service (which we refer to as the IRS) in connection with the merger. Accordingly, the discussion below neither binds the IRS nor precludes it from adopting a contrary position. Furthermore, no opinion of counsel has been, or is expected to be, rendered with respect to the tax consequences of the merger.

**WE URGE HOLDERS TO CONSULT THEIR OWN TAX ADVISORS REGARDING THE U.S. FEDERAL INCOME TAX CONSEQUENCES OF THE MERGER IN LIGHT OF THEIR PERSONAL CIRCUMSTANCES AND THE CONSEQUENCES OF THE MERGER UNDER U.S. FEDERAL NON-INCOME TAX LAWS AND STATE, LOCAL AND NON-U.S. TAX LAWS.**

For purposes of this discussion, the term "U.S. holder" means a beneficial holder of RehabCare common stock that is:

a citizen or resident of the U.S.;

a corporation (including any entity treated as a corporation for U.S. federal income tax purposes) created or organized under the laws of the U.S. or any of its political subdivisions;

a trust that (i) is subject to the supervision of a court within the U.S. and the control of one or more U.S. persons or (ii) has a valid election in effect under applicable U.S. Treasury regulations to be treated as a U.S. person; or

an estate that is subject to U.S. federal income tax on its income regardless of its source.

If a partnership (including any entity or arrangement, domestic or foreign, treated as a partnership for U.S. federal income tax purposes) holds RehabCare common stock, the tax treatment of a partner will generally depend on the status of the partners and the activities of the partnership. Partnerships and partners in such a partnership should consult their tax advisors about the tax consequences of the merger to them.

**U.S. Holders**

*Tax Consequences of the Merger.* The exchange of RehabCare common stock for Kindred common stock and cash in the merger will be a taxable transaction for U.S. federal income tax purposes. A U.S. holder whose



**Table of Contents**

RehabCare common stock is converted into the right to receive Kindred common stock and cash in the merger will recognize capital gain or loss for U.S. federal income tax purposes equal to the difference, if any, between (1) the sum of (i) the fair market value of Kindred common stock received by such holder in the merger, and (ii) the amount of cash received by such holder in the merger, including any cash received in lieu of fractional shares of Kindred common stock, and (2) the U.S. holder's adjusted tax basis in such RehabCare common stock. A U.S. holder's adjusted tax basis will generally equal the price the U.S. holder paid for such RehabCare common stock. Gain or loss will be determined separately for each block of RehabCare common stock. A block of stock is generally a group of shares acquired at the same cost in a single transaction. Such gain or loss will be long-term capital gain or loss provided that a U.S. holder's holding period for such RehabCare common stock is more than one year at the time of the completion of the merger. A U.S. holder's aggregate tax basis in its Kindred common stock received in the merger will equal the fair market value of such stock at the effective time, and the holder's holding period for such stock will begin on the day after the merger.

*Ownership of Kindred Common Stock.* As a result of the merger, current RehabCare stockholders will hold Kindred common stock. In general, distributions with respect to Kindred common stock will constitute dividends to the extent made out of current or accumulated earnings and profits, as determined under U.S. federal income tax principles. If a distribution exceeds Kindred's current and accumulated earnings and profits, the excess will be treated as a non-taxable return of capital to the extent of a U.S. holder's adjusted tax basis in its shares and thereafter as capital gain from the sale or exchange of such shares. Dividends received by a corporate U.S. holder will be eligible for the dividends-received deduction, provided such a corporate U.S. holder meets certain holding period and other applicable requirements. Dividends received by a non-corporate U.S. holder in tax years beginning on or before December 31, 2012 will qualify for taxation at preferential rates provided such a non-corporate U.S. holder meets certain holding period and other applicable requirements.

Upon the sale or other disposition of Kindred common stock, a U.S. holder will generally recognize capital gain or loss equal to the difference between the amount realized and the adjusted tax basis in its Kindred common stock. Such capital gain or loss will generally be long-term if the selling stockholder's holding period in respect of such shares (as discussed under *Tax Consequences of the Merger*, above) is more than one year. Certain non-corporate U.S. Holders (including individuals) may be eligible for preferential tax rates in respect of long-term capital gain. The deductibility of capital losses is subject to limitations.

**Non-U.S. Holders**

A non-U.S. holder is a beneficial owner of RehabCare common stock (other than an entity treated as a partnership for U.S. federal income tax purposes) that is not a U.S. holder.

*Tax Consequences of the Merger.* Any gain a non-U.S. holder recognizes from the exchange of RehabCare common stock for Kindred common stock and cash in the merger generally will not be subject to U.S. federal income tax unless (a) the gain is effectively connected with a trade or business conducted by the non-U.S. holder in the United States, or (b) in the case of a non-U.S. holder who is an individual, such holder is present in the United States for 183 days or more in the taxable year of the sale and other conditions are met.

Non-U.S. holders described in (a) above, will be subject to tax on gain recognized at applicable U.S. federal income tax rates and, in addition, non-U.S. holders that are corporations (or treated as corporations for U.S. federal income tax purposes) may be subject to a branch profits tax equal to 30% (or lesser rate under an applicable income tax treaty) on your effectively connected earnings and profits for the taxable year, which would include such gain. Non-U.S. holders described in (b) above, will be subject to a flat 30% tax on any gain recognized, which may be offset by U.S. source capital losses.

*Ownership of Kindred Common Stock.* As a result of the merger, current RehabCare stockholders will hold Kindred common stock. Dividends paid to non-U.S. holders (to the extent paid out of Kindred's current or accumulated earnings and profits, as determined for U.S. federal income tax purposes) with respect to such

## **Table of Contents**

shares of Kindred common stock will be subject to withholding at a 30% rate or such lower rate as may be specified by an applicable income tax treaty unless the dividends are effectively connected with the conduct of a trade or business within the United States and, if certain tax treaties apply, are attributable to a U.S. permanent establishment, as discussed below. Even if a non-U.S. holder is eligible for a lower treaty rate, Kindred will generally be required to withhold at a 30% rate (rather than the lower treaty rate) on dividend payments unless (1) Kindred has received a valid IRS Form W-8BEN or other documentary evidence establishing entitlement to a lower treaty rate with respect to such payments, and (2) in the case of dividends paid to a foreign financial institution or entity after December 31, 2012, such non-U.S. holder holds the Kindred common stock through a foreign financial institution or entity that has entered into an agreement with the U.S. government to collect and provide to the U.S. tax authorities information about its accountholders (including certain investors in such an institution or entity) and, if required, such non-U.S. holder has provided the withholding agent with a certification identifying its direct and indirect U.S. owners.

If a non-U.S. holder is subject to withholding at a rate in excess of a reduced rate for which it is eligible under a tax treaty or otherwise, it may be able to obtain a refund of or credit for any amounts withheld in excess of the applicable rate. Investors are encouraged to consult with their own tax advisors regarding the possible implications of these withholding requirements.

Dividends that are effectively connected with the conduct of a trade or business within the United States and, if certain tax treaties apply, are attributable to a U.S. permanent establishment, are not subject to withholding tax, but instead are subject to U.S. federal income tax on a net income basis at applicable graduated rates. Special certification and disclosure requirements must be satisfied for effectively connected income to be exempt from withholding. Any such effectively connected dividend received by a non-U.S. holder that is a corporation for U.S. federal income tax purposes may be subject to an additional branch profits tax at a 30% rate or such lower rate as may be specified by an applicable income tax treaty.

Any gain a non-U.S. holder recognizes on the sale or other taxable disposition of Kindred common stock generally will not be subject to U.S. federal income tax unless (a) the gain is effectively connected with a trade or business conducted by the non-U.S. holder in the United States, or (b) in the case of a non-U.S. holder who is an individual, such holder is present in the United States for 183 days or more in the taxable year of the sale and other conditions are met. In the case of dispositions of Kindred common stock the proceeds of which are paid to a foreign financial institution or entity after December 31, 2012, a non-U.S. holder may be subject to a 30% withholding tax on the gross proceeds of the sale or disposition unless the non-U.S. holder holds the Kindred common stock through a foreign financial institution or entity that has entered into an agreement with the U.S. government to collect and provide to the U.S. tax authorities information about its accountholders (including certain investors in such an institution or entity) and, if required, the non-U.S. holder has provided the withholding agent with a certification identifying its direct and indirect U.S. owners. Investors are encouraged to consult with their own tax advisors regarding the possible implications of these withholding requirements.

## **Information Reporting and Backup Withholding**

In general, information reporting requirements may apply to the amounts paid to U.S. holders and non-U.S. holders in connection with the consideration received in connection with the merger, dividends paid with respect to Kindred common stock and proceeds received from the sale or exchange of Kindred common stock, unless an exemption applies. Backup withholding may be imposed (currently at a 28% rate) on the above payments if a U.S. holder or non-U.S. holder (1) fails to provide a taxpayer identification number or appropriate certifications or (2) fails to report certain types of income in full.

Any amounts withheld under the backup withholding rules are not additional tax and will be allowed as a refund or credit against applicable U.S. federal income tax liability provided the required information is furnished to the IRS.

