

KINDRED HEALTHCARE, INC
Form 10-Q
November 07, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2014

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____.

Commission file number: 001-14057

KINDRED HEALTHCARE, INC.

(Exact name of registrant as specified in its charter)

Delaware	61-1323993
(State or other jurisdiction of	(I.R.S. Employer
incorporation or organization)	Identification No.)
680 South Fourth Street Louisville, KY	40202-2412

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(Address of principal executive offices) (Zip Code)

(502) 596-7300

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class of Common Stock	Outstanding at October 31, 2014
Common stock, \$0.25 par value	64,623,953 shares

KINDRED HEALTHCARE, INC.

FORM 10-Q

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KINDRED HEALTHCARE, INC.

CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS

(Unaudited)

(In thousands, except per share amounts)

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Revenues	\$1,243,313	\$1,175,445	\$3,806,019	\$3,625,909
Salaries, wages and benefits	756,434	718,227	2,300,567	2,215,711
Supplies	79,394	79,498	242,176	244,247
Rent	80,192	76,762	241,449	230,605
Other operating expenses	257,225	261,842	768,247	720,498
Other (income) expense	(353)	51	(741)	(984)
Impairment charges	–	441	–	1,066
Depreciation and amortization	39,023	36,507	117,802	116,659
Interest expense	22,516	25,624	128,845	82,857
Investment income	(343)	(1,235)	(2,975)	(2,794)
	1,234,088	1,197,717	3,795,370	3,607,865
Income (loss) from continuing operations before income taxes	9,225	(22,272)	10,649	18,044
Provision (benefit) for income taxes	3,079	(6,510)	3,582	9,203
Income (loss) from continuing operations	6,146	(15,762)	7,067	8,841
Discontinued operations, net of income taxes:				
Loss from operations	(7,601)	(25,466)	(22,255)	(31,892)
Gain (loss) on divestiture of operations	1,387	(65,016)	(3,637)	(77,893)
Loss from discontinued operations	(6,214)	(90,482)	(25,892)	(109,785)
Net loss	(68)	(106,244)	(18,825)	(100,944)
(Earnings) loss attributable to noncontrolling interests:				
Continuing operations	(4,372)	(841)	(13,729)	(1,424)
Discontinued operations	78	87	401	172
	(4,294)	(754)	(13,328)	(1,252)
Loss attributable to Kindred	\$(4,362)	\$(106,998)	\$(32,153)	\$(102,196)
Amounts attributable to Kindred stockholders:				
Income (loss) from continuing operations	\$1,774	\$(16,603)	\$(6,662)	\$7,417
Loss from discontinued operations	(6,136)	(90,395)	(25,491)	(109,613)
Net loss	\$(4,362)	\$(106,998)	\$(32,153)	\$(102,196)
Loss per common share:				
Basic:				
Income (loss) from continuing operations	\$0.03	\$(0.31)	\$(0.12)	\$0.14
Discontinued operations:				
Loss from operations	(0.12)	(0.49)	(0.39)	(0.59)
Gain (loss) on divestiture of operations	0.02	(1.24)	(0.06)	(1.44)
Loss from discontinued operations	(0.10)	(1.73)	(0.45)	(2.03)
Net loss	\$(0.07)	\$(2.04)	\$(0.57)	\$(1.89)
Diluted:				

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Income (loss) from continuing operations	\$0.03	\$(0.31)	\$(0.12)	\$0.14
Discontinued operations:				
Loss from operations	(0.12)	(0.49)	(0.39)	(0.59)
Gain (loss) on divestiture of operations	0.02	(1.24)	(0.06)	(1.44)
Loss from discontinued operations	(0.10)	(1.73)	(0.45)	(2.03)
Net loss	\$ (0.07)	\$(2.04)	\$(0.57)	\$(1.89)
Shares used in computing loss per common share:				
Basic	62,863	52,323	56,443	52,218
Diluted	62,902	52,323	56,443	52,234
Cash dividends declared and paid per common share	\$0.12	\$0.12	\$0.36	\$0.12

See accompanying notes.

KINDRED HEALTHCARE, INC.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE LOSS

(Unaudited)

(In thousands)

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Net loss	\$ (68)	\$ (106,244)	\$ (18,825)	\$ (100,944)
Other comprehensive income (loss):				
Available-for-sale securities (Note 8):				
Change in unrealized investment gains	93	416	577	2,044
Reclassification of gains realized in net loss	(27)	(1,026)	(2,130)	(2,135)
Net change	66	(610)	(1,553)	(91)
Interest rate swaps (Note 1):				
Change in unrealized gains (losses)	2,162	(183)	(884)	1,133
Reclassification of ineffectiveness realized in net loss	–	(104)	84	(380)
Reclassification of losses realized in net loss, net of payments	12	2	809	–
Net change	2,174	(285)	9	753
Income tax expense (benefit) related to items of other comprehensive income (loss)	(846)	286	891	(412)
Other comprehensive income (loss)	1,394	(609)	(653)	250
Comprehensive income (loss)	1,326	(106,853)	(19,478)	(100,694)
Earnings attributable to noncontrolling interests	(4,294)	(754)	(13,328)	(1,252)
Comprehensive loss attributable to Kindred	\$ (2,968)	\$ (107,607)	\$ (32,806)	\$ (101,946)

See accompanying notes.

KINDRED HEALTHCARE, INC.

