KINDRED HEALTHCARE, INC
Form 10-Q
November 09, 2016

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, 2016

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 incorporation or organization)	(I.R.S. Employer Identification No.)

680 South Fourth Street Louisville, KY	40202
(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, 2016
Common stock, $0.25 par value	85,160,436 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,	
	2016	2015	2016	2015
Revenues	$1,793,527	$1,764,516	$5,473,568	$5,273,958
Salaries, wages and benefits	957,644	922,140	2,812,812	2,704,920
Supplies	95,500	96,551	294,326	288,059
Rent	98,415	95,436	296,025	282,955
Other operating expenses	217,364	207,837	649,915	617,681
General and administrative expenses (exclusive of depreciation and amortization expense included below)	310,407	307,500	998,559	1,043,986
Other income	(446)	(650)	(1,909)	(1,699)
Litigation contingency expense	-	31,462	2,840	130,387
Impairment charges	324,289	-	338,208	6,726
Restructuring charges	81,463	3,349	88,223	8,793
Depreciation and amortization	40,382	39,329	121,320	116,889
Interest expense	59,862	56,440	175,417	176,128
Investment income	(1,810)	(432)	(2,561)	(2,203)
	2,183,070	1,758,962	5,773,175	5,372,622
Income (loss) from continuing operations before income taxes	(389,543)	5,554	(299,607)	(98,664)
Provision for income taxes	281,752	12,523	311,470	9,183
Loss from continuing operations	(671,295)	(6,969)	(611,077)	(107,847)
Discontinued operations, net of income taxes:				
Income (loss) from operations	(12)	2,269	2,422	(1,744)
Gain on divestiture of operations	-	-	179	983
Income (loss) from discontinued operations	(12)	2,269	2,601	(761)
Net loss	(671,307)	(4,700)	(608,476)	(108,608)
(Earnings) loss attributable to noncontrolling interests:				
Continuing operations	(14,305)	(9,900)	(40,341)	(30,482)
Discontinued operations	(1)	1	(6)	32
	(14,306)	(9,899)	(40,347)	(30,450)
Loss attributable to Kindred	$(685,613)	$(14,599)	$(648,823)	$(139,058)
Amounts attributable to Kindred stockholders:				
Loss from continuing operations	$(685,600)	$(16,869)	$(651,418)	$(138,329)
Income (loss) from discontinued operations	(13)	2,270	2,595	(729)
Net loss	$(685,613)	$(14,599)	$(648,823)	$(139,058)
Loss per common share:				
Basic:				

Loss from continuing operations	$(7.89)	$(0.20)	$(7.51)	$(1.65)
Discontinued operations:				
Income (loss) from operations	-	0.03	0.03	(0.02)
Gain on divestiture of operations	-	-	-	0.01
Income (loss) from discontinued operations	-	0.03	0.03	(0.01)
Net loss	$(7.89)	$(0.17)	$(7.48)	$(1.66)
Diluted:				
Loss from continuing operations	$(7.89)	$(0.20)	$(7.51)	$(1.65)
Discontinued operations:				
Income (loss) from operations	-	0.03	0.03	(0.02)
Gain on divestiture of operations	-	-	-	0.01
Income (loss) from discontinued operations	-	0.03	0.03	(0.01)
Net loss	$(7.89)	$(0.17)	$(7.48)	$(1.66)
Shares used in computing loss per common share:				
Basic	86,869	86,184	86,766	83,960
Diluted	86,869	86,184	86,766	83,960
Cash dividends declared and paid per common share	$0.12	$0.12	$0.36	$0.36

See accompanying notes.