**Table of Contents**

**THE FOREGOING DISCUSSION OF UNITED STATES FEDERAL INCOME TAX CONSEQUENCES IS FOR GENERAL INFORMATION PURPOSES ONLY AND IS NOT INTENDED TO CONSTITUTE A COMPLETE DESCRIPTION OF ALL TAX CONSEQUENCES RELATING TO THE MERGER. TAX MATTERS ARE VERY COMPLICATED, AND THE TAX CONSEQUENCES OF THE MERGER TO HOLDERS WILL DEPEND UPON THE FACTS OF THEIR PARTICULAR SITUATION. BECAUSE INDIVIDUAL CIRCUMSTANCES MAY DIFFER, HOLDERS SHOULD CONSULT THEIR TAX ADVISORS REGARDING THE APPLICABILITY TO THEM OF THE RULES DISCUSSED ABOVE AND THE PARTICULAR TAX EFFECTS TO THEM OF THE MERGER, INCLUDING THE APPLICATION OF STATE, LOCAL AND FOREIGN TAX LAWS.**

---

**Table of Contents**

**THE MERGER AGREEMENT**

The following is a summary of certain material provisions of the merger agreement, a copy of which is attached as [Annex A](#) to this joint proxy statement/prospectus and is incorporated into this joint proxy statement/prospectus by reference. Kindred and RehabCare urge you to read carefully this entire joint proxy statement/prospectus, including the annexes and the other documents which have been referred to you. You should also review the section titled "Where You Can Find More Information" beginning on page 225.

**This summary does not purport to be complete and may not contain all of the information about the merger that is important to you. The merger agreement has been included for your convenience to provide you with information regarding its terms, and we recommend that you read it in its entirety. Except for its status as the contractual document that establishes and governs the legal relations between Kindred and RehabCare with respect to the merger, Kindred and RehabCare do not intend for the merger agreement to be a source of factual, business or operational information about either Kindred or RehabCare. The merger agreement contains representations and warranties that Kindred and RehabCare have made to each other for the principal purpose of establishing the circumstances in which a party to the merger agreement may have the right not to consummate the merger if the representations and warranties of the other party prove to be untrue due to a change in circumstances or otherwise, and allocating risk between the parties to the merger agreement, rather than establishing matters as facts. Those representations and warranties are qualified in several important respects, which you should consider as you read them in the merger agreement.**

First, except for the parties themselves, under the terms of the merger agreement, only certain other specifically identified persons are third party beneficiaries of the merger agreement who may enforce it and rely on its terms.

Second, the representations and warranties are qualified in their entirety by certain information of each of Kindred and RehabCare filed with the SEC prior to the date of the merger agreement, as well as by confidential disclosure schedules that each of Kindred and RehabCare prepared and delivered to the other immediately prior to signing the merger agreement.

Third, certain of the representations and warranties made by Kindred, on the one hand, and RehabCare, on the other hand, were made as of a specified date, may be subject to a contractual standard of materiality different from what might be viewed as material to stockholders, and may have been used for the purpose of allocating risk between the parties to the merger agreement rather than as establishing matters as facts.

Fourth, none of the representations or warranties will survive the closing of the merger and they will therefore have no legal effect under the merger agreement after the closing. The parties will not be able to assert the inaccuracy of the representations and warranties as a basis for refusing to close unless all such inaccuracies individually or in the aggregate have, and would reasonably be expected to have, a material adverse effect on the party that made the representations and warranties, except for certain limited representations and warranties that must be true and correct in all, or all material respects. Otherwise, for purposes of the merger agreement, the representations and warranties will be deemed to have been sufficiently accurate to require a closing.

**For the foregoing reasons, you should not rely on the representations and warranties as statements of factual information. Moreover, information concerning the subject matter of the representations and warranties may have changed since the date of the merger agreement, and subsequently developed or new information qualifying a representation or warranty may have been included in a filing with the SEC made since the date of the merger agreement (including in this joint proxy statement/prospectus).**

**The Merger; Closing**

Upon the terms and subject to the conditions of the merger agreement, and in accordance with Delaware law, at the effective time, RehabCare will merge with and into Kindred and the separate corporate existence of



## **Table of Contents**

RehabCare will cease and Kindred will continue as the surviving corporation after the merger. However, either of RehabCare or Kindred may, at any time prior to the effective time (with the consent of the other) or immediately prior to the effective time (without the consent of the other), elect to change the method of the transaction by providing for a merger of merger subsidiary with and into RehabCare, and RehabCare will continue as the surviving corporation and a wholly owned subsidiary of Kindred.

Unless Kindred and RehabCare agree otherwise, the closing of the merger will occur as soon as possible, but no later than the third business day following the date on which all of the conditions to the merger, other than conditions that, by their nature are to be satisfied at the closing (but subject to satisfaction, or, to the extent permissible, waiver of those conditions at closing) have been satisfied or, to the extent permissible, waived.

Assuming timely satisfaction of the necessary closing conditions, Kindred and RehabCare are targeting a closing of the merger on or about June 30, 2011. However, we cannot assure you that such timing will occur or that the merger will be completed as expected.

Upon the closing, Kindred (or merger subsidiary) and RehabCare will file a certificate of merger with the Secretary of State of the State of Delaware. The effective time will be the time the certificate of merger is filed or at a later time upon which Kindred and RehabCare shall agree to and specify in the certificate of merger.

### **Certificate of Incorporation and Bylaws of Kindred and the Surviving Corporation**

At the effective time, the certificate of incorporation of Kindred in effect at that time (or, in the event of a subsidiary merger election, the certificate of incorporation of RehabCare, as amended as set forth in Annex I of the merger agreement) will, by virtue of the merger, become the certificate of incorporation of the surviving corporation.

At the effective time, the bylaws of Kindred (or, in the event of a subsidiary merger election, of merger subsidiary) will, by virtue of the merger, be the bylaws of the surviving corporation.

### **Directors and Officers of the Surviving Corporation**

At the effective time, the directors and officers of Kindred shall continue as the directors and officers of Kindred. At or prior to the effective time, Kindred will appoint two current members of the RehabCare board of directors to serve as members of the Kindred board of directors, such service to be effective as of immediately following the effective time. Kindred anticipates that one of the two current members of the RehabCare board of directors to join the Kindred board of directors will be Dr. John Short, President and Chief Executive Officer of RehabCare, who is expected to be invited to join as non-executive vice chairman. Kindred also anticipates that Mr. Hardaway, Ms. Henry and Ms. Welc will be officers of Kindred following the effective time. If either party makes the subsidiary merger election, the directors and officers of merger subsidiary shall be the directors and officers of the surviving corporation.

### **Merger Consideration**

#### ***Kindred Stockholders***

Each share of Kindred common stock outstanding immediately prior to the effective time will remain outstanding and will not be altered by the merger.

#### ***RehabCare Stockholders***

At the effective time, each share of RehabCare common stock outstanding immediately prior to the effective time (other than shares owned by (i) Kindred or RehabCare or their respective wholly owned subsidiaries (which will be cancelled) or (ii) stockholders who have properly exercised and perfected appraisal rights under the DGCL) will be converted into the right to receive the merger consideration, without interest.

## **Table of Contents**

### **Fractional Shares**

No fraction of a share of Kindred common stock will be issued in the merger. Instead, holders of RehabCare common stock who would otherwise be entitled to receive a fraction of a share of Kindred common stock will receive, upon surrender for exchange of RehabCare common stock, an amount in cash (rounded up to the nearest whole cent), without interest, equal to the product of such fraction multiplied by the volume-weighted average price (rounded to the nearest one-tenth of a cent) of one share of Kindred common stock on the NYSE for the five trading days immediately preceding to the closing date of the merger.

### **Exchange Procedures**

Prior to the effective time, Kindred will enter into an agreement with a commercial bank or trust company (which we refer to as the exchange agent) selected by Kindred and reasonably satisfactory to RehabCare, to pay the merger consideration to the holders of RehabCare common stock in connection with the merger, including the payment of cash for fractional shares. Immediately prior to the effective time, Kindred will deposit with the exchange agent, for the benefit of the holders of RehabCare common stock, book-entry shares representing the total number of shares of Kindred common stock issuable in the merger and cash sufficient to pay the cash consideration. In addition, and from time to time thereafter, Kindred will deposit with the exchange agent immediately available funds sufficient to pay cash in lieu of fractional shares and in respect of any dividends or distributions on Kindred common stock with a record date after the effective time.

At the effective time, each certificate representing shares (or uncertificated shares in book entry form) of RehabCare common stock that has not been surrendered, other than any shares owned by Kindred or RehabCare, will represent only the right to receive, upon such surrender and without any interest, the number of whole shares of Kindred common stock issuable in exchange of such shares of RehabCare common stock, dividends and other distributions on shares of Kindred common stock with a record date after the effective time, and cash, in lieu of fractional shares. Following the effective time, no further registrations of transfers on the stock transfer books of RehabCare of the shares of RehabCare common stock will be made. If, after the effective time, RehabCare stock certificates or shares of RehabCare common stock represented by book-entry are presented to Kindred, the surviving corporation or the exchange agent, for any reason, they will be canceled and exchanged as described above.

### **Exchange of Shares**

Promptly after the effective time, and in any event within two business days after the closing, Kindred will cause the exchange agent to mail to each holder of record of a RehabCare stock certificate or book-entry share whose shares of RehabCare common stock were converted into the right to receive the merger consideration, a letter of transmittal and instructions explaining how to surrender RehabCare stock certificates or book-entry shares in exchange for the merger consideration.