CONDENSED CONSOLIDATED BALANCE SHEET

(Unaudited)

(In thousands, except per share amounts)

	September 30, 2014	December 31, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 81,784	\$ 35,972
Cash – restricted	2,390	3,713
Insurance subsidiary investments	95,425	96,295
Accounts receivable less allowance for loss of \$57,898 – September 30, 2014 and \$41,025 – December 31, 2013	980,723	916,529
Inventories	25,952	25,780
Deferred tax assets	57,577	37,920
Income taxes	35,779	36,846
Other	42,727	43,673
	1,322,357	1,196,728
Property and equipment	1,962,492	1,906,366
Accumulated depreciation	(1,056,524)	(979,791)
	905,968	926,575
Goodwill	995,240	992,102
Intangible assets less accumulated amortization of \$67,941 – September 30, 2014 and \$52,211 – December 31, 2013	405,900	423,303
Assets held for sale	2,222	20,978
Insurance subsidiary investments	158,394	149,094
Deferred tax assets	–	17,043
Other	234,707	220,046
Total assets	\$ 4,024,788	\$ 3,945,869
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	\$ 158,397	\$ 181,772
Salaries, wages and other compensation	346,957	361,192
Due to third party payors	47,320	33,747
Professional liability risks	66,974	60,993
Other accrued liabilities	138,620	146,495
Long-term debt due within one year	10,233	8,222
	768,501	792,421
Long-term debt	1,484,436	1,579,391
Professional liability risks	243,496	246,230
Deferred tax liabilities	7,683	–
Deferred credits and other liabilities	217,218	206,611
Commitments and contingencies (Note 10)		
Equity:		
Stockholders' equity:		

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Common stock, \$0.25 par value; authorized 175,000 shares; issued 64,612 shares – September 30, 2014 and 54,165 shares – December 31, 2013	16,153	13,541
Capital in excess of par value	1,357,134	1,146,193
Accumulated other comprehensive loss	(905)	(252)
Accumulated deficit	(112,044)	(76,825)
	1,260,338	1,082,657
Noncontrolling interests	43,116	38,559
Total equity	1,303,454	1,121,216
Total liabilities and equity	\$ 4,024,788	\$ 3,945,869

See accompanying notes.

KINDRED HEALTHCARE, INC.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

(Unaudited)

(In thousands)

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Cash flows from operating activities:				
Net loss	\$ (68)	\$(106,244)	\$ (18,825)	\$(100,944)
Adjustments to reconcile net loss to net cash provided by operating activities:				
Depreciation and amortization	39,579	42,831	121,805	142,745
Amortization of stock-based compensation costs	694	1,553	9,657	7,641
Amortization of deferred financing costs	1,982	2,509	21,211	9,529
Payment of capitalized lender fees related to debt issuance	–	(4,589)	(19,125)	(6,189)
Provision for doubtful accounts	14,695	13,152	35,588	34,489
Deferred income taxes	(32,777)	2,336	(11,274)	(22,985)
Impairment charges	9	8,995	673	10,077
Gain (loss) on divestiture of discontinued operations	(1,387)	65,016	3,637	77,893
Other	175	6,316	2,289	5,452
Change in operating assets and liabilities:				
Accounts receivable	10,392	45,862	(102,503)	26,745
Inventories and other assets	(2,899)	3,467	(12,886)	67
Accounts payable	(3,592)	(12,901)	(22,469)	(31,979)
Income taxes	29,832	(27,969)	18,769	(5,269)
Due to third party payors	28,907	25,931	14,540	16,716
Other accrued liabilities	4,497	44,485	(16,765)	25,229
Net cash provided by operating activities	90,039	110,750	24,322	189,217
Cash flows from investing activities:				
Routine capital expenditures	(21,263)	(23,152)	(67,425)	(62,952)
Development capital expenditures	(1,570)	(3,235)	(2,693)	(10,709)
Acquisitions, net of cash acquired	(38)	(12,173)	(24,136)	(39,106)
Acquisition deposit	–	(14,675)	–	(14,675)
Sale of assets	8,948	236,397	22,909	248,700
Purchase of insurance subsidiary investments	(74,101)	(7,765)	(97,394)	(30,360)
Sale of insurance subsidiary investments	8,447	9,899	34,967	35,427
Net change in insurance subsidiary cash and cash equivalents	65,928	(1,416)	54,372	(44,294)
Change in other investments	317	(140)	1,027	218
Other	(3)	79	(537)	(142)
Net cash provided by (used in) investing activities	(13,335)	183,819	(78,910)	82,107
Cash flows from financing activities:				
Proceeds from borrowings under revolving credit	311,500	238,900	1,468,515	1,100,300
Repayment of borrowings under revolving credit	(355,100)	(519,200)	(1,724,615)	(1,363,600)
Proceeds from issuance of senior unsecured notes	–	–	500,000	–

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Proceeds from issuance of term loan, net of discount	–	–	997,500	–
Repayment of senior unsecured notes	–	–	(550,000)	–
Repayment of term loan	(2,500)	–	(786,063)	(3,969)
Repayment of other long-term debt	(58)	(92)	(215)	(849)
Payment of deferred financing costs	(504)	(683)	(3,152)	(1,340)
Equity offering, net of offering costs	16,376	–	220,353	–
Issuance of common stock in connection with employee benefit plans	1,530	222	6,217	429
Dividends paid	(7,754)	(6,499)	(20,840)	(6,499)
Distributions to noncontrolling interests	(4,009)	(118)	(9,604)	(1,628)
Other	183	53	2,304	404
Net cash provided by (used in) financing activities	(40,336)	(287,417)	100,400	(276,752)
Change in cash and cash equivalents	36,368	7,152	45,812	(5,428)
Cash and cash equivalents at beginning of period	45,416	37,427	35,972	50,007
Cash and cash equivalents at end of period	\$ 81,784	\$44,579	\$ 81,784	\$44,579
Supplemental information:				
Interest payments	\$ 12,222	\$7,899	\$ 91,888	\$63,744
Income tax payments (refunds)	909	2,886	(20,656)	16,716

See accompanying notes.