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KINDRED HEALTHCARE, INC.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (LOSS)

(Unaudited)

(In thousands)

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Net loss	$(671,307)	$(4,700)	$(608,476)	$(108,608)
Other comprehensive income (loss):				
Available-for-sale securities (Note 12):				
Change in unrealized investment gains (losses)	278	(978)	1,461	(841)
Reclassification of gains realized in net loss	(1,333)	-	(1,202)	-
Net change	(1,055)	(978)	259	(841)
Interest rate swaps (Note 1):				
Change in unrealized gain (losses)	2,022	(909)	(3,761)	(2,173)
Reclassification of ineffectiveness realized in net loss	-	59	-	88
Reclassification of losses realized in net loss, net of payments	18	12	411	-
Net change	2,040	(838)	(3,350)	(2,085)
Income tax expense (benefit) related to items of other comprehensive income (loss)	(427)	699	1,389	1,149
Other comprehensive income (loss)	558	(1,117)	(1,702)	(1,777)
Comprehensive loss	(670,749)	(5,817)	(610,178)	(110,385)
Earnings attributable to noncontrolling interests	(14,306)	(9,899)	(40,347)	(30,450)
Comprehensive loss attributable to Kindred	$(685,055)	$(15,716)	$(650,525)	$(140,835)

See accompanying notes.

KINDRED HEALTHCARE, INC.

CONDENSED CONSOLIDATED BALANCE SHEET

(Unaudited)

(In thousands, except per share amounts)

	September 30, 2016	December 31, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	$ 139,430	$ 98,758
Insurance subsidiary investments	105,346	106,638
Accounts receivable less allowance for loss of $67,761 September 30, 2016 and $62,896 December 31, 2015	1,266,545	1,194,868
Inventories	25,262	27,791
Income taxes	12,416	11,790
Other	94,876	61,054
	1,643,875	1,500,899
Property and equipment	2,070,421	2,162,398
Accumulated depreciation	(1,192,870)	(1,190,402)
	877,551	971,996
Goodwill	2,422,473	2,669,810
Intangible assets less accumulated amortization of $96,854 September 30, 2016 and $94,221 December 31, 2015	804,602	755,655
Insurance subsidiary investments	195,517	204,498
Deferred tax assets	-	104,130
Acquisition deposit	-	18,489
Other	283,322	242,782
Total assets (a)	$ 6,227,340	$ 6,468,259
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	$ 203,426	$ 187,061
Salaries, wages and other compensation	390,743	404,925
Due to third party payors	57,945	36,251
Professional liability risks	61,036	64,099
Other accrued liabilities	280,305	394,246
Long-term debt due within one year	27,889	24,630
	1,021,344	1,111,212
Long-term debt	3,316,174	3,086,348
Professional liability risks	283,048	263,273
Deferred tax liabilities	200,334	-
Deferred credits and other liabilities	354,246	301,379

Commitments and contingencies (Note 14)		
Equity:		
Stockholder's equity:		
Common stock, $0.25 par value; authorized 175,000 shares; issued 85,187 shares September 30, 2016 and 83,792 shares December 31, 2015	21,297	20,948
Capital in excess of par value	1,717,165	1,737,747
Accumulated other comprehensive loss	(4,334)	(2,632)
Accumulated deficit	(905,137)	(256,209)
	828,991	1,499,854
Noncontrolling interests	223,203	206,193
Total equity	1,052,194	1,706,047
Total liabilities (a) and equity	$ 6,227,340	$ 6,468,259

(a) The Company’s consolidated assets as of September 30, 2016 and December 31, 2015 include total assets of variable interest entities of $405.6 million and $389.0 million, respectively, which can only be used to settle the obligations of the variable interest entities. The Company’s consolidated liabilities as of September 30, 2016 and December 31, 2015 include total liabilities of variable interest entities of $48.9 million and $39.7 million, respectively. See note 1 of the notes to unaudited condensed consolidated financial statements.

See accompanying notes.

