LHC Group, Inc
Form 10-Q
August 07, 2014
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 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: 001-33989

LHC GROUP, INC.

(Exact name of registrant as specified in its charter)

Delaware	**71-0918189**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

420 West Pinhook Road, Suite A

Lafayette, LA 70503

(Address of principal executive offices including zip code)

(337) 233-1307

(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 x 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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x 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	x
Non-accelerated filer	¨ (Do not check if a smaller reporting company)	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 x

Number of shares of common stock, par value $0.01, outstanding as of July 30, 2014: 17,789,101 shares.

Table of Contents

LHC GROUP, INC.

INDEX

Table of Contents

PART I FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS.

LHC GROUP, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(Amounts in thousands, except share data)

(Unaudited)

	June 30, 2014	December 31, 2013
ASSETS		
Current assets:		
Cash	$ 12,027	$ 14,014
Receivables:		
Patient accounts receivable, less allowance for uncollectible accounts of $16,176 and $14,334, respectively	98,932	88,964
Other receivables	2,361	608
Amounts due from governmental entities	990	1,234
Total receivables, net	102,283	90,806
Deferred income taxes	9,817	9,251
Prepaid income taxes	3,497	4,069
Prepaid expenses	8,657	6,966
Other current assets	4,137	4,449
Receivable due from insurance carrier	7,850	
Total current assets	148,268	129,555
Property, building and equipment, net of accumulated depreciation of $44,258 and $40,935, respectively	32,929	31,052
Goodwill	229,462	194,893
Intangible assets, net of accumulated amortization of $5,461 and $4,518, respectively	83,973	62,184
Other assets	2,993	4,542
Total assets	$ 497,625	$ 422,226
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable and other accrued liabilities	$ 18,718	$ 17,217
Salaries, wages, and benefits payable	37,648	31,927
Self-insurance reserve	6,610	5,862
Current portion of long-term debt	225	249

Amounts due to governmental entities	3,746	4,391
Legal settlement payable	7,850	
Total current liabilities	74,797	59,646
Deferred income taxes	30,470	29,060
Income tax payable	3,415	3,415
Revolving credit facility	69,000	22,000
Long-term debt, less current portion	896	963
Total liabilities	178,578	115,084
Noncontrolling interest redeemable	11,263	11,258
Stockholders equity:		
LHC Group, Inc. stockholders equity:		
Common stock $0.01 par value; 40,000,000 shares authorized; 21,983,432 and 21,801,634 shares issued in 2014 and 2013, respectively	219	218
Treasury stock 4,730,511 and 4,693,647 shares at cost, respectively	(35,565)	(34,715)
Additional paid-in capital	106,549	103,972
Retained earnings	233,663	223,534
Total LHC Group, Inc. stockholders equity	304,866	293,009
Noncontrolling interest non-redeemable	2,918	2,875
Total equity	307,784	295,884
Total liabilities and equity	$ 497,625	$ 422,226

See accompanying notes to condensed consolidated financial statements.

Table of Contents

LHC GROUP, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(Amounts in thousands, except share and per share data)

(Unaudited)

	Three Months Ended June 30, 2014	Three Months Ended June 30, 2013	Six Months Ended June 30, 2014	Six Months Ended June 30, 2013
Net service revenue	$ 188,867	$ 166,302	$ 352,548	$ 328,255
Cost of service revenue	111,527	97,009	208,861	190,257
Gross margin	77,340	69,293	143,687	137,998
Provision for bad debts	4,363	3,208	7,725	7,125
General and administrative expenses	59,614	54,157	114,226	105,780
Operating income	13,363	11,928	21,736	25,093
Interest expense	(830)	(700)	(1,218)	(1,125)
Non-operating income (loss)	(109)	65	(76)	130
Income before income taxes and noncontrolling interest	12,424	11,293	20,442	24,098
Income tax expense	4,352	3,918	7,275	8,454
Net income	8,072	7,375	13,167	15,644
Less net income attributable to noncontrolling interests	2,011	1,585	3,038	3,568
Net income attributable to LHC Group, Inc. s common stockholders	$ 6,061	$ 5,790	$ 10,129	$ 12,076
Earnings per share basic and diluted:				
Net income attributable to LHC Group, Inc. s common stockholders	$ 0.35	$ 0.34	$ 0.59	$ 0.71
Weighted average shares outstanding:				
Basic	17,233,264	17,055,619	17,190,070	17,011,306
Diluted	17,277,224	17,127,017	17,268,556	17,088,463

See accompanying notes to the condensed consolidated financial statements.