KINDRED HEALTHCARE, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 1 – BASIS OF PRESENTATION

Business

Kindred Healthcare, Inc. is a healthcare services company that through its subsidiaries operates transitional care (“TC”) hospitals, inpatient rehabilitation hospitals (“IRFs”), nursing centers, assisted living facilities, a contract rehabilitation services business and a home health and hospice business across the United States (collectively, the “Company” or “Kindred”). At September 30, 2014, the Company’s hospital division operated 97 TC hospitals (certified as long-term acute care (“LTAC”) hospitals under the Medicare program) and five IRFs in 22 states. The Company’s nursing center division operated 99 nursing centers and six assisted living facilities in 21 states. The Company’s rehabilitation division provided rehabilitation services primarily in hospitals and long-term care settings. The Company’s care management division (formerly known as the Company’s home health and hospice division) primarily provided home health, hospice and private duty services from 152 locations in 13 states.

The Company has completed several transactions related to the divestiture or planned divestiture of unprofitable hospitals and nursing centers to improve its future operating results. For accounting purposes, the operating results of these businesses and the gains, losses or impairments associated with these transactions have been classified as discontinued operations in the accompanying unaudited condensed consolidated statement of operations for all periods presented. Assets held for sale at September 30, 2014 have been measured at the lower of carrying value or estimated fair value less costs of disposal and have been classified as held for sale in the accompanying unaudited condensed consolidated balance sheet. See Note 2 for a summary of discontinued operations.

Recently issued accounting requirements

In June 2014, the Financial Accounting Standards Board (the “FASB”) issued authoritative guidance which changes the requirements for accounting for share-based payments when the terms of an award provide that a performance target could be achieved after the requisite service period. This guidance is effective for annual and interim periods beginning on or after December 15, 2015. The adoption of this standard is not expected to have a material impact on the Company’s business, financial position, net income or liquidity.

In May 2014, the FASB issued authoritative guidance which changes the requirements for recognizing revenue when entities enter into contracts with customers. Under the new provisions, an entity will recognize revenue when it transfers promised goods or services to customers in an amount that reflects what it expects in exchange for the goods or services. It also requires more detailed disclosures to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. This guidance is effective for annual and interim periods beginning on or after December 15, 2016 and early adoption is not permitted. The Company is still assessing this guidance.

In April 2014, the FASB issued authoritative guidance which changes the requirements for reporting discontinued operations. A disposal of a component of an entity or a group of components of an entity is required to be reported in discontinued operations if the disposal represents a strategic shift that has (or will have) a major effect on an entity’s

operations and financial results when any of the following occurs: (1) the component or group of components meets the criteria to be classified as held for sale, (2) the component or group of components is disposed of by sale, or (3) the component or group of components is disposed of other than by sale (for example, abandonment). The entity shall present separately, for each comparative period, the assets and liabilities of the discontinued operation in the statement of financial position. In addition to the required disclosures for discontinued operations, entities also will be required to provide disclosures about a disposal of an individually significant component of an entity that does not qualify for discontinued operations presentation in the financial statements. The guidance also states an entity shall expand disclosures about significant continuing involvement with a discontinued operation, until the results of operations of the discontinued operation are no longer presented in the statement of operations. The guidance is applicable prospectively for all disposals that occur within annual periods beginning on or after December 15, 2014 and early adoption is permitted. The adoption of the guidance is not expected to have a material impact on the Company's business, financial position, net income or liquidity but may have a material impact on the Company's income from continuing operations if planned or completed disposals of components of the Company's business do not qualify for discontinued operations under the new guidance.

KINDRED HEALTHCARE, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

NOTE 1 – BASIS OF PRESENTATION (Continued)

Equity

The following table sets forth the changes in equity attributable to noncontrolling interests and equity attributable to Kindred stockholders for the nine months ended September 30, 2014 and 2013 (in thousands):

	Amounts attributable to		
	Kindred stockholders	Noncontrolling interests	Total equity
For the nine months ended September 30, 2014:			
Balance at December 31, 2013	\$ 1,082,657	\$ 38,559	\$ 1,121,216
Comprehensive income (loss):			
Net income (loss)	(32,153)	13,328	(18,825)
Other comprehensive loss	(653)	–	(653)
	(32,806)	13,328	(19,478)
Issuance of common stock in connection with employee benefit plans	6,217	–	6,217
Shares tendered by employees for statutory tax withholdings upon issuance of common stock	(6,129)	–	(6,129)
Income tax benefit in connection with the issuance of common stock under employee benefit plans	1,229	–	1,229
Stock-based compensation amortization	9,657	–	9,657
Equity offering, net of offering costs	220,353	–	220,353
Dividends paid	(20,840)	–	(20,840)
Contribution made by noncontrolling interests	–	833	833
Distributions to noncontrolling interests	–	(9,604)	(9,604)
Balance at September 30, 2014	\$ 1,260,338	\$ 43,116	\$ 1,303,454
For the nine months ended September 30, 2013:			
Balance at December 31, 2012	\$ 1,256,159	\$ 36,685	\$ 1,292,844
Comprehensive income (loss):			
Net income (loss)	(102,196)	1,252	(100,944)
Other comprehensive income	250	–	250
	(101,946)	1,252	(100,694)
Issuance of common stock in connection with employee benefit plans	429	–	429
Shares tendered by employees for statutory tax withholdings upon issuance of common stock	(2,987)	–	(2,987)
Income tax provision in connection with the issuance of common stock under employee benefit plans	(1,646)	–	(1,646)
Stock-based compensation amortization	7,641	–	7,641

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Distributions to noncontrolling interests	–	(1,628)	(1,628)
Purchase of noncontrolling interests	–	268	268
Dividends paid	(6,499)	–	(6,499)
Balance at September 30, 2013	\$ 1,151,151	\$ 36,577	\$ 1,187,728

On July 1, 2013, the Company entered into an agreement to manage seven nursing centers under an inter-governmental payment program partnership with county-owned hospitals in the state of Indiana. The Company began managing another eight nursing centers on January 1, 2014. The 15 nursing centers were consolidated by the Company for all periods presented and the income attributable to noncontrolling interest related to this program was \$4.7 million in the third quarter of 2014 and \$12.7 million for the nine months ended September 30, 2014. These nursing centers were wholly owned subsidiaries of the Company prior to entering into the new payment program.