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KINDRED HEALTHCARE, INC.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

(Unaudited)

(In thousands)

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Cash flows from operating activities:				
Net loss	$(671,307)	$(4,700)	$(608,476)	$(108,608)
Adjustments to reconcile net loss to net cash provided by operating activities:				
Depreciation expense	34,914	31,867	103,306	95,325
Amortization of intangible assets	5,468	7,728	18,251	22,196
Amortization of stock-based compensation costs	3,015	3,194	13,058	15,764
Amortization of deferred financing costs	3,987	3,554	11,262	10,155
Payment of capitalized lender fees related to debt issuance	(42)	-	(7,375)	(28,012)
Provision for doubtful accounts	10,009	11,014	30,955	29,817
Deferred income taxes	(84,173)	3,556	(54,875)	(894)
Impairment charges	324,289	-	338,208	6,726
Gain on divestiture of discontinued operations	-	-	(179)	(983)
Other	6,303	3,485	7,262	10,457
Change in operating assets and liabilities:				
Accounts receivable	(42,832)	25,990	(143,953)	(13,399)
Inventories and other assets	11,871	8,767	(3,522)	44,181
Accounts payable	11,995	(353)	24,451	(12,788)
Income taxes	364,925	37,491	365,705	33,646
Due to third party payors	24,809	15,008	20,317	(3,965)
Other accrued liabilities	32,851	(14,311)	(76,347)	(6,551)
Net cash provided by operating activities	36,082	132,290	38,048	93,067
Cash flows from investing activities:				
Routine capital expenditures	(21,873)	(35,422)	(68,703)	(80,691)
Development capital expenditures	(8,386)	(5,760)	(27,112)	(12,066)
Acquisitions, net of cash acquired	(49,329)	(2,002)	(77,040)	(663,757)
Acquisition deposits	-	-	18,489	195,000
Sale of assets	3,739	3,884	4,962	7,061
Proceeds from senior unsecured notes offering held in escrow	-	-	-	1,350,000
Interest in escrow for senior unsecured notes	-	-	-	23,438
Purchase of insurance subsidiary investments	(22,427)	(16,357)	(75,422)	(59,186)
Sale of insurance subsidiary investments	31,875	15,987	78,478	50,780
Net change in insurance subsidiary cash and cash equivalents	(14,680)	(2,633)	8,479	(8,396)
Proceeds from note receivable	-	25,000	-	25,000
Net change in other investments	51	176	(33,347)	375
Other	(150)	1,383	(1,277)	590

Net cash provided by (used in) investing activities	(81,180)	(15,744)	(172,493)	828,148
Cash flows from financing activities:				
Proceeds from borrowings under revolving credit	489,200	259,700	1,267,200	1,414,850
Repayment of borrowings under revolving credit	(388,100)	(349,700)	(1,215,800)	(1,319,850)
Proceeds from issuance of term loan, net of discount	-	-	198,100	199,000
Proceeds from other long-term debt	-	-	750	-
Repayment of Gentiva debt	-	-	-	(1,177,363)
Repayment of term loan	(3,508)	(3,003)	(10,019)	(9,008)
Repayment of other long-term debt	(276)	(500)	(826)	(1,400)
Payment of deferred financing costs	(50)	(301)	(342)	(3,284)
Issuance of common stock in connection with employee benefit plans	-	329	-	534
Payment of costs associated with issuance of common stock and tangible equity units	-	-	-	(915)
Payment of dividend for mandatory redeemable preferred stock	(2,904)	(2,703)	(8,558)	(8,135)
Dividends paid	(10,224)	(10,065)	(30,517)	(30,067)
Contributions made by noncontrolling interests	4,993	1,492	11,261	1,492
Distributions to noncontrolling interests	(4,694)	(10,685)	(35,240)	(31,823)
Purchase of noncontrolling interests	-	-	(1,000)	-
Other	35	245	108	1,457
Net cash provided by (used in) financing activities	84,472	(115,191)	175,117	(964,512)
Change in cash and cash equivalents	39,374	1,355	40,672	(43,297)
Cash and cash equivalents at beginning of period	100,056	119,536	98,758	164,188
Cash and cash equivalents at end of period	$139,430	$120,891	$139,430	$120,891
Supplemental information:				
Interest payments	$73,755	$81,474	$181,227	$147,924
Income tax payments (refunds)	1,075	(27,414)	2,184	(26,275)
Issuance of common stock in Gentiva Merger (see Note 2)	-	15	-	177,456
Non-cash contribution made by noncontrolling interest	-	-	2,800	-

