

*HCR Manor Care's
Commitment to Care
and Caring*



2006 Annual Report on Quality



Executive Summary

Overview

At HCR Manor Care, we continually seek to provide the best in quality care and quality of caring. As a result, when three of the country's largest long-term care associations launched a broad initiative to improve quality care at nursing homes, HRC Manor Care was a charter member in committing to performance excellence. The initiative, called *Quality First: A Covenant for Healthy, Affordable, and Ethical Long Term Care*, included a Pledge and Code of Conduct outlining specific and measurable steps to improve quality outcomes in nursing facilities over time.

In 2006, we reaffirmed our commitment by joining the Alliance for Quality Nursing Home Care's *Advancing Excellence in America's Nursing Homes* campaign to further measure quality and to set measurable "clinical" and "process" goals. It is important to note that since our early beginnings, we have always looked to set the bar for the industry in terms of post-acute care, customer satisfaction, tracking outcomes, and investing in our employees and facilities.

Our Quality Services

Customer Satisfaction

Achieving customer satisfaction begins by educating our patients and families about the normal aging process. Understanding is enhanced through a wide variety of communication materials. We also realize that providing quality care is more than just quality clinical care. It also involves ensuring that our patients and their families feel that they have received the care they expected. As a member of the Alliance for Quality Nursing Home Care, HCR Manor Care participates in a regular customer satisfaction survey. We are proud to state that results from these surveys show high levels of satisfaction. For example:

- *80 percent* of family members rated their satisfaction as "excellent" or "good."
- *More than 80 percent* of these same family members rated the quality of rehabilitation therapy and staff's care/concern for the patient as "excellent" or "good."
- *85 percent* of family members rated the quality care provided by nurses at this same high level.

Continuum of Care

At HCR Manor Care, our focus on caring for the sickest and frailest requires the strength of a multi-disciplinary team. Patients receive care from a team comprising a medical director; registered and licensed practical nurses; certified nursing assistants; physical, occupational and speech therapists; and services including social work, activities, nutrition, and housekeeping and laundry. Other skilled professionals such as nurse practitioners are often part of the team. No matter what the post-acute patient need, we assist in meeting that need along the care continuum which comprises skilled nursing, in-house and outpatient rehabilitation, dementia services, home care, hospice services and assisted living.

Our Customers

Who They Are

The majority of our patients do not make HCR Manor Care their home. More than 90 percent of the people passing through our skilled nursing centers are doing so after a hospital stay and plan on returning to their community. On average, patients in our skilled nursing centers stay slightly less than three months. A large portion of our patient population, 80 percent of our admissions, is short-stay Medicare patients averaging about 25 days of care. The primary characteristic of these patients is that they need help transitioning back to the lives they enjoyed before hospitalization. Last year, HCR Manor Care helped *nearly 40,000* people resume full lives in their communities.

Our Outcomes

Proven Outcome Success

Given that the majority of patients will return to their communities, we want them to regain their ability to meet their daily needs as much as possible. We are proud to say that HCR Manor Care was the first company to measure care outcomes. Each of our skilled nursing centers has received outcome measurement training and is reporting data that potential patients can use to help in making their admission decision.

Self-care and mobility are critical in this transition back. As a result, HCR Manor Care holds itself to a higher standard. Using the Functional Independence Measure mandated by the Centers for Medicare & Medicaid Services, HCR Manor Care patient improvement in self-care and mobility *exceeds* the national average for skilled nursing facilities and rehabilitation hospitals. It is also important to note that *more than 90 percent* of the patients and families discharged reported that they were prepared to manage their care needs compared with only 3 percent upon admission.

Our Quality Workforce

Excellence in care begins with a quality employee team. Education and training are an integral and ongoing part of our employees' workforce lives. Our comprehensive training is based on the company's unique Circle of Care® program, which provides the philosophy guiding our quality initiatives. Some facts that illustrate HCR Manor Care's continuing education and reinvestment in our facilities/centers include:

- An extensive on-line learning experience is offered through HCR Manor Care University which makes learning possible anywhere employees might be, and complements education through classrooms and CE-eligible programs.
- Awarding *over \$1 million in scholarships* over the past two years to help applicants pursue a career in nursing or therapy.
- Nearly 30 expansion projects in 2005-06 at our nursing centers to increase therapy space and provide the latest in state-of the art equipment.
- Capital spending *exceeding \$150 million in 2006 which also included millions of dollars for maintenance of our facilities* to ensure they meet the quality standards we have set in serving our patients and residents.

Our Quality Story

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We recognize that the people we serve have choices. Whether they require post-acute rehabilitation, skilled nursing, Alzheimer's care, hospice care or home care services, we want their choice to be us. We serve discerning consumers, and when they come to us to meet their needs, we believe that we have the centers, skilled caregivers, clinical systems and outcomes experience to help them achieve their care plan goals. Throughout our company, we emphasize both quality of care and quality of caring.

At HCR Manor Care, our primary role is to help our patients gain and maintain as much independence in their lives as possible. We emphasize strengths, not limitations. We provide the setting and level of care that enable individuals to reach their highest functional level.

We strive to deliver care that is tailored to each person's unique needs and preferences. We evaluate our patients to identify their strengths, needs and functional abilities. Together, the interdisciplinary team, patient and the patient's family design individualized care plans in an attempt to meet the patient's goals and expectations.

Quality First

Three of the nation's largest long-term care organizations, together representing the overwhelming majority of the country's 17,000 nursing centers, as well as several thousand housing, assisted living and community services providers, joined together to launch a quality initiative called "Quality First: A Covenant for Healthy, Affordable, and Ethical Long Term Care" that calls on all long-term care providers to make a voluntary, organization-wide commitment to performance excellence.

The American Association of Homes and Services for the Aging, the American Health Care Association and the Alliance for Quality Nursing Home Care have committed to seven principles which are embodied in Quality First.

1. Continuous Quality Assurance and Quality Improvement
2. Public Disclosure and Accountability
3. Patient/Family Rights
4. Workforce Excellence
5. Public Input and Community Involvement
6. Ethical Practices
7. Financial Stewardship

[Click here](#) to read *Our Quality First Pledge*

A Pledge to Improve Quality through Accountability, Compassion and Leadership

As providers of long-term care and short-term skilled nursing care, we recognize our unique obligations to the individuals we serve. Because of the nature of the care we provide and the people we serve as well as the government resources available, we have different obligations than do other health care providers. Providing care to vulnerable individuals requires more than clinical expertise; it requires us to attend to the emotional, spiritual, social, psychological and physical needs of our patients. To succeed in that mission, and to engender the trust of the American people, we hereby embrace a single set of voluntary principles beyond those required by law to guide our companies now and into the future. By articulating the principles contained in this covenant, we pledge our commitment to the people we serve, and we agree to lead our companies in ways that benefit the frail and vulnerable, our employees and society as a whole.

We, the undersigned, acknowledge our quality commitment, adopt this Code of Conduct, and commit to its timely implementation in our organizations.

Our Quality Commitment

1. We are committed to making patient health and well-being paramount priorities in our organization's management. We also are committed to a philosophy of management that stimulates continuous quality improvement through the establishment of uniform quality measures, the creation of annual quality improvement goals, and the identification and use of clinical "best practices" in an effort to achieve appropriate patient outcomes.

2. We are committed to continuing to disclose information on quality to patients, employees and the public, and we will assist them in accessing this information in a timely manner, while protecting confidentiality and complying with other legal requirements.
3. We are committed to clearly articulating and honoring patient and family rights, and working to ensure that our employees understand and uphold those rights.
4. We are committed to enhancing the human potential of our employees through education and training programs that strive to improve the quality of care delivered, and we are committed to sensitizing our staff to the special needs of frail and vulnerable patients.
5. We are committed to seeking the input of consumers as we work to improve quality, and we will work with others -- in the private and public sectors -- to identify, understand and, ultimately, resolve concerns associated with care practices or patient outcomes.
6. We are committed to developing and implementing organization-specific programs that promote ethical and lawful conduct, and we will lead in the development of responsible laws, regulations and other standards supporting the quality of care in the facilities we manage.

As providers of care to a unique patient population that is funded in large part by government programs, we are committed to acting as responsible stewards of scarce financial resources. We also recognize our responsibility to serve as champions for public financing levels that will support improved quality and enhanced staffing.

Today, the Alliance for Quality Nursing Home Care is a coalition of 17 national long-term care provider organizations that care for approximately 300,000 elderly and disabled patients each year in nearly 1,800 facilities across America. The Alliance website: <http://www.aqnhc.org/>

Advancing Excellence

Advancing Excellence in America's Nursing Homes is a two-year, coalition-based campaign concerned with how we care for elderly and disabled citizens. The *Advancing Excellence in America's Nursing Homes* campaign is a national effort to measure quality by setting measurable "clinical" and "process" goals. The campaign will focus on:

- Monitoring key indicators of nursing center care quality.
- Promoting excellence in caregiving for nursing center residents.
- Acknowledging the critical role nursing center staff has in providing care.