4

Table of Contents

LHC GROUP, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(Amounts in thousands, except share data)

(Unaudited)

	Common Stock				Additional		Non-controlling	
	Issued		Treasury		Paid-In	Retained	Interest Non	Total
	Amount	Shares	Amount	Shares	Capital	Earnings	Redeemable	Equity
Balances as of December 31, 2013	$ 218	21,801,634	$ (34,715)	(4,693,647)	$ 103,972	$ 223,534	$ 2,875	$ 295,884
Net income						10,129	554	10,683(1)
Sale of noncontrolling interest					161			161
Purchase of noncontrolling interest					(95)			(95)
Noncontrolling interest distributions							(511)	(511)
Nonvested stock compensation					2,069			2,069
Issuance of vested stock		163,886						
Treasury shares redeemed to pay income tax			(850)	(36,864)				(850)
Excess tax benefits vesting nonvested stock					52			52
Issuance of common stock under Employee Stock Purchase Plan	1	17,912			390			391
Balances as of June 30, 2014	$ 219	21,983,432	$ (35,565)	(4,730,511)	$ 106,549	$ 233,663	$ 2,918	$ 307,784

(1) Net income excludes net income attributable to noncontrolling interest-redeemable of $2.5 million during the six months ending June 30, 2014. Noncontrolling interest-redeemable is reflected outside of permanent equity on the condensed consolidated balance sheets. See Note 9 of the Notes to Condensed Consolidated Financial Statements.

See accompanying notes to condensed consolidated financial statements.

Table of Contents

LHC GROUP, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in thousands)

(Unaudited)

	Six Months Ended June 30, 2014	2013
Operating activities		
Net income	$ 13,167	$ 15,644
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization expense	4,413	3,830
Provision for bad debts	7,725	7,125
Stock-based compensation expense	2,069	1,895
Deferred income taxes	844	1,270
Gain on sale of assets	144	15
Changes in operating assets and liabilities, net of acquisitions:		
Receivables	(8,625)	(10,837)
Prepaid expenses and other assets	(301)	(1,519)
Prepaid income taxes	512	3,479
Accounts payable and accrued expenses	4,249	7,600
Net amounts due to/from governmental entities	(401)	(432)
Net cash provided by operating activities	23,796	28,070
Investing activities		
Purchases of property, building and equipment	(3,419)	(3,569)
Cash paid for acquisitions, primarily goodwill and intangible assets	(65,103)	(26,920)
Net cash (used in) investing activities	(68,522)	(30,489)
Financing activities		
Proceeds from line of credit	68,000	55,000
Payments on line of credit	(21,000)	(49,500)
Proceeds from employee stock purchase plan	391	392
Proceeds from debt issuance		567
Payments on debt	(91)	
Noncontrolling interest distributions	(3,122)	(4,352)
Payment of deferred financing fees	(799)	
Excess tax benefits from vesting of restricted stock	112	11
Redemption of treasury shares	(850)	(755)
Purchase of additional controlling interest	(95)	(1,618)
Sale of noncontrolling interest	193	

Net cash provided by (used in) financing activities	42,739	(255)
Change in cash	(1,987)	(2,674)
Cash at beginning of period	14,014	9,720
Cash at end of period	$ 12,027	$ 7,046
Supplemental disclosures of cash flow information		
Interest paid	$ 1,177	$ 1,125
Income taxes paid	$ 6,064	$ 14,376

See accompanying notes to condensed consolidated financial statements.