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, a home health, hospice and community care business, inpatient rehabilitation hospitals ("IRFs"), a contract rehabilitation services business, nursing centers, and assisted living facilities across the United States (collectively, the "Company" or "Kindred"). At September 30, 2016, the Company's hospital division operated 94 TC hospitals (certified as long-term acute care ("LTAC") hospitals under the Medicare program) in 22 states. The Company's Kindred at Home division primarily provided home health, hospice, and community care services from 647 sites of service in 40 states. The Company's Kindred Rehabilitation Services division operated 19 IRFs and 104 hospital-based acute rehabilitation units ("ARUs") (certified as IRFs), and provided rehabilitation services primarily in hospitals and long-term care settings in 46 states. The Company's nursing center division operated 91 nursing centers and seven assisted living facilities in 19 states.

Gentiva merger

On October 9, 2014, the Company entered into an Agreement and Plan of Merger (the "Gentiva Merger Agreement") with Gentiva Health Services, Inc. ("Gentiva"), providing for the Company's acquisition of Gentiva (the "Gentiva Merger"). On February 2, 2015, the Company consummated the Gentiva Merger, with Gentiva continuing as the surviving company and the Company's wholly owned subsidiary.

Discontinued operations

The Company has completed several transactions related to the 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 associated with these transactions were classified as discontinued operations in the accompanying unaudited condensed consolidated statement of operations for all periods presented in accordance with the authoritative guidance in effect through December 31, 2014. Effective January 1, 2015, the authoritative guidance modified the requirements for reporting discontinued operations. A disposal is now required to be reported in discontinued operations only if the disposal represents a strategic shift that has (or will have) a major effect on the Company's operations and financial results.

Assets held for sale at September 30, 2016 have been measured at the lower of carrying value or estimated fair value less costs of disposal. See Note 5 for a summary of discontinued operations and assets held for sale.

Recently issued accounting requirements

In October 2016, the Financial Accounting Standards Board (the "FASB") issued authoritative guidance which alters how an entity needs to consider indirect interests in a variable interest entity ("VIE") held through an entity under common control. The amendment eliminates the distinction between the full attribution and proportionate approach, leaving the entity to only consider the latter when evaluating a VIE held through common control. The new guidance is effective for annual and interim periods beginning after December 15, 2016 and early adoption is permitted. The adoption of this standard is not expected to have a material impact on the Company’s business, financial position, results of operations or liquidity.

In August 2016, the FASB issued authoritative guidance to eliminate diversity in practice related to the cash flow statement classification of eight specific cash flow issues, which include debt prepayment or extinguishment costs, maturity of a zero coupon bond, settlement of contingent consideration liabilities after a business combination, proceeds from insurance settlements and distribution from certain equity method investees. The new guidance is effective for annual and interim periods beginning after December 15, 2017 and early adoption is permitted. The Company is currently assessing the impact on its consolidated statement of cash flows.

In June 2016, the FASB issued authoritative guidance for accounting for credit losses on financial instruments. The new guidance introduces an approach based on expected losses to estimate credit losses on certain types of financial instruments and modifies the impairment model for available-for-sale debt securities. The new guidance is effective for annual periods beginning after December 15, 2019 and early adoption is permitted beginning after December 15, 2018. The Company is still evaluating its transition approach and the impact of adoption on its business, financial position, results of operations, and liquidity.