This campaign, which was launched in September 2006, has brought together a large contingent of individuals and organizations concerned about quality care. These include:

- Long-term care providers
- Health care practitioners and professionals
- Caregivers
- Medical and quality improvement experts
- Government agencies
- Consumers

Each of these groups has a role to play in creating greater awareness about quality and the resources currently available to help providers improve the care they deliver.

In this campaign, nursing centers will voluntarily work on at least three of eight measurable quality goals -- one clinically related goal, one process-related goal and one from either category. The first four goals are clinical-related, while the last four are process-related.

- Goal #1: Reducing pressure ulcers
- Goal #2: Reducing the daily use of physical restraints
- Goal #3: Improving the management of pain in long-term patients
- Goal #4: Improving the management of pain in short-stay patients
- Goal #5: Setting individualized targets for clinical quality improvement
- Goal #6: Measuring patient/family satisfaction
- Goal #7: Measuring staff turnover and improving staff retention
- Goal #8: Adopting consistent staff assignments

HCR Manor Care along with the other members of the Alliance group has selected two goals to focus on for quality improvement. These goals are improving the management of pain in short-stay patients and measuring patient/family satisfaction. Each nursing center will also select one additional goal of its choice. HCR Manor Care has 100 percent center participation in the *Advancing Excellence* campaign. For more information, go to <http://nhqualitycampaign.org/>

Our Quality Services

HCR Manor Care offers a continuum of care for post-acute rehabilitation, skilled nursing, dementia, home care, palliative choices and hospice services in a variety of settings including skilled nursing centers, assisted living facilities, long-term care hospital rehabilitation settings and patients' homes.

Patients within these continuum settings are under the care of an attending physician and a professional interdisciplinary team representing nursing, therapies, dietary, social services and activities.

Aging Information

Educating our patients and families about the normal aging process is one of our primary goals. We provide basic information about skin management, nutrition, hydration, risk of falling and exit-seeking behaviors. We also offer ways for patients and their families to work together with our staff to meet the patient's needs. No matter how good the quality of care, patients may experience changes in their bodies and habits commonly associated with chronic diseases and the aging process.

For more information about what to expect in a nursing center stay as well as information on healthy aging, see the brochures listed below.

- ❖ [Help Us Protect Your Skin](#)
- ❖ [Help Us Reduce Your Risk of Falling](#)
- ❖ [Help Us Monitor and Manage Your Pain](#)
- ❖ [Help Us Improve Your Hydration Habits](#)
- ❖ [Help Us Manage Your Nutrition](#)
- ❖ [Help Us Manage Urinary Incontinence](#)
- ❖ [Help Us Help you with Your Activities of Daily Living](#)
- ❖ [Help Us Manage Exit Seeking Behaviors](#)
- ❖ [Help Us Manage Difficult Behaviors](#)

Customer Programs

Customer Satisfaction

Providing quality care at HCR Manor Care is more than just quality clinical care. It also involves ensuring that our patient and family customers are satisfied with the care received. Improving processes and systems that increase customer satisfaction is continually examined through quality improvement. Our goal is to achieve excellence in customer service by providing quality care in a caring environment.

As a member of the Alliance for Quality Nursing Home Care, HCR Manor Care participates in a customer satisfaction survey conducted by a third-party administrator, My InnerView. Family satisfaction is assessed annually, and satisfaction of discharged patients is assessed monthly. Results from our customer surveys show high levels of

satisfaction. The table below displays the percentage of family members who rated HCR Manor Care as “Excellent” or “Good” on several important questions asked on the My InnerView annual family survey.

My InnerView Survey Questions	Percentage of “Excellent” and “Good” responses
1) What is your recommendation of this facility to others?	78%
2) How would you rate your overall satisfaction with this facility?	80%
3) The quality of rehabilitation therapy (occupational, physical, speech).	82%
4) The staff’s care and concern for the patient.	81%
5) The quality of care provided by the nurses (RNs/LVNs/LPNs).	85%

Guardian Angel

When patients come into our nursing centers, we want them to feel at ease and that they are truly among people who care for them. Entering a new “home,” however temporary that might be, can result in a lot of anxiety and uneasiness. Often, the new patient will not know anyone, so the transition can be difficult. We know we cannot be quite the same as home, but we strive to create a home-like environment where patients will feel comfortable with the care they will receive and know that they have the support and encouragement they will need to achieve their outcome goals. What better way to show this support than by introducing the patient to his or her Guardian Angel.

Our Guardian Angel Program, which we are introducing in more and more of our centers across the country, matches a staff person with each patient at the time of his or her admission. Guardian Angels learn as much as they can about those they are matched with – their families, activities they have enjoyed in their lives, their work and those things that matter most to them. This interaction not only helps build a relationship, but also can uncover information that could be helpful in a patient’s plan of care.

The Guardian Angel meets with the patient upon admission and regularly thereafter. Oftentimes, a Guardian Angel will leave a photo of him- or herself with the patient, and sometimes even a home phone number, as a regular reminder of the person who can be called on if something comes up. This also gives the patient or family member the opportunity to more quickly express any concerns and help get them rectified before they become serious issues.

Heart's Desire

Oftentimes, caring simply means recognizing that our patients and residents have a wealth of memories that can provide flashes of joy and happiness. To be able to relive one of these experiences is something that can put a smile on a patient's face and bring the memory closer. Our Heart's Desire program helps patients and residents relive cherished moments from their past or experience something new that can give them a fresh memory.

These moments are almost as varied as the number of patients and residents we serve. They can be fond remembrances of simpler, less harrying times, such as meeting with friends at the local fishing hole, taking a wagon ride or cooling off on a hot summer day in a neighborhood pool. Perhaps it's meeting a favorite sports star, movie personality or entertainer. Or maybe it's something a little more daring such as piloting a plane, riding in a hot air balloon, or riding on a motorcycle or in a race car. Fulfilling a Heart's Desire not only brightens a patient's day, but usually the day of family members, friends and staff, as well. Each week, we share on the home page of this website a recent Heart's Desire of one of our patients or residents.

Patient Council

Our nursing centers support and assist patients with establishing and maintaining an effective forum for planning quality events, contributing suggestions for center improvement and addressing areas of concern. The activity director or designee schedules a regular monthly Patient Council meeting and other ad hoc council meetings. The meeting is preannounced and noted on the center's calendars and the in-room calendars distributed to patients. Private space is provided for each meeting, and each patient is encouraged to be an active council member. Non-member and staff attendance is by approval of council members. During Patient Council meetings, patients assist with planning special programs and approving new activities introduced with the next month's calendar.

Patients, as a group, may introduce requests or issues during the meeting. A *Patient Council Request* form is used for group requests or issues. The center's administrator and department heads responsible for responding to the request receive copies of the form after the patient group completes its portion. Department heads finish completing the form and return it to the Patient Council staff facilitator/advisor. The response to the request or issue is read at the next scheduled Patient Council meeting. If the outcome is accepted, the staff facilitator/advisor indicates the acceptance on the form, and the administrator signs the form acknowledging review and acceptance. If the request or issue has not been sufficiently addressed, the form is returned to the responsible department head for further investigation and follow-up.

Patient Council and ad hoc council meetings provide patients with an avenue for expressing concerns, making recommendations regarding center function and contributing ideas.

Multi-Disciplinary Care

Medical Practice Services

Selecting the medical team who will manage a patient's medical care is a fundamental component in the continuity of care provided when a patient transitions into the post-acute care environment.

During the admission process, patients are given the opportunity to select a physician of their choice. Our admissions team assists with coordinating medical care through the referring physician, the patient's own primary care physician or a center-based medical team member. Center-based medical practitioners include community physicians as well as in-house Post-Acute Care Hospitalists and Nurse Practitioners in many centers. Each member of the medical team is dedicated to ongoing communication and collaboration with the patient's primary care physician in order to allow for effective continuity of care.

Physicians take an active role in supervising the medical care of patients residing in our nursing centers. This includes monitoring the patient's medical status, prescribing medications and therapies, and conducting timely visits. Physicians also participate in the patient's assessment and care-planning process and provide additional consultation and treatment when needed. (Physicians providing medical care to our centers' patients are independent practitioners and are not employees of the center or HCR Manor Care.)

Nurse Practitioners provide a critical link in many of our nursing centers by advancing medical knowledge and clinical skills in what has been an ever-increasing medical complexity in our post-acute care markets. Nurse Practitioners diagnose acute and chronic conditions, prescribe medications, treat illnesses, educate staff and counsel patients on health care issues. They provide comprehensive initial assessment, make sick/urgent patient visits, provide preventive care to long-stay patients, authenticate Medicare certifications, perform alternating required regulatory medical visits, participate in hospice care and enhance wound care teams. Nurse Practitioners also serve in collaboration with our physicians to provide enhanced patient and family satisfaction.