Table of Contents

LHC GROUP, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Organization

LHC Group, Inc. (the Company) is a health care provider specializing in the post-acute continuum of care primarily for Medicare beneficiaries. The Company provides home-based services, primarily through home nursing agencies and community based service agencies, hospice services and facility-based services, primarily through long-term acute care hospitals (LTACHs). As of June 30, 2014, the Company, through its wholly- and majority-owned subsidiaries, equity joint ventures and controlled affiliates, operated 338 service providers in 25 states within the continental United States.

Unaudited Interim Financial Information

The condensed consolidated balance sheets as of June 30, 2014 and December 31, 2013, and the related condensed consolidated statements of income for the three and six months ended June 30, 2014 and 2013, condensed consolidated statement of changes in equity for the six months ended June 30, 2014, condensed consolidated statements of cash flows for the six months ended June 30, 2014 and 2013 and related notes (collectively, these financial statements and the related notes are referred to herein as the interim financial information) have been prepared by the Company. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation in accordance with U.S. generally accepted accounting principles (U.S. GAAP) have been included. Operating results for the three and six months ended June 30, 2014 are not necessarily indicative of the results that may be expected for the year ending December 31, 2014.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. GAAP have been condensed or omitted from the interim financial information presented. This report should be read in conjunction with the Company s consolidated financial statements and related notes included in the Company s Annual Report on Form 10-K for the year ended December 31, 2013 as filed with the Securities and Exchange Commission (the SEC) on March 6, 2014, which includes information and disclosures not included herein.

2. Significant Accounting Policies

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported revenue and expenses during the reporting period. Actual results could differ from those estimates.

Critical Accounting Policies

The Company s most critical accounting policies relate to the principles of consolidation, revenue recognition and accounts receivable and allowances for uncollectible accounts.

Principles of Consolidation

The interim financial information includes all subsidiaries and entities controlled by the Company. Control is defined by the Company as ownership of a majority of the voting interest of an entity. The interim financial information includes entities in which the Company receives a majority of the entities expected residual returns, absorbs a majority of the entities expected losses, or both, as a result of ownership, contractual or other financial interests in the entity. Third party equity interests in the consolidated joint ventures are reflected as noncontrolling interests in the Company s interim financial information.

Table of Contents

The following table summarizes the percentage of net service revenue earned by type of ownership or relationship the Company had with the operating entity:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Wholly-owned subsidiaries	54.5%	49.0%	52.0%	47.9%
Equity joint ventures	42.9	48.3	45.3	49.3
License leasing arrangements	1.8	1.9	1.9	1.9
Management services	0.8	0.8	0.8	0.9
	100.0%	100.0%	100.0%	100.0%

All significant intercompany accounts and transactions have been eliminated in the Company s accompanying interim financial information. Business combinations accounted for under the acquisition method have been included in the interim financial information from the respective dates of acquisition.

The following describes the Company s consolidation policy with respect to its various ventures excluding wholly-owned subsidiaries:

Equity Joint Ventures

The members of the Company s equity joint ventures participate in profits and losses in proportion to their equity interests. The Company consolidates these entities as the Company has voting control over the entities. The Company owns a majority equity interest ranging from 51% to 91% in these joint ventures.

License Leasing Arrangements

The Company, through wholly-owned subsidiaries, leases home health licenses necessary to operate certain of its home nursing agencies. As with its wholly-owned subsidiaries, the Company owns 100% of the equity of these entities and consolidates them based on such ownership.

Management Services

The Company has various management services agreements under which the Company manages certain operations of agencies and facilities. The Company does not consolidate these agencies or facilities because the Company does not have an ownership interest in, and does not have an obligation to absorb losses of, the entities that own the agencies and facilities or the right to receive the benefits from those entities.

Revenue Recognition

The Company reports net service revenue at the estimated net realizable amount due from Medicare, Medicaid and others for services rendered. All such payors contribute to the net service revenue of the Company s home-based services, hospice services and facility-based services.