KINDRED HEALTHCARE, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

NOTE 1 – BASIS OF PRESENTATION (Continued)

Derivative financial instruments

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 senior secured term loan facility entered into in June 2011 (the “Prior Term Loan Facility”). The interest rate swaps had an effective date of January 9, 2012, and will expire on January 11, 2016 and continue to apply to the Amended Term Loan Facility (as defined). 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 London Interbank Offered Rate (“LIBOR”), subject to a minimum rate of 1.5%. The Company determined these interest rate swaps qualify for cash flow hedge accounting treatment at September 30, 2014. However, an amendment to the Prior Term Loan Facility 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.

In March 2014, the Company entered into an additional interest rate swap agreement to hedge its floating interest rate on an aggregate of \$400 million of debt outstanding under the Amended Term Loan Facility (as defined). On April 8, 2014, the Company completed a novation of a portion of its \$400 million swap agreement to two new counterparties, each in the amount of \$125 million. The original swap contract was not amended, terminated or otherwise modified. The interest rate swap had an effective date of April 9, 2014 and will expire on April 9, 2018. The Company is required to make payments based upon a fixed interest rate of 1.867% calculated on the notional amount of \$400 million. In exchange, the Company will receive interest on \$400 million at a variable interest rate that is based upon the three-month LIBOR, subject to a minimum rate of 1.0%. The Company determined these interest rate swaps qualify for cash flow hedge accounting treatment at September 30, 2014.

The Company records the effective portion of the gain or loss on these derivative financial instruments in accumulated other comprehensive income (loss) as a component of stockholders equity and records the ineffective portion of the gain or loss on these derivative financial instruments as interest expense. For the three months and nine months ended September 30, 2014, the ineffectiveness related to the interest rate swaps was immaterial.

The aggregate fair value of the interest rate swaps recorded in other accrued liabilities was \$2.3 million and \$1.4 million at September 30, 2014 and December 31, 2013, respectively. See Note 9.

Other information

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with the instructions for Form 10-Q of Regulation S-X and do not include all of the disclosures normally required by generally accepted accounting principles or those normally required in annual reports on Form 10-K. Accordingly, these financial statements should be read in conjunction with the audited consolidated financial statements of the Company for the year ended December 31, 2013 filed with the Securities and Exchange Commission (the “SEC”) on Form 10-K. The accompanying condensed consolidated balance sheet at December 31, 2013 was derived from audited consolidated financial statements, but does not include all disclosures required by generally accepted accounting principles.

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with the Company's customary accounting practices. Management believes that financial information included herein reflects all adjustments necessary for a fair statement of interim results and, except as otherwise disclosed, all such adjustments are of a normal and recurring nature.

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles and include amounts based upon the estimates and judgments of management. Actual amounts may differ from those estimates.

Reclassifications

Certain prior period amounts have been reclassified to conform with the current period presentation.

KINDRED HEALTHCARE, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

NOTE 2 – DISCONTINUED OPERATIONS

In accordance with the authoritative guidance for the impairment or disposal of long-lived assets, the divestitures or planned divestiture of unprofitable businesses discussed in Note 1 has been accounted for as discontinued operations. Accordingly, the results of operations of these businesses for all periods presented and the gains, losses or impairments associated with these transactions have been classified as discontinued operations, net of income taxes, in the accompanying unaudited condensed consolidated statement of operations. At September 30, 2014, the Company held for sale one hospital and four nursing centers reported as discontinued operations.

In April 2014, the Company acquired for resale the real estate of a previously leased nursing center for \$1.2 million.

During the nine months ended September 30, 2014, the Company reclassified as discontinued for all periods presented the operations of three TC hospitals and two nursing centers that were either closed or divested through a planned sale of such facility or the expiration of a lease. The Company recorded a loss on divestiture of \$2.9 million (\$1.7 million net of income taxes) for the nine months ended September 30, 2014 related to these divestitures.

The Company allowed the lease to expire on a TC hospital during the nine months ended September 30, 2014 resulting in a loss on divestiture primarily related to a write-off of an indefinite-lived intangible asset of \$3.4 million (\$2.1 million net of income taxes) for the nine months ended September 30, 2014. The Company reflected the operating results of this TC hospital as discontinued operations in the accompanying unaudited condensed consolidated statement of operations for all historical periods.

On September 30, 2013, the Company entered into agreements with Ventas, Inc. (“Ventas”) to exit 60 nursing centers (collectively, the “2013 Expiring Facilities”). The lease term for the 2013 Expiring Facilities was initially scheduled to expire in April 2015. Under the terms of the agreements, the lease term for the 2013 Expiring Facilities was scheduled to expire on September 30, 2014 unless the Company and Ventas were able to transfer the operations earlier; provided, however, that the Company is obligated to continue to operate any 2013 Expiring Facility not transferred by September 30, 2014 for a limited amount of time and under certain reduced rent obligations provided for in the agreements. Through September 30, 2014, the Company has transferred the operations of 55 of the 2013 Expiring Facilities to new operators. Another facility was closed and its operating license and equipment were sold during the nine months ended September 30, 2014. Proceeds from the sale of equipment and inventory for the 2013 Expiring Facilities totaled \$2.6 million and \$14.1 million for the three months and nine months ended September 30, 2014, respectively. For accounting purposes, the 2013 Expiring Facilities qualified as assets held for sale at September 30, 2013 and the Company reflected the operating results as discontinued operations in the accompanying unaudited condensed consolidated statement of operations for all historical periods.

During the third quarter of 2013, the Company completed the sale of 16 non-strategic facilities (the “Vibra Facilities”) for

\$187 million to an affiliate of Vibra Healthcare, LLC (“Vibra”). The net proceeds of \$180 million from this transaction were used to reduce the Company’s borrowings under its prior \$750 million senior secured asset-based revolving credit facility.