Each of our nursing centers is supported by a Medical Director who works as a part of the leadership team. The Medical Director is responsible for reviewing and assisting in the implementation of patient care policies and in the coordination of medical care within the nursing center. The Medical Director provides quality assurance oversight by providing evidence-based medical reviews and community advocacy for clinical goals and initiatives.

Skilled Nursing Services

Nursing care is provided under the direction of a professional Administrative Director of Nursing Services and in accordance with a physician's orders and professional standards of practice. Licensed nurses and nursing assistants are staffed on each shift, seven days a week, to assist patients in achieving the highest practicable level of functioning. The skilled nursing team provides patient-centered care through the

assessment, planning, implementation and evaluation of the patient's clinical needs. The team identifies the patient's response to treatment and adjusts the plan of care when indicated. Education for the patient and family is directed to self sufficiency and return home where feasible.

HCR Manor Care's commitment to post-acute care services largely defines our skilled nursing business today. Changing trends in health care have realigned placement of medical and surgical unit patients from the acute care setting to more cost-effective environments. HCR Manor Care has maintained a leading position in the industry in accommodating this change. Our skilled nursing units reflect this change both in clinical capability and physical plant modifications. Ongoing education is available to clinical staff to help ensure up-to-date clinical care delivery through use of evidence-based care model procedures and guidelines. Additionally, our skilled units are equipped to handle many urgent and emergent care issues utilizing state-of-the-art equipment. Combined, these efforts have resulted in unprecedented growth in Medicare and managed care census.

Post-Acute Rehabilitation

Post-acute rehabilitation including physical therapy, occupational therapy and speech therapy is provided at each nursing center. The patient, physician and rehabilitation team work together to set goals for functional improvements. The patient's progress is tracked using Functional Improvement Measures (FIMs) as part of the company's clinical outcome program.

HCR Manor Care's therapy regime includes the use of advanced modality systems to successfully treat orthopedic, neurological and other injuries. This advanced modality program includes the use of electrical stimulation, ultrasound and diathermy equipment which is specially designed to effectively treat pain and a wide range of conditions such as orthopedic injuries and neuromuscular and circulatory dysfunctions.

As part of HCR Manor Care's comprehensive rehabilitation program, these advanced, state-of-the-art modalities are similar to equipment used in inpatient and outpatient rehabilitation facilities. They facilitate successful outcomes and increase our therapists' ability to treat a broader range of patients and medical conditions. This goal-oriented approach improves the quality of life for patients and assists them in reaching their desired discharge goals in a cost-effective environment.

Nutritional Services

Registered dietitians assess patients individually and develop a nutritional care plan that meets their medical needs. Weights and other nutritional parameters are monitored regularly, and interventions are implemented to promote adequate food intake. While liberalized diets are advocated to promote the enjoyment of meals and encourage consumption of needed calories, therapeutic diets are planned by registered dietitians and served when clinically indicated.

Menus, written by registered dietitians, reflect regional preferences and offer a variety of foods. Patients are asked about likes and dislikes, and accommodations are made to

the extent possible. Whenever possible, patients are given an opportunity to choose what foods they prefer. At holidays and other special events, patients may plan the menu as a group or are served a menu of their choice.

Social Services

Social work services are provided to assist patients in maintaining or improving their abilities in managing everyday physical, mental and psychosocial needs. One of the primary goals of social service delivery is patient advocacy. Promoting patients' rights, freedom, self-determination and dignity sustains an environment that humanizes and individualizes each patient's experience of care.

Focused care management assists patients with the admission process, adjustment to new surroundings, support with care decisions and discharge back to the home or community setting. Other specialized social service care may include systematic orientation programs which help keep the patient in touch with the community, family, friends, cultural heritage, former lifestyle and religious practices. Education is also available to the patient and family members regarding the normal aging process, expectations of care, legal and financial issues, and end-of-life decisions.

Activity/Recreational Services

Based upon an individualized patient evaluation, the activities department provides an ongoing program designed to meet the interests and the physical, mental and psychosocial well-being of each patient. Activity programming supports self-expression and choice while promoting physical, cognitive and emotional well-being.

Pharmacy Services

Medications prescribed by the patient's personal physician are obtained from a licensed pharmacy, employing registered pharmacists, and are dispensed to the patient under the supervision of a licensed nurse as ordered. Medications are reviewed monthly by a registered pharmacist to assist the physician in monitoring medication utilization.

Dementia Services

HCR Manor Care offers specialized programs and initiatives to advance the care of those with memory loss from Alzheimer's disease or other dementias. We recognize that when persons with memory loss use remaining abilities and feel useful, it promotes a positive sense of self-worth and self-esteem. Offering many opportunities to successfully engage motor, sensory, cognitive and social skills improves quality of life.

Home Care Services

Recovery often comes quicker in familiar surroundings and with the support of family and friends. Registered and licensed practical nurses and therapy professionals can provide services such as wound care and dressing changes; infusion therapy; cardiac rehabilitation; and physical, occupational and speech therapies. Our home health caregivers can assist with a transition home after a hospital stay, outpatient surgery or a stay in a nursing center. Staff visits the person's home, reviews discharge instructions with him or her, provides medication assistance and education and monitors vital signs and progress. Services are provided for individuals of all ages.

Assisted Living Services

Our assisted living services meet the needs of early and mid-stage Alzheimer's patients and other individuals who require protective housing and supportive services including assistance with activities of daily living, meal service and housekeeping services. Dedicated units within our skilled nursing centers, as well as stand-alone assisted living centers, provide a home-like, residential setting.

Hospice Services

For those individuals with limited life expectancy, our hospice services integrate holistic principles with chronic disease management, expert pain and symptom control, family education and psycho-spiritual support. Hospice also provides the education, counseling and other resources that can help with emotional needs. Care is culturally sensitive, respecting the traditions and heritage that are important to patients and their family members. These services can be provided within the nursing center or the individual's home.

Our hospice services do not end with death. The death of a loved one can be extremely difficult to deal with, and our bereavement services maintain contact with family members for a period of up to 13 months following the death of a loved one.

Specialty Care Interventions

Patient-Centered Care

In our skilled nursing centers, we strive to focus on the patient as an individual through our Quality of Life Basics program. This program consists of seven steps.

- Step 1: Initial evaluation of medical history and health status upon admission
- Step 2: Identification of a patient's immediate needs and an implementation plan which strives to meet those needs.
- Step 3: Completion of the Minimum Data Set (MDS) and Resident Assessment Protocols (RAPs)
- Step 4: Preparation of an individualized care plan that creates a course of action for achieving a specific goal.
- Step 5: Ongoing implementation of the care plan action steps.
- Step 6: Critically reviewing the patient's progress and care plan to determine what, if any, modifications need to be made.
- Step 7: Conducting a re-evaluation of the patient's needs and plan of care if an event or change in status occurs. The process then picks up again at Step 3 or Step 4, depending on the circumstances.

Palliative Care

Palliative care promotes comfort and quality of life for patients with a chronic illness regardless of the stage of the disease. Palliative care is integrated into existing systems of care within our nursing centers and promotes pain management and early comprehensive advance care planning, so the wishes, desires and concerns of the patient and family are addressed.

Palliative care is the study and management of patients with progressive, far-advanced disease for which the prognosis is limited and the focus of care is on comfort, dignity and quality of life rather than cure. It is both a philosophy and a structured approach to care encompassing the physical, spiritual, emotional and social aspects of life.

Advance care planning is integral to the care of the palliative care patient as it is the process of planning for future medical care. The goals and values of the advance care plan are put in the patient's own words and planned interventions are based on the patient's goals and preferences with support and guidance in decision-making from the health care team.

Ability-Based Approaches

The strategies developed by Dr. Maria Montessori almost a century ago, and recently studied by the Meyers Research Institute of Cleveland, include supporting the level of social and physical engagement of those patients with Alzheimer's disease.

Montessori-based approaches work for several reasons:

1. The focus is on "doing" and using for as long as possible skills, habits and abilities that are still available.
2. External cueing is used extensively to circumvent problems with planning, organizing and sequencing behavior, which is the hallmark of the disease.
3. Recognition is substituted for recall to blunt the difficulties associated with impaired short-term memory.

Functional strength and skill can be regained for use in other daily activities. With any of these types of activities, as the patient's level of engagement increases, the level of anxiety and apathy tends to decrease.

Spaced Retrieval

Spaced retrieval is another type of therapeutic intervention that may be used to assist patients with memory loss. Spaced retrieval helps patients practice successful recall of meaningful information over progressively longer time periods.

Spaced retrieval interventions include:

1. Helping the memory-impaired person learn, relearn or recall meaningful information.
2. Enabling therapy to be provided longer and with greater effectiveness.
3. Helping the person improve functioning level, independence and self-confidence.

The spaced retrieval technique capitalizes on the patient's remaining memory. The ultimate goal of spaced retrieval is retention of and ability to recall information over very long time intervals, i.e., weeks or months.

Our Customers

HCR Manor Care annually provides care to more than 300,000 individuals through 279 skilled nursing and rehabilitation centers, 65 assisted living centers, 116 hospice and home care agencies, and 92 outpatient rehabilitation clinics in 31 states.

A typical patient is one whose old college football days finally resulted in a knee replacement, and now he needs therapy and recovery time to become mobile again. It's a woman who has been in a severe car accident and now needs extensive physical and occupational therapy to return home to her family and former life. It is a person who has been living a healthy life when suddenly she is incapacitated by a stroke that requires physical, occupational and speech therapy to return her to her independent living. It's a grandfather who contracts pneumonia and needs treatment so he can get back to spending time with his grandkids. The conditions vary widely but the care plans are similar in that they usually include intensive rehabilitation and/or complex medical care with the goal of return to the community.

Selecting a Skilled or Post-Acute Rehabilitation Center

The selection of the right skilled nursing or post-acute rehabilitation care provider is a critically important decision, the impact of which may be felt by the patient and family unit for years to come. Your or your loved one's comfort, well-being and happiness are our prime consideration, and we will strive to make the stay with us as positive and pleasant as possible.

Traditionally, the criteria used in considering the selection of a skilled nursing center included proximity to home, appearance of the center, bed availability and cost. While we view these items as important, several other key criteria should also be considered. These include the ability to provide aggressive, outcome-focused, coordinated care by experienced and expert medical and rehabilitation team members with proven success measures and positive outcomes.

Since this is such a critical decision, we encourage families and potential patients to examine evidence of success before making a center selection. We believe it is important to continuously measure, benchmark, disseminate and improve performance as part of our commitment to quality of care and quality of caring.

In the past, people who had surgeries, debilitating illnesses or serious injuries spent their time in the hospital. Today, hospital stays are comparatively short as patients only stay a few days. In the past, because the seriously injured or sick were in a hospital, the typical skilled nursing center patient more resembled the assisted living patient of today. For the most part, this patient required little medical care, and if more complex care were needed, the person would go to the hospital.

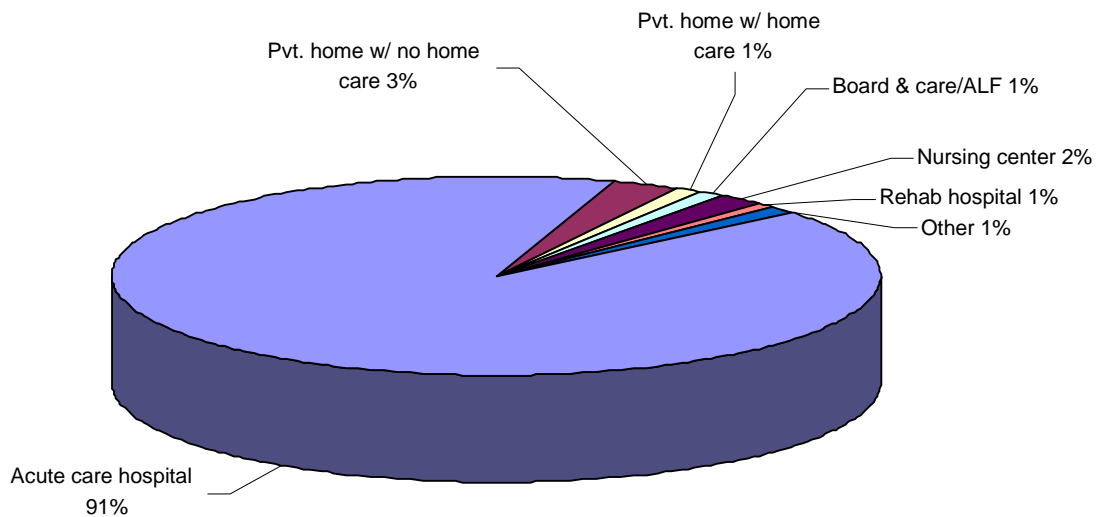
Now, a majority of the people passing through our skilled nursing centers are doing so because they are recovering from an acute illness, injury or surgery. Patients have not come to make our centers their permanent homes. They are young and old and everything in between. They are primarily Medicare and managed care patients who need a level of care similar to that provided in an acute care hospital.

Patient Facts

Admissions

Over 90 percent of HCR Manor Care's patients come to the center after a hospital stay. They receive short-term post-acute care and have a goal to return home or back into the community.

Residence Prior to Admission to HCR Manor Care

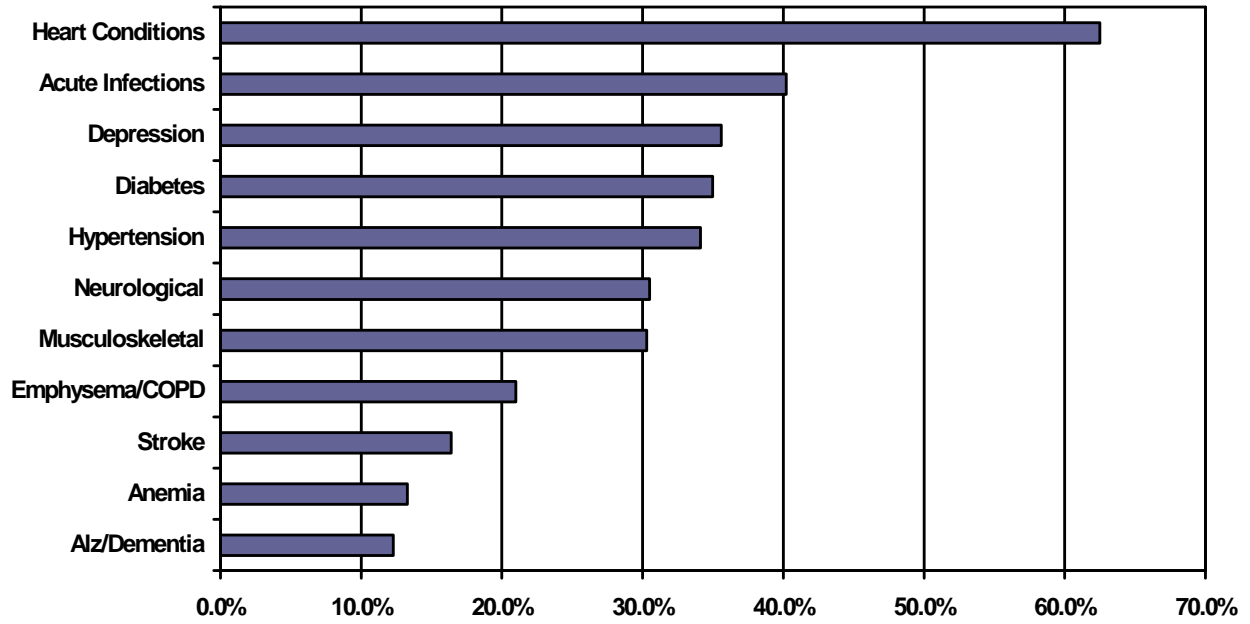


**Source Minimum Data Set Admission Assessments January through December 2006*

A number of patients who come to our skilled centers do make our center their new home. They have stayed in their former homes or some form of assisted or retirement living for as long as possible. It is only after a hospital stay or when some medical condition absolutely requires it that they are turning to a skilled nursing center. As would be expected, this means they are usually entering our centers older than was typical of our long-term patients in the past, with multiple medical issues, and are much more susceptible to conditions common to aging such as fragile skin, risk of falling, poor hydration, weight loss or general cognitive deterioration. Decline can occur quickly with advancing age, and it is important that not only staff but also patients' families understand and are able to identify the symptoms that occur naturally with aging.

Health Conditions

Health Conditions of Newly Admitted Patients at HCR Manor Care Nursing Centers



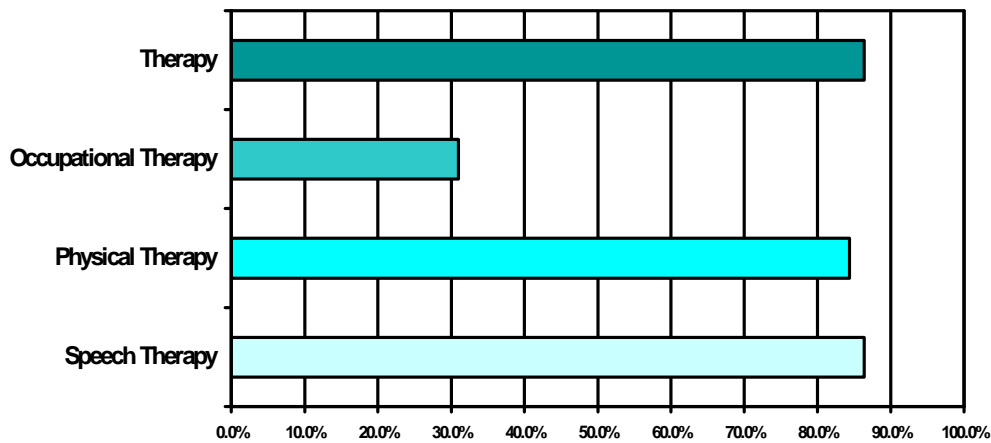
* Source Minimum Data Set Admission Assessments: January through December 2006

Therapy

The vast majority of people coming to our nursing centers are there to receive some form of rehabilitation and most are expecting to return to the community as quickly as possible. Treatment can involve physical therapy for strengthening and occupational therapy to help the patient perform activities of daily living, while speech therapy is particularly effective for those who have suffered a stroke or brain injury.

Patients Receiving Therapy

Proportion of Patients Receiving Therapies at HCR Manor Care Nursing Centers

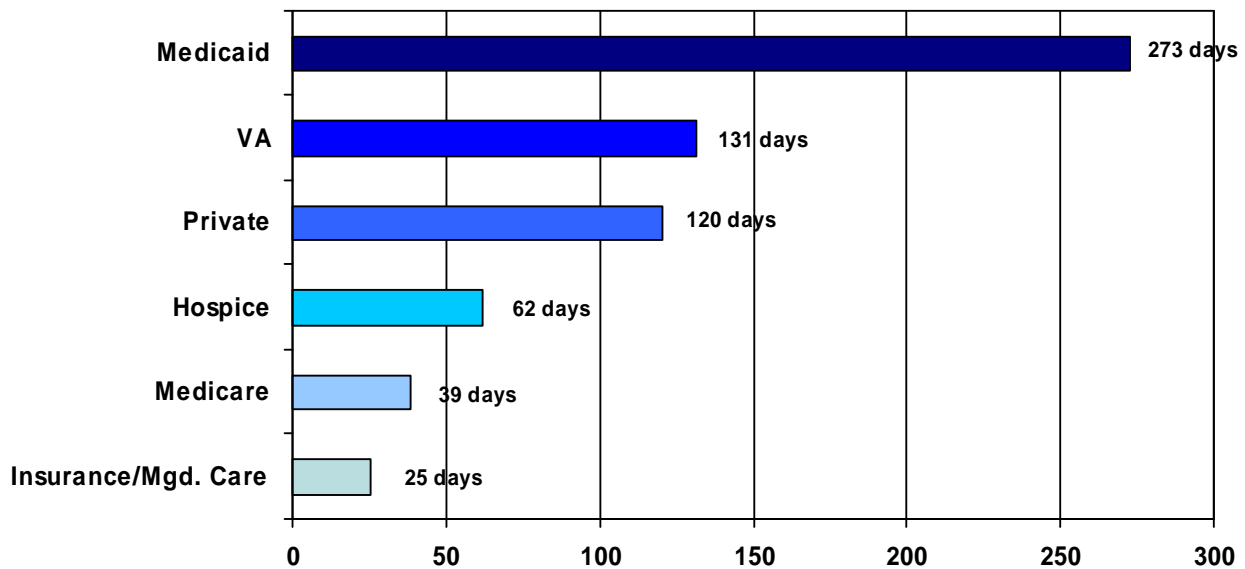


**Source Minimum Data Set Admission Assessments: January to December 2006.*

Length of Stay

On average, patients in our skilled nursing centers stay slightly less than three months. About half stay 30 days or less. A large portion of our patient population (20 percent at any given time or 80 percent of admissions) is short-stay, Medicare-paid patients. The median stay for these shorter-stay patients, a majority of whom are discharged back to the home or the community, is 26 days.

Average Length of Stay (days)



**Source NH Operations January through December 2006*

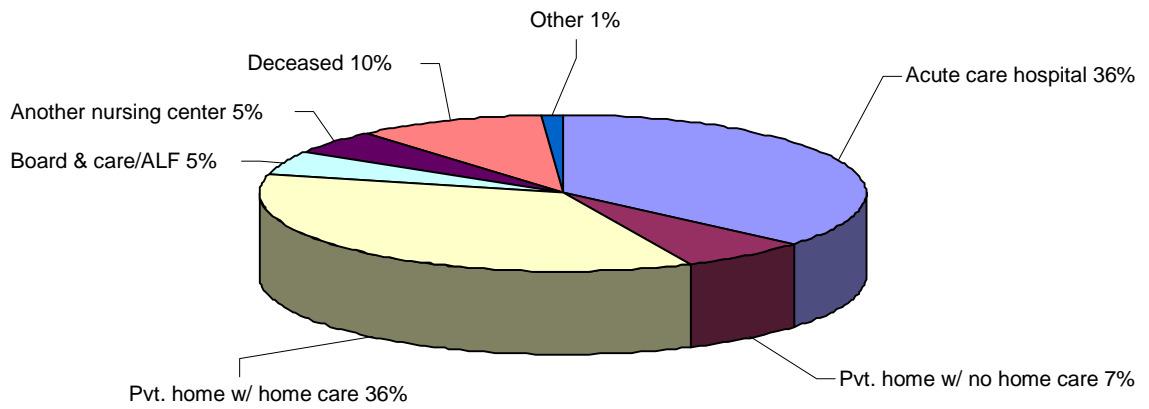
Discharge

The needs of shorter-term patients, both in terms of quality of life and quality of care, are different than the needs of our traditional long-term care patients. The biggest difference is that they are expecting to return to the community. Choosing the appropriate nursing center helps achieve this goal, and the most important criterion is the expertise of the clinical team.

Ultimately, it is the physician, therapists and nurses who will help patients achieve their recovery goals and to get back on their feet as they recover from surgery, a serious injury or a debilitating illness. The services we provide often achieve their primary goal of helping our patients' transition back to the lives and activities they enjoyed before hospitalization. It is not uncommon for a post-acute patient with complex medical needs who enters the skilled nursing center to require several transition periods between the hospital and nursing center for additional treatment until the condition stabilizes.

In real numbers, this means that last year we helped nearly 40,000 people resume full lives in their homes and communities.

Discharge Destination



**Source careNET Discharge Tracking Forms January through December 2006*

Our Post-Acute Outcomes

The Role of the Skilled Nursing Center Is Shifting from “Nursing Home” to Post-Acute Rehabilitation Center

Historically, patients recovering from disabling conditions such as stroke, hip or other fracture, joint replacement or debilitating illness could expect to receive a significant portion of their rehabilitation in the hospital. The traditional role of skilled nursing centers, on the other hand, has been that of "nursing home," providing comfort, safety, nutrition, nursing and therapy to long-term and, or chronically ill, disabled or cognitively impaired patients. Due to changes in Medicare reimbursement, and the rising cost of health care, patients who have been hospitalized for a disabling illness or injury are spending less time in the hospital than ever before. As a result, the job of providing vital inpatient rehabilitation to help patients regain their ability to walk, dress, bathe and eat and to resume meaningful lifestyles has been shifting from hospitals to skilled nursing centers. For many skilled nursing patients, the role of "rehabilitation center" has become just as important as the role of "nursing home."

Our Proven Outcome Success

HCR Manor Care has a track record of success in achieving realistically obtainable outcomes for our patients and their families. We believe that to provide effective medical care and rehabilitation, outcomes must be measured and compared to expectations. Further, we believe it is vital for patients and their families, as well as referrers of patients, to examine evidence of a post-acute care provider's success before making an admission or referral decision.

We measure important indicators of clinical outcomes. We do this not only to provide objective evidence to our customers and referrers about our success in producing desired outcomes, but also to emphasize our ongoing commitment to improve clinical effectiveness.

We have been steadily rolling out outcome measurement training to our skilled nursing centers, and, by the end of 2004, nearly 90 percent of our centers had begun reporting outcome data. This data helps demonstrate our effectiveness in delivering obtainable outcomes.

Self-Care and Mobility

After experiencing a debilitating injury, illness or surgery, patients need to regain, as much as possible, the ability to meet their daily care needs. This can often mean relearning how to eat, dress, groom, bathe and use the toilet in order to be able to return home. We call this area of rehabilitation Self-Care.

The other critical area of rehabilitation involves recovering the ability to walk, and moving from the bed to chair, on and off the toilet, and in and out of the bath or shower. We call this area Mobility.

Assuring patients make as much progress as possible is our goal and commitment. The Functional Independence Measure is the instrument we use to monitor patients' progress in Self-Care and Mobility. This is a measure mandated by the federal Medicare agency, the Centers for Medicare & Medicaid Services (CMS), for use by all rehabilitation hospitals and units nationwide. The instrument measures patients' ability to function on a 1 to 7 scale, where 1 represents total dependence and 7 represents total independence or normal functioning.

Charts 1 and 2 below show the average amount of progress (from admission to discharge) made by HCR Manor Care patients (shown in blue) at our centers that have supplied outcome data compared with the national average of rehabilitation hospitals and rehabilitation units (shown in yellow) and other skilled nursing centers (shown in red).

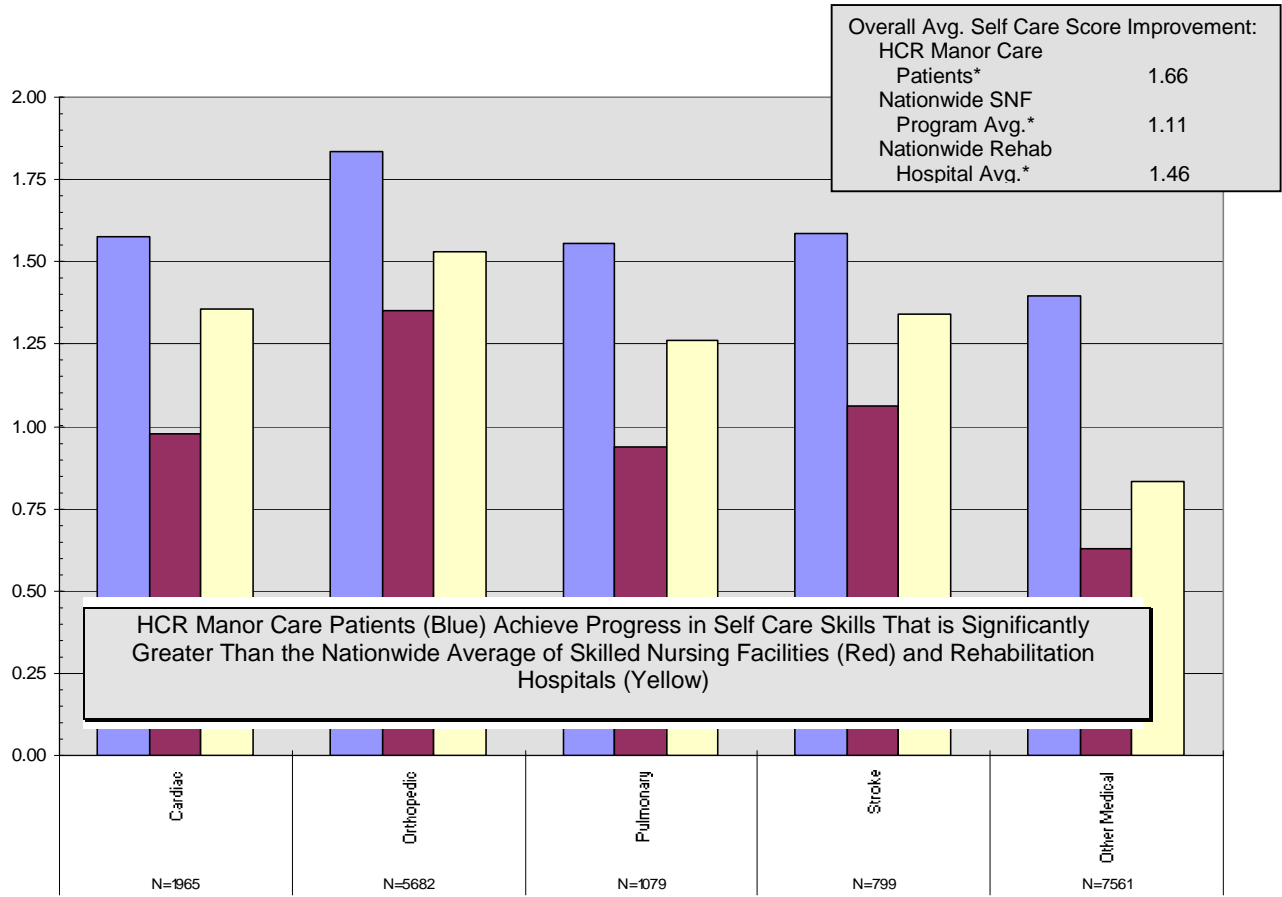
For our nursing centers providing outcome data, Chart 1 shows the average HCR Manor Care patient improves 1.66 points in Self-Care compared with an average improvement of 1.46 points for rehabilitation hospital patients nationally and 1.11 for skilled nursing centers nationwide. Chart 2 shows that for Mobility, the average HCR Manor Care gain is 2.08 points compared with an average of 1.85 for rehabilitation hospitals and 1.48 for skilled nursing centers.

What this Means to You

HCR Manor Care's rehabilitation teams have strong track records of success in helping patients with disabilities improve their functional independence. Our clinical teams use this data to identify opportunities to improve our effectiveness and to give patients, patients' families and referrers' evidence they can use to evaluate our programs. Ask the clinical team you are considering for evidence of its track record of outcomes success.

Chart 1: Evidence of HCR Manor Care's Unmatched Track Record of Excellence

Improvement in Self Care from Admission to Discharge (1Q 2006 through 4Q 2006)



* Nationwide SNF Data are from Caredata.com(1999) and Nationwide Rehab Hospital Data are from Erehabdata.com (Sep, 2006).

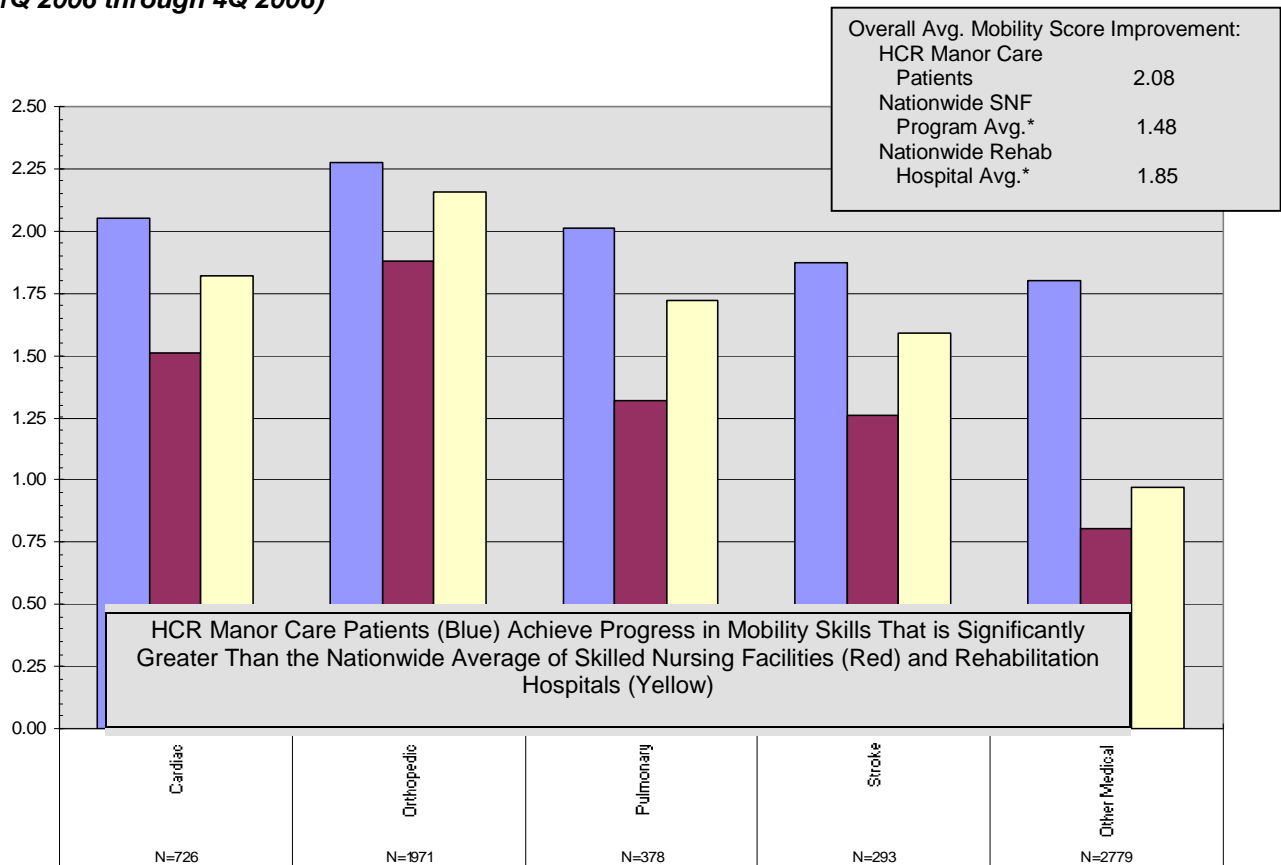
* Patients Discharged to Hospital or Expired and Patients with Dementia or LOS < 3 are excluded from this Analysis.

"Self Care" includes the following functional measures: Eating, Grooming, Bathing, Dressing (Upper and Lower), and Toileting.

Patients are scored on a one to seven scale in each category. Improvement values represent the average difference between admission and discharge scores.

Chart 2: Evidence of HCR Manor Care's Unmatched Track Record of Excellence

Improvement in Mobility from Admission to Discharge (1Q 2006 through 4Q 2006)



* Nationwide SNF Data are from Caredata.com(1999) and Nationwide Rehab Hospital Data are from Erehabdata.com (Sep, 2006).