The following table sets forth the percentage of net service revenue earned by category of payor for the three and six months ended June 30, 2014 and 2013:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	**2013**	**2014**	**2013**
Payor:				
Medicare	75.3%	79.7%	76.9%	79.5%
Medicaid	1.4	1.5	1.3	1.5
Other	23.3	18.8	21.8	19.0
	100.0%	100.0%	100.0%	100.0%

Table of Contents

The percentage of net service revenue contributed from each reporting segment for the three and six months ended June 30, 2014 and 2013 was as follows:

	Three Months Ended June 30,		**Six Months Ended June 30,**	
	2014	**2013**	**2014**	**2013**
Home-based services	81.7%	79.8%	80.3%	79.7%
Hospice services	9.0	8.3	9.1	8.2
Facility-based services	9.3	11.9	10.6	12.1
	100.0%	100.0%	100.0%	100.0%

Medicare

Home-Based Services

Home Nursing Services. The Company s home nursing Medicare patients are classified into one of 153 home health resource groups prior to receiving services. Based on the patient s home health resource group, the Company is entitled to receive a standard prospective Medicare payment for delivering care over a 60-day period referred to as an episode. The Company recognizes revenue based on the number of days elapsed during an episode of care within the reporting period.

Final payments from Medicare may reflect one of four retroactive adjustments to ensure the adequacy and effectiveness of the total reimbursement: (a) an outlier payment if the patient s care was unusually costly; (b) a low utilization adjustment if the number of visits was fewer than five; (c) a partial payment if the patient transferred to another provider before completing the episode; or (d) a payment adjustment based upon the level of therapy services required in the population base. In calculating net service revenue, management estimates the impact of these payment adjustments based on historical experience and records this estimate as the services are rendered using the expected level of services that will be provided and the schedule of those services or a historical average of prior adjustments.

Hospice Services

The Company is paid by Medicare under a per diem payment system. The Company receives one of four predetermined daily or hourly rates based upon the level of care the Company furnished. The Company records net service revenue from hospice services based on the daily or hourly rate and recognizes revenue as hospice services are provided.

Hospice payments are also subject to an inpatient cap and an overall Medicare payment cap. The inpatient cap relates to individual programs receiving more than 20% of its total Medicare reimbursement from inpatient care services and the overall Medicare payment cap relates to individual providers receiving reimbursements in excess of a cap amount, calculated by multiplying the number of beneficiaries during the period by a statutory amount that is indexed for inflation. The determination for each cap is made annually based on the 12-month period ending on October 31 of each year. The Company monitors its limits on a provider-by-provider basis and records an estimate of its liability for reimbursements received in excess of the cap amount. Annually, the Company receives notification of whether any of its hospice providers have exceeded either cap. Adjustments resulting from these notifications have not been material.

Facility-Based Services

The Company is reimbursed by Medicare for services provided under the LTACH prospective payment system. Each patient is assigned a long-term care diagnosis-related group. The Company is paid a predetermined fixed amount intended to reflect the average cost of treating a Medicare patient classified in that particular long-term care diagnosis-related group. For selected patients, the amount may be further adjusted based on length of stay and facility-specific costs, as well as in instances where a patient is discharged and subsequently re-admitted, among other factors. The Company calculates the adjustment based on a historical average of these types of adjustments for claims paid. Similar to other Medicare prospective payment systems, the rate is also adjusted for geographic wage differences. Revenue is recognized for the Company s LTACHs as services are provided.

Medicaid, managed care and other payors

The Company s Medicaid reimbursement is based on a predetermined fee schedule applied to each service provided. Therefore, revenue is recognized for Medicaid services as services are provided based on this fee schedule. The Company s managed care and other payors reimburse the Company based upon a predetermined fee schedule or an episodic basis, depending on the terms of the applicable contract. Accordingly, the Company recognizes revenue from managed care and other payors in the same manner as the Company recognizes revenue from Medicare or Medicaid.

