Cejka A Timothy
Form 4
December 13, 2005

FORM 4

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

OMB APPROVAL

OMB Number:	3235-0287
Expires:	January 31, 2005
Estimated average burden hours per response...	0.5

Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. *See* Instruction 1(b).

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

(Print or Type Responses)

1. Name and Address of Reporting Person *
Cejka A Timothy

(Last) (First) (Middle)

C/O EXXON MOBIL CORP, 5959 LAS COLINAS BLVD

(Street)

IRVING, TX 75039-2298

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
EXXON MOBIL CORP [XOM]

3. Date of Earliest Transaction (Month/Day/Year)
12/12/2005

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

_____ Director _____ 10% Owner
__X__ Officer (give title below) _____ Other (specify below)
Vice President

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
Common Stock	12/12/2005		M		36,000	A	$ 30.7031	216,475	D	
Common Stock	12/12/2005		S		30,400	D	$ 58.5	186,075	D	
Common Stock	12/12/2005		S		2,344	D	$ 58.56	183,731 (1)	D	
Common Stock								5,854.3704	I	By Savings Plan

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

Persons who respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.

SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount of Underlying Securities (Instr. 3 and 4)	
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares
Employee Stock Option (Right to Buy)	$ 30.7031	12/12/2005		M			36,000	11/26/1998	11/26/2007	Common Stock	36,000

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
Cejka A Timothy C/O EXXON MOBIL CORP 5959 LAS COLINAS BLVD IRVING, TX 75039-2298			Vice President	

Signatures

A. T. Cejka	12/13/2005
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) Includes 14,284 shares in joint ownership with reporting person's spouse.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. 10pt;font-weight:normal;font-style:normal;text-transform:none;font-variant: normal;">1,639

Other

1,650

381

(35

)

1,996

2,554

706

Explanation of Responses:

(243

)

3,017

7,770

1,711

(61

)

9,420

11,139

Explanation of Responses:

2,367

(481

)

13,025

Certificates of deposit

3,950

2

(2

)

Explanation of Responses:

3,950

5,101

3

–

5,104

$

243,666

$

1,804

Explanation of Responses:

$

(81

)

$

245,389

$

200,509

$

2,580

$

(497

)

$

202,592

(a) Includes $8.5 million and $3.7 million of money market funds at December 31, 2013 and 2012, respectively.

The fair value by maturity periods at December 31, 2013 of available-for-sale investments of the Company's insurance subsidiary follows. Equities generally do not have maturity dates.

(In thousands)	Contractual maturities
Within one year	$ 198,441
One year to five years	37,528
After five years	–
Equities	9,420
	$ 245,389

Since the Company's insurance subsidiary investments are restricted for a limited purpose, they are classified in the accompanying consolidated balance sheet based upon the expected current and long-term cash requirements of the limited purpose insurance subsidiary.

Net investment income earned by the Company's insurance subsidiary investments follows (in thousands):

	Year ended December 31,		
	2013	2012	2011
Interest income	$1,011	$1,290	$1,399
Net amortization of premium and accretion of discount	(330)	(406)	(322)
Gains on sale of investments	3,404	123	265
Losses on sale of investments	(24)	(28)	(73)
Other-than-temporary impairments	(143)	–	(232)
Investment expenses	(118)	(115)	(119)
	$3,800	$864	$918

KINDRED HEALTHCARE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 10 – INSURANCE SUBSIDIARY INVESTMENTS (Continued)

The available-for-sale investments of the Company's insurance subsidiary which have unrealized losses at December 31, 2013 and 2012 are shown below. The investments are categorized by the length of time that individual securities have been in a continuous unrealized loss position at December 31, 2013 and 2012.

December 31, 2013	Less than one year		One year or greater		Total	
(In thousands)	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
Debt securities:						
Corporate bonds	$4,699	$ 8	$53	$ –	$4,752	$ 8
Debt securities issued by U.S. government agencies	4,916	8	–	–	4,916	8
U.S. Treasury notes	1,618	2	–	–	1,618	2
	11,233	18	53	–	11,286	18
Equities by industry:						
Consumer	717	21	–	–	717	21
Healthcare	161	3	–	–	161	3
Financial services	194	2	–	–	194	2
Other	612	35	–	–	612	35
	1,684	61	–	–	1,684	61
Certificates of deposit	747	2	–	–	747	2
	$13,664	$ 81	$53	$ –	$13,717	$ 81

December 31, 2012	Less than one year		One year or greater		Total	
(In thousands)	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
Debt securities:						
Corporate bonds	$4,115	$ 7	$257	$ 9	$4,372	$ 16
Equities by industry:						
Consumer	–	–	234	15	234	15
Industrials	–	–	367	53	367	53
Technology	–	–	482	70	482	70
Healthcare	78	9	188	5	266	14
Financial services	48	1	339	85	387	86
Other	343	45	416	198	759	243
	469	55	2,026	426	2,495	481
	$4,584	$ 62	$2,283	$ 435	$6,867	$ 497

The unrealized losses on equities totaling $0.1 million at December 31, 2013 and $0.5 million at December 31, 2012 were due generally to market fluctuations. Accordingly, the Company believes these unrealized losses are temporary in nature.

The Company's investment policy governing insurance subsidiary investments precludes the investment portfolio managers from selling any security at a loss without prior authorization from the Company. The investment managers also limit the exposure to any one issue, issuer or type of investment. The Company intends, and has the ability, to hold insurance subsidiary investments for a long duration without the necessity of selling securities to fund the underwriting needs of its insurance subsidiary. This ability to hold securities allows sufficient time for recovery of temporary declines in the market value of equity securities and the par value of debt securities as of their stated maturity date.

The Company considered the severity and duration of its unrealized losses at December 31, 2013 and recognized a $0.1 million pretax other-than-temporary impairment during 2013 for various investments held in its insurance subsidiary investment portfolio. The Company recognized $0.2 million pretax other-than-temporary impairments in 2011 for various investments held in its insurance subsidiary investment portfolio. These investments were determined to be impaired after considering the duration of the declines in value and the likelihood of near term price recovery of each investment. Because the Company considered the remaining unrealized losses at December 31, 2013 and 2012 to be temporary, the Company did not record any additional impairment losses related to these investments.

KINDRED HEALTHCARE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 10 – INSURANCE SUBSIDIARY INVESTMENTS (Continued)

As a result of deterioration in professional liability and workers compensation underwriting results of the Company's limited purpose insurance subsidiary in 2012 and 2011, the Company made capital contributions of $14.2 million and $8.6 million in 2013 and 2012, respectively, to its limited purpose insurance subsidiary. Conversely, as a result of improved professional liability underwriting results of the Company's limited purpose insurance subsidiary in 2010, the Company received a distribution of $3.5 million in 2011 from its limited purpose insurance subsidiary. These transactions were completed in accordance with applicable regulations. Neither the capital contributions nor the distribution had any impact on earnings.

NOTE 11 – LEASES

The Company leases real estate and equipment under cancelable and non-cancelable arrangements. The following table sets forth rent expense by business segment (in thousands):

	Year ended December 31,		
	2013	2012	2011
Hospital division:			
Buildings:			
Ventas	$107,431	$101,831	$94,320
Other landlords	66,357	70,473	55,301
Equipment	33,280	33,021	29,314
	207,068	205,325	178,935
Nursing center division:			
Buildings:			
Ventas	49,414	47,668	45,819
Other landlords	40,133	37,823	37,461
Equipment	9,259	8,211	7,637
	98,806	93,702	90,917
Rehabilitation division:			
Skilled nursing rehabilitation services:			
Buildings	1,311	1,289	817
Equipment	3,415	4,153	5,567
	4,726	5,442	6,384
Hospital rehabilitation services:			
Buildings	37	52	120
Equipment	69	88	108
	106	140	228
Care management division:			
Buildings	4,513	2,754	1,199
Equipment	588	386	167
	5,101	3,140	1,366
Corporate:			

Buildings	2,103	2,242	3,356
Equipment	167	187	144
	2,270	2,429	3,500
	$318,077	$310,178	$281,330

Various facility leases include contingent annual rent escalators based upon a change in the Consumer Price Index or other agreed upon terms such as a patient revenue test. These contingent rents are included in rent expense in the year incurred. The Company recorded contingent rent of $2.5 million, $1.3 million and $1.1 million for the years ended December 31, 2013, 2012 and 2011, respectively, including both continuing operations and discontinued operations.

F-32

KINDRED HEALTHCARE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 11 – LEASES (Continued)

Future minimum payments under non-cancelable operating leases are as follows (in thousands):

	Minimum payments		
	Ventas	Other	Total
2014	$206,864	$100,254	$307,118
2015	174,415	88,933	263,348
2016	176,315	81,900	258,215
2017	178,262	65,315	243,577
2018	143,957	54,322	198,279
Thereafter	607,446	263,550	870,996

Ventas master lease agreements

At December 31, 2013, the Company leased from Ventas and its affiliates 38 TC hospitals and 105 nursing centers under five master lease agreements (as amended, the "Master Lease Agreements"). Included in the 105 nursing centers leased at December 31, 2013 are the 2013 Expiring Facilities, all of which have lease terms expiring on September 30, 2014. For accounting purposes, the 2013 Expiring Facilities qualify as assets held for sale and the Company has reflected the operating results as discontinued operations in the accompanying consolidated statement of operations for all historical periods.

There are several bundles of leased properties under each Master Lease Agreement, with each bundle containing approximately seven to 19 leased nursing centers and/or TC hospitals.

2012 lease renewals and expirations

Under the Master Lease Agreements, the Company had 73 nursing centers and 16 TC hospitals eligible for renewal prior to an April 30, 2013 lease expiration date. In April 2012, the Company renewed the leases for 19 nursing centers and six TC hospitals for an additional five years. In May 2012, the Company entered into a fifth Master Lease Agreement with Ventas to extend the lease term for ten years for ten TC hospitals that were otherwise scheduled to expire on April 30, 2013 ("Master Lease No. 5"). These 19 nursing centers and 16 TC hospitals contain 2,178 licensed nursing center beds and 1,682 licensed hospital beds.