KINDRED HEALTHCARE, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

NOTE 1 – BASIS OF PRESENTATION (Continued)

Recently issued accounting requirements (Continued)

In May 2016, the FASB finalized its amendments to the guidance in the new revenue standard on contracts with customers and specifically, collectability, non-cash consideration, presentation of sales taxes, and completed contracts. The amendments are intended to reduce the risk of diversity in practice and the cost and complexity of applying certain aspects of the revenue standard. The amendments have the same effective date and transition requirements as the new revenue standard, which is effective for interim and annual periods beginning on or after December 15, 2017 with early adoption permitted on or after December 15, 2016. The Company is still assessing whether it will elect the full retrospective or modified adoption approach and the impact of the adoption of the new revenue standard on its business, financial position, results of operations, and liquidity.

In March 2016, the FASB issued authoritative guidance that requires the tax effects related to share-based payments to be recorded through the income statement at settlement. Under the new guidance, tax benefits in excess of or less than the tax effect of compensation expenses will no longer be recorded in equity for purpose of simplification, which is expected to reduce administrative complexities but could increase the volatility of income tax expense. The new guidance is effective for annual and interim periods beginning after December 15, 2016 and early adoption is permitted. The adoption of this standard is not expected to have a material impact on the Company’s business, financial position, results of operations, or liquidity.

In March 2016, the FASB finalized its amendments to the guidance in the new revenue standard on assessing whether an entity is a principal or an agent in a revenue transaction. Under the new amendments, the FASB confirmed that a principal in an arrangement controls a good or service before it is transferred to a customer but revised the structure of indicators when an entity is the principal. The amendments have the same effective date and transition requirements as the new revenue standard, which is effective for annual and interim periods beginning on or after December 15, 2017, with early adoption permitted on or after December 15, 2016. The Company is still assessing whether it will elect the full retrospective or modified adoption approach and the impact of the adoption of the new revenue standard on its business, financial position, results of operations, and liquidity.

In March 2016, the FASB issued authoritative guidance that eliminates the requirement to apply the equity method of accounting retrospectively when a reporting entity obtains significant influence over a previously held investment. Under the new guidance, the equity method of accounting should be applied prospectively from the date significant influence is obtained. The new guidance is effective for annual and interim periods beginning after December 15, 2016 and early adoption is permitted. The adoption of this standard is not expected to have a material impact on the Company’s business, financial position, results of operations, or liquidity.

In March 2016, the FASB issued authoritative guidance clarifying that a change in the counterparty to a derivative contract, in and of itself, does not require the dedesignation of a hedging relationship. Under the new guidance, an entity will still need to evaluate whether it is possible that the counterparty will perform under the contract as part of the assessment for hedge accounting. The new guidance is effective for annual and interim periods beginning after December 15, 2016 and early adoption is permitted. The adoption of this standard is not expected to have a material impact on the Company’s business, financial position, results of operations, or liquidity.

In February 2016, the FASB issued amended authoritative guidance on accounting for leases. The new provisions require that a lessee of operating leases recognize in the statement of financial position a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. The lease liability will be equal to the present value of lease payments, with the right-of-use asset based upon the lease liability. The classification criteria for distinguishing between finance (or capital) leases and operating leases are substantially similar to the previous lease guidance, but with no explicit bright lines. As such, operating leases will result in straight-line rent expense similar to current practice. For short-term leases (term of 12 months or less), a lessee is permitted to make an accounting election not to recognize lease assets and lease liabilities, which would generally result in lease expense being recognized on a straight-line basis over the lease term. The guidance is effective for annual and interim periods beginning after December 15, 2018, and will require application of the new guidance at the beginning of the earliest comparable period presented. Early adoption is permitted. The new standard must be adopted using a modified retrospective transition. The adoption of this standard is expected to have a material impact on the Company’s financial position. The Company is still evaluating the impact on its results of operations and expects no material impact on liquidity.