Accounts Receivable and Allowances for Uncollectible Accounts

The Company reports accounts receivable net of estimated allowances for uncollectible accounts and adjustments. Accounts receivable are uncollateralized and primarily consist of amounts due from Medicare, other third-party payors, and patients. To provide for accounts receivable that could become uncollectible in the future, the Company establishes an allowance for uncollectible accounts to reduce the carrying amount of such receivables to their estimated net realizable value. The credit risk for other concentrations of receivables is limited due to the significance of Medicare as the primary payor. The Company believes the credit risk associated with its Medicare accounts, which have historically exceeded 58% of its patient accounts receivable, is limited due to (i) the historical collection rate from Medicare and (ii) the fact that Medicare is a U.S. government payor. The Company does not believe that there are any other concentrations of receivables from any particular payor that would subject it to any significant credit risk in the collection of accounts receivable.

The provision for bad debts is based upon the Company s assessment of historical and expected net collections, business and economic conditions and trends in government reimbursement. Uncollectible accounts are written off when the Company has determined the account will not be collected.

A portion of the estimated Medicare prospective payment system reimbursement from each submitted home nursing episode is received in the form of a request for anticipated payment (RAP). The Company submits a RAP for 60% of the estimated reimbursement for the initial episode at the start of care. The full amount of the episode is billed after the episode has been completed. The RAP received for that particular episode is deducted from the final payment. If a final bill is not submitted within the greater of 120 days from the start of the episode, or 60 days from the date the RAP was paid, any RAP received for that episode will be recouped by Medicare from any other Medicare claims in process for that particular provider. The RAP and final claim must then be resubmitted. For subsequent episodes of care contiguous with the first episode for a particular patient, the Company submits a RAP for 50% instead of 60% of the estimated reimbursement.

The Company s services to the Medicare population are paid at prospectively set amounts that can be determined at the time services are rendered. The Company s Medicaid reimbursement is based on a predetermined fee schedule applied to each individual service it provides. The Company s managed care contracts and contracts with other payors provide for payments based upon a predetermined fee schedule or an episodic basis, depending on the terms of the applicable contract. Because of its payor mix, the Company is able to calculate its actual amount due at the patient level and adjust the gross charges down to the actual amount at the time of billing. This negates the need to record an estimated contractual allowance when reporting net service revenue for each reporting period.

Table of Contents

Other Significant Accounting Policies

Earnings Per Share

Basic per share information is computed by dividing the relevant amounts from the condensed consolidated statements of income by the weighted-average number of shares outstanding during the period, under the treasury stock method. Diluted per share information is also computed using the treasury stock method, by dividing the relevant amounts from the condensed consolidated statements of income by the weighted-average number of shares outstanding plus potentially dilutive shares.

The following table sets forth shares used in the computation of basic and diluted per share information:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	**2013**	**2014**	**2013**
Weighted average number of shares outstanding for basic per share calculation	17,233,264	17,055,619	17,190,070	17,011,306
Effect of dilutive potential shares:				
Options	3,750	4,032	4,031	3,937
Nonvested stock	40,210	67,366	74,455	73,220
Adjusted weighted average shares for diluted per share calculation	17,277,224	17,127,017	17,268,556	17,088,463
Anti-dilutive shares	187,179	39,756	210,570	180,966

Recently Issued Accounting Pronouncements

FASB issued Accounting Standards Update 2014-08 *Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360) Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity* (ASU) in April 2014. The ASU changed the definition of discontinued operations by limiting discontinued operations reporting to disposals of components of an entity that represent strategic shifts that have (or will have) a major effect on a Company s operations and financial results. The ASU also requires additional disclosures for discontinued operations. The ASU is effective for annual periods beginning after December 15, 2014 and for interim periods within those years; early adoption is permitted but only for disposals that have not been reported in financial statements previously issued or available for issuance. The Company adopted this guidance during the three months ended June 30, 2014.

On May 28, 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers,* which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The ASU will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. The new standard is effective for the Company on January 1, 2017. Early application is not permitted. The standard permits the use of either the retrospective or cumulative effect transition method. The Company is evaluating the effect that ASU 2014-09 will have on its consolidated financial statements and related disclosures. The Company has not yet selected a transition method nor has it determined the effect of the standard on its ongoing financial reporting.