After the effective time, and upon surrender of a RehabCare stock certificate or book-entry share to the exchange agent, together with a letter of transmittal or agent's message, the holder of the RehabCare stock certificate or book-entry share will be entitled to receive the merger consideration, and the RehabCare stock certificates or book entries evidencing book-entry shares so surrendered will be canceled. No interest will be paid or will accrue on any merger consideration payable under the merger agreement. If payment is to be made to a person other than the person in whose name the certificate or book-entry share surrendered is registered, the certificate or book-entry share so surrendered must be properly endorsed or otherwise in proper form for transfer and the person requesting such payment must pay any transfer or other taxes required by the reason of the payment to a person other than the registered holder of the certificate or book-entry share so surrendered, unless the person requesting such payment can establish to the satisfaction of the exchange agent that such tax has been paid or is not applicable.

## **Table of Contents**

**REHABCARE STOCK CERTIFICATES SHOULD NOT BE RETURNED WITH THE ENCLOSED PROXY CARD(S). RehabCare stock certificates should be returned with a validly executed transmittal letter and accompanying instructions that will be provided to RehabCare stockholders following the effective time.**

**Kindred stockholders do not need to send in their stock certificates at any time.**

### **Lost Stock Certificates**

If any stock certificate has been lost, stolen or destroyed, upon the making of an affidavit of that fact by the person claiming the stock certificate to be lost, stolen or destroyed and, if required by the surviving corporation, the posting by such person of a bond in a reasonable amount as the surviving corporation (or the exchange agent in accordance with its standard procedures) may direct as indemnity against any claim that may be made against it with respect to the stock certificate, the exchange agent will issue, in exchange for such lost, stolen or destroyed stock certificate, the merger consideration in respect of such shares. These procedures will be described in the letter of transmittal that RehabCare stockholders will receive, which such stockholders should read carefully in its entirety.

### **Effect of the Merger on RehabCare's Equity Awards**

#### ***Stock Options***

At the effective time, each RehabCare stock option outstanding immediately prior to such time under any RehabCare equity plan, whether or not then exercisable or vested, will become fully vested and will be canceled in exchange for the right to receive an amount of cash equal to the product of (1) the number of shares of RehabCare common stock subject to the option and (2) the excess, if any of (a) the sum of (i) the exchange ratio, multiplied by the volume-weighted average price of the Kindred common stock as reported by the NYSE for the five trading days prior to the closing date of the merger and (ii) the cash consideration, over (b) the exercise price per share of the RehabCare stock option, without interest and less any applicable taxes. This payment will be made as soon as reasonably practicable after the effective time, and in any event no later than the earliest of (1) three business days after the effective time, (2) the end of the year in which the effective time occurs, or (3) the expiration of the original term of the RehabCare stock option. For any RehabCare stock option with an exercise price per share that exceeds the value of the merger consideration, such shares will be canceled as of the effective time for no consideration and will have no further effect.

#### ***Restricted Shares***

At or immediately prior to the effective time, each RehabCare restricted share that is subject solely to time-based vesting will vest and become free of any other lapsing restrictions, and the holder will be entitled to receive the merger consideration for such shares, subject to applicable withholding for taxes. For each RehabCare restricted share that is subject to performance-based vesting, the number of restricted shares that, according to the underlying award agreement, would vest upon attainment of target performance, will vest and become free of any other lapsing restrictions, and the holder will be entitled to receive the merger consideration for such shares, subject to applicable withholding for taxes. All unvested RehabCare restricted shares as of the effective time, after giving effect to the foregoing, will be canceled for no consideration and will have no further effect.

#### ***Employee Stock Purchase Plan***

The merger agreement provides that as soon as practicable following the date of the merger agreement, the RehabCare board of directors or an appropriate committee of the RehabCare board of directors will take all reasonable actions, including adopting any necessary resolution, to (a) terminate the ESPP as of immediately prior to the closing date, (b) ensure that no new offering period will be commenced after the date of the merger

## **Table of Contents**

agreement, (c) for any offering period with an end date prior to the closing, cause a new exercise date to be set for the business day immediately prior to the closing; (d) prohibit participants in the ESPP from altering their payroll deductions from those in effect on the date of the merger agreement, and (e) provide that the amount of the accumulated contributions of each participant under the ESPP as of immediately prior to the termination date of the ESPP will be refunded to such participant as promptly as practicable following the effective date, without interest. Shares of RehabCare common stock previously purchased pursuant to the ESPP will receive the merger consideration, as described above.

## **Representations and Warranties**

The merger agreement contains customary representations and warranties made by each party to the other, which are subject, in some cases, to specified exceptions and qualifications contained in the merger agreement and the matters contained in the confidential disclosure schedules that each of Kindred and RehabCare prepared and delivered to the other prior to signing the merger agreement. These representations and warranties relate to, among other things:

due organization, good standing and the requisite corporate power and authority to carry on their respective businesses;

capitalization;

ownership of subsidiaries;

corporate power and authority to enter into the merger agreement, the valid and binding nature of the merger agreement and enforceability of the merger agreement;

board of directors approval and recommendation to stockholders to adopt the merger agreement;

the affirmative vote required by stockholders of each party to adopt the merger agreement;

absence of conflicts with organizational documents, breaches of contracts and agreements, liens upon assets and violations of applicable law resulting from the execution and delivery of the merger agreement and consummation of the transactions contemplated by the merger agreement;

absence of required governmental or other third party consents in connection with execution, delivery and performance of the merger agreement and consummation of the transactions contemplated by the merger agreement other than governmental filings specified in the merger agreement;

timely filing of required documents with the SEC since January 1, 2008, compliance of such documents with the requirements of the Securities Act, and the Exchange Act, and the absence of untrue statements of material facts or omissions of material facts in those documents;

compliance of financial statements with GAAP;

## Edgar Filing: KINDRED HEALTHCARE, INC - Form 424B3

absence of any transaction that would be required to be disclosed under Item 404 of Regulation S-K promulgated under the Securities Act;

absence, to the knowledge of Kindred or RehabCare, as applicable, since July 1, 2008 of any substantive complaint or allegation regarding improper accounting practices, or reports of material violations of securities laws;

absence of any liabilities other than as and to the extent reflected or reserved against the consolidated audited balance sheet of Kindred or RehabCare, as applicable, as of September 30, 2010, incurred in connection with the merger agreement or that would not have or reasonably be expected to have, individually or in the aggregate, a material adverse effect;

absence of specified changes or events and conduct of business in the ordinary course since September 30, 2010;

**Table of Contents**

absence since December 31, 2009 of any change, effect, development or event that has had, or would reasonably be expected to have a material adverse effect;

absence of misleading information contained or incorporated into this joint proxy statement/prospectus, the registration statement of which this joint proxy statement/prospectus forms a part, or any other filings made by either party with the SEC in connection with the merger;

compliance with applicable laws, including healthcare regulatory laws, and holding of all necessary permits;

employee benefits matters and ERISA compliance;

labor matters and compliance with labor and employment law;

absence of litigation;

tax matters;

third party reimbursements;

environmental matters and compliance with environmental laws;

intellectual property;

insurance;

major suppliers and customers;

receipt of an opinion from each party's financial advisor(s); and

no brokers' or finders' fees.

Kindred made certain additional representations and warranties to RehabCare in the merger agreement, including with respect to the following matters in connection with the debt financing arrangements:

payment of fees under the debt commitment letter;

sufficiency of funds;

validity and enforceability of the debt commitment letter;

absence of default under the debt commitment letter; and

absence of contingencies related to the funding of financing other than as set forth in the debt commitment letter.

RehabCare also made additional representations and warranties to Kindred in the merger agreement, including with respect to intercompany loans, material contracts, real property and assets absence of unlawful payments, and inapplicability of takeover laws.

Many of the representations and warranties in the merger agreement are qualified as to materiality or material adverse effect. For purposes of the merger agreement, a material adverse effect on Kindred or RehabCare means:

any change, effect, development or event that has had or would reasonably be expected to have a material adverse effect on the financial condition, business, assets, liabilities, or results of operations of such party and its subsidiaries, taken as a whole. In making this determination, no change, effect, development or event (by itself or when aggregated) to the extent resulting from any of the following shall be taken into account when determining whether a material adverse effect has occurred or may occur:

any changes, effects, developments or events in the economy or the financial, credit or securities markets in general (including changes in interest or exchange rates);

**Table of Contents**

any changes, effects, developments or events in the industries in which such party and its subsidiaries operate;

any changes, effects, developments or events resulting from the announcement or pendency of the transactions contemplated by the merger agreement, the identity of Kindred or the performance or compliance with the terms of the merger agreement (including, in each case, any loss of customers, suppliers or employees or any disruption in business relationships resulting therefrom, but excluding the effects of compliance with the operating covenants of RehabCare);

any changes, effects, developments or events resulting from the failure of such party to meet internal forecasts, budgets or financial projections or fluctuations in the trading price or volume of such party's common stock (but not, in each case, the underlying cause of such failure or fluctuations, unless such underlying cause would otherwise be excepted from the determination of a material adverse effect);

acts of God, natural disasters, calamities, national or international political or social conditions, including the engagement by any country in hostility (whether commenced before, on or after the date hereof, and whether or not pursuant to the declaration of a national emergency or war), or the occurrence of a military or terrorist attack; or

any changes in applicable law or GAAP (or any interpretation thereof);

unless, in the case of the first, second, fifth and sixth bullets, the changes, effects, developments or events disproportionately affect such party and its subsidiaries as compared to other companies in the industries in which such party and its subsidiaries operate.

The representations and warranties contained in the merger agreement will expire at the effective time, and not survive the consummation of the merger, but they form the basis of specified conditions to the parties' obligations to complete the merger.

**Covenants and Agreements**

***Operating Covenants***

*Kindred.* Kindred has agreed that from the date of the merger agreement until the earlier to occur of the effective time and the termination of the merger agreement, it shall not, without RehabCare's prior consent (not to be unreasonably withheld, delayed or conditioned):

amend its organizational documents in a manner materially adverse to RehabCare stockholders;

split, combine or reclassify any shares of its capital stock;

redeem or repurchase any shares of its capital stock or other securities at a price materially above market price;

declare, set aside or pay any dividend or make any other distribution (whether in cash, stock, property or any combination thereof) in respect of any shares of its capital stock or other securities (other than dividends or distributions by any of its wholly owned subsidiaries);



## Edgar Filing: KINDRED HEALTHCARE, INC - Form 424B3

acquire any equity interest or any material assets of any business organization having a fair market value in excess of \$125 million in the aggregate;

adopt or enter into a plan of complete or partial liquidation or dissolution;

intentionally take any action that is intended, to the knowledge of Kindred at the time the action is taken, to result in any of the conditions to the merger not being satisfied; or

agree, resolve or commit to take, any of the foregoing actions.

**Table of Contents**

*RehabCare*. RehabCare has agreed that from the date of the merger agreement until the earlier to occur of the effective time and the termination of the merger agreement, RehabCare shall, and shall cause each of its subsidiaries to:

conduct its business in the ordinary course consistent with past practice and in compliance with all material applicable laws and all material authorizations from governmental authorities; and

use its reasonable best efforts to preserve intact its present business organizations, maintain in effect all material permits, keep available the services of its directors, officers and employees, and maintain satisfactory relationships with its customers, lenders, suppliers and others having material business relationships with it.

In addition, with specified exceptions set forth in the merger agreement or with Kindred's prior consent (not to be unreasonably withheld, conditioned or delayed), RehabCare has agreed, among other things, not to, and not to permit its subsidiaries to:

amend its organizational documents;

(i) split, combine or reclassify any shares of its capital stock, (ii) declare or pay any dividend or make any other distribution in respect of any shares of its capital stock or other securities (other than dividends or distributions by any of its wholly owned subsidiaries) or (iii) redeem, repurchase, cancel or otherwise acquire or offer to redeem, repurchase, or otherwise acquire, any of its securities or any securities of any of its subsidiaries, other than the cancellation of RehabCare stock options in connection with the exercise thereof;

(i) issue, deliver or sell, or authorize the issuance, delivery or sale of, any shares of any of its securities or any securities of its subsidiaries, other than the issuance of any shares upon the exercise of outstanding RehabCare stock options or (ii) amend the terms of any of its securities or securities of its subsidiaries (in each case, whether by merger, consolidation or otherwise);

(i) acquire any equity interest or any material assets of any business organization, (ii) merge or consolidate with any other entity or (iii) adopt a plan of complete or partial liquidation, dissolution, recapitalization or restructuring;

sell, lease, license or otherwise dispose of any subsidiary or any material assets, securities or property;

create or incur any lien on any asset other than permitted liens or any immaterial lien incurred in the ordinary course of business consistent with past practices;

make any loan, advance or investment other than to or in its wholly owned subsidiaries;

incur any indebtedness for borrowed money or guarantees thereof other than under existing credit facilities in the ordinary course of business consistent with past practices;

amend or change its existing credit facility;

## Edgar Filing: KINDRED HEALTHCARE, INC - Form 424B3

(i) enter into any contract that would have been deemed a material contract under the merger agreement were RehabCare or any of its subsidiaries a party thereto on the date of the merger agreement other than in the ordinary course consistent with past practices or (ii) terminate or amend in any material respect any material contract or waive any material right thereunder other than in the ordinary course of business consistent with past practice;

terminate, suspend, abrogate, amend or modify in any material respect any material permit;

abandon, cancel or allow to lapse or fail to maintain or protect any material registered intellectual property;

except as required by applicable law or existing employee plans (i) grant or increase any severance or termination pay to (or amend any existing arrangement with) any of their respective directors, officers or employees; (ii) increase benefits payable under any severance or termination pay policies or employment agreements existing as of the date of the merger agreement; (iii) enter into any plan,

**Table of Contents**

program, policy, contract, arrangement or agreement that would be an employee plan if in existence on the date hereof or otherwise amend, modify or terminate any employee plan (except as expressly required the merger agreement); (iv) establish, adopt or amend (except as required by applicable law) any collective bargaining arrangement; (v) increase the compensation, bonus or other benefits payable to any of their respective directors or executives; or (vi) hire any employee with an annual base salary in excess of \$150,000;

make any material change in any method of accounting or accounting principles or practice, except for any such change required by reason of a concurrent change in GAAP or Regulation S-X under the Securities Act, as approved by its independent registered public accounting firm;

make, change, or rescind any election relating to material taxes, settle or compromise any material claim relating to taxes, or, except as required by applicable law, amend any material tax return;

settle, or offer or propose to settle, any litigation, investigation, arbitration, proceeding or other claim involving or against RehabCare or any of its subsidiaries involving a payment by RehabCare or any of its subsidiaries in excess of \$250,000;

fail to use reasonable best efforts to maintain existing material insurance policies or comparable replacement policies to the extent available for a similar reasonable cost;

subject to certain exceptions, enter into any new lease, sublease, or amend, modify, license in respect of any real property or amend, modify or terminate or surrender any such lease, sublease or license;

acquire any material real property or dispose of, by sale or otherwise, any material owned real property;

except as otherwise provided in the merger agreement, convene any regular (except to the extent required by applicable law or order) or special meeting (or any adjournment or postponement thereof) of the RehabCare stockholders;

intentionally take any action that is intended, to the knowledge of RehabCare at the time the action is taken, to result in any of the conditions to the merger not being satisfied; or

agree, resolve or commit to take, any of the foregoing actions.

***No Solicitation***

The merger agreement provides that RehabCare will not, and will cause its subsidiaries and its and their respective officers, directors, employees and representatives not to, directly or indirectly:

solicit, initiate or take any action to knowingly facilitate or encourage the submission of any acquisition proposal (as defined on page 104);

enter into or participate in any discussions or negotiations with, furnish any information relating to RehabCare or afford access to the business, properties, assets, books or records of RehabCare to, any party that, to the knowledge of RehabCare, is seeking to make, or has made, an acquisition proposal; or

withhold, withdraw or modify in a manner adverse to Kindred or publicly propose to withhold, withdraw or modify in a manner adverse to Kindred the RehabCare board recommendation, recommend, adopt or approve or publicly propose to recommend, adopt or approve an acquisition proposal or resolve, agree or publicly propose to take any such actions or enter into any agreement in principle, letter of intent, term sheet, merger agreement, acquisition agreement or other similar instrument (whether or not binding) constituting or relating to an acquisition proposal.

RehabCare has agreed, and agreed to cause its subsidiaries and its and their respective officers, directors, employees and representatives, to cease all activities with any parties with respect to an acquisition proposal existing at the time the merger agreement was entered into.

## Table of Contents

However, at any time prior to the RehabCare stockholders adopting the merger agreement, RehabCare or the RehabCare board of directors, directly or indirectly through its representatives, may

engage in negotiations or discussions with (including, as a part thereof, making any counterproposal or counter offer to) any party that has made a bona fide unsolicited acquisition proposal that did not arise in connection with any failure of RehabCare to comply with its obligations in the preceding paragraphs and that the RehabCare board of directors believes in good faith (after consultation with a financial advisor of nationally recognized reputation and outside legal counsel) constitutes or would reasonably be expected to lead to a superior proposal (as defined on page 104); and

thereafter furnish to such party nonpublic information relating to RehabCare pursuant to a confidentiality agreement (which agreement may not have terms less favorable to RehabCare than the existing confidentiality agreement between Kindred and RehabCare, subject to certain exceptions) provided that all such information (to the extent that such information has not been previously provided or made available to Kindred) is provided or made available to Kindred within 24 hours following the time it is provided or made available to such other party,

but in each case only if the RehabCare board of directors determines in good faith, after consultation with outside legal counsel, that failure to take such action could reasonably be expected to be inconsistent with its fiduciary duties under applicable law and RehabCare gives Kindred at least 24 hours prior written notice of the identity of such party and the material terms of such acquisition proposal (or, if in writing, a copy of such acquisition proposal) and of RehabCare's intention to participate or engage in discussions or negotiations with, or furnish non-public information to, such third party.

RehabCare has agreed to notify Kindred promptly (but in any event within 24 hours) in the event that it receives any acquisition proposal, any inquiry that would reasonably be expected to lead to an acquisition proposal or any request for information or for access to the business, properties, assets, books or records of RehabCare by any party that, to the knowledge of RehabCare, may be considering making, or has made, an acquisition proposal. RehabCare has also agreed to keep Kindred reasonably informed of any material changes to any acquisition proposal, inquiry or request for information.