The Vibra Facilities consist of 14 TC hospitals containing 1,002 licensed beds, one IRF containing 44 licensed beds and one nursing center containing 135 licensed beds. Six of the TC hospitals and the one nursing center were owned facilities. The remaining Vibra Facilities were leased.

The Company recorded a loss on divestiture of \$76 million (\$63 million net of income taxes) and \$94 million (\$74 million net of income taxes) during the third quarter of 2013 and for the nine months ended September 30, 2013, respectively, related to the Vibra Facilities. The loss on divestiture included a \$68.7 million write-off of goodwill, which was allocated based upon the relative fair value of the Vibra Facilities, and a \$21.0 million write-off of intangible assets.

During the third quarter of 2013, the Company completed the sale of seven non-strategic nursing centers (the "Signature Facilities") for \$47 million to affiliates of Signature Healthcare, LLC ("Signature"). The proceeds from this transaction were used to reduce the Company's borrowings under its prior \$750 million senior secured asset-based revolving credit facility.

The Signature Facilities contain 900 licensed beds. Five of the Signature Facilities were owned facilities and the remaining Signature Facilities were leased.

KINDRED HEALTHCARE, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

NOTE 2 – DISCONTINUED OPERATIONS (Continued)

The Company recorded a loss on divestiture of \$2 million (\$1 million net of income taxes) during the third quarter of 2013 related to the Signature Facilities.

The results of operations and losses on divestiture of operations, net of income taxes, for the Signature Facilities and the Vibra Facilities were reclassified to discontinued operations in the third quarter of 2013.

A summary of discontinued operations follows (in thousands):

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Revenues	\$ 9,518	\$ 197,514	\$231,566	\$822,696
Salaries, wages and benefits	8,542	96,375	123,088	405,426
Supplies	579	14,712	13,718	57,259
Rent	3,164	39,404	31,980	96,601
Other operating expenses	9,206	74,066	94,893	280,659
Other (income) expense	–	(10)	363	145
Impairment charges	9	8,554	673	9,011
Depreciation	556	6,324	4,003	26,086
Interest expense	1	11	16	41
Investment income	(6)	(2)	(474)	(33)
	22,051	239,434	268,260	875,195
Loss from operations before income taxes	(12,533)	(41,920)	(36,694)	(52,499)
Income tax benefit	(4,932)	(16,454)	(14,439)	(20,607)
Loss from operations	(7,601)	(25,466)	(22,255)	(31,892)
Gain (loss) on divestiture of operations	1,387	(65,016)	(3,637)	(77,893)
Loss from discontinued operations	(6,214)	(90,482)	(25,892)	(109,785)
Loss attributable to noncontrolling interests	78	87	401	172
Loss from discontinued operations	\$ (6,136)	\$ (90,395)	\$ (25,491)	\$ (109,613)

The following table sets forth certain discontinued operating data by business segment (in thousands):

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Revenues:				
Hospital division	\$242	\$ 57,349	\$25,936	\$232,344
Nursing center division	9,276	140,165	205,630	590,352

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	\$ 9,518	\$ 197,514	\$ 231,566	\$ 822,696
Operating income (loss):				
Hospital division	\$ (3,399)	\$ 4,157	\$ (3,110)	\$ 31,069
Nursing center division	(5,419)	(340)	1,941	39,127
	\$ (8,818)	\$ 3,817	\$ (1,169)	\$ 70,196
Rent:				
Hospital division	\$ 602	\$ 2,964	\$ 3,722	\$ 10,180
Nursing center division	2,562	36,440	28,258	86,421
	\$ 3,164	\$ 39,404	\$ 31,980	\$ 96,601
Depreciation:				
Hospital division	\$ 440	\$ 3,082	\$ 1,422	\$ 11,532
Nursing center division	116	3,242	2,581	14,554
	\$ 556	\$ 6,324	\$ 4,003	\$ 26,086

KINDRED HEALTHCARE, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

NOTE 2 – DISCONTINUED OPERATIONS (Continued)

A summary of the net assets held for sale follows (in thousands):

	September 30, 2014	December 31, 2013
Long-term assets:		
Property and equipment, net	\$ 1,714	\$ 19,504
Other	508	1,474
	2,222	20,978
Current liabilities (included in other accrued liabilities)	–	(81)
	\$ 2,222	\$ 20,897

NOTE 3 – ACQUISITIONS

During the nine months ended September 30, 2014, the Company acquired the real estate of two previously leased nursing centers for \$22.3 million. Annual rent associated with the nursing centers aggregated \$2.0 million.

During the nine months ended September 30, 2013, the Company acquired the real estate of a previously leased hospital for \$25.2 million. Annual rent associated with the hospital aggregated \$2.5 million.

During the nine months ended September 30, 2013, the Company also acquired two home health and hospice businesses for \$1.7 million.

The purchase price of acquired businesses and acquired leased facilities resulted from negotiations with each of the sellers that were based upon both the historical and expected future cash flows of the respective businesses and real estate values. All of these acquisitions were financed through operating cash flows and borrowings under the Company's revolving credit facility.

The fair value of each of the acquisitions noted above was measured using discounted cash flow methodologies which are considered Level 3 inputs (as described in Note 12).

NOTE 4 – REVENUES

Revenues are recorded based upon estimated amounts due from patients and third party payors for healthcare services provided, including anticipated settlements under reimbursement agreements with Medicare, Medicaid, Medicare Advantage, Medicaid Managed and other third party payors. Revenues under third party agreements are subject to examination and retroactive adjustment. Provisions for estimated third party adjustments are provided in the period the related services are rendered. Differences between the amounts accrued and subsequent settlements are recorded in the periods the interim or final settlements are determined.

A summary of revenues by payor type follows (in thousands):

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2014	2013	2014	2013
Medicare	\$ 504,069	\$ 476,280	\$ 1,577,906	\$ 1,512,871
Medicaid	157,943	148,950	474,679	422,387
Medicare Advantage	90,949	88,196	286,384	272,465
Medicaid Managed	35,387	21,276	88,132	63,653
Other	508,701	492,575	1,539,941	1,512,728
	1,297,049	1,227,277	3,967,042	3,784,104
Eliminations	(53,736)	(51,832)	(161,023)	(158,195)
	\$ 1,243,313	\$ 1,175,445	\$ 3,806,019	\$ 3,625,909

KINDRED HEALTHCARE, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

NOTE 5 – EARNINGS (LOSS) PER SHARE AND DIVIDENDS

Earnings (loss) per common share are based upon the weighted average number of common shares outstanding during the respective periods. The diluted calculation of earnings per common share includes the dilutive effect of stock options. The Company follows the provisions of the authoritative guidance for determining whether instruments granted in share-based payment transactions are participating securities, which requires that unvested restricted stock that entitles the holder to receive nonforfeitable dividends before vesting be included as a participating security in the basic and diluted earnings per common share calculation pursuant to the two-class method.

The Company paid a quarterly cash dividend of \$0.12 per common share on September 10, 2014 to shareholders of record as of the close of business on August 20, 2014. The Company also paid a quarterly cash dividend of \$0.12 per common share on June 11, 2014 to shareholders of record as of the close of business on May 21, 2014 and paid a quarterly cash dividend of \$0.12 per common share 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 Kindred's Board of Directors.

KINDRED HEALTHCARE, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

NOTE 5 – EARNINGS (LOSS) PER SHARE AND DIVIDENDS (Continued)

A computation of earnings (loss) per common share follows (in thousands, except per share amounts):

	Three months ended September 30,				Nine months ended September 30,			
	2014		2013		2014		2013	
	Basic	Diluted	Basic	Diluted	Basic	Diluted	Basic	Diluted
Earnings (loss):								
Amounts attributable to Kindred stockholders:								
Income (loss) from continuing operations:								
As reported in Statement of Operations	\$ 1,774	\$ 1,774	\$ (16,603)	\$ (16,603)	\$ (6,662)	\$ (6,662)	\$ 7,417	\$ 7,417
Allocation to participating unvested restricted stockholders))						
Available to common stockholders	(45	(45	–	–	–	–	(234)	(234)
Discontinued operations, net of income taxes:								
Loss from operations:								
As reported in Statement of Operations	\$ (7,523)	\$ (7,523)	\$ (25,379)	\$ (25,379)	\$ (21,854)	\$ (21,854)	\$ (31,720)	\$ (31,720)
Allocation to participating unvested restricted	191	191	–	–	–	–	1,000	1,000

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stockholders								
Available to common								
stockholders	\$ (7,332)	\$ (7,332)	\$ (25,379)	\$ (25,379)	\$ (21,854)	\$ (21,854)	\$ (30,720)	\$ (30,720)
Gain (loss) on divestiture of operations:								
As reported in Statement of Operations	\$ 1,387	\$ 1,387	\$ (65,016)	\$ (65,016)	\$ (3,637)	\$ (3,637)	\$ (77,893)	\$ (77,893)
Allocation to participating unvested restricted stockholders	(35)	(35)	-	-	-	-	2,456	2,455
Available to common								
stockholders	\$ 1,352	\$ 1,352	\$ (65,016)	\$ (65,016)	\$ (3,637)	\$ (3,637)	\$ (75,437)	\$ (75,438)
Loss from discontinued operations:								
As reported in Statement of Operations	\$ (6,136)	\$ (6,136)	\$ (90,395)	\$ (90,395)	\$ (25,491)	\$ (25,491)	\$ (109,613)	\$ (109,613)
Allocation to participating unvested restricted stockholders	156	156	-	-	-	-	3,456	3,455
Available to common								
stockholders	\$ (5,980)	\$ (5,980)	\$ (90,395)	\$ (90,395)	\$ (25,491)	\$ (25,491)	\$ (106,157)	\$ (106,158)
Net loss:								
As reported in Statement of Operations	\$ (4,362)	\$ (4,362)	\$ (106,998)	\$ (106,998)	\$ (32,153)	\$ (32,153)	\$ (102,196)	\$ (102,196)
Allocation to participating unvested restricted stockholders	111	111	-	-	-	-	3,222	3,221
Available to common								
stockholders	\$ (4,251)	\$ (4,251)	\$ (106,998)	\$ (106,998)	\$ (32,153)	\$ (32,153)	\$ (98,974)	\$ (98,975)
Shares used in the computation:								
Weighted average shares outstanding - basic	62,863	62,863	52,323	52,323	56,443	56,443	52,218	52,218

computation									
Dilutive effect of employee stock options	39		–		–			16	
Adjusted average shares outstanding - diluted computation	62,902		52,323		56,443			52,234	
Earnings (loss) per common share:									
Income (loss) from continuing operations	\$0.03	\$0.03	\$(0.31)	)	\$(0.31)	)	\$(0.12)	)	\$(0.12)
Discontinued operations:									
Loss from operations	(0.12)	)	(0.12)	)	(0.49)	)	(0.49)	)	(0.39)
Gain (loss) on divestiture of operations	0.02	0.02	(1.24)	)	(1.24)	)	(0.06)	)	(0.06)
Loss from discontinued operations	(0.10)	)	(0.10)	)	(1.73)	)	(1.73)	)	(0.45)
Net loss	\$(0.07)	)	\$(0.07)	)	\$(2.04)	)	\$(2.04)	)	\$(0.57)
Number of antidilutive stock options excluded from shares used in the diluted earnings (loss) per common share calculation	279		1,157		324			1,179	

KINDRED HEALTHCARE, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

NOTE 6 – BUSINESS SEGMENT DATA

The Company is organized into four operating divisions: the hospital division, the nursing center division, the rehabilitation division and the care management division. Based upon the authoritative guidance for business segments, the operating divisions represent five reportable operating segments, including (1) hospitals, (2) nursing centers, (3) skilled nursing rehabilitation services, (4) hospital rehabilitation services and (5) home health and hospice services (included in the care management division). These reportable operating segments are consistent with information used by the Company's President and Chief Operating Officer to assess performance and allocate resources. The accounting policies of the operating segments are the same as those described in the summary of significant accounting policies. Prior period segment information has been reclassified to conform with the current period presentation.

For segment purposes, the Company defines segment operating income as earnings before interest, income taxes, depreciation, amortization and rent. Segment operating income reported for each of the Company's operating segments excludes impairment charges, transaction costs and the allocation of corporate overhead.

Segment operating income for the three months ended September 30, 2014 included severance costs (included in salaries, wages and benefits) of \$1.8 million, other operating expenses of \$0.1 million and other income of \$0.2 million related to restructuring activities (hospital division – \$0.6 million, nursing center division – \$0.5 million, skilled nursing rehabilitation services – \$0.2 million income, care management division – \$0.4 million and corporate – \$0.4 million).

Segment operating income for the nine months ended September 30, 2014 included severance costs (included in salaries, wages and benefits) of \$6.6 million, other operating expenses of \$0.2 million and other income of \$0.2 million related to restructuring activities (hospital division – \$0.6 million, nursing center division – \$3.7 million, rehabilitation division – \$0.1 million (skilled nursing rehabilitation services – \$0.2 million expense as well as \$0.2 million income and hospital rehabilitation services – \$0.1 million), care management division – \$1.2 million and corporate – \$1.0 million).

Segment operating income for the nine months ended September 30, 2013 included one-time bonus costs (included in salaries, wages and benefits) paid to employees who do not participate in the Company's incentive compensation program of \$19.8 million (hospital division – \$7.8 million, nursing center division – \$4.6 million, rehabilitation division – \$6.3 million (skilled nursing rehabilitation services – \$5.0 million and hospital rehabilitation services – \$1.3 million), care management division – \$0.8 million and corporate – \$0.3 million).

Segment operating income for the hospital division for the nine months ended September 30, 2014 also included litigation costs (included in other operating expenses) of \$4.6 million. See Note 14.

Segment operating income for the hospital division for the three months ended September 30, 2013 included costs of \$5.5 million (\$0.2 million included in salaries, wages and benefits and \$5.3 million included in other operating expenses) in connection with the closing of a TC hospital and a litigation charge (included in other operating expenses) of \$0.7 million.

Segment operating income for the rehabilitation division for the three months ended September 30, 2014 included \$1.9 million allowance for doubtful account related to a customer bankruptcy (included in other operating expenses for hospital rehabilitation services).

Segment operating income for the rehabilitation division for the three months ended September 30, 2013 included \$23.1 million of litigation charges (included in other operating expenses for skilled nursing rehabilitation services) and \$0.3 million of severance and retirement costs (included in salaries, wages and benefits for hospital rehabilitation services).

Segment operating income for the care management division for the three months ended September 30, 2013 included \$0.6 million of severance and retirement costs (included in salaries, wages and benefits) and \$0.5 million of costs (included in other operating expenses) associated with closing a home health location.

Segment operating income for corporate for the three months ended September 30, 2013 included \$1.0 million of severance and retirement costs (included in salaries, wages and benefits) and \$0.5 million of fees (included in other operating expenses) associated with refinancing certain of the Company's senior debt. See Note 9.

Rent expense for the nursing center division for the nine months ended September 30, 2014 included lease cancellation charges of \$0.3 million incurred in connection with restructuring activities.

KINDRED HEALTHCARE, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

NOTE 6 – BUSINESS SEGMENT DATA (Continued)

Interest expense for corporate for the nine months ended September 30, 2014 included \$56.6 million of charges associated with debt refinancing.

Interest expense for corporate for the three months and nine months ended September 30, 2013 included \$0.1 million and \$1.5 million, respectively, of charges associated with debt refinancing.

The following table sets forth certain data by business segment (in thousands):

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Revenues:				
Hospital division	\$ 609,452	\$ 594,154	\$ 1,888,066	\$ 1,858,572
Nursing center division	279,561	265,696	837,718	800,748
Rehabilitation division:				
Skilled nursing rehabilitation services	247,042	245,330	755,286	753,727
Hospital rehabilitation services	74,808	68,296	224,096	212,596
	321,850	313,626	979,382	966,323
Care management division	86,186	53,801	261,876	158,461
	1,297,049	1,227,277	3,967,042	3,784,104
Eliminations:				
Skilled nursing rehabilitation services	(30,788)	(28,151)	(90,465)	(85,468)
Hospital rehabilitation services	(22,172)	(22,520)	(68,260)	(69,352)
Nursing centers	(776)	(1,161)	(2,298)	(3,375)
	(53,736)	(51,832)	(161,023)	(158,195)
	\$ 1,243,313	\$ 1,175,445	\$ 3,806,019	\$ 3,625,909
Income (loss) from continuing operations:				
Operating income (loss):				
Hospital division	\$ 121,744	\$ 112,483	\$ 400,017	\$ 389,342
Nursing center division	36,179	31,505	111,530	96,668
Rehabilitation division:				
Skilled nursing rehabilitation services	17,552	(7,209)	55,862	27,653
Hospital rehabilitation services	18,273	18,215	58,177	55,920
	35,825	11,006	114,039	83,573
Care management division	6,789	1,085	18,551	7,832
Corporate:				
Overhead	(45,173)	(39,157)	(137,588)	(127,938)
Insurance subsidiary	(637)	(482)	(1,486)	(1,375)
	(45,810)	(39,639)	(139,074)	(129,313)

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Impairment charges	–	(441)	–	(1,066)
Transaction costs	(4,114)	(613)	(9,293)	(1,665)
Operating income	150,613	115,386	495,770	445,371
Rent	(80,192)	(76,762)	(241,449)	(230,605)
Depreciation and amortization	(39,023)	(36,507)	(117,802)	(116,659)
Interest, net	(22,173)	(24,389)	(125,870)	(80,063)
Income (loss) from continuing operations before income taxes	9,225	(22,272)	10,649	18,044
Provision (benefit) for income taxes	3,079	(6,510)	3,582	9,203
	\$ 6,146	\$ (15,762)	\$ 7,067	\$ 8,841