Table of Contents

3. Acquisitions and Disposals

Pursuant to the Company s strategy for becoming the leading provider of post-acute health care services in the United States, the Company acquired 32 home-based agencies and five hospice agencies during the six months ended June 30, 2014. The Company maintains an ownership interest in the acquired businesses as set forth below:

Acquired Businesses	Ownership Percentage	State of Operations	Acquisition Date
EAMC Lanier Home Health	75%	Alabama	02/01/2014
Lifeline Home Health	100%	Kentucky	02/01/2014
Louisiana Hospice & Palliative Care of New Orleans	100%	Louisiana	03/01/2014
West Virginia Home Health	100%	West Virginia	04/01/2014
St. Joseph s Hospice	100%	West Virginia	04/01/2014
Northwestern Illinois Home Health	100%	Illinois	04/01/2014
Deaconess-Lifeline Home Health	100%	Kentucky	04/01/2014
Deaconess HomeCare	100%	Mississippi	04/01/2014
Deaconess HomeCare	100%	Tennessee	04/01/2014
Deaconess Hospice	100%	Mississippi	04/01/2014
Elk Valley Health Services, LLC	100%	Tennessee	04/01/2014
North Carolina Home Health	100%	North Carolina	05/01/2014
Professional Nursing Services	100%	North Carolina	05/01/2014

Each of the acquisitions was accounted for under the acquisition method of accounting, and, accordingly, the accompanying interim financial information includes the results of operations of each acquired entity from the date of acquisition.

The total aggregate purchase price for the Company s acquisitions was $65.2 million, of which $65.1 million was paid in cash. The purchase prices are determined based on the Company s analysis of comparable acquisitions and the target market s potential future cash flows. The Company paid $0.7 million in acquisition-related costs, which was recorded in general and administrative expenses.

The Company s home-based services segment recognized aggregate goodwill of $31.2 million for the acquisitions and hospice services segment recognized aggregate goodwill of $3.4 million. Goodwill generated from the acquisitions was recognized based on the expected contributions of each acquisition to the overall corporate strategy. The Company expects its portion of goodwill to be fully tax deductible. The following table summarizes the aggregate consideration paid for the acquisitions and the amounts of the assets acquired and liabilities assumed at the acquisition dates, as well as the fair value at the acquisition dates of the noncontrolling interest acquired (all amounts are in thousands):

Consideration	
Cash	$ 65,103
Fair value of total consideration transferred	$ 65,103
Recognized amounts of identifiable assets acquired and liabilities assumed	

Trade name	$ 19,680
Certificates of need/license	2,822
Other identifiable intangible assets	337
Accounts receivable	10,821
Fixed assets	379
Accounts payable	(1,170)
Other assets and (liabilities), net	(2,287)
Total identifiable assets acquired and liabilities assumed	$ 30,582
Noncontrolling interest	$ 98
Goodwill, including noncontrolling interest of $38	$ 34,619

Table of Contents

Trade names, certificates of need and licenses are indefinite-lived assets and, therefore, not subject to amortization. Acquired trade names that are not being used actively are amortized over the estimated useful life on the straight line basis. The other identifiable assets include non-compete agreements that are amortized over the life of the agreements ranging from two to five years. Noncontrolling interest is valued at fair value by applying a discount to the value of the acquired entity for lack of control. The fair value of the acquired intangible assets is preliminary pending the final valuation of those assets.