In addition, if prior to the adoption of the merger agreement by the RehabCare stockholders, the RehabCare board of directors receives a superior proposal or there occurs an event, fact, circumstance or development, that occurs after the date of the merger agreement that was not known or foreseen by the RehabCare board of directors as of the date of the merger agreement (and not related to any acquisition proposal), that becomes known prior to receipt of the approval of the stockholders of RehabCare (which we refer to as a RehabCare intervening event), then the RehabCare board of directors shall be entitled to make a RehabCare board adverse recommendation change (as defined on page 104), if:

the RehabCare board of directors determines in good faith, after consultation with outside legal counsel, that failure to take such action would reasonably be expected to be inconsistent with its fiduciary duties under applicable law, and in the case of a superior proposal, the RehabCare board of directors approves or recommends such superior proposal;

RehabCare has notified Kindred in writing that it intends to effect a RehabCare board adverse recommendation change, describing in reasonable detail the reasons for such change, including the material terms and conditions of any such superior proposal and a copy of the final form of any related agreements or a description in reasonable detail of such RehabCare intervening event, as the case may be;

a three-business day period commencing with the first business day after the delivery of the notice and other materials under the prior bullet shall have expired and, if requested by Kindred, RehabCare shall have made its representatives available to discuss and negotiate in good faith with Kindred's representatives any proposed modifications to the terms and conditions of the merger agreement during this three-business day period following delivery by RehabCare to Kindred of such notice; and

---

**Table of Contents**

if Kindred shall have delivered a binding proposal capable of being accepted by RehabCare to amend the terms of the merger agreement during such three-business day period, the RehabCare board of directors shall have determined in good faith, after consultation with outside legal counsel, that failure to take such action would reasonably be expected to be inconsistent with its fiduciary duties under applicable law.

Any material amendment or modification to any superior proposal, or any change to the amount or form of consideration in a superior proposal, made following delivery of the notice and other materials under the second bullet above will be deemed to be a new superior proposal and shall require delivery of new notice and other materials and a new three-business day period under the third bullet above. However, the obligation of RehabCare to deliver a new notice and other materials and to provide a new three-business day period shall apply only twice with respect to a particular superior proposal regardless of any subsequent amendment, modification or change to such superior proposal, and following the expiration of such final three-business day period, RehabCare shall have no further obligation to keep Kindred informed of any changes with respect to such superior proposal.

The merger agreement does not prohibit RehabCare from complying with the rules and regulations of the Exchange Act with regard to an acquisition proposal so long as any action taken or statement made thereunder is in compliance with RehabCare's non-solicitation obligations.

If the RehabCare board of directors changes its recommendation, Kindred would have the right to terminate the merger agreement and be paid a \$26 million termination fee by RehabCare. See Termination of the Merger Agreement beginning on page 112 and Termination Fees and Expenses beginning on page 114.

An acquisition proposal means any offer or proposal (other than an offer or proposal by Kindred or merger subsidiary) relating to (i) any acquisition or purchase, direct or indirect (including by merger), of 20% or more of the voting securities of RehabCare, (ii) any tender offer or exchange offer that, if consummated, would result in a third party beneficially owning 20% or more of the voting securities of RehabCare, or (iii) a sale of assets, including by way of a sale of capital stock of, or other equity security interests in, any subsidiary of RehabCare equal to 20% or more of the fair market value of RehabCare's consolidated assets or to which 20% or more of RehabCare's net revenues or net income on a consolidated basis are attributable, or a merger, consolidation, share exchange, business combination, reorganization, recapitalization, liquidation, dissolution or similar transaction involving RehabCare or any of its subsidiaries whose assets, individually or in the aggregate, constitute 20% or more of the fair market value of the consolidated assets of RehabCare or to which 20% or more of RehabCare's net revenues or net income on a consolidated basis is attributable.

A RehabCare board adverse recommendation change means withholding, withdrawing or modifying in a manner adverse to Kindred the recommendation by RehabCare board of directors to RehabCare stockholders to approve and adopt the merger agreement, or recommendation, adoption or approving an acquisition proposal, or resolving, agreeing or publicly proposing to take any such action.

A superior proposal means any bona fide, written acquisition proposal, not solicited or initiated in violation of RehabCare's non-solicitation obligations, for at least a majority of the outstanding shares of RehabCare common stock or all or substantially all of the assets of RehabCare and its subsidiaries on terms that the RehabCare board of directors determines in good faith, after consultation with a financial advisor of nationally recognized reputation and outside legal counsel and taking into account all the terms and conditions of the acquisition proposal would result in a transaction (i) that if consummated, is more favorable to the RehabCare stockholders from a financial point of view than the merger or, if applicable, any binding proposal by Kindred capable of being accepted by RehabCare, to amend the terms of this merger agreement taking into account all the terms and conditions of the merger agreement and such binding proposal (including the expected timing and likelihood of consummation) and taking into account any governmental and other approval requirements, (ii) that is reasonably capable of being completed on the terms proposed, taking into account the identity of the person

## **Table of Contents**

making the proposal, any approval requirements and all other financial, legal and other aspects of such proposal and (iii) for which financing, if a cash transaction (whether in whole or in part), is then fully committed or reasonably determined to be available by the RehabCare board of directors.

### ***Kindred Board of Directors Recommendation***

The merger agreement provides that until the earlier of the adoption of the merger agreement by the Kindred stockholders or the termination of the merger agreement, Kindred agreed that its board of directors shall not withhold, withdraw or modify its recommendation to the Kindred stockholders to adopt the merger agreement in a manner adverse to RehabCare or publicly propose to withhold, withdraw or modify its recommendation in a manner adverse to the RehabCare.

However, if prior to the adoption of the merger agreement by the Kindred stockholders, there occurs an event, fact, circumstance or development, that was not known or foreseen by the Kindred board of directors as of the date of the merger agreement that becomes known prior to the Kindred stockholders adopting the merger agreement (which we refer to as a Kindred intervening event), the Kindred board of directors shall be entitled to effect a Kindred board adverse recommendation change if:

the Kindred board of directors determines in good faith, after consultation with outside legal counsel to Kindred, that failure to take such action would reasonably be expected to be inconsistent with its fiduciary duties under applicable law;

Kindred has notified RehabCare in writing that it intends to effect a Kindred board adverse recommendation change, describing in reasonable detail the reasons for such change, including a description in reasonable detail of such Kindred intervening event;

a three-business day period commencing with the first business day after the delivery of the notice and other materials under the prior bullet shall have expired and, if requested by RehabCare, Kindred shall have made its representatives available to discuss and negotiate in good faith with RehabCare's representatives any proposed modifications to the terms and conditions of the merger agreement during this three-business day period following delivery by Kindred to RehabCare of such notice; and

if RehabCare shall have delivered a binding proposal capable of being accepted by Kindred to amend the terms of merger agreement during such three-business day period, the Kindred board of directors shall have determined in good faith, after consultation with outside legal counsel, that failure to take such action would reasonably be expected to be inconsistent with its fiduciary duties under applicable law.

Kindred board adverse recommendation change means withholding, withdrawing or modifying in a manner adverse to RehabCare or publicly proposing to withhold, withdraw or modify in a manner adverse to RehabCare the recommendation by Kindred board of directors to Kindred stockholders to adopt the merger agreement.

If the Kindred board of directors changes its recommendation, RehabCare would have the right to terminate the merger agreement and be paid a \$62 million termination fee by Kindred. See Termination of the Merger Agreement beginning on page 112 and Termination Fees and Expenses beginning on page 114.

### ***Stockholder Meetings and Board Recommendations***

Unless the merger agreement has been validly terminated, Kindred and RehabCare are required to take all reasonable action necessary to convene a meeting of stockholders as promptly as practicable after the mailing of this joint proxy statement/prospectus (but in no event later than 40 days after the mailing) to consider and vote upon the adoption of the merger agreement (including, in case of Kindred stockholder meeting, the issuance of Kindred common stock in connection with the merger). Kindred and RehabCare agreed to adjourn or postpone



## **Table of Contents**

the respective stockholders meeting (i) to obtain a quorum, (ii) to solicit additional proxies (iii) or for other reasons with consent of the other party, such consent not to be unreasonably withheld. Subject to the provisions of the merger agreement discussed under **Covenants and Agreements Kindred Board of Directors Recommendation** on page 105, the Kindred board of directors will recommend that stockholders vote to approve the adoption of the merger agreement. Approval of the proposal to adopt the merger agreement by the Kindred stockholders will also constitute approval of the issuance of Kindred common stock to RehabCare stockholders in the merger. Subject to the provisions of the merger agreement discussed under **Covenants and Agreements No Solicitation** beginning on page 102, RehabCare board of directors will recommend that stockholders vote to approve the adoption of the merger agreement. Both the Kindred board of directors and the RehabCare board of directors are required to include such recommendation in this joint proxy statement/prospectus and use their reasonable best efforts to obtain the required stockholder approval.

### ***Access to Information; Confidentiality***

Except under certain circumstances from the date of the merger agreement until the earlier of the effective time and the termination of the merger agreement, each of Kindred and RehabCare will:

afford to the other party, its representatives and, in the case of RehabCare, the debt commitment parties, reasonable access during normal business hours upon reasonable notice to all of their offices, properties, books and records,

furnish to the other party, its representatives and, in the case of Kindred, the debt commitment parties, such financial and operating data and other information as such persons may reasonably request, and

instruct its representatives to cooperate with the other party and its representatives in its investigation.

However, neither party is required to provide the other with any information that, in its judgment, cannot be provided because it would waive a privilege or violate a confidentiality obligation. The information will be held in confidence to the extent required by the provisions of the confidentiality agreement between Kindred and RehabCare.

### ***Reasonable Best Efforts; Covenants and Agreements***

Kindred and RehabCare have each agreed to use their reasonable best efforts to take, or cause to be taken, all actions necessary, proper or advisable under applicable law to consummate the merger in the most expeditious manner practicable. This includes:

preparing and filing as promptly as practicable all documentation to effect all necessary filings, notices and other documents;

obtaining and maintaining all approvals and consents that are necessary, proper or advisable to consummate the merger and to fulfill the conditions to the merger;

defending any proceedings threatened or commenced by any governmental authority relating to the merger; and

cooperating to the extent reasonable with the other party in its efforts to comply with its obligations under the merger agreement.

In connection with the efforts referenced above to obtain all requisite approvals and authorizations for the transactions contemplated by the merger agreement, each of Kindred and RehabCare agreed to make a notification pursuant to the HSR Act as promptly as practicable (and in any event within 10 business days of the date of the merger agreement), and to obtain all other approvals and authorizations required under the HSR Act and any other applicable antitrust law.



## **Table of Contents**

In addition, each of Kindred and RehabCare has agreed to use its reasonable best efforts to take all necessary actions to obtain any approval relating to the HSR Act or similar non-U.S. laws that are required for the consummation of the merger, which efforts shall include taking all such reasonable actions, including, agreeing to such reasonable undertakings and commitments as may be reasonably requested by any governmental authority, to allow the conditions to the merger to be satisfied on or before September 30, 2011.

Notwithstanding the above provisions, in no event shall (A) Kindred be obligated to propose or agree to accept any undertaking or condition, enter into any consent order, make any divestiture or accept any operational restriction, or take or commit to take any action (1) the effectiveness or consummation of which is not conditional on the consummation of the merger, (2) that is not necessary at such time to permit the effective time to occur by the last business day before September 30, 2011, or (3) that individually or in the aggregate is or would be expected to be material to (x) RehabCare or to Kindred or (y) Kindred's ownership or operation of the business or assets of RehabCare or (B) RehabCare or any of its subsidiaries, without the prior written consent of Kindred, propose or agree to accept any undertaking or condition, enter into any consent decree or make any divestiture or accept any operational restriction. RehabCare has also agreed to commit, subject to completion of the merger, to take any of the foregoing actions with respect to the assets or business of RehabCare.

For additional information on the regulatory consents and approvals required to be obtained, see *The Merger* Regulatory Approvals Required for the Merger beginning on page 83.

### ***Certain Other Filings***

RehabCare and Kindred shall cooperate with one another (i) in connection with the preparation of the registration statement on Form S-4 and this joint proxy statement/prospectus and applications and notices for other required consents, (ii) in determining whether any action by any governmental authority is required, or any consents are required to be obtained from parties to any material contracts and (iii) in taking such actions required in connection therewith or with this joint proxy statement/prospectus and seeking timely to obtain any such actions or consents.

### ***Indemnification and Insurance***

The merger agreement contains provisions relating to the indemnification of and insurance for RehabCare's and its subsidiaries' current and former directors and officers. For a period of six years following the effective time, Kindred shall, or in the event of a subsidiary merger election, shall cause the surviving corporation to, indemnify and hold harmless each current and former officer and director of RehabCare and each person who served as a fiduciary under or with respect to any employee benefit plan of RehabCare, against any costs or expenses (including advancing reasonable attorneys' fees and expenses upon receipt of an undertaking to repay such amount if it shall be ultimately determined that the indemnified person is not entitled to be indemnified), judgments, fines, losses, claims, damages, liabilities and amounts paid in settlement in connection with any actual or threatened action or investigation in respect of or arising out of acts or omissions occurring or alleged to have occurred at or prior to the effective time, in connection with such indemnified person's service as an officer or director of RehabCare or as a fiduciary of such plan, to the fullest extent permitted by Delaware law or any other applicable law or provided under RehabCare's organizational documents in effect on the date of the merger agreement, subject to any limitation imposed under applicable law.

All rights in existence under RehabCare's organizational documents on the date of the merger agreement regarding elimination of liability of directors, indemnification and exculpation of officers, directors and employees and advancement of expenses to them shall survive the merger for a period of six years from the effective time.

Kindred shall, or in the event of a subsidiary merger election, shall cause the surviving corporation to, maintain for a period of six years after the effective time D&O insurance in respect of acts or omissions occurring prior to the effective time covering each indemnified person covered as of the date of the merger.

## **Table of Contents**

agreement by RehabCare's D&O insurance policies on terms with respect to coverage and amount no less favorable than those of such policy in effect on the date of the merger agreement, as well as covering claims brought against each indemnified person under ERISA. Alternatively, RehabCare may purchase such tail policy at its option prior to the effective time and pay the premium due thereon when due, provided that the surviving corporation shall not be obligated to pay annual premiums in the aggregate in excess of 300% of the amount per annum RehabCare paid in its last full fiscal year.

### ***Employee Benefits Matters***

Kindred will, for the period commencing on the effective time and ending on December 31, 2011, provide each active employee of RehabCare who remains an active employee following the effective time with annual base salary, target annual cash bonus opportunities and employee benefits (excluding equity and equity-based compensation) which are no less favorable in the aggregate than the annual base salary, target annual cash bonus opportunities and employee benefits (excluding equity and equity-based compensation) provided by RehabCare immediately prior to the effective time. However, Kindred maintains the right to terminate the practice of granting cash loans to participants of the tax-qualified deferred compensation plan, and to amend the terms and conditions of any RehabCare employee benefit plan to comply with applicable law.

Kindred will, to the extent permitted by law, waive all pre-existing conditions, exclusions and waiting periods with respect to participation and coverage requirements for the former RehabCare employees under any employee benefit plan in which such employees will be eligible to participate following the effective time. Kindred will also credit the former RehabCare employees for their prior service with RehabCare under the new employee benefit plans in which the employees are eligible to participate. Credit will be given to the same extent such service was credited under the similar RehabCare employee benefit plans for purposes of eligibility to participate and vesting under those plans, but not for purposes of benefit accrual. No credit will be given to the extent it would result in the duplication of benefits for the same period of service.

Kindred also agrees to comply with the terms of the RehabCare Corporate Long Term Cash Incentive Plans for 2009 through 2011, 2010 through 2012 and 2011 through 2013.

Kindred's obligations with respect to those employee benefit matters are for the sole benefit of RehabCare, do not create any rights for any RehabCare employees nor to any continued employment and are not intended to constitute an amendment to any RehabCare employee plan.

### ***Financing Matters***

Kindred's obligation to consummate the merger is subject to its consummation on the terms and conditions set forth, and receipt of the proceeds from the debt financing described, in the debt commitment letter from the debt commitment parties.

The merger agreement provides that Kindred is obligated to use its reasonable best efforts to obtain the debt financing on the terms and conditions contemplated by the debt commitment letter, including by:

using its reasonable best efforts to negotiate and enter into definitive financing agreements on the terms and conditions contemplated in the debt commitment letter;

paying all fees when due under the debt commitment letter;

using reasonable best efforts to satisfy the conditions applicable to it in the debt commitment letter and the definitive financing agreements; and

enforcing its rights under the debt commitment letter.

Kindred also agreed to keep RehabCare reasonably informed with respect to all material developments concerning the financing and to provide prompt notice of specified events relating thereto.



**Table of Contents**

Subject to certain specified exceptions, RehabCare is obligated to provide, and to use its reasonable best efforts to cause its representatives to provide, all cooperation reasonably requested by Kindred in connection with the debt financing, including:

providing specified financial and other information relating to RehabCare, including financial information reasonably necessary for Kindred to produce pro forma financial statements and adjustments giving effect to the merger and related transactions;

participating in a reasonable number of meetings, presentations and due diligence sessions;

assisting in the preparation of documents and materials;

executing and delivering comfort letters, surveys, title insurance or other documents relating to the debt financing as may be reasonably requested by Kindred;

reasonably cooperating with Kindred's legal counsel in connection with legal opinions that may be required in connection with the debt financing;

using its reasonable best efforts to assist in the preparation of definitive financing agreements;

taking all actions necessary for RehabCare and its subsidiaries to become guarantors and pledgors under the definitive financing agreements;

using its reasonable best efforts to cooperate with the financing parties' due diligence investigation; and

providing customary know-your-customer information.

Kindred is obligated to reimburse RehabCare for reasonable out of pocket costs it incurs in connection with such cooperation.

RehabCare has agreed to use its reasonable best efforts to negotiate a payoff letter with respect to all obligations under its existing credit facility. RehabCare has also agreed to deliver such letter to Kindred no later than two business days prior to the closing date and to deliver all notices and take all other actions reasonably requested by Kindred to facilitate the termination of commitments and the repayment in full of all obligations under its existing credit facility.

***Additional Agreements***

The merger agreement contains additional agreements between Kindred and RehabCare relating to, among other things:

that RehabCare shall not settle any stockholder litigation relating to the merger agreement without Kindred's prior written consent (not to be unreasonably withheld, delayed or conditioned) and shall use reasonable best efforts to keep Kindred informed with respect to such litigation;

## Edgar Filing: KINDRED HEALTHCARE, INC - Form 424B3

timely filing with the SEC of each form, report and other document required to be filed or furnished by each party under the Exchange Act;

notifying the other party of any event that would reasonably be expected to have a material adverse effect on such party or any breach by such party that could reasonably be expected to cause a closing condition to fail to be satisfied;

requiring the parties to consult with each other regarding public announcements; and

ensuring exemption of certain transactions by RehabCare directors and officers in connection with the merger under Rule 16b-3 of the Exchange Act.

## **Table of Contents**

### **Conditions to Completion of the Merger**

#### ***Conditions to Each Party's Obligations***

The obligations of each of Kindred (and, in the event of a subsidiary merger election, merger subsidiary) and RehabCare to complete the merger are subject to the satisfaction (or, to the extent permissible, waiver) on or prior to the closing date of the merger of the following conditions:

the adoption of the merger agreement by the Kindred stockholders and by the RehabCare stockholders;

the absence of any order, injunction, decree or other legal restraint issued by any governmental authority, or other rule or regulation that is in effect and prevents or prohibits the consummation of the merger;

the expiration or termination of the waiting periods applicable to the consummation of the merger under the HSR Act (which waiting period was terminated on April 8, 2011) and any similar non-U.S. laws;

the authorization for listing on the NYSE, subject to official notice of issuance, of the shares of Kindred common stock to be issued in the merger; and

the effectiveness of the registration statement on Form S-4 of which this joint proxy statement/prospectus forms a part and absence of any stop order by the SEC or proceedings of the SEC seeking a stop order, suspending the effectiveness of such registration statement.

#### ***Conditions to Obligations of Kindred and Merger Subsidiary***

The obligation of Kindred (and, in the event of a subsidiary merger election, merger subsidiary) to consummate the merger is further subject to satisfaction (or, to the extent permissible, waiver) of the following conditions:

the representations and warranties of RehabCare set forth in the merger agreement regarding the absence of a material adverse effect on RehabCare since December 31, 2009 must be true and correct in all respects both as of the date of the merger agreement and as of the effective time, as if made at and as of the effective time;

the following representations and warranties of RehabCare set forth in the merger agreement must be true and correct (disregarding any materiality, material adverse effect or similar qualifications) in all material respects both as of the date of the merger agreement and as of the effective time, as if made at and as of the effective time (except that any such representation and warranty that addresses matters as of a particular date need only be true and correct as of such date):

the due incorporation, valid existence and good standing of RehabCare;

the corporate power and authority to enter into the merger agreement and the approval of the merger agreement and the recommendation to adopt the merger agreement by RehabCare's board of directors;



## Edgar Filing: KINDRED HEALTHCARE, INC - Form 424B3

that the affirmative vote of a majority of the outstanding shares of RehabCare common stock is the only vote necessary in connection with the consummation of the merger by RehabCare;

the capitalization of RehabCare;

inapplicability of takeover laws;

the expiration or revocation of all waivers of standstills that RehabCare granted on or before the execution of the merger agreement in connection with consideration of a possible acquisition proposal;

the receipt of opinions from RehabCare's financial advisors; and

the absence of brokers' or finders' fees;

all other representations and warranties of RehabCare set forth in the merger agreement must be true and correct (disregarding any materiality, material adverse effect or similar qualifications) both as of

**Table of Contents**

the date of the merger agreement and as of the effective time, as if made at and as of the effective time (except that any such representation and warranty that addresses matters as of a particular date need only be true and correct as of such date), except where the failure to be true and correct have not had and would not reasonably be expected to have, individually or in the aggregate, a material adverse effect on RehabCare;

RehabCare must have performed in all material respects all obligations required to be performed by it under the merger agreement at or prior to the effective time;

RehabCare must have delivered to Kindred a certificate signed on its behalf by an executive officer certifying as to the matters set forth above in the preceding bullets;

RehabCare must have obtained the regulatory consents and approvals described under *The Merger Regulatory Approvals Required for the Merger* beginning on page 83;

the absence of any pending proceeding by specified governmental authorities seeking to prevent or prohibit the merger or seeking to impose any undertaking, condition or consent decree to compel any divestiture or operational restriction that Kindred would not be obligated to agree to accept under the terms of the merger agreement described above under *Covenants and Agreements Reasonable Best Efforts; Covenants and Agreements* beginning on page 106; and

Kindred must have consummated the financing on the terms contemplated by the debt commitment letter.

***Conditions to RehabCare's Obligations***

The obligation of RehabCare to consummate the merger is further subject to satisfaction (or, to the extent permissible, waiver) of the following conditions:

the representations and warranties of Kindred set forth in the merger agreement regarding the absence of a material adverse effect on Kindred since December 31, 2009 must be true and correct in all respects both as of the date of the merger agreement and as of the effective time, as if made at and as of the effective time;

the following representations and warranties of Kindred set forth in the merger agreement must be true and correct (disregarding any materiality, material adverse effect or similar qualifications) in all material respects both as of the date of the merger agreement and as of the effective time, as if made at and as of the effective time (except that any such representation and warranty that addresses matters as of a particular date need only be true and correct as of such date):

the due incorporation, valid existence and good standing of Kindred;

the corporate power and authority to enter into the merger agreement and the approval of the merger agreement and the recommendation to adopt the merger agreement by Kindred's board of directors;

that the affirmative vote of a majority of the outstanding shares of Kindred common stock is the only vote necessary in connection with the consummation of the merger by Kindred; and

the capitalization of Kindred;

all other representations and warranties of Kindred set forth in the merger agreement must be true and correct (disregarding any materiality, material adverse effect or similar qualifications) both as of the date of the merger agreement and as of the effective time, as if made at and as of the effective time (except that any such representation and warranty that addresses matters as of a particular date need only be true and correct as of such date), except where the failure to be true and correct have not had and would not reasonably be expected to have, individually or in the aggregate, a material adverse effect on Kindred;

**Table of Contents**

Kindred must have performed in all material respects all obligations required to be performed by it under the merger agreement at or prior to the effective time; and

Kindred must have delivered to RehabCare a certificate signed on its behalf by an executive officer certifying as to the matters set forth above in the preceding bullets.

**Termination of the Merger Agreement**

The merger agreement may be terminated at any time before the effective time, whether or not both the Kindred stockholders and the RehabCare stockholders have adopted the merger agreement:

by mutual written agreement of Kindred and RehabCare;

by either Kindred or RehabCare if:

the merger has not been consummated on or before the outside date of September 30, 2011, unless the breach of the merger agreement by the party seeking to terminate resulted in the failure to consummate the merger by the outside date;

any applicable law, judgment or decree that makes consummation of the merger illegal or otherwise prohibited or permanently enjoins consummation of the merger and such enjoinder has become final and non-appealable, unless the breach of the merger agreement by the party seeking to terminate was the direct cause of such action;

the adoption of the merger agreement by the Kindred stockholders was not obtained at the Kindred stockholder meeting (or adjournment or postponement of the meeting); or

the adoption of the merger agreement by the RehabCare stockholders was not obtained at the RehabCare stockholder meeting (or adjournment or postponement of the meeting);

by Kindred if:

RehabCare breaches its representations or warranties or fails to perform any covenants set forth in the merger agreement, which breach or failure would cause the conditions to the closing relating to the accuracy of the representations and warranties of RehabCare or compliance by RehabCare with its obligations under the merger agreement not to be satisfied and such breach, if curable, is not cured by the earlier of the outside date or 30 days after the receipt of written notice thereof or is incapable of being cured, provided that, at the time of the delivery of written notice of breach, Kindred is not in material breach of its obligations under the merger agreement;

the RehabCare board of directors has effected a RehabCare board adverse recommendation change;

RehabCare intentionally and knowingly breaches in any material respect its non-solicitation obligations;

## Edgar Filing: KINDRED HEALTHCARE, INC - Form 424B3

a third party commences a tender or exchange offer relating to RehabCare securities, and RehabCare does not disclose a recommendation that its stockholders reject such tender or exchange offer within 10 business days after such offer is first made; or

the RehabCare board of directors fails to publicly confirm its recommendation within 10 business days of a written request by Kindred that it do so, provided that Kindred shall not make such a request more frequently than once in any 30 calendar day period;

by RehabCare if:

Kindred breaches its representations or warranties or fails to perform any covenants set forth in the merger agreement, which breach or failure would cause the conditions to the closing relating to the accuracy of the representations and warranties of Kindred or compliance by Kindred with its obligations under the merger agreement not to be satisfied and such breach, if curable, is not

**Table of Contents**

cured by the earlier of the outside date or 30 days after the receipt of written notice thereof or is incapable of being cured, provided that, at the time of the delivery of written notice of breach, Kindred is not in material breach of its obligations under the merger agreement;

the Kindred board of directors has effected a Kindred board adverse recommendation change;

Kindred intentionally and knowingly breaches in any material respect any of its obligations related to the Kindred board recommendation;

the Kindred board of directors fails to publicly confirm its recommendation within 10 business days of a written request by RehabCare that it do so, provided that RehabCare shall not make such a request more frequently than once in any 30 calendar day period;

at any time prior to the adoption of the merger agreement by RehabCare stockholders, RehabCare enters into an alternative acquisition agreement with respect to a superior proposal, provided that (1) RehabCare did not violate its non-solicitation obligations under the merger agreement, (2) after receipt of the superior proposal, the RehabCare board of directors determines in good faith, after consultation with outside legal counsel, that failure to effect a RehabCare board adverse recommendation change would reasonably be expected to be inconsistent with its fiduciary duties under applicable law, and the RehabCare board of directors approves or recommends to RehabCare stockholders the superior proposal, (3) RehabCare provides Kindred with a written notice that it intends to change its recommendation, (4) RehabCare thereafter satisfies its obligations to negotiate with Kindred in good faith, during a three-day period following the written notice, to make adjustments to the terms and conditions of the merger agreement, (5) the RehabCare board of directors determines in good faith, after consultation with outside counsel, after such three business day period if Kindred makes a binding proposal to amend the merger agreement, that failure to effect a RehabCare board adverse recommendation change would reasonably be expected to be inconsistent with its fiduciary duties under applicable law, and (6) RehabCare, concurrently with the termination of the merger agreement, pays to Kindred the termination fee discussed under Termination Fees and Expenses beginning on page 114; or

(1) all conditions to the obligation of both Kindred and RehabCare and of Kindred to effect the merger have been satisfied (other than the conditions relating to the authorization of Kindred common stock for listing on the NYSE, the delivery of a certificate signed by an executive officer of RehabCare and the consummation of the financing contemplated by the debt commitment letter) and assuming for such purposes that the effective time shall be deemed to be the time of delivery of RehabCare's notice set forth below and the time RehabCare terminates the merger agreement, (2) the marketing period provided for with respect to the financing to be obtained by Kindred has elapsed, (3) Kindred (and in the event of a merger subsidiary election, merger subsidiary) fails to complete the closing during the period (which may not be less than three business days, commencing with the first business day) following the date on which RehabCare has given written notice to Kindred that it believes the conditions to the merger (other than conditions that by their nature are to be satisfied at the closing) have been satisfied or waived, and (4) RehabCare stands ready, willing and able to consummate the closing following delivery of such notice.

The merger agreement provides that the marketing period is the first period of thirty-five consecutive calendar days after the signing of the merger agreement beginning on the first day on which:

Kindred has received certain required information about RehabCare from RehabCare and such required information is compliant (as defined below);

the closing conditions relating to the absence of governmental orders or pending governmental proceedings, the expiration of applicable waiting periods and receipt of specified consents and approvals have been satisfied and would continue to be satisfied

assuming the closing were to be scheduled for any time during such thirty-five consecutive calendar day period;

## **Table of Contents**

there shall have been no changes, effects, developments or events that, individually or in the aggregate, have had or would reasonably be expected to have a material adverse effect on RehabCare; and

the registration statement of which this joint proxy statement/ prospectus forms a part of shall have been filed with the SEC; provided (w) such period shall end no earlier than five business days after the first date that each of the Kindred stockholders and RehabCare stockholders shall have adopted the merger agreement, (x) that such period shall not include any period that includes the period from and including August 22, 2011 through and including September 6, 2011, (y) if such period either (1) begins prior to May 28, 2011 and ends after May 30, 2011 or (2) begins prior to July 2, 2011 and ends after July 5, 2011, such thirty-five consecutive calendar day period shall be extended by three calendar days and (z) that such period shall end on any earlier date on which the financing is consummated. Notwithstanding the foregoing, the marketing period shall not commence and shall be deemed not to have commenced if, on or prior to the completion of such thirty-five consecutive calendar day period, (x) RehabCare shall have publicly announced any intention to restate any material financial information included in the required information or that any such restatement is under consideration, in which case the marketing period shall not commence unless and until such restatement has been completed and the applicable required information has been amended or RehabCare has announced that it has concluded that no restatement shall be required, and the requirements in the first two bullets above would be satisfied on the first day, throughout and on the last day of such new thirty-five consecutive calendar day period or (y) the required information would not be compliant at any time during such thirty-five consecutive calendar day period, in which case a new thirty-five consecutive calendar day period shall commence upon Kindred and the debt commitment parties receiving updated required information that would be compliant, and the requirements in the first two bullets above would be satisfied on the first day, throughout and on the last day of such new thirty-five consecutive calendar day period.

For purposes of the merger agreement, **compliant** means, with respect to the required information, that:

that such required information, taken as a whole, does not contain any untrue statement of a material fact or omit to state any material fact necessary in order to make such required information, in light of the circumstances under which it was made, not misleading;

such required information is, and remains throughout the marketing period, compliant in all material respects with all applicable requirements of Regulation S-K and Regulation S-X under the Securities Act (excluding information required by Regulation S-X Rule 3-10 and Regulation S-X Rule 3-16);

RehabCare's auditors have not withdrawn any audit opinion with respect to any financial statements contained in the required information;

RehabCare's auditors have delivered drafts of customary comfort letters and confirmed they are prepared to issue any such comfort letter upon pricing throughout the marketing period; and

the financial statements and other financial information (excluding information required by Regulation S-X Rule 3-10 and Regulation S-X Rule 3-16) included in such required information are, and remain throughout the marketing period, sufficient to permit (A) a registration statement on Form S-3 using such financial statements and financial information to be declared effective by the SEC throughout the marketing period or, if applicable, the relevant debt securities to be offered in a Rule 144A offering and (B) the debt commitment parties to receive customary comfort letters.

### **Termination Fees and Expenses**

RehabCare has agreed to pay Kindred a termination fee of \$26 million in the following circumstances:



Edgar Filing: KINDRED HEALTHCARE, INC - Form 424B3

upon termination of the merger agreement by Kindred if:

the RehabCare board of directors has effected a RehabCare board adverse recommendation change;

**Table of Contents**

RehabCare intentionally and knowingly breaches in any material respect its non-solicitation obligations;

a third party commences a tender or exchange offer relating to RehabCare securities, and RehabCare does not disclose a recommendation that its stockholders reject such tender or exchange offer within 10 business days after such offer is first made; or

the RehabCare board of directors fails to confirm the RehabCare board recommendation within 10 business days of a valid request by Kindred that it do so;

upon termination by RehabCare to enter into an alternative acquisition agreement with respect to a superior proposal; or

upon termination by either party if (1) the merger has not been consummated on or before the outside date, (2) the RehabCare stockholders fail to adopt the merger agreement at the RehabCare special meeting, or (3) RehabCare breaches its representations, warranties or covenants set forth in the merger agreement, which breach would result in the failure of certain of the conditions to the completion of the merger being satisfied and such breach is not cured by the earlier of the outside date or 30 days after the receipt of written notice thereof or is incapable of being cured, provided that (i) prior to such termination, an acquisition proposal shall have been made to the RehabCare stockholders generally, publicly announced or, in the case of clauses (1) and (3), proposed to the RehabCare board of directors, and (ii) within twelve months following the date of termination, RehabCare shall have entered into a definitive agreement with respect to, or consummated an acquisition proposal including at least 50% of the assets, business or equity of RehabCare and its subsidiaries.

A termination fee of \$62 million would be payable by Kindred to RehabCare upon termination by RehabCare in the following circumstances:

the Kindred board of directors has effected a Kindred board adverse recommendation change;

Kindred intentionally and knowingly breaches in any material respect any of its obligations related to the Kindred board recommendation;

the Kindred board of directors fails to publicly confirm its recommendation within 10 business days of a valid request by RehabCare that it do so; or

(1) all conditions to the obligation of both Kindred and RehabCare and of Kindred to effect the merger have been satisfied (other than the conditions relating to the authorization of Kindred common stock for listing on the NYSE, the delivery of a certificate signed by an executive officer of RehabCare and the consummation of the financing contemplated by the debt commitment letter) and assuming for such purposes that the effective time shall be deemed to be the time of delivery of RehabCare's notice set forth below and the time RehabCare terminates the merger agreement, (2) the marketing period provided for with respect to the financing to be obtained by Kindred has elapsed, (3) Kindred (and in the event of a merger subsidiary election, the merger subsidiary) fails to complete the closing during the period (which may not be less than three business days, commencing with the first business day) following the date on which RehabCare has given written notice to Kindred that it believes the conditions to the merger (other than conditions that by their nature are to be satisfied at the closing) have been satisfied or waived, and (4) RehabCare stands ready, willing and able to consummate the closing following delivery of such notice.

In the event a termination fee becomes payable and is paid, the party that pays such fee will have no further liability or obligation to the other party in connection with the transaction contemplated by the merger agreement.



**Table of Contents**

***Expenses***

In general, each of Kindred and RehabCare will bear its own expenses in connection with the merger agreement and the related transactions.

***Specific Performance; Damages***

Kindred and RehabCare agreed that, prior to the termination of the merger agreement, the parties shall be entitled to an injunction to prevent breaches of the merger agreement or to enforce specifically the performance of the merger agreement, including to cause Kindred to enforce the terms of the debt commitment letter if all conditions to the merger (other than the financing condition and those conditions that by their nature are to be satisfied at closing) and the debt financing have been satisfied and, if all conditions to the merger (other than those conditions that by their nature are to be satisfied at closing) have been satisfied, to cause Kindred to consummate the merger. Subject to the termination fee provisions, Kindred and RehabCare also agreed that damages of a party shall not be limited to reimbursement of expenses or out-of-pocket costs, and may include to the extent proven the benefit of the bargain lost by a party's stockholders.

**Amendments, Extensions and Waivers**

***Amendmen***