In addition, the Company did not renew 54 nursing centers that comprised the 2012 Expiring Facilities. The 2012 Expiring Facilities contained 6,140 licensed nursing center beds and generated revenues of approximately $475 million for the year ended December 31, 2012. The annual rent for these facilities approximated $57 million. The Company transferred the operations of all of the 2012 Expiring Facilities to new operators during 2013 and has accordingly reclassified the results of operations and losses associated with the 2012 Expiring Facilities to discontinued operations, net of income taxes, for all periods presented.

2013 lease renewals and expirations

Under the Master Lease Agreements, the Company had 86 nursing centers and 22 TC hospitals eligible for renewal prior to an April 30, 2015 lease expiration date. On September 30, 2013, the Company entered into an agreement with Ventas to renew the leases for 26 nursing centers and 22 TC hospitals (the "2013 Renewal Facilities") as follows:

- the leases for 15 nursing centers and three TC hospitals were renewed for an additional five year term effective May 1, 2015, with annual rents increasing by $4.0 million on October 1, 2014 and otherwise subject to rent escalators found in the original Master Lease Agreements; and
- the leases for 11 nursing centers and 19 TC hospitals will be moved to an amended and restated Master Lease No. 5 ("Amended Master Lease No. 5") and renewed for a 10 year, seven month term effective October 1, 2014, with annual rents under Amended Master Lease No. 5 increasing by $11.0 million on October 1, 2014 and otherwise subject to annual increases (up to a 4% cap) based on changes in the Consumer Price Index.

For accounting purposes, the Company began recording the additional rents for the 2013 Renewal Facilities over the new lease term on a straight-line basis beginning on October 1, 2013, the effective date of the agreements.

The 2013 Renewal Facilities contain 3,134 licensed nursing center beds and 1,753 licensed hospital beds and generated revenues of approximately $811 million for the year ended December 31, 2013. The current aggregate annual rent, before the rent increases noted above, for the 2013 Renewal Facilities approximates $79 million.

KINDRED HEALTHCARE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 11 – LEASES (Continued)

2013 lease renewals and expirations (Continued)

On September 30, 2013, the Company also entered into agreements for the 2013 Expiring Facilities. The current lease term for the Renewal Facilities and the 2013 Expiring Facilities was scheduled to expire in April 2015. Under the terms of the agreements, the lease term for the 2013 Expiring Facilities will now expire on September 30, 2014. The September agreement with Ventas also provided for (1) more flexibility to Ventas to accelerate the transfer of the 2013 Expiring Facilities, (2) a $20 million payment by us to Ventas as part of this transaction that is recorded as an early lease termination charge (rent expense) in discontinued operations in 2013, and (3) the settlement of other matters between the parties.

The 2013 Expiring Facilities contain 7,070 licensed beds and generated revenues of approximately $514 million for the year ended December 31, 2013. The current aggregate annual rent for the 2013 Expiring Facilities approximates $60 million.

Except as noted below, the terms of Amended Master Lease No. 5 are substantially similar to the terms of the other Master Lease Agreements.

Renewals

Following the exit of the 2013 Expiring Facilities, the Company will lease 45 nursing centers and 38 TC hospitals from Ventas within eight separate renewal bundles. Except as noted below, each bundle may be renewed for at least one five-year renewal term, provided notice of renewal is provided between 12 and 18 months prior to the expiration of the lease term. The following chart sets forth the current lease renewals under the existing Master Lease Agreements:

				Facility renewals		
Renewal group	Master lease	Expiration date	Renewal date	Nursing centers	TC hospitals	Renewal bundles
Group 1	1, 2, 4	April 30, 2018	October 31, 2016 – April 29, 2017	19	6	3
Group 2	1, 2	April 30, 2020	October 31, 2018 – April 29, 2019	15	3	2
Group 3	5	April 30, 2023	October 31, 2021 – April 29, 2022	–	10	1
Group 4	5	April 30, 2025	October 31, 2023 – April 29, 2024	11	19	2

Conditions to effectiveness of renewals

The Company may not extend the Master Lease Agreements beyond any previously exercised renewal term if, at the time the Company seeks such extension and at the time such extension takes effect: (1) an event of default has occurred and is continuing or (2) a Medicare/Medicaid event of default and/or a licensed bed event of default has occurred and is continuing with respect to one, two or three leased properties, depending on the number of leased properties under a particular Master Lease Agreement. The renewal term of each Master Lease Agreement is subject to termination upon default by the Company and certain other conditions described in the Master Lease Agreements.

Under each Master Lease Agreement, an event of default will be deemed to occur if, among other things, an event of default arises from the Company's failure to pay principal or interest on any indebtedness exceeding $50 million or the maturity of any indebtedness exceeding $50 million is accelerated.

Rent appraisal process and the Company's right to revoke such renewals

Under the Master Lease Agreements, if the Company provides Ventas with notice that the Company intends to renew one or more renewal bundles, Ventas may then initiate an appraisal process to establish a new fair market rental (as defined in the Master Lease Agreements) ("FMR") for any or all of these bundles.

Under the appraisal process, an independent appraiser determines the FMR for each renewal bundle and each property within such renewal bundle. Once FMR is determined, the appraiser sends to both parties simultaneously the aggregate FMR for such renewal bundle and the FMR for each property within the bundle. Ventas, in its sole discretion, then determines whether: (1) to accept the appraised FMR for the renewal bundle in the aggregate or (2) make no changes to the current base rent and contingent annual rent escalator for the renewal bundle. If Ventas selects the new FMR for a renewal bundle, then the new FMR would become effective at the start of the renewal term unless the Company elects to revoke its renewal by the applicable deadline set forth in the Master Lease Agreements.

KINDRED HEALTHCARE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 11 – LEASES (Continued)

Rent appraisal process and the Company's right to revoke such renewals (Continued)

The determination of FMR requires certain levels of subjectivity and judgment related to the many variables that may be considered under the circumstances. As a result, it is important for investors to consider the possibility of a wide range of outcomes with respect to the appraisal process.

NOTE 12 – LONG-TERM DEBT

Capitalization

A summary of long-term debt at December 31 follows (in thousands):

	2013	2012
Term Loan Facility, net of unamortized original issue discount of $6.4 million at December 31, 2013 and $7.8 million at December 31, 2012	$777,197	$781,694
Notes	550,000	550,000
ABL Facility	256,100	320,700
Capital lease obligations	5	609
Other	4,311	4,645
Total debt, average life of 5 years (weighted average rate 5.4% for 2013 and 5.9% for 2012)	1,587,613	1,657,648
Amounts due within one year	(8,222)	(8,942)
Long-term debt	$1,579,391	$1,648,706

The following table summarizes scheduled maturities of long-term debt for the years 2014 through 2018 (in thousands):

	Term Loan Facility	Notes	ABL Facility	Capital leases	Other	Total
2014	$ 7,875	$ –	$–	$ 5	$342	$8,222
2015	7,875	–	–	–	3,836	11,711
2016	7,875	–	–	–	123	7,998
2017	7,875	–	–	–	10	7,885
2018	752,062	–	256,100	–	–	1,008,162

The estimated fair value of the Company's long-term debt approximated $1.6 billion at both December 31, 2013 and December 31, 2012. See Note 17.

Credit facilities and notes

In connection with the RehabCare Merger, the Company entered into the Credit Facilities and issued the Notes. In 2011, the Company used proceeds from the Credit Facilities and the Notes to pay the Merger Consideration, repay all amounts outstanding under the Company's and RehabCare's previous credit facilities and to pay transaction costs. The amounts outstanding under the Company's and RehabCare's former credit facilities that were repaid at the RehabCare Merger closing were $390.0 million and $345.4 million, respectively.

The agreements governing the Credit Facilities and the indenture governing the Notes include a number of restrictive covenants that, among other things and subject to certain exceptions and baskets, impose operating and financial restrictions on the Company and certain of its subsidiaries. The Company's ability to pay dividends is limited to certain restricted payment baskets, which may expand based upon accumulated earnings. In addition, the Company is required to comply with a minimum fixed charge coverage ratio and a maximum total leverage ratio under the Credit Facilities. The financing agreements governing the Credit Facilities and the indenture governing the Notes also contain customary affirmative covenants and events of default. The Company was in compliance with the terms of the Credit Facilities and the indenture governing the Notes at December 31, 2013.

All obligations under the Credit Facilities are fully and unconditionally guaranteed, subject to certain customary release provisions, by substantially all of the Company's existing and future direct and indirect domestic 100% owned subsidiaries, as well as certain non-100% owned domestic subsidiaries as the Company may determine from time to time in its sole discretion. The Notes are fully and unconditionally guaranteed, subject to certain customary release provisions, by substantially all of the Company's domestic 100% owned subsidiaries. In addition, the Credit Facilities are collateralized by substantially all of the Company's assets, including certain owned real property.

KINDRED HEALTHCARE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 12 – LONG-TERM DEBT (Continued)

Credit facilities and notes (Continued)

In August 2013, the Company completed amendments and restatements to the Credit Facilities to increase its borrowing capacity and to modify certain covenants to improve its financial flexibility. The amendments include, among other things, the following changes: (a) refreshing the option to increase the credit capacity in the aggregate between the Credit Facilities by $250 million; (b) establishing the option to further increase the credit capacity between the Credit Facilities upon satisfaction of a secured leverage ratio; (c) extending the maturity of the ABL Facility by two years to June 2018; (d) eliminating the annual and cumulative limitations on acquisitions; (e) raising to $150 million the Company's basket for paying cash dividends, buying back stock and making other restricted payments; and (f) easing the restrictions on the Company's ability to make investments and enter into other joint venture arrangements. The interest rate pricing levels were not changed in connection with the amendments.

In May 2013, the Company completed an amendment and restatement of its Term Loan Facility to reduce its annual interest cost by 100 basis points. The applicable interest rate on the Term Loan Facility was reduced by 50 basis points to LIBOR plus 325 basis points (previously LIBOR plus 375 basis points). In addition, the LIBOR floor was reduced to 1.00% from 1.50%.