* Patients Discharged to Hospital or Expired and Patients with Dementia or LOS < 3 are excluded from this Analysis.

"Mobility" includes the following functional measures: Bed/Chair, Toilet, and Tub/Shower Transfers; Walking/Wheelchair assistance; and Stair Assistance

Patients are scored on a one to seven scale in each category. Improvement values represent the average difference between admission and discharge scores.

Community Discharge Goals Achieved

When families trust us with their loved one's rehabilitation, they count on us for our judgment, guidance and expertise. When we tell a family that we believe their father, husband, wife or mother can return home, we are serious about making that a reality.

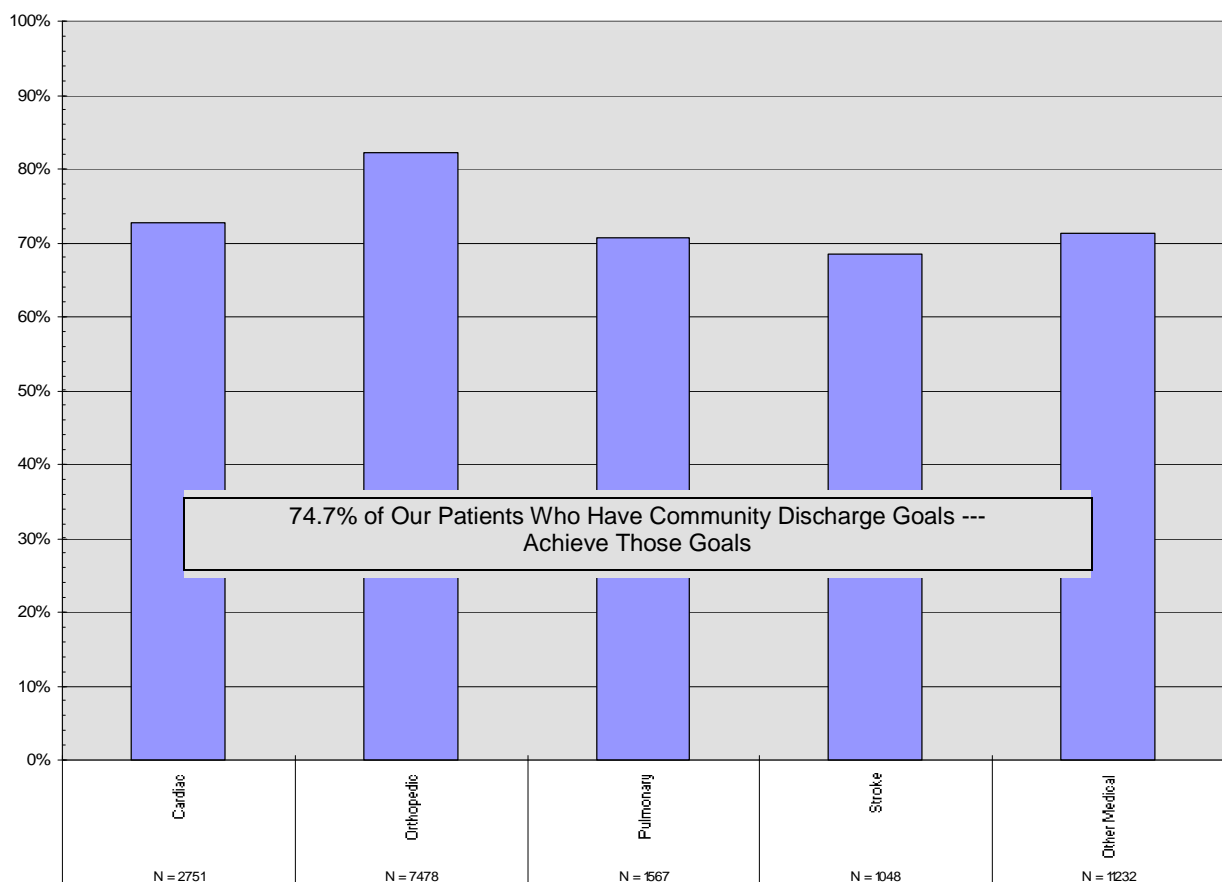
Chart 3 shows for our nursing centers providing outcome data that when our clinical teams set a goal of returning a patient to home or the community, we are successful 75 percent of the time.

What this Means to You

HCR Manor Care has had measurable success in helping patients and their families achieve the goal of successful return to home or community. Further, HCR Manor Care teams vigorously review cases in which community discharge goals are not met so that we can improve our rehabilitation and discharge planning processes. Choose a rehabilitation team that measures its success and uses clinical outcomes data to drive quality improvement.

Chart 3: Evidence of HCR Manor Care's Clinical Judgment and Discharge Planning

**% of Patients Achieving Community Discharge Goals
(1Q 2006 through 4Q 2006)**



Prepared To Manage Care

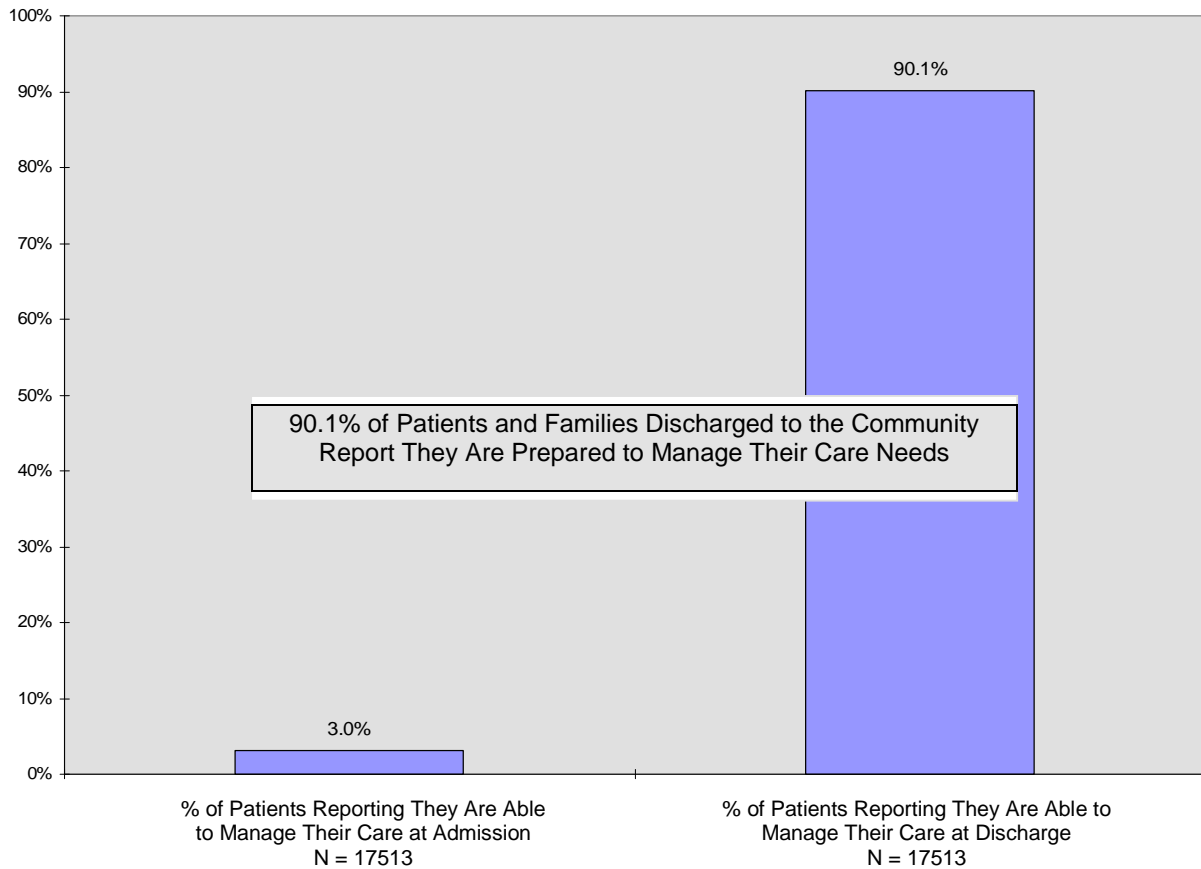
Families and patients facing discharge from a hospital, following a debilitating injury, illness or procedure, are often anxious, worried and uncertain about the future and how they are going to handle the new challenges they will face. HCR Manor Care rehabilitation teams recognize that they have a responsibility to help not only our patients recover walking and self-care skills, but also to help families prepare to meet the challenges of providing care for their loved ones at home after discharge. Interviewing patients and their families when they enter our programs and when they

are discharged home provides us with information on how prepared they are to manage their care needs at home.

For our nursing centers providing outcome data, on Chart 4 the left-hand bar shows that at admission less than 15 percent of our patients and their families are “prepared” to manage the challenges of meeting their care needs at home. After completing their rehabilitation programs at HCR Manor Care, however, the story is very different. The right-hand bar shows that at discharge almost 93 percent of our patients and their families report that they are either “quite a lot” or “completely” prepared to manage their care needs at home.

Chart 4: Evidence That HCR Manor Care's Patients and Families Are Confident and Secure at the Time of Their Discharge

% of Discharged Patients Reporting They are Prepared to Manage Their Care Needs (1Q 2006 through 4Q 2006)



Business Partnerships

- Contracted with 200+ managed care organizations nationally
- Placements for short-term rehabilitation received from nearly 4,000 hospitals in 2006
- Our “Fasttrack” Nurse Liaison program for expedited admission process
- Vertically integrated within many of our local health systems for post-acute care, home care, outpatient therapy and hospice services
- Vast network of attending and specialty consultant physicians



Our Quality Workforce

Workforce excellence is based on hiring the right people with the right skills and values. It is also important that new employees receive the necessary training to learn their jobs and understand the needs of their patients and the company culture. Our employees need to understand that the ability to deliver high-quality outcomes rests in their hands and relies on their emphasis for meeting the many compliance standards of the company and the government. Workforce excellence involves recognizing and rewarding the achievement of our employees.

Recruiting

The process of recruiting employees has improved significantly and resulted in a decrease in the use of agency staff (temporary staff) over the last three years to less than two percent of our total nursing labor costs. Recruiting efforts in the company have been expanded to maximize our affiliation with Job Corps and nursing schools within each of our labor markets. Job Corps is the largest government-sponsored, on-campus vocational school system, with more than 115 campuses across the United States. HCR Manor Care has partnered with Job Corps to establish licensed practical nurse programs, enhance the quality of nursing assistant training programs and participate in clinical sites for students. We also work closely with community colleges and universities in our labor markets to provide clinical sites for training. As the shortage of nurses continues to escalate, HCR Manor Care has taken an active role in working with nursing school programs to identify ways to enhance the quality of the training and the expansion of programs.

Hiring

In an attempt to hire the right people with the right skills and values, the screening process for new hires includes behavioral-based interviews, drug screens, licensure and certification verifications, Office of Inspector General (OIG) checks, criminal background checks and references from previous employers.

Circle of Care

It has almost become a cliché to hear a service provider tell you how much it cares about its patients and residents and meeting their needs. What makes HCR Manor Care's commitment to caring any different? The difference is more than 15 years of comprehensive training to bring out the helping, respectful and responsive nature that is within each one of our employees. This training is the company's Circle of Care® program. More than a program, Circle of Care is a philosophy, a philosophy focusing on how we should treat one another.

Circle of Care uses a variety of learning methods that affect an employee's senses of sight, hearing and touch. Classes, group discussions, videos and role-playing activities help employees enhance their caring attitude not only toward patients and residents, but to patients' families, vendors and other employees, as well. The essence of Circle of Care is taking the time to listen to, understand and help all with whom you come into contact. It is taking a personal interest and "exceeding the circle," or going beyond expectations to meet someone's needs.

The program's modules teach people how to listen, to say the right thing at the right time, to understand and effectively use body language, to understand what motivates the actions of families, and to help ensure patients and their families are satisfied guests. One of the most important modules focuses on improving employees' self-esteem, because we have learned when we feel good about ourselves, those feelings transition to how we feel about and care for others.

One of the strengths of Circle of Care is that it is not just a workplace program. Because it is a philosophy, the Circle of Care principles extend to how we interact with friends, family members and even the clerk at the grocery store. Its principles are constantly being reinforced throughout the day.

Working in the health care environment is hard, stressful work, and Circle of Care has proven to be a valuable life experience that shows our employees that it is all right to care, to have pride in what they do and to always put forward their best effort.

Staff Education and Leadership Programs

New employees receive an introduction to the company and its policies and practices as part of their first day on the job. Job-specific orientation programs for key job groups have been developed and expanded to include leadership development. Employees receive training to understand their role in meeting the many compliance standards of the company and government.

HCR Manor Care has developed on-line learning programs to build the skill sets for our leadership teams and supplements those programs with classroom learning sessions, preceptor-driven training and coaching for the management team. Approved continuing education programs provide valuable information to our licensed employees and further develop industry knowledge and clinical skills required for the changing needs of our patients. In the last several years, our company has awarded an average of over 10,000 Continuing Education (CE) certificates and received approval for 500 CE presentations.

Employee educational opportunities extend beyond the company programs. Career advancement is supported through tuition assistance and a scholarship program for nursing. HCR Manor Care has awarded over \$1 million in scholarships over the past two years to help applicants pursue a career in nursing.

Retention

Increased retention, which leads to fewer staff vacancies, is an even better measure of workforce excellence than turnover. Retention provides a metric for the success of programs and systems in maintaining a stable, satisfied workforce. Having stable, satisfied staff supports quality outcomes for our patients because the workforce has the opportunity to grow in excellence as a team working for the benefit of our patients.

Annual retention is calculated by dividing the number of employees with at least one year of service at year-end by the total number of active employees in each department in the previous year. We have had continued gains in retention. Currently, 24 percent of our total employees and 22 percent of our nursing and nurse aide staff have been employees for a minimum of five years. In 2006, in the critical area of nursing, we reduced RN and LPN turnover by 20 percent.

Recognizing Achievement

HCR Manor Care understands the success of the company and the quality of care and caring provided to our patients is directly related to the success of our employees. Recognizing the achievement of our employees is an ongoing process. The company recognizes the value our long-term care employees bring to our patients through service award programs, pay and benefit practices, career ladder opportunities and center-specific recognition programs.

Formal awards such as the Champions of Caring program and the President's Award honor the achievement of a group of individuals on a regular basis. The company uses staff meetings as a way to bring recognition to our employees through sharing of customer appreciation letters, best or promising practice stories and recognition of educational achievement.

Awards

Rosalynn Carter Institute Awards

The Rosalynn Carter Institute introduced "The Rosalynn Carter Institute Caring & Competent Caregiver Award" in 2004 to recognize individuals for leadership and innovation in caregiving. Awards recognize caregivers in five categories: Licensed Practical Nurse (LPN), Certified Nursing Assistant (CNA), Nurse's Aid/Patient Care Technician, Home Health Aide and Therapy Aide. In the second presentation of the awards in May 2006, HCR Manor Care employees were selected as winners in the Home Health Aide and Therapy Aide categories. In June 2004, HCR Manor Care employees were selected as the winner in all four categories awarded (the Therapy Aide category was added in 2006).

At the Atlanta gala, held in Symphony Hall, a video was shown of the recipients, highlighting why they so rightly deserved this recognition. Former First Lady Rosalynn Carter presented each with a bronze medallion and a \$1,000 educational grant.

The winners were chosen from several hundred applicants, including many others from HCR Manor Care. Each of our applicants was nominated by those he or she works with, and it was clear from the many letters of support that our caregiver applicants are all winners.

The Rosalynn Carter Institute Caring & Competent Caregiver Award criteria include:

- Dedication to caring for persons who have a mental illness, difficulties of the frail elderly, physical illnesses or developmental disabilities;
- Encouragement of collaboration and partnership between all the stakeholders in the care-giving process; and
- Developing a more effective use of financial, educational and human resources.

Investing for Our Future

Through the professional skills and competencies we have developed and the reputation and respect we have achieved in our major markets, we have built a continuum of care services including skilled nursing, rehabilitation therapy, home care, Alzheimer's assisted living and hospice.

The needs of our patients have been changing, and we are leveraging our management and clinical skills to care for more post-acute patients who have extensive and complex medical and rehabilitation needs. Today, many of our skilled nursing centers are comprehensive medical and rehabilitation facilities, caring for patients that a few years ago would have been receiving their care in an acute care or specialty hospital rather than a nursing center.

The majority of our patients come to our nursing and rehabilitation centers to receive the care they need to complete recovery following a hospital stay due to surgery, a serious injury or a debilitating illness. Their stay is relatively short, usually lasting 30 days or less. Medical care and rehabilitation are intensely focused on helping patients get better and return to the community.

Expanding in High Demand Areas

Our clinical skills have led to increased demand in many of our markets. We have identified those markets that make sense for new nursing center construction, and over the past year, we have opened four new centers with another under construction.

We have also focused on markets where demand is exceeding capacity in the market. As a result, we have been increasing capacity in many markets by modernizing and expanding nursing center and rehabilitation therapy space to care for shorter-term Medicare patients. In the past two years, we have initiated nearly 30 expansion projects at our nursing centers to increase therapy space and provide the latest in state-of-the-art equipment. We have also been modernizing space to accommodate lifestyle preferences such as common areas with computers and Internet access. Capital spending exceeded \$150 million in 2006, which also included millions of dollars for maintenance of our facilities to ensure they meet the quality standards we have set in serving our patients and residents.