KINDRED HEALTHCARE, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

NOTE 6 – BUSINESS SEGMENT DATA (Continued)

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2014	2013	2014	2013
Rent:				
Hospital division	\$ 52,509	\$ 49,761	\$ 158,170	\$ 149,564
Nursing center division	23,865	24,111	71,673	72,091
Rehabilitation division:				
Skilled nursing rehabilitation services	1,041	1,123	3,197	3,555
Hospital rehabilitation services	22	19	95	55
	1,063	1,142	3,292	3,610
Care management division	2,155	1,193	6,588	3,534
Corporate	600	555	1,726	1,806
	\$ 80,192	\$ 76,762	\$ 241,449	\$ 230,605
Depreciation and amortization:				
Hospital division	\$ 16,851	\$ 16,750	\$ 50,844	\$ 53,997
Nursing center division	7,881	6,479	23,109	20,634
Rehabilitation division:				
Skilled nursing rehabilitation services	2,866	2,461	8,446	8,451
Hospital rehabilitation services	2,364	2,281	7,416	6,931
	5,230	4,742	15,862	15,382
Care management division	2,105	1,638	6,369	4,779
Corporate	6,956	6,898	21,618	21,867
	\$ 39,023	\$ 36,507	\$ 117,802	\$ 116,659
Capital expenditures, excluding acquisitions (including discontinued operations):				
Hospital division:				
Routine	\$ 6,470	\$ 6,421	\$ 23,097	\$ 22,285
Development	–	3,235	562	10,702
	6,470	9,656	23,659	32,987
Nursing center division:				
Routine	5,024	5,584	15,242	15,662
Development	1,570	–	2,131	7
	6,594	5,584	17,373	15,669
Rehabilitation division:				
Skilled nursing rehabilitation services:				
Routine	489	860	1,931	1,929
Development	–	–	–	–
	489	860	1,931	1,929
Hospital rehabilitation services:				

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Routine	62	31	162	108
Development	–	–	–	–
	62	31	162	108
Care management division:				
Routine	228	522	704	1,056
Development	–	–	–	–
	228	522	704	1,056
Corporate:				
Routine:				
Information systems	8,593	7,298	25,560	19,023
Other	397	2,436	729	2,889
	\$ 22,833	\$ 26,387	\$ 70,118	\$ 73,661

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KINDRED HEALTHCARE, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

NOTE 6 – BUSINESS SEGMENT DATA (Continued)

	September 30, 2014	December 31, 2013
Assets at end of period:		
Hospital division	\$ 1,816,861	\$ 1,776,899
Nursing center division	521,829	552,336
Rehabilitation division:		
Skilled nursing rehabilitation services	367,354	339,103
Hospital rehabilitation services	338,513	348,968
	705,867	688,071
Care management division	243,144	244,123
Corporate	737,087	684,440
	\$ 4,024,788	\$ 3,945,869
Goodwill:		
Hospital division	\$ 679,480	\$ 679,480
Rehabilitation division:		
Skilled nursing rehabilitation services	–	–
Hospital rehabilitation services	173,618	173,334
	173,618	173,334
Care management division	142,142	139,288
	\$ 995,240	\$ 992,102

NOTE 7 – INSURANCE RISKS

The Company insures a substantial portion of its professional liability risks and workers compensation risks through its wholly owned limited purpose insurance subsidiary. Provisions for loss for these risks are based upon management's best available information including actuarially determined estimates.

The allowance for professional liability risks includes an estimate of the expected cost to settle reported claims and an amount, based upon past experiences, for losses incurred but not reported. These liabilities are necessarily based upon estimates and, while management believes that the provision for loss is adequate, the ultimate liability may be in excess of, or less than, the amounts recorded. To the extent that expected ultimate claims costs vary from historical provisions for loss, future earnings will be charged or credited.

The provision for loss for insurance risks, including the cost of coverage maintained with unaffiliated commercial reinsurance and insurance carriers, follows (in thousands):

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Professional liability:				
Continuing operations	\$ 15,184	\$ 11,908	\$45,412	\$43,535
Discontinued operations	(565)	7,955	7,385	23,513
Workers compensation:				
Continuing operations	\$ 10,211	\$ 7,211	\$28,211	\$28,200
Discontinued operations	94	1,635	994	10,715

KINDRED HEALTHCARE, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

NOTE 7 – INSURANCE RISKS (Continued)

A summary of the assets and liabilities related to insurance risks included in the accompanying unaudited condensed consolidated balance sheet follows (in thousands):

	September 30, 2014			December 31, 2013		
	Professional liability	Workers compensation	Total	Professional liability	Workers compensation	Total
Assets:						
Current:						
Insurance subsidiary investments	\$ 59,381	\$ 36,044	\$ 95,425	\$ 60,117	\$ 36,178	\$ 96,295
Reinsurance recoverables	10,958	–	10,958	7,186	–	7,186
Other	–	100	100	–	150	150
	70,339	36,144	106,483	67,303	36,328	103,631
Non-current:						
Insurance subsidiary investments	80,010	78,384	158,394	66,648	82,446	149,094
Reinsurance and other recoverables	78,862	74,569	153,431	70,465	68,626	139,091
Deposits	4,435	1,428	5,863	4,238	1,489	5,727
Other	–	37	37	–	39	39
	163,307	154,418	317,725	141,351	152,600	293,951
	\$ 233,646	\$ 190,562	\$ 424,208	\$ 208,654	\$ 188,928	\$ 397,582
Liabilities:						
Allowance for insurance risks:						
Current	\$ 66,974	\$ 39,185	\$ 106,159	\$ 60,993	\$ 40,044	\$ 101,037
Non-current	243,496	152,360				