The net service revenue of the Deaconess and Elk Valley acquisition from the acquisition date through June 30, 2014 was $17.9 million and contributed a net income of $0.1 million. The following pro forma information presents the combined results of operations of the Company and Deaconess and Elk Valley for the six months ended June 30, 2014 and 2013 as if the acquisition occurred on January 1, 2013 (amounts in thousands, except earnings per share):

	Six months ended June 30, 2014	Six months ended June 30, 2013
Net service revenue	$ 370,089	$ 364,393
Net income attributable to LHC Group, Inc. s common stockholders	10,104	12,574
Earnings per share basic and diluted	$ 0.59	$ 0.74

The pro forma information presented above includes adjustments for (i) depreciation expense, (ii) amortization of identifiable intangible assets, (iii) income tax provision using the Company s effective tax rate and (iv) estimate of additional costs to provide administrative costs for these locations. This pro forma information is presented for illustrative purposes only and may not be indicative of the results of operations that would have actually occurred. In addition, future results may vary significantly from the results reflected in the pro forma information.

Sale of Membership Interest in Company s Subsidiary

During the six months ended June 30, 2014, the Company sold membership interests in one equity joint venture. The total sale price was $0.2 million.

Purchase of Membership Interest in Company s Subsidiary

During the six months ended June 30, 2014, the Company purchased additional membership interests in one equity joint venture. The total purchase price for the additional membership interests was $95,000, which resulted in the Company reducing additional paid in capital by the full purchase price.

4. Goodwill and Intangibles

The changes in recorded goodwill by reporting unit for the six months ended June 30, 2014 were as follows (amounts in thousands):

	Home-Based Reporting unit	Community-Based Reporting Unit	Hospice Reporting Unit	Facility-Based Reporting Unit	Total
Balances as of December 31, 2013	$ 173,574	$ 265	$ 9,463	$ 11,591	$ 194,893

Goodwill from acquisitions	14,314	16,874	3,393		34,581
Goodwill related to noncontrolling interests	38				38
Goodwill related to disposal	(50)				(50)
Balances as of June 30, 2014	$ 187,876	$ 17,139	$ 12,856	$ 11,591	$ 229,462

13

Table of Contents

Intangible assets consisted of the following as of June 30, 2014 and December 31, 2013 (amounts in thousands):

	June 30, 2014					
	Estimated useful life		Gross carrying amount	Accumulated amortization	Net carrying amount
Indefinite-lived assets:					
Trade names	Indefinite		$ 64,372		$ 64,372
Certificates of need/licenses	Indefinite		13,343		13,343
Indefinite-lived balance at end of period			$ 77,715		$ 77,715
Definite-lived assets:					
Trade names	3 months	5 years	$ 7,537	$ (1,852)	$ 5,685
Non-compete agreements	3 months	2 years	4,158	(3,609)	549
Favorable leases	1 year	3 years	24		24
Definite-lived balance at end of period			$ 11,719	$ (5,461)	$ 6,258
Balance at June 30, 2014			$ 89,434	$ (5,461)	$ 83,973

	December 31, 2013				
	Estimated useful life		Gross carrying amount	Accumulated amortization	Net carrying amount
Indefinite-lived assets:					
Trade names	Indefinite		$ 46,707		$ 46,707
Certificates of need/licenses	Indefinite		10,540		10,540
Indefinite-lived balance at end of period			$ 57,247		$ 57,247
Definite-lived assets:					
Trade names	3 months	5 years	$ 5,625	$ (1,055)	$ 4,570
Non-compete agreements	3 months	2 years	3,830	(3,463)	367
Definite-lived balance at end of period			$ 9,455	$ (4,518)	$ 4,937
Balance at December 31, 2013			$ 66,702	$ (4,518)	$ 62,184

Intangible assets of $77.3 million, net of accumulated amortization, were related to the home-based services segment, $5.6 were related to the hospice segment and $1.0 million were related to the facility-based services segment as of June 30, 2014.

5. Debt

Credit Facility

On June 18, 2014, the Company entered into a Credit Agreement (the Credit Agreement) with Capital One, National Association, which provides a senior, secured revolving line of credit commitment with a maximum principal borrowing limit of $225.0 million and a letter of credit sub-limit equal to $15.0 million. The Credit Agreement replaces the Third Amended and Restated Credit Agreement with Capital One, National Association, dated August 31, 2012. The expiration date of the Credit Agreement is June 18, 2019. Revolving loans under the Credit Agreement bear interest at either a Base Rate, which is defