November 30, 2010

Technical Director
File Reference No. 1850-100
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Re: Proposed Changes to Standards for Lease Accounting

Dear Board Members and Staff:

Thank you for the invitation to comment on the IASB/FASB (“the Boards”) Exposure Draft of proposed accounting changes to Accounting Standard Topic 840 - Leases (“Exposure Draft”). On behalf of Kindred Healthcare, Inc. (“Kindred” or “the Company”) (NYSE:KND), we are pleased to share our views on this important issue.

Kindred is a FORTUNE 500 healthcare services company based in Louisville, Kentucky, with annual revenues of over $4.2 billion and approximately 54,700 employees in 40 states. At September 30, 2010, Kindred provided healthcare services in 650 locations, including 83 long-term acute care hospitals, 226 nursing and rehabilitation centers and a contract rehabilitation services business, Peoplefirst rehabilitation services, which served 341 non-affiliated facilities. We lease the real estate of 265 of our 309 affiliated hospital and nursing and rehabilitation centers. In addition, as a common business practice, Kindred is a party to thousands of short-term medical equipment leases, many of which contain unspecified lease terms.

Our comments relate to our position as a lessee and specifically provide responses to the Exposure Draft Questions to Respondents Nos. 3, 8, 9, 10 and 17.

Short-term leases

Question 3: Short-term leases
This exposure draft proposes that a lessee may apply the following simplified requirements to short-term leases, defined in Appendix A as leases for which the maximum possible lease term, including options to renew or extend is 12 months or less:

(a) At the date of inception of a lease, a lessee that has a short-term lease may elect on a lease-by-lease basis to measure, both at initial measurement and subsequently, (i) the liability to make lease payments at the undiscounted amount of the lease payments and (ii) the right-of-use asset at the
undiscounted amount of lease payments plus initial direct costs. Such lessees would recognize lease payments in the income statement over the lease term (par. 64).

(b) At the date of inception of a lease, a lessor that has a short-term lease may elect on a lease-by-lease basis not to recognize assets and liabilities arising from a short-term lease in the statement of financial position, nor derecognize any portion of the underlying asset. Such lessors would continue to recognize the underlying asset in accordance with other Topics and would recognize lease payments in the income statement over the lease term (par. 65).

Do you agree that a lessee should account for short-term leases in this way? Why or why not? If not, what alternative approach would you propose and why?

Kindred and its subsidiaries enter into medical and other ancillary equipment leases with unspecified lease terms in each of its hospitals and nursing and rehabilitation centers. Consolidated equipment rent expense totaled approximately $33 million for the year ended December 31, 2009. Historically, these lease terms have ranged individually from one day to one year with the average term approximating 45 days. Rather than purchasing the equipment, we enter into these leases primarily because: a) the demand for such equipment may be of short duration during peak patient care periods, b) the equipment is specialized in nature for a specific patient diagnosis, or c) the equipment has historically required frequent technology upgrades that make ownership economically unwise.

Based upon our interpretation of the Exposure Draft, the new guidance would require that each time a specific leased asset is delivered to and under the control of a Kindred facility, a new lease is created requiring the estimation of a new lease term and new lease obligation. In addition, most of our service agreements provide a unilateral option for the lessor to substitute the leased asset. Our understanding is that this substitution creates a new lease for accounting purposes. In essence, the guidance would require that Kindred maintain a short-term leased asset inventory system and establish an asset and liability for thousands of these short-term lease transactions, the majority of which may require frequent changes in estimate in subsequent reporting periods. The administrative burden and associated costs of managing a high volume leased portfolio with terms of short duration would be substantial. Notwithstanding the additional administrative costs, the estimates inherent in the calculation of these lease costs may not be as precise as the current operating lease expense recognition methodology.

In our view, including short-term leases in the scope of the new guidance creates less transparency in our financial statements and more earnings volatility. We also do not believe that leased equipment subject to substitution rights is representative of a specified asset under the control of the Company as required in the definition of a lease under the guidance. In addition, it is not consistent that the lessor can elect not to recognize the lease asset and liability under a short-term lease arrangement while the lessee is prohibited from making such an election. As a result of these concerns, the Boards may
want to reconsider excluding leases with terms of less than twelve months from the scope of this guidance for lessees.

**Lease term, lease payments and reassessment**

**Question 8: Lease term**
Do you agree that a lessee should determine the lease term as the longest possible term that is more likely than not to occur taking into account the effect of any options to extend or terminate the lease? Why or why not? If not, how do you propose that a lessee should determine the lease term and why?

**Question 9: Lease payments**
Do you agree that contingent rentals and expected payments under term options penalties and residual value guarantees that are specified in the lease should be included in the measurement of assets and liabilities arising from a lease using an expected outcome technique? Why or why not? If not, how do you propose that a lessee should account for contingent rentals and expected payments under term option penalties and residual value guarantees and why?

**Question 10: Reassessment**
Do you agree that lessees should remeasure assets and liabilities arising under a lease when changes in facts and circumstances indicate that there is a significant change in the liability to make lease payments arising from changes in the lease term or contingent payments since the previous reporting period? Why or why not? If not, what other basis would you propose for reassessment and why?

For the year ended December 31, 2009, Kindred reported total rent expense of approximately $348 million and reported income from continuing operations of $63 million or $1.60 per diluted share. Many of our real estate leases contain multiple renewal periods and contingent annual escalators. The proposed guidance, if adopted, would have the effect of substantially increasing Kindred’s lease expense during the first half of the lease term and substantially lowering lease expense over the second half of the term with no fundamental contractual changes in these agreements. This shift in the allocation of lease costs will dramatically reduce our income from continuing operations in early years and have the opposite impact in later years with no underlying change in cash flows. In addition, the judgments required in predicting future events over a long period of time will inevitably lead to significantly high earnings volatility levels. We are also concerned that ongoing changes in assumptions related to leases may further complicate our financial statements and cause confusion among users.

We believe that the Boards should consider revising the proposed guidance to only include lease terms that are virtually certain at lease inception and to continue to recognize contingent rents as they are incurred. Under this approach, we believe much of the uncertainty and volatility associated with these estimates could be mitigated and the impact of transitioning to the new guidance would be less pronounced.
Benefits and costs

Question 17: Benefits and costs
Paragraphs BC200-BC205 set out the boards’ assessment of the costs and benefits of the proposed requirements. Do you agree with the boards’ assessment that the benefits of the proposals would outweigh the costs? Why or why not?

From our perspective, the benefits associated with the proposed guidance as noted in the Exposure Draft will not outweigh the costs associated with the transition and ongoing administrative requirements. Especially burdensome will be the administrative efforts associated with applying the new guidance to thousands of short-term medical equipment leases. There is also no benefit to the added volatility associated with periodic reassessments of the lease term and contingent lease estimates. The overall lack of transparency between our operating results and our cash flows represent additional challenges and complexities that exceed the perceived benefit.

Other comments

While we recognize the intent to increase the transparency surrounding leases as a form of financing, the proposed changes in lease accounting may create other more significant transparency issues. Of particular importance to Kindred is the widening disparity between reported operating results and cash flows that would arise under the new lease accounting rules. For the three years ended December 31, 2009, the difference between rent expense as computed under generally accepted accounting principles and cash rent payments was never greater than $5 million in any given fiscal year. Under the proposed guidance, we estimate that this deviation will grow dramatically in varying directions given the magnitude of the Company’s leasing activities. As a result, traditional income statement measures used today in determining a company’s performance such as earnings per share may be unduly supplemented by cash flow statement disclosures or other non-GAAP measures that are more aligned with the current period cash outlays related to leasing arrangements. Although it is not clear how financial statement users will react to the significant deviation in the allocation of rent expense in the Exposure Draft, additional guidance may be necessary from the Boards to assist preparers and users alike in communicating and reconciling the income statement and cash flow differences associated with leases.

The proposed changes in lease accounting would further accentuate the differences in reported operating results among companies in the same industry that have different capital structures. While there is merit to the concept of capitalizing rents on the balance sheet, the widening disparity that would be reflected in the income statement based upon ownership structure is not beneficial to many financial statement users. In our view, if the proposed lease accounting changes are adopted, it is likely that financial statement users in our industry, in order to achieve comparability, will choose alternative methods to evaluate the Company’s operating performance other than income from continuing operations, earnings per common share or net income. These non-GAAP approaches to
company performance and valuation are generally not desirable and should be
discouraged rather than encouraged by new accounting pronouncements.

We appreciate the opportunity to share our views on the proposed changes in lease
accounting.

Very truly yours,

[Signature]
Richard A. Lechleiter
Executive Vice President
and Chief Financial Officer

John J. Lucchese
Senior Vice President
and Corporate Controller