The Company recorded fees associated with the amendments of $0.5 million during 2013, which are included in other operating expenses in the accompanying consolidated statement of operations. The Company also recorded charges associated with the amendments and restatements of $1.5 million during 2013, which are included in interest expense in the accompanying consolidated statement of operations.

The Credit Facilities also included an option to increase the credit capacity in an aggregate amount between the two facilities by $200 million. In October 2012, the Company exercised this option to increase the credit capacity by completing modifications to increase by $100 million its Term Loan Facility and expand by $100 million the borrowing capacity under its ABL Facility. The additional Term Loan Facility borrowings were issued at 97.5% and the net proceeds were used to pay down a portion of the outstanding balance under the ABL Facility. In connection with the $100 million expansion of the borrowing capacity under its ABL Facility, the Company also modified the accounts receivable borrowing base which will allow the Company to more easily access the full amount of the available credit. The other terms of the Term Loan Facility and the ABL Facility were unchanged.

Interest rate swaps

In December 2011, the Company entered into two interest rate swap agreements to hedge its floating interest rate on an aggregate of $225 million of debt outstanding under its Term Loan Facility. The interest rate swaps have an effective date of January 9, 2012, and expire on January 11, 2016. The Company is required to make payments based upon a fixed interest rate of 1.8925% calculated on the notional amount of $225 million. In exchange, the Company will receive interest on $225 million at a variable interest rate that is based upon the three-month LIBOR, subject to a minimum rate of 1.5%. The Company determined the interest rate swaps continue to qualify for cash flow hedge accounting treatment at December 31, 2013. However, the Term Loan Facility amendment completed in May 2013 reduced the LIBOR floor from 1.5% to 1.0%, therefore some partial ineffectiveness will result through the expiration of the interest rate swap agreement. For the year ended December 31, 2013, there was $0.4 million of ineffectiveness recognized related to the interest rate swaps recorded in interest expense. The fair value of the interest rate swaps recorded in other accrued liabilities was $1.4 million and $2.6 million at December 31, 2013 and December 31, 2012, respectively.

NOTE 13 – CONTINGENCIES

Management continually evaluates contingencies based upon the best available information. In addition, allowances for losses are provided currently for disputed items that have continuing significance, such as certain third party reimbursements and deductions that continue to be claimed in current cost reports and tax returns.

Management believes that allowances for losses have been provided to the extent necessary and that its assessment of contingencies is reasonable.

Principal contingencies are described below:

Revenues – Certain third party payments are subject to examination by agencies administering the various reimbursement programs. The Company is contesting certain issues raised in audits of prior year cost reports.

KINDRED HEALTHCARE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 13 – CONTINGENCIES (Continued)

Professional liability risks – The Company has provided for losses for professional liability risks based upon management's best available information including actuarially determined estimates. Ultimate claims costs may differ from the provisions for loss. See Notes 3 and 9.

Income taxes – The Company is subject to various federal and state income tax audits in the ordinary course of business. Such audits could result in increased tax payments, interest and penalties.

Litigation – The Company is a party to various legal actions and regulatory and other governmental and internal audits and investigations in the ordinary course of business (including investigations resulting from the Company's obligation to self-report suspected violations of law by the Company). The Company cannot predict the ultimate outcome of pending litigation and regulatory and other governmental and internal audits and investigations. These matters could potentially subject the Company to sanctions, damages, recoupments, fines and other penalties, some of which may not be covered by insurance. The U.S. Department of Justice (the "DOJ"), CMS or other federal and state enforcement and regulatory agencies may conduct additional investigations related to the Company's businesses in the future which may, either individually or in the aggregate, have a material adverse effect on the Company's business, financial position, results of operations and liquidity. See Note 20.

Other indemnifications – In the ordinary course of business, the Company enters into contracts containing standard indemnification provisions and indemnifications specific to a transaction, such as a disposal of an operating facility. These indemnifications may cover claims related to employment-related matters, governmental regulations, environmental issues and tax matters, as well as patient, third party payor, supplier and contractual relationships. Obligations under these indemnities generally are initiated by a breach of the terms of a contract or by a third party claim or event.

NOTE 14 – CAPITAL STOCK

Dividends

In August 2013, the Company's Board of Directors approved the initiation of a quarterly cash dividend to its shareholders of $0.12 per common share that was paid on September 9, 2013 to shareholders of record as of the close of business on August 19, 2013. A subsequent quarterly cash dividend of $0.12 per common share was paid on December 9, 2013 to shareholders of record as of the close of business on November 18, 2013. In February 2014, the Company's Board of Directors approved a quarterly cash dividend to its shareholders of $0.12 per common share to be paid on March 27, 2014 to shareholders of record as of the close of business on March 6, 2014. Future declarations of quarterly dividends will be subject to the approval of the Company's Board of Directors.

Equity compensation plans

In May 2011, the shareholders of the Company approved an additional three million shares of common stock that could be issued under the Company’s incentive compensation plans to Company employees. In May 2012, the shareholders of the Company approved an additional 200,000 shares of common stock that could be issued under the Company’s equity compensation plan to the Company’s non-employee directors.

Plan descriptions

The Company maintains plans under which approximately four million service-based restricted shares, performance-based restricted shares and options to purchase common stock may be granted to directors, officers and other key employees. Exercise provisions vary, but most stock options are exercisable in whole or in part beginning one to four years after grant and ending seven to ten years after grant. Shares of common stock available for future grants were 1,033,186, 2,301,320 and 3,513,109 at December 31, 2013, 2012 and 2011, respectively.

Stock options

There were no stock option grants during the three years ended December 31, 2013.

Compensation expense related to stock was immaterial for the year ended December 31, 2013, $0.1 million ($0.1 million net of income taxes) for the year ended December 31, 2012 and $0.3 million ($0.2 million net of income taxes) for the year ended December 31, 2011.

KINDRED HEALTHCARE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 14 – CAPITAL STOCK (Continued)

Stock options (Continued)

Activity in the various plans is summarized below:

	Shares under option	Option price per share	Weighted average exercise price
Balances, December 31, 2012	1,763,497	$6.10 to $25.83	$ 18.16
Exercised	(102,226)	6.49 to 15.06	9.82
Canceled	(638,670)	6.10 to 25.83	16.91
Balances, December 31, 2013	1,022,601	$11.53 to $25.83	$ 19.77

The intrinsic value of the stock options exercised during 2013, 2012 and 2011 approximated $0.4 million, $0.2 million and $2.8 million, respectively. Cash received from stock option exercises in 2013, 2012 and 2011 totaled $0.5 million, $0.1 million and $3.0 million, respectively.

A summary of stock options outstanding at December 31, 2013 follows:

	Options outstanding			Options exercisable	
Range of exercise prices	Number outstanding at December 31, 2013	Weighted average remaining contractual life	Weighted average exercise price	Number exercisable at December 31, 2013	Weighted average exercise price
$11.53 to $15.06	267,832	3 years	$ 14.47	267,832	$ 14.47
$18.26 to $22.72	480,027	1 year	19.40	480,027	19.40
$23.25 to $25.83	274,742	1 year	25.58	274,742	25.58
	1,022,601	1 year	$ 19.77	1,022,601	$ 19.77

The intrinsic value of the stock options outstanding and stock options that are exercisable as of December 31, 2013 each approximated $1.8 million.

Service-based restricted shares

At December 31, 2013, unearned compensation costs related to non-vested service-based restricted shares aggregated $9.0 million. These costs will be expensed over the remaining weighted average vesting period of approximately two years. Compensation expense related to these awards approximated $9.6 million ($5.8 million net of income taxes) for the year ended December 31, 2013, $7.6 million ($4.6 million net of income taxes) for the year ended December 31, 2012 and $7.1 million ($4.4 million net of income taxes) for the year ended December 31, 2011.

A summary of non-vested service-based restricted shares follows:

	Non-vested service-based restricted shares	Weighted average fair value at date of grant
Balances, December 31, 2012	1,566,969	$ 13.17
Granted	822,633	11.44
Vested	(541,100)	13.64
Canceled	(67,148)	13.12
Balances, December 31, 2013	1,781,354	$ 12.23

The fair value of restricted shares vested during 2013, 2012 and 2011 was $6.6 million, $3.2 million and $7.0 million, respectively.

F-38

KINDRED HEALTHCARE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 14 – CAPITAL STOCK (Continued)

Performance-based restricted shares

Performance-based restricted share awards vest over a three-year period based upon the attainment of various performance measures in each performance period. Compensation expense related to these awards approximated $1.6 million ($1.0 million net of income taxes) for the year ended December 31, 2013, $3.2 million ($2.0 million net of income taxes) for the year ended December 31, 2012 and $5.4 million ($3.3 million net of income taxes) for the year ended December 31, 2011.

A summary of non-vested performance-based restricted shares follows:

	Non-vested performance-based restricted shares	Weighted average fair value at date of grant
Balances, December 31, 2012	836,749	
Granted	542,500	$ 10.81
Vested	(344,429)	9.39
Canceled	(66,761)	$ 10.23
Balances, December 31, 2013	968,059	

The performance measures and fair value for each vesting period of a performance-based restricted share award are established annually. The performance measures and fair value for the non-vested performance-based restricted shares have not been established for vesting periods with performance measures determined after December 31, 2013.

NOTE 15 – EMPLOYEE BENEFIT PLANS

The Company maintains defined contribution retirement plans covering employees who meet certain minimum eligibility requirements. Benefits are determined as a percentage of a participant’s contributions and generally are vested based upon length of service. Retirement plan expense was $1.1 million for 2013, $4.1 million for 2012 and $5.5 million for 2011. Amounts equal to retirement plan expense are funded annually.

NOTE 16 – ACCRUED LIABILITIES

A summary of other accrued liabilities at December 31 follows (in thousands):

	2013	2012
Accrued litigation	$40,629	$9,309

Patient accounts	38,386	43,124
Taxes other than income	37,408	46,114
Accrued interest	11,957	14,096
Other	18,115	24,561
	$146,495	$137,204

F-39

KINDRED HEALTHCARE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 17 – FINANCIAL INSTRUMENTS AND FAIR VALUE MEASUREMENTS

The Company follows the provisions of the authoritative guidance for fair value measurements, which addresses how companies should measure fair value when they are required to use a fair value measure for recognition or disclosure purposes under generally accepted accounting principles.

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The guidance related to fair value measures establishes a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The guidance describes three levels of inputs that may be used to measure fair value:

Level 1 Quoted prices in active markets for identical assets or liabilities. Level 1 assets and liabilities include debt and equity securities and derivative contracts that are traded in an active exchange market, as well as certain U.S. Treasury, other U.S. Government and agency asset backed debt securities that are highly liquid and are actively traded in over-the-counter markets.

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, and other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

KINDRED HEALTHCARE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 17 – FINANCIAL INSTRUMENTS AND FAIR VALUE MEASUREMENTS (Continued)

The Company's assets and liabilities measured at fair value on a recurring and non-recurring basis and any associated losses for the years ended December 31, 2013 and 2012 are summarized below (in thousands):

	Fair value measurements			Assets/ liabilities at fair value	Total losses
	Level 1	Level 2	Level 3		
December 31, 2013:					
Recurring:					
Assets:					
Available-for-sale debt securities:					
Corporate bonds	$–	$20,615	$–	$ 20,615	$–
Debt securities issued by U.S. government agencies	–	19,527	–	19,527	–
U.S. Treasury notes	7,638	–	–	7,638	–
	7,638	40,142	–	47,780	–
Available-for-sale equity securities	9,420	–	–	9,420	–
Money market funds	12,080	–	–	12,080	–
Certificates of deposit	–	3,950	–	3,950	–
Total available-for-sale investments	29,138	44,092	–	73,230	–
Deposits held in money market funds	643	4,238	–	4,881	–
	$29,781	$48,330	$–	$ 78,111	$–
Liabilities:					
Interest rate swaps	$–	$(1,437)	$–	$ (1,437)	$–
Non-recurring:					
Assets:					
Hospitals available for sale	$–	$–	$3,358	$ 3,358	$(9,964)
Property and equipment	–	–	2,888	2,888	(11,743)
Goodwill – home health	–	–	112,378	112,378	(76,082)
	$–	$–	$118,624	$ 118,624	$(97,789)
Liabilities	$–	$–	$–	$ –	$–
December 31, 2012:					
Recurring:					
Assets:					
Available-for-sale debt securities:					
Corporate bonds	$–	$21,454	$–	$ 21,454	$–
Debt securities issued by U.S. government agencies	–	16,713	–	16,713	–
U.S. Treasury notes	6,134	–	–	6,134	–
	6,134	38,167	–	44,301	–
Available-for-sale equity securities	13,025	–	–	13,025	–
Money market funds	7,438	–	–	7,438	–
Certificates of deposit	–	5,104	–	5,104	–
Total available-for-sale investments	26,597	43,271	–	69,868	–

Deposits held in money market funds	347	3,978	–	4,325	–
	$26,944	$47,249	$–	$ 74,193	$–
Liabilities:					
Interest rate swaps	$–	$(2,649)	$–	$ (2,649)	$–
Non-recurring:					
Assets:					
Hospital available for sale	$–	$–	$105	$ 105	$(569)
Property and equipment	–	–	286	286	(3,630)
Goodwill – skilled nursing rehabilitation services	–	–	–	–	(107,899)
Intangible assets – Medicare license	–	–	–	–	(2,530)
	$–	$–	$391	$ 391	$(114,628)
Liabilities	$–	$–	$–	$ –	$–

F-41

KINDRED HEALTHCARE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 17 – FINANCIAL INSTRUMENTS AND FAIR VALUE MEASUREMENTS (Continued)

Recurring measurements

The Company's available-for-sale investments held by its limited purpose insurance subsidiary consist of debt securities, equities, money market funds and certificates of deposit. These available-for-sale investments and the insurance subsidiary's cash and cash equivalents of $175.7 million as of December 31, 2013 and $136.5 million as of December 31, 2012, classified as insurance subsidiary investments, are maintained for the payment of claims and expenses related to professional liability and workers compensation risks.

The Company also has available-for-sale investments totaling $3.6 million as of December 31, 2013 and $3.7 million as of December 31, 2012 related to a deferred compensation plan that is maintained for certain of the Company's current and former employees.

The fair value of actively traded debt and equity securities and money market funds are based upon quoted market prices and are generally classified as Level 1. The fair value of inactively traded debt securities and certificates of deposit are based upon either quoted market prices of similar securities or observable inputs such as interest rates using either a market or income valuation approach and are generally classified as Level 2. The Company's investment advisors obtain and review pricing for each security. The Company is responsible for the determination of fair value and as such the Company reviews the pricing information from its advisors in determining reasonable estimates of fair value. Based upon the Company's internal review procedures, there were no adjustments to the prices during 2013 or 2012.

The Company's deposits held in money market funds consist primarily of cash and cash equivalents for the Company's insurance programs and for general corporate purposes.

The fair value of the derivative liability associated with the interest rate swaps is estimated using industry-standard valuation models, which are Level 2 measurements. Such models project future cash flows and discount the future amounts to a present value using market-based observable inputs, including interest rate curves. See Note 12.

The following table presents the carrying amounts and estimated fair values of the Company's financial instruments. The carrying value is equal to fair value for financial instruments that are based upon quoted market prices or current market rates. The Company's long-term debt is based upon Level 2 inputs.

	2013		2012	
(In thousands)	Carrying value	Fair value	Carrying value	Fair value
Cash and cash equivalents	$35,972	$35,972	$50,007	$50,007
Cash–restricted	3,713	3,713	5,197	5,197
Insurance subsidiary investments	245,389	245,389	202,592	202,592

Tax refund escrow investments	205	205	207	207
Long-term debt, including amounts due within one year (excluding capital lease obligations totaling $0.6 million at December 31, 2012)	1,587,608	1,630,192	1,657,039	1,630,649

Non-recurring measurements

In connection with the preparation of the Company's operating results for the fourth quarter of 2013, the Company determined that the impact of regulatory changes announced on November 22, 2013 related to the Company's home health reporting unit was an impairment triggering event. The regulatory changes resulted from action by CMS to, among other changes, rebase home health payment rates by reducing the national standardized 60 day episode payment rate by 2.8% in each of the next four years beginning January 1, 2014. The Company tested the recoverability of the home health reporting unit goodwill, other intangible assets and long-lived assets. The Company recorded a pretax impairment charge aggregating $76.1 million in the fourth quarter of 2013 to reflect the amount by which the carrying value of its home health reporting unit exceeded the estimated fair value. The Company determined that other intangible assets and long-lived assets in the home health reporting unit were not impaired.

F-42

KINDRED HEALTHCARE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 17 – FINANCIAL INSTRUMENTS AND FAIR VALUE MEASUREMENTS (Continued)

Non-recurring measurements (Continued)

In the fourth quarter of 2013, the Company reviewed the long-lived assets related to the planned divestiture and pending offer for a TC hospital held for sale and determined its property and equipment was impaired. As a result, the Company recorded a pretax loss on divestiture of $8.6 million in discontinued operations. The fair value of the assets were measured using a Level 3 input of the pending offer.

During the year ended December 31, 2013, the Company recorded an asset impairment charge of $7.9 million related to leasehold improvements of the 2013 Expiring Facilities. These charges reflect the amount by which the carrying value exceeded its estimated fair value. The fair value of property and equipment was measured using Level 3 inputs such as replacement costs adjusted for depreciation, economic obsolescence and inflation.

During the year ended December 31, 2013, the Company reduced the fair value of a hospital held for sale based upon a pending offer, which resulted in a pretax loss of $1.4 million in other operating expenses in continuing operations. The fair value of the assets were measured using a Level 3 input of the pending offer.

In July 2011, CMS issued the 2011 CMS Rules. The Company recorded pretax impairment charges aggregating $3.8 million (including $1.1 million in continuing operations) and $3.0 million (including $1.0 million in continuing operations) for the years ended December 31, 2013 and December 31, 2012, respectively, for property and equipment expenditures in the nursing center asset groups that were determined to be impaired by the 2011 CMS Rules. These charges reflected the amount by which the carrying value of certain assets exceeded their estimated fair value. The fair value of property and equipment was measured using Level 3 inputs such as replacement costs factoring in depreciation, economic obsolesce and inflation trends.

At September 30, 2012, the Company reviewed the indefinite-lived and long-lived assets related to the divestiture of a TC hospital and determined its indefinite-lived Medicare license and property and equipment were impaired. As a result, the Company recorded a pretax loss on divestiture of $3.2 million in discontinued operations. The fair value of the assets were measured using a Level 3 input of the offer.

In September 2012, the Company reduced the fair value of a hospital held for sale based upon a pending offer, which resulted in a pretax loss of $0.5 million recorded in discontinued operations. The primary reason for the reduction was the general deterioration in the real estate market where the hospital is located. The fair value of the asset was measured using a Level 3 input of the pending offer.

In connection with the preparation of the Company’s operating results for the fourth quarter of 2012, the Company determined that the impact of regulatory changes related to the Company’s skilled nursing rehabilitation services reporting unit was a triggering event in the fourth quarter of 2012, simultaneously with the Company’s annual impairment test. The regulatory changes included a new pre-payment manual medical review process for certain Medicare Part B services exceeding $3,700 which became effective October 1, 2012 and new rules which became effective April 1, 2013 under the Taxpayer Relief Act that reduced Medicare Part B payments by an additional 25% for subsequent procedures when multiple therapy services are provided on the same day. The Company tested the recoverability of its skilled nursing rehabilitation services reporting unit goodwill, other intangible assets and long-lived assets. The Company recorded a pretax impairment charge aggregating $107.9 million (which represented the entire skilled nursing rehabilitation services reporting unit goodwill) in the fourth quarter of 2012 to reflect the amount by which the carrying value of goodwill exceeded the estimated fair value. The impairment charge did not impact the Company’s cash flows or liquidity. The fair value of goodwill was measured using both Level 2 and Level 3 inputs such as discounted cash flows, market multiple analysis, replacement costs and sales comparison methodologies.

F-43

KINDRED HEALTHCARE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 18 – NONCONTROLLING INTERESTS

As of December 31, 2013, the Company had ownership ranging from 51% to 99% in various joint ventures.

During 2013, the Company did not complete any buyouts of noncontrolling interests. During 2012, the Company completed various partial buyouts of noncontrolling interests. During 2011, the Company completed two joint venture buyouts, one a full buyout and the other a partial buyout, of noncontrolling interests. In accordance with the authoritative guidance of noncontrolling interests, these payments have been accounted for as equity transactions.

The following table reflects the effects on the Company's equity for the years ended December 31, 2012 and 2011 related to these buyouts in the Company's ownership interest in consolidated subsidiaries (amounts in thousands):

December 31, 2012:	
Decrease in carrying value of noncontrolling interests for purchase of noncontrolling interests in subsidiaries	$2,053
Increase in Company's capital in excess of par value for purchase of noncontrolling interests in subsidiaries	(1,334)
Total cash consideration paid in exchange for purchase of noncontrolling interests	$719

December 31, 2011:	
Decrease in carrying value of noncontrolling interests for purchase of noncontrolling interests in subsidiaries	$6,297

Decrease in Company’s capital in excess of par value for purchase of noncontrolling interests in subsidiaries	995
Total cash consideration paid in exchange for purchase of noncontrolling interests	$7,292

F-44

KINDRED HEALTHCARE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 19 – CONDENSED CONSOLIDATING FINANCIAL INFORMATION

The accompanying condensed consolidating financial information has been prepared and presented pursuant to SEC Regulation S-X, Rule 3-10, “Financial Statements of Guarantors and Issuers of Guaranteed Securities Registered or Being Registered.” The Company’s Notes issued on June 1, 2011, are fully and unconditionally guaranteed, subject to certain customary release provisions, by substantially all of the Company’s domestic 100% owned subsidiaries. The equity method has been used with respect to the parent company’s investment in subsidiaries.

The following condensed consolidating financial data present the financial position of the parent company/issuer, the guarantor subsidiaries and the non-guarantor subsidiaries as of December 31, 2013 and December 31, 2012, and the respective results of operations and cash flows for the three years ended December 31, 2013.

Condensed Consolidating Statement of Operations

	Year ended December 31, 2013				
(In thousands)	Parent company/ issuer	Guarantor subsidiaries	Non-guarantor subsidiaries	Consolidating and eliminating adjustments	Consolidated
Revenues	$–	$4,485,614	$ 530,982	$ (116,086)	$4,900,510
Salaries, wages and benefits	–	2,799,131	189,356	–	2,988,487
Supplies	–	311,374	17,625	–	328,999
Rent	–	280,231	37,846	–	318,077
Other operating expenses	–	853,252	248,717	(116,086)	985,883
Other (income) expense	–	31	(1,471)	–	(1,440)
Impairment charges	–	77,193	–	–	77,193
Depreciation and amortization	–	146,707	10,622	–	157,329
Management fees	–	(12,908)	12,908	–	–
Intercompany interest (income) expense from affiliates	(106,068)	70,995	35,073	–	–
Interest expense	107,785	52	212	–	108,049

Investment income	–	(235)	(3,816)	–	(4,051)
Equity in net loss of consolidating affiliates	167,455	–	–	(167,455)	–
	169,172	4,525,823	547,072	(283,541)	4,958,526
Loss from continuing operations before income taxes	(169,172)	(40,209)	(16,090)	167,455	(58,016)
Provision (benefit) for income taxes	(680)	(14,059)	1,535	–	(13,204)
Loss from continuing operations	(168,492)	(26,150)	(17,625)	167,455	(44,812)
Discontinued operations, net of income taxes:					
Loss from operations	–	(36,136)	–	–	(36,136)
Loss on divestiture of operations	–	(83,887)	–	–	(83,887)
Loss from discontinued operations	–	(120,023)	–	–	(120,023)
Net loss	(168,492)	(146,173)	(17,625)	167,455	(164,835)
Earnings attributable to noncontrolling interests	–	–	(3,657)	–	(3,657)
Loss attributable to Kindred	$(168,492)	$(146,173)	$ (21,282)	$ 167,455	$ (168,492)
Comprehensive loss	$(166,862)	$(146,173)	$ (17,859)	$ 167,689	$ (163,205)
Comprehensive loss attributable to Kindred	$(166,862)	$(146,173)	$ (21,516)	$ 167,689	$ (166,862)

KINDRED HEALTHCARE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 19 – CONDENSED CONSOLIDATING FINANCIAL INFORMATION (Continued)

Condensed Consolidating Statement of Operations (Continued)

	Year ended December 31, 2012				
(In thousands)	Parent company/ issuer	Guarantor subsidiaries	Non-guarantor subsidiaries	Consolidating and eliminating adjustments	Consolidated
Revenues	$–	$4,548,839	$ 480,117	$ (100,447)	$4,928,509
Salaries, wages and benefits	–	2,837,587	174,734	–	3,012,321
Supplies	–	307,014	36,088	–	343,102
Rent	–	279,526	30,652	–	310,178
Other operating expenses	–	802,638	212,081	(100,447)	914,272
Other income	–	(12,660)	–	–	(12,660)
Impairment charges	–	108,953	–	–	108,953
Depreciation and amortization	–	150,774	11,911	–	162,685
Management fees	(218)	(12,483)	12,701	–	–
Intercompany interest (income) expense from affiliates	(113,745)	80,456	33,289	–	–
Interest expense	107,243	2	630	–	107,875
Investment income	–	(116)	(881)	–	(997)
Equity in net loss of consolidating affiliates	44,651	–	–	(44,651)	–
	37,931	4,541,691	511,205	(145,098)	4,945,729
Income (loss) from continuing operations	(37,931)	7,148	(31,088)	44,651	(17,220)

before income taxes					
Provision (benefit) for income taxes	2,436	32,895	(5,624)	–	29,707
Loss from continuing operations	(40,367)	(25,747)	(25,464)	44,651	(46,927)
Discontinued operations, net of income taxes:					
Income from operations	–	12,348	–	–	12,348
Loss on divestiture of operations	–	(4,745)	–	–	(4,745)
Income from discontinued operations	–	7,603	–	–	7,603
Net loss	(40,367)	(18,144)	(25,464)	44,651	(39,324)
Earnings attributable to noncontrolling interests	–	–	(1,043)	–	(1,043)
Loss attributable to Kindred	$(40,367)	$(18,144)	$ (26,507)	$ 44,651	$ (40,367)
Comprehensive loss	$(40,780)	$(18,490)	$ (24,627)	$ 44,160	$ (39,737)
Comprehensive loss attributable to Kindred	$(40,780)	$(18,490)	$ (25,670)	$ 44,160	$ (40,780)

F-46

KINDRED HEALTHCARE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 19 – CONDENSED CONSOLIDATING FINANCIAL INFORMATION (Continued)

Condensed Consolidating Statement of Operations (Continued)

	Year ended December 31, 2011				
(In thousands)	Parent company/ issuer	Guarantor subsidiaries	Non-guarantor subsidiaries	Consolidating and eliminating adjustments	Consolidated
Revenues	$–	$3,999,991	$ 299,760	$ (87,225)	$4,212,526
Salaries, wages and benefits	–	2,481,238	95,435	–	2,576,673
Supplies	–	293,166	20,936	–	314,102
Rent	–	263,627	17,703	–	281,330
Other operating expenses	–	788,360	151,402	(87,225)	852,537
Other income	–	(13,180)	–	–	(13,180)
Impairment charges	–	73,554	–	–	73,554
Depreciation and amortization	–	121,283	7,592	–	128,875
Management fees	(555)	(8,014)	8,569	–	–
Intercompany interest (income) expense from affiliates	(88,234)	68,650	19,584	–	–
Interest expense	80,181	297	422	–	80,900
Investment income	–	(70)	(918)	–	(988)
Equity in net loss of consolidating affiliates	59,083	–	–	(59,083)	–
	50,475	4,068,911	320,725	(146,308)	4,293,803
Loss from continuing operations before income	(50,475)	(68,920)	(20,965)	59,083	(81,277)

taxes					
Provision (benefit) for income taxes	3,006	(11,690)	(5,357)	–	(14,041)
Loss from continuing operations	(53,481)	(57,230)	(15,608)	59,083	(67,236)
Income from discontinued operations, net of income taxes	–	13,517	–	–	13,517
Net loss	(53,481)	(43,713)	(15,608)	59,083	(53,719)
Loss attributable to noncontrolling interests	–	–	238	–	238
Loss attributable to Kindred	$(53,481)	$(43,713)	$ (15,370)	$ 59,083	$ (53,481)
Comprehensive loss	$(55,085)	$(45,006)	$ (15,919)	$ 60,687	$ (55,323)
Comprehensive loss attributable to Kindred	$(55,085)	$(45,006)	$ (15,681)	$ 60,687	$ (55,085)

F-47

KINDRED HEALTHCARE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 19 – CONDENSED CONSOLIDATING FINANCIAL INFORMATION (Continued)

Condensed Consolidating Balance Sheet

(In thousands)	As of December 31, 2013 Parent company/ issuer	Guarantor subsidiaries	Non-guarantor subsidiaries	Consolidating and eliminating adjustments	Consolidated
ASSETS					
Current assets:					
Cash and cash equivalents	$–	$23,535	$ 12,437	$–	$35,972
Cash – restricted	–	3,713	–	–	3,713
Insurance subsidiary investments	–	–	96,295	–	96,295
Accounts receivable, net	–	819,103	97,426	–	916,529
Inventories	–	22,870	2,910	–	25,780
Deferred tax assets	–	37,920	–	–	37,920
Income taxes	–	36,083	763	–	36,846
Other	–	40,679	2,994	–	43,673
	–	983,903	212,825	–	1,196,728
Property and equipment, net	–	878,284	48,291	–	926,575
Goodwill	–	700,278	291,824	–	992,102
Intangible assets, net	–	400,313	22,990	–	423,303
Assets held for sale	–	20,978	–	–	20,978
Insurance subsidiary investments	–	–	149,094	–	149,094
Investment in subsidiaries	55,609	–	–	(55,609)	–
Intercompany	2,580,391	–	–	(2,580,391)	–
Deferred tax assets	–	6,193	10,850	–	17,043
Other	43,332	104,113	72,601	–	220,046
	$2,679,332	$3,094,062	$ 808,475	$(2,636,000)	$3,945,869

LIABILITIES AND EQUITY					
Current liabilities:					
Accounts payable	$–	$158,497	$ 23,275	$–	$181,772
Salaries, wages and other compensation	–	314,413	46,779	–	361,192
Due to third party payors	–	33,747	–	–	33,747
Professional liability risks	–	3,339	57,654	–	60,993
Other accrued liabilities	13,378	122,381	10,736	–	146,495
Long-term debt due within one year	7,875	109	238	–	8,222
	21,253	632,486	138,682	–	792,421
Long-term debt	1,575,422	249	3,720	–	1,579,391
Intercompany	–	2,226,940	353,451	(2,580,391)	–
Professional liability risks	–	62,115	184,115	–	246,230
Deferred credits and other liabilities	–	129,260	77,351	–	206,611
Commitments and contingencies					
Equity:					
Stockholders' equity	1,082,657	43,012	12,597	(55,609)	1,082,657
Noncontrolling interests	–	–	38,559	–	38,559
	1,082,657	43,012	51,156	(55,609)	1,121,216
	$2,679,332	$3,094,062	$ 808,475	$(2,636,000)	$3,945,869

F-48

KINDRED HEALTHCARE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 19 – CONDENSED CONSOLIDATING FINANCIAL INFORMATION (Continued)

Condensed Consolidating Balance Sheet (Continued)

(In thousands)	As of December 31, 2012 Parent company/ issuer	Guarantor subsidiaries	Non-guarantor subsidiaries	Consolidating and eliminating adjustments	Consolidated
ASSETS					
Current assets:					
Cash and cash equivalents	$–	$37,370	$ 12,637	$–	$50,007
Cash – restricted	–	5,197	–	–	5,197
Insurance subsidiary investments	–	–	86,168	–	86,168
Accounts receivable, net	–	940,524	98,081	–	1,038,605
Inventories	–	29,023	2,998	–	32,021
Deferred tax assets	–	12,663	–	–	12,663
Income taxes	–	13,187	386	–	13,573
Other	–	15,118	20,414	–	35,532
	–	1,053,082	220,684	–	1,273,766
Property and equipment, net	–	1,090,523	52,603	–	1,143,126
Goodwill	–	771,533	269,733	–	1,041,266
Intangible assets, net	–	417,092	22,675	–	439,767
Assets held for sale	–	4,131	–	–	4,131
Insurance subsidiary investments	–	–	116,424	–	116,424
Investment in subsidiaries	221,581	–	–	(221,581)	–
Intercompany	2,655,460	–	–	(2,655,460)	–
Deferred tax assets	1,040	–	13,932	(14,972)	–
Other	47,364	108,143	63,959	–	219,466
	$2,925,445	$3,444,504	$ 760,010	$(2,892,013)	$4,237,946

LIABILITIES AND EQUITY					
Current liabilities:					
Accounts payable	$168	$195,268	$ 15,232	$ –	$ 210,668
Salaries, wages and other compensation	–	345,223	43,786	–	389,009
Due to third party payors	–	35,420	–	–	35,420
Professional liability risks	–	3,623	50,465	–	54,088
Other accrued liabilities	16,724	111,113	9,367	–	137,204
Long-term debt due within one year	8,000	102	840	–	8,942
	24,892	690,749	119,690	–	835,331
Long-term debt	1,644,394	358	3,954	–	1,648,706
Intercompany	–	2,328,929	326,531	(2,655,460)	–
Professional liability risks	–	68,116	168,514	–	236,630
Deferred tax liabilities	–	24,736	–	(14,972)	9,764
Deferred credits and other liabilities	–	143,722	70,949	–	214,671
Commitments and contingencies					
Equity:					
Stockholders' equity	1,256,159	187,894	33,687	(221,581)	1,256,159
Noncontrolling interests	–	–	36,685	–	36,685
	1,256,159	187,894	70,372	(221,581)	1,292,844
	$2,925,445	$3,444,504	$ 760,010	$ (2,892,013)	$ 4,237,946

F-49

KINDRED HEALTHCARE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 19 – CONDENSED CONSOLIDATING FINANCIAL INFORMATION (Continued)

Condensed Consolidating Statement of Cash Flows

	Year ended December 31, 2013				
(In thousands)	Parent company/ issuer	Guarantor subsidiaries	Non-guarantor subsidiaries	Consolidating and eliminating adjustments	Consolidated
Net cash provided by (used in) operating activities	$(1,290)	$ 171,717	$ 28,985	$ –	$ 199,412
Cash flows from investing activities:					
Routine capital expenditures	–	(96,051)	(4,857)	–	(100,908)
Development capital expenditures	–	(11,206)	(618)	–	(11,824)
Acquisitions, net of cash acquired	–	(223,917)	(402)	–	(224,319)
Sale of assets	–	250,606	–	–	250,606
Purchase of insurance subsidiary investments	–	–	(46,127)	–	(46,127)
Sale of insurance subsidiary investments	–	–	49,954	–	49,954
Net change in insurance subsidiary cash and cash equivalents	–	–	(44,077)	–	(44,077)
Change in other investments	–	122	–	–	122
	–	(14,220)	–	14,220	–

Capital contribution to insurance subsidiary					
Other	–	376	–	–	376
Net cash used in investing activities	–	(94,290)	(46,127)	14,220	(126,197)
Cash flows from financing activities:					
Proceeds from borrowings under revolving credit	1,675,800	–	–	–	1,675,800
Repayment of borrowings under revolving credit	(1,740,400)	–	–	–	(1,740,400)
Repayment of other long-term debt	(5,938)	(102)	(836)	–	(6,876)
Payment of deferred financing costs	(1,666)	–	–	–	(1,666)
Distribution made to noncontrolling interests	–	–	(2,051)	–	(2,051)
Issuance of common stock	461	–	–	–	461
Dividends paid	(13,001)	–	–	–	(13,001)
Change in intercompany accounts	86,034	(91,643)	5,609	–	–
Capital contribution to insurance subsidiary	–	–	14,220	(14,220)	–
Other	–	483	–	–	483
Net cash provided by (used in) financing activities	1,290	(91,262)	16,942	(14,220)	(87,250)
Change in cash and cash equivalents	–	(13,835)	(200)	–	(14,035)
	–	37,370	12,637	–	50,007

Cash and cash equivalents at beginning of period					
Cash and cash equivalents at end of period	$–	$ 23,535	$ 12,437	$ –	$ 35,972

F-50

KINDRED HEALTHCARE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 19 – CONDENSED CONSOLIDATING FINANCIAL INFORMATION (Continued)

Condensed Consolidating Statement of Cash Flows (Continued)

	Year ended December 31, 2012				
(In thousands)	Parent company/ issuer	Guarantor subsidiaries	Non-guarantor subsidiaries	Consolidating and eliminating adjustments	Consolidated
Net cash provided by operating activities	$ 23,683	$ 210,573	$ 28,306	$ –	$ 262,562
Cash flows from investing activities:					
Routine capital expenditures	–	(106,075)	(9,100)	–	(115,175)
Development capital expenditures	–	(44,860)	(5,462)	–	(50,322)
Acquisitions, net of cash acquired	–	(178,212)	–	–	(178,212)
Sale of assets	–	1,260	–	–	1,260
Purchase of insurance subsidiary investments	–	–	(38,041)	–	(38,041)
Sale of insurance subsidiary investments	–	–	38,363	–	38,363
Net change in insurance subsidiary cash and cash equivalents	–	–	(21,285)	–	(21,285)
Change in other investments	–	1,465	–	–	1,465
Capital contribution to	–	(8,600)	–	8,600	–

insurance subsidiary					
Other	–	(539)	–	–	(539)
Net cash used in investing activities	–	(335,561)	(35,525)	8,600	(362,486)
Cash flows from financing activities:					
Proceeds from borrowings under revolving credit	1,784,300	–	–	–	1,784,300
Repayment of borrowings under revolving credit	(1,757,100)	–	–	–	(1,757,100)
Proceeds from issuance of term loan, net of discount	97,500	–	–	–	97,500
Repayment of other long-term debt	(7,000)	(95)	(3,569)	–	(10,664)
Payment of deferred financing costs	(1,465)	–	–	–	(1,465)
Contribution made by noncontrolling interests	–	–	200	–	200
Distribution made to noncontrolling interests	–	–	(3,829)	–	(3,829)
Purchase of noncontrolling interests	–	–	(719)	–	(719)
Issuance of common stock	147	–	–	–	147
Capital contribution to insurance subsidiary	–	–	8,600	(8,600)	–
Change in intercompany accounts	(140,065)	140,628	(563)	–	–
Net cash provided by	(23,683)	140,533	120	(8,600)	108,370

(used in) financing activities					
Change in cash and cash equivalents	–	15,545	(7,099)	–	8,446
Cash and cash equivalents at beginning of period	–	21,825	19,736	–	41,561
Cash and cash equivalents at end of period	$–	$ 37,370	$ 12,637	$ –	$ 50,007

F-51

KINDRED HEALTHCARE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 19 – CONDENSED CONSOLIDATING FINANCIAL INFORMATION (Continued)

Condensed Consolidating Statement of Cash Flows (Continued)

	Year ended December 31, 2011				
(In thousands)	Parent company/ issuer	Guarantor subsidiaries	Non-guarantor subsidiaries	Consolidating and eliminating adjustments	Consolidated
Net cash provided by (used in) operating activities	$(34,018)	$175,419	$ 15,805	$ (3,500)	$153,706
Cash flows from investing activities:					
Routine capital expenditures	–	(128,976)	(3,927)	–	(132,903)
Development capital expenditures	–	(87,655)	–	–	(87,655)
Acquisitions, net of cash acquired	–	(745,630)	30,172	–	(715,458)
Sale of assets	–	1,714	–	–	1,714
Purchase of insurance subsidiary investments	–	–	(35,623)	–	(35,623)
Sale of insurance subsidiary investments	–	–	46,307	–	46,307
Net change in insurance subsidiary cash and cash equivalents	–	–	(14,213)	–	(14,213)
Change in other investments	–	1,003	–	–	1,003
Other	–	(512)	–	–	(512)

Net cash provided by (used in) investing activities	–	(960,056)	22,716	–	(937,340)
Cash flows from financing activities:					
Proceeds from borrowings under revolving credit	2,126,800	–	–	–	2,126,800
Repayment of borrowings under revolving credit	(2,198,300)	–	–	–	(2,198,300)
Proceeds from issuance of senior unsecured notes	550,000	–	–	–	550,000
Proceeds from issuance of term loan, net of discount	693,000	–	–	–	693,000
Repayment of other long-term debt	(3,500)	(345,469)	(1,909)	–	(350,878)
Payment of deferred financing costs	(9,098)	–	–	–	(9,098)
Purchase of noncontrolling interests	–	–	(7,292)	–	(7,292)
Issuance of common stock	3,019	–	–	–	3,019
Change in intercompany accounts	(1,128,679)	1,134,763	(6,084)	–	–
Insurance subsidiary distribution	–	–	(3,500)	3,500	–
Other	776	–	–	–	776
Net cash provided by (used in) financing activities	34,018	789,294	(18,785)	3,500	808,027
	–	4,657	19,736	–	24,393

Change in cash and cash equivalents					
Cash and cash equivalents at beginning of period	–	17,168	–	–	17,168
Cash and cash equivalents at end of period	$–	$21,825	$ 19,736	$ –	$41,561

F-52

KINDRED HEALTHCARE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 20 – LEGAL AND REGULATORY PROCEEDINGS

The Company provides services in a highly regulated industry and is subject to various legal actions and regulatory and other governmental and internal audits and investigations from time to time. These matters could (1) require the Company to pay substantial damages, fines, penalties or amounts in judgments or settlements, which individually or in the aggregate could exceed amounts, if any, that may be recovered under the Company’s insurance policies where coverage applies and is available; (2) cause the Company to incur substantial expenses; (3) require significant time and attention from the Company’s management; (4) subject the Company to sanctions including possible exclusions from the Medicare and Medicaid programs; and (5) cause the Company to close or sell one or more facilities or otherwise modify the way the Company conducts business. The ultimate resolution of these matters, whether as a result of litigation or settlement, could have a material adverse effect on the Company’s business, financial position, results of operations and liquidity.

In accordance with authoritative accounting guidance related to loss contingencies, the Company records an accrued liability for litigation and regulatory matters that are both probable and reasonably estimable. Additional losses in excess of amounts accrued may be reasonably possible. The Company reviews loss contingencies that are reasonably possible and determines whether an estimate of the possible loss or range of loss, individually or in aggregate, can be disclosed in the Company’s consolidated financial statements. These estimates are based upon currently available information for those legal and regulatory proceedings in which the Company is involved, taking into account the Company’s best estimate of losses for those matters for which such estimate can be made. The Company’s estimates involve significant judgment, given that (1) these legal and regulatory proceedings are in early stages; (2) discovery may not be completed; (3) damages sought in these legal and regulatory proceedings can be unsubstantiated or indeterminate; (4) the matters present legal uncertainties or evolving areas of law; (5) there are often significant facts in dispute; and/or (6) there is a wide range of possible outcomes. Accordingly, the Company’s estimated loss or range of loss may change from time to time, and actual losses may be more or less than the current estimate. At this time, except as otherwise specifically noted, no estimate of the possible loss or range of loss, individually or in the aggregate, in excess of the amounts accrued, if any, can be made regarding the matters described below.

Set forth below are descriptions of the Company’s significant legal proceedings.

Medicare and Medicaid payment reviews, audits and investigations—as a result of the Company’s participation in the Medicare and Medicaid programs, the Company faces and is currently subject to various governmental and internal reviews, audits and investigations to verify the Company’s compliance with these programs and applicable laws and regulations. The Company is routinely subject to audits under various government programs, such as the CMS Recovery Audit Contractor program, in which third party firms engaged by CMS conduct extensive reviews of claims data and medical and other records to identify potential improper payments to healthcare providers under the Medicare program. In addition, the Company, like other hospital and nursing center operators and rehabilitation therapy service providers, is subject to ongoing investigations by the U.S. Department of Health and Human Services Office of Inspector General (the “OIG”), the DOJ and state attorneys general into the billing of rehabilitation and other services provided to Medicare and Medicaid patients, including whether rehabilitation therapy services were properly documented and billed, whether services provided were medically necessary and general compliance with conditions of participation in the Medicare and Medicaid programs. Private pay sources such as third party insurance and managed care entities also often reserve the right to conduct audits. The Company’s costs to respond to and defend any such reviews, audits and investigations are significant and are likely to increase in the current enforcement environment. These audits and investigations may require the Company to refund or retroactively adjust amounts that have been paid under the relevant government program or by other payors. Further, an adverse review, audit or investigation also could result in other adverse consequences, particularly if the underlying conduct is found to be pervasive or systemic. These consequences include (1) state or federal agencies imposing fines, penalties and other sanctions on the Company, (2) loss of the Company's right to participate in the Medicare or Medicaid programs or one or more third party payor networks, (3) indemnity claims asserted by customers and others for which the Company provides services, and (4) damage to the Company's reputation in various markets, which could adversely affect the Company's ability to attract patients, residents and employees.

Whistleblower lawsuits—the Company is also subject to qui tam or "whistleblower" lawsuits under the False Claims Act and comparable state laws for allegedly submitting fraudulent bills for services to the Medicare and Medicaid programs. These lawsuits can result in monetary damages, fines, attorneys' fees and the award of bounties to private qui tam plaintiffs who successfully bring these lawsuits and to the respective government programs. The Company also could be subject to civil penalties (including the loss of the Company's licenses to operate one or more facilities or healthcare activities), criminal penalties (for violations of certain laws and regulations), and exclusion of one or more facilities or healthcare activities from participation in the Medicare, Medicaid and other federal and state healthcare programs. The lawsuits are in various stages of adjudication or investigation and involve a wide variety of claims and potential outcomes.

KINDRED HEALTHCARE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 20 – LEGAL AND REGULATORY PROCEEDINGS (Continued)

A whistleblower lawsuit previously pending against RehabCare, a therapy services company acquired by the Company on June 1, 2011, and two unrelated defendant companies in federal district court for the Eastern District of Missouri was settled in January 2014. The lawsuit pertained to a subcontractor arrangement entered in 2006 by RehabCare and another unrelated therapy services provider, and fees paid under and in connection with the transaction. The complaint alleged civil violations of the federal False Claims Act based upon an underlying claim that the transaction violated the federal Anti-Kickback Statute. Based upon the results of certain pre-trial motions, new facts associated with the case and settlement discussions occurring in September 2013, the Company recorded an additional $23 million loss provision in the third quarter of 2013 (for a total loss reserve of $25 million) related to this matter. In January 2014, the lawsuit was settled with the Company’s payment of $25 million to the United States and $150,000 to the whistleblower’s attorneys and was dismissed by the court with prejudice.

Employment-related lawsuits—the Company’s operations are subject to a variety of federal and state employment-related laws and regulations, including but not limited to the U.S. Fair Labor Standards Act, Equal Employment Opportunity laws and enforcement policies of the Equal Employment Opportunity Commission, the Office of Civil Rights and state attorneys general, federal and state wage and hour laws and a variety of laws enacted by the federal and state governments that govern these and other employment-related matters. Accordingly, the Company is currently subject to employee-related claims, class action and other lawsuits and proceedings in connection with the Company’s operations, including but not limited to those related to alleged wrongful discharge, illegal discrimination and violations of equal employment and federal and state wage and hour laws. Because labor represents such a large portion of the Company’s operating costs, non-compliance with these evolving federal and state laws and regulations could subject the Company to significant back pay awards, fines and additional lawsuits and proceedings. These claims, lawsuits and proceedings are in various stages of adjudication or investigation and involve a wide variety of claims and potential outcomes.

Four wage and hour class action lawsuits are currently pending against the Company in federal district court for the Central District of California, and are being addressed together by the court. Each case pertains to alleged errors made by the Company with respect to regular pay and overtime pay calculations, waiting times, meal period waivers and wage statements under California law. On March 13, 2013, the court conditionally certified five classes of the seven total classes sought for certification for discovery purposes and declined to certify two others. Notice of class action certification and class members’ right to opt out of the lawsuit was mailed to all of the Company’s current and former California hospital employees. The Company intends to vigorously defend these claims.

A wage and hour class action lawsuit against the Company alleging violations of federal and state wage and hour laws is pending in federal district court for the Northern District of Illinois. This lawsuit pertains to the Company’s previous automatic meal break deduction practice for non-exempt employees in the Company’s hospitals located outside California. The court granted conditional class certification in part on June 11, 2013. This lawsuit has been settled in principle by the Company’s agreement to pay $0.7 million to claimants from the Company’s five Illinois hospitals, plaintiffs’ attorney’s fees and certain administrative costs, subject to reaching a written settlement agreement and obtaining court approval.

Based upon available information, the Company recorded an additional $7.0 million loss provision in the fourth quarter of 2013 (for a total loss reserve of $12.7 million) related to these wage and hour lawsuits. The Company continues to evaluate the loss provision in light of potentially relevant factual and legal developments, including information learned through rulings on dispositive motions, settlement discussions and other rulings. The expected loss reserve is based upon currently available information and is subject to significant judgment and a variety of assumptions, and known and unknown uncertainties. Given the uncertainty of litigation, the actual loss may vary significantly from the current reserve, which does not represent the Company's maximum loss exposure. At this time, no estimate of the possible loss or range of loss, in excess of the amount accrued, can be made regarding these lawsuits.

Minimum staffing lawsuits—various states in which the Company operates hospitals and nursing centers have established minimum staffing requirements or may establish minimum staffing requirements in the future. While the Company seeks to comply with all applicable staffing requirements, the regulations in this area are complex and the Company may experience compliance issues from time to time. Failure to comply with such minimum staffing requirements may result in one or more facilities failing to meet the conditions of participation under relevant federal and state healthcare programs and the imposition of significant fines, damages or other sanctions.

KINDRED HEALTHCARE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 20 – LEGAL AND REGULATORY PROCEEDINGS (Continued)

Ordinary course matters—in addition to the matters described above, the Company is subject to investigations, claims and lawsuits in the ordinary course of business, including professional liability claims and investigations resulting from the Company's obligation to self-report suspected violations of law by the Company, particularly in the Company's hospital and nursing center operations. In many of these claims, plaintiffs' attorneys are seeking significant fines and compensatory and punitive damages, along with attorneys' fees. The Company maintains professional and general liability insurance in amounts and coverage that management believes are sufficient for the Company's operations. However, the Company's insurance may not cover all claims against the Company or the full extent of the Company's liability.

On January 6, 2014, a purported class action complaint was filed in the United States federal district court for the Southern District of Florida, Miami Division, against the Company and one of its subsidiaries. The lawsuit, styled Pines Nursing Home, et al., v. Polaris and RehabCare Group, Inc., et al., alleges that one of the Company's subsidiaries sent "junk" faxes in violation of the Telephone Consumer Protection Act of 1991 and the Junk Fax Prevention Act of 2005. The complaint seeks damages, statutory fines and penalties, attorneys' fees and an injunction prohibiting such conduct in the future. The Company disputes the allegations in the complaint and will defend this lawsuit vigorously.

KINDRED HEALTHCARE, INC.

QUARTERLY CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED)

(In thousands, except per share amounts)

The following table represents summary quarterly consolidated financial information (unaudited) for the years ended December 31, 2013 and 2012:

	2013 (a)			
	First	Second	Third	Fourth
Revenues	$1,278,327	$1,207,979	$1,189,830	$1,224,374
Net income (loss):				
Income (loss) from continuing operations	10,698	13,565	(17,338)	(51,737)
Discontinued operations, net of income taxes:				
Loss from operations	(5,200)	(886)	(23,890)	(6,160)
Loss on divestiture of operations	(2,025)	(10,852)	(65,016)	(5,994)
Loss from discontinued operations	(7,225)	(11,738)	(88,906)	(12,154)
Net income (loss)	3,473	1,827	(106,244)	(63,891)
Earnings attributable to noncontrolling interests	(416)	(82)	(754)	(2,405)
Income (loss) attributable to Kindred	3,057	1,745	(106,998)	(66,296)
Earnings (loss) per common share:				
Basic:				
Income (loss) from continuing operations	0.19	0.25	(0.34)	(1.04)
Discontinued operations:				
Loss from operations	(0.09)	(0.02)	(0.46)	(0.12)
Loss on divestiture of operations	(0.04)	(0.20)	(1.24)	(0.11)
Loss from discontinued operations	(0.13)	(0.22)	(1.70)	(0.23)
Net income (loss)	0.06	0.03	(2.04)	(1.27)
Diluted:				
Income (loss) from continuing operations	0.19	0.25	(0.34)	(1.04)
Discontinued operations:				
Loss from operations	(0.09)	(0.02)	(0.46)	(0.12)
Loss on divestiture of operations	(0.04)	(0.20)	(1.24)	(0.11)
Loss from discontinued operations	(0.13)	(0.22)	(1.70)	(0.23)
Net income (loss)	0.06	0.03	(2.04)	(1.27)
Shares used in computing earnings (loss) per common share:				
Basic	52,062	52,265	52,323	52,344
Diluted	52,083	52,284	52,323	52,344
Market prices:				
High	11.74	14.49	16.63	20.51
Low	10.21	9.75	12.50	13.13

	2012 (a)			
	First	Second	Third	Fourth
Revenues	$1,257,132	$1,218,336	$1,215,649	$1,237,392

Net income (loss):				
Income (loss) from continuing operations	17,375	10,573	8,334	(83,209)
Discontinued operations, net of income taxes:				
Income from operations	2,437	5,046	1,553	3,312
Loss on divestiture of operations	(1,170)	(356)	(2,280)	(939)
Income (loss) from discontinued operations	1,267	4,690	(727)	2,373
Net income (loss)	18,642	15,263	7,607	(80,836)
(Earnings) loss attributable to noncontrolling interests	(451)	239	(41)	(790)
Income (loss) attributable to Kindred	18,191	15,502	7,566	(81,626)
Earnings (loss) per common share:				
Basic:				
Income (loss) from continuing operations	0.32	0.20	0.16	(1.62)
Discontinued operations:				
Income from operations	0.05	0.10	0.02	0.06
Loss on divestiture of operations	(0.02)	(0.01)	(0.04)	(0.02)
Income (loss) from discontinued operations	0.03	0.09	(0.02)	0.04
Net income (loss)	0.35	0.29	0.14	(1.58)
Diluted:				
Income (loss) from continuing operations	0.32	0.20	0.16	(1.62)
Discontinued operations:				
Income from operations	0.05	0.10	0.02	0.06
Loss on divestiture of operations	(0.02)	(0.01)	(0.04)	(0.02)
Income (loss) from discontinued operations	0.03	0.09	(0.02)	0.04
Net income (loss)	0.35	0.29	0.14	(1.58)
Shares used in computing earnings (loss) per common share:				
Basic	51,603	51,664	51,676	51,692
Diluted	51,638	51,675	51,709	51,692
Market prices:				
High	13.62	10.87	12.76	12.13
Low	8.63	7.60	8.80	9.68

(a) See accompanying discussion of certain quarterly items.

KINDRED HEALTHCARE, INC.

QUARTERLY CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED) (Continued)

(In thousands, except per share amounts)

SIGNIFICANT QUARTERLY ADJUSTMENTS

The following is a description of significant quarterly adjustments recorded during 2013 and 2012:

Fourth quarter 2013

Operating results for the fourth quarter of 2013 included pretax charges related to costs incurred in connection with the closing of a TC hospital of $0.5 million, a litigation charge of $7.0 million, severance and retirement costs of $3.7 million, transaction-related costs of $0.4 million and an impairment charge of $76.1 million.

Third quarter 2013

Operating results for the third quarter of 2013 included pretax charges related to costs incurred in connection with the closing of a TC hospital of $5.5 million, litigation charges of $23.8 million, severance and retirement costs of $1.9 million, $0.5 million of costs associated with closing a home health location, $0.6 million of fees and charges associated with the modification of certain of the Company's senior debt and transaction-related costs of $0.6 million.

Second quarter 2013

Operating results for the second quarter of 2013 included pretax charges related to charges associated with the modification of certain of the Company's senior debt of $1.4 million and transaction-related costs of $0.1 million.

First quarter 2013

Operating results for the first quarter of 2013 included pretax charges related to one-time bonus costs paid to employees who do not participate in the Company's incentive compensation program of $20.1 million and transaction-related costs of $1.0 million.

Fourth quarter 2012

Operating results for the fourth quarter of 2012 included pretax charges related to employee severance costs of $3.4 million and contract cancellation costs of $0.9 million incurred in connection with restructuring activities, transaction-related costs of $0.6 million, a lease cancellation charge of $0.1 million and impairment charges of $107.9 million.

Third quarter 2012

Operating results for the third quarter of 2012 included pretax charges related to transaction-related costs of $0.5 million and a lease cancellation charge of $0.6 million.

Second quarter 2012

Operating results for the second quarter of 2012 included pretax charges related to employment-related lawsuits of $5.0 million, costs incurred in connection with the closing of two TC hospitals of $1.4 million, the cancellation of a sub-acute unit project of $0.9 million, transaction-related costs of $0.6 million and a lease cancellation charge of $0.9 million.

First quarter 2012

Operating results for the first quarter of 2012 included pretax charges related to costs incurred in connection with the closing of a regional office of $2.2 million and transaction-related costs of $0.5 million.

KINDRED HEALTHCARE, INC.

SCHEDULE II — VALUATION AND QUALIFYING ACCOUNTS

FOR THE YEARS ENDED DECEMBER 31, 2013, 2012 AND 2011

(In thousands)

	Balance at beginning of period	Additions Charged to costs and expenses	Other	Acquisitions	Deductions or payments	Balance at end of period
Allowance for loss on accounts receivable:						
Year ended December 31, 2011	$ 13,584	$35,133	$–	$ –	$ (18,971)	$ 29,746
Year ended December 31, 2012	29,746	23,692	–	–	(29,479)	23,959
Year ended December 31, 2013	23,959	44,640	–	–	(27,574)	41,025
Allowance for deferred taxes:						
Year ended December 31, 2011	$ 38,431	$–	$163 (a)	$ 112	$ (75)	$ 38,631
Year ended December 31, 2012	38,631	–	7,352 (a)	3,031	(37)	48,977
Year ended December 31, 2013	48,977	–	379 (a)	872	(485)	49,743

(a) The Company identified deferred income tax assets for state income tax NOLs of $56.7 million, $52.7 million and $42.1 million at December 31, 2013, December 31, 2012 and December 31, 2011, respectively, and a corresponding deferred income tax valuation allowance of $49.5 million, $48.4 million and $38.0 million at December 31, 2013, December 31, 2012 and December 31, 2011, respectively, after determining that a portion of these state net deferred income tax assets were not realizable. The Company identified deferred income tax assets for federal income tax NOLs of $25.5 million at December 31, 2013 and a corresponding deferred income tax valuation allowance of $0.2 million at December 31, 2013 after determining that a portion of these federal net deferred income tax assets were not realizable.