KINDRED HEALTHCARE, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

NOTE 1 – BASIS OF PRESENTATION (Continued)

Recently issued accounting requirements (Continued)

In January 2016, the FASB issued amended authoritative guidance which makes targeted improvements for financial instruments. The new provisions impact certain aspects of recognition, measurement, presentation and disclosure requirements of financial instruments. Specifically, the guidance will (1) require equity investments to be measured at fair value with changes in fair value recognized in net income, (2) simplify the impairment assessment of equity investments without readily determinable fair values, (3) eliminate the requirement to disclose the method and assumptions used to estimate fair value for financial instruments measured at amortized cost, and (4) require separate presentation of financial assets and financial liabilities by measurement category. The guidance is effective for annual and interim periods beginning after December 15, 2017, and early adoption is not permitted. The adoption of this standard is not expected to have a material impact on the Company's business, financial position, results of operations, or liquidity.

In August 2014, the FASB issued authoritative guidance requiring management to evaluate whether there are conditions and events that raise substantial doubt about the entity's ability to continue as a going concern and to provide disclosures in certain circumstances. The guidance is effective for annual and interim periods ending after December 15, 2016. The Company does not expect this guidance to have a material impact on its consolidated financial statements.

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. In July 2015, the FASB finalized a one-year deferral of the new revenue standard with an updated effective date for interim and annual periods beginning on or after December 15, 2017. Entities are not permitted to adopt the standard earlier than the original effective date, which was on or after December 15, 2016. The Company is still assessing whether it will elect the full retrospective or modified adoption approach and the impact of the adoption of the new revenue standard on its business, financial position, results of operations, and liquidity.

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, 2016 and 2015 (in thousands):

For the nine months ended September 30, 2016	Amounts attributable to Kindred stockholders	Noncontrolling interests	Total equity
Balance at December 31, 2015	$ 1,499,854	$ 206,193	$ 1,706,047
Comprehensive income (loss):			
Net income (loss)	(648,823)	40,347	(608,476)
Other comprehensive loss	(1,702)	-	(1,702)
	(650,525)	40,347	(610,178)
Shares tendered by employees for statutory tax withholdings upon issuance of common stock	(3,079)	-	(3,079)
Income tax benefit in connection with the issuance of common stock under employee benefit plans	434	-	434
Stock-based compensation amortization	13,058	-	13,058
Dividends paid	(30,517)	-	(30,517)
Contributions made by noncontrolling interests	-	14,061	14,061
Distributions to noncontrolling interests	-	(35,240)	(35,240)
Purchase of noncontrolling interests	(234)	(2,158)	(2,392)
Balance at September 30, 2016	$ 828,991	$ 223,203	$ 1,052,194
For the nine months ended September 30, 2015			
Balance at December 31, 2014	$ 1,441,867	$ 44,105	$ 1,485,972
Comprehensive income (loss):			
Net income (loss)	(139,058)	30,450	(108,608)
Other comprehensive loss	(1,777)	-	(1,777)
	(140,835)	30,450	(110,385)
Issuance of common stock in connection with employee benefit plans	534	-	534
Shares tendered by employees for statutory tax withholdings upon issuance of common stock	(10,055)	-	(10,055)
Income tax benefit in connection with the issuance of common stock under employee	1,806	-	1,806

benefit plans			
Stock-based compensation amortization	15,764	-	15,764
Dividends paid	(30,067)	-	(30,067)
Acquired noncontrolling interests	-	149,817	149,817
Contributions made by noncontrolling interests	-	1,492	1,492
Distributions to noncontrolling interests	-	(31,823)	(31,823)
Issuance of common stock in Gentiva Merger	177,456	-	177,456
Balance at September 30, 2015	$ 1,456,470	$ 194,041	$ 1,650,511

KINDRED HEALTHCARE, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

NOTE 1 – BASIS OF PRESENTATION (Continued)

Derivative financial instruments

In March 2014, the Company entered into an interest rate swap agreement to hedge its floating interest rate on an aggregate of $400 million of debt outstanding under its Third Amended and Restated Term Loan Facility (as defined below). 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, will expire on April 9, 2018, and continues to apply to the Term Loan Facility (as defined below). 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 London Interbank Offered Rate ("LIBOR"), subject to a minimum rate of 1.0%. The Company determined these interest rate swaps continue to qualify for cash flow hedge accounting treatment at September 30, 2016.

In January 2016, the Company entered into three interest rate swap agreements to hedge its floating interest rate on an aggregate of $325 million of debt outstanding under its Fourth Amended and Restated Term Loan Facility (as defined below). The interest rate swaps have an effective date of January 11, 2016, and expire on January 9, 2021. The Company is required to make payments based upon a fixed interest rate of 1.862% and 1.855% calculated on the notional amount of $175 million and $150 million, respectively. In exchange, the Company will receive interest on $325 million at a variable interest rate that is based upon the three-month LIBOR rate, subject to a minimum rate of 1.0%. The Company determined these interest rate swaps continue to qualify for cash flow hedge accounting treatment at September 30, 2016.

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, 2016 and 2015, 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 $8.2 million and $4.5 million at September 30, 2016 and December 31, 2015, respectively. See Note 15.

As used herein, (1) the "Term Loan Facility" refers to the Fifth Amended and Restated Term Loan Facility dated as of June 14, 2016, (2) the "Fourth Amended and Restated Term Loan Facility" refers to the Third Amended and Restated Term Loan Facility, as amended and restated as of November 25, 2014, and as further amended as of March 10, 2015, and (3) the "Third Amended and Restated Term Loan Facility" refers to a previous $225 million senior secured term loan facility dated as of June 1, 2011, as amended as of October 4, 2012, and as further amended and restated as of May 30, 2013, August 21, 2013, and April 9, 2014.

Variable interest entities

The Company follows the provisions of the authoritative guidance for determining whether an entity is a VIE. In order to determine if the Company is a primary beneficiary of a VIE for financial reporting purposes, it must consider whether it has the power to direct activities of the VIE that most significantly impact the performance of the VIE and whether the Company has the obligation to absorb losses or the right to receive returns that would be significant to the VIE. The Company consolidates a VIE when it is the primary beneficiary.

KINDRED HEALTHCARE, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

NOTE 1 – BASIS OF PRESENTATION (Continued)

Variable interest entities (Continued)

In January 2015, the Company completed the acquisition of Centerre Healthcare Corporation (“Centerre”), which operated 11 IRFs. The Company opened two IRFs during 2015 and one additional IRF during the nine months ended September 30, 2016. Each entity operating an IRF is subject to a partnership and a management services agreement with the Company. Under United States generally accepted accounting principles (“GAAP”), the Company determined that all of the entities acquired or opened qualify as VIEs and that the Company is the primary beneficiary in all but one arrangement. The Company holds an equity interest and acts as manager in each of the entities. Through the management services agreement, the Company is delegated necessary responsibilities to provide management services, administrative services and direction of the day-to-day operations. Based on the Company’s assessment of the most significant activities of the IRFs, the manager has the ability to direct the majority of those activities in 13 of the entities.

The analysis upon which the consolidation determination rests is complex, involves uncertainties, and requires significant judgment on various matters, some of which could be subject to different interpretations.

The carrying amounts and classifications of the assets and liabilities of the consolidated VIEs are as follows (in thousands):

	September 30, 2016	December 31, 2015
Assets:		
Current assets:		
Cash and cash equivalents	$ 50,709	$ 36,798
Accounts receivable, net	34,521	36,085
Inventories	1,718	1,576
Other	3,617	3,001
	90,565	77,460
Property and equipment, net	17,561	17,100
Goodwill	275,375	271,717
Intangible assets, net	22,048	22,675
Other	34	54
Total assets	$ 405,583	$ 389,006
Liabilities:		
Current liabilities:		
Accounts payable	$ 33,657	$ 26,291
Salaries, wages and other compensation	2,433	3,261
Other accrued liabilities	3,721	2,784

Long-term debt due within one year	1,703	1,106
	41,514	33,442
Long-term debt	601	1,274
Deferred credits and other liabilities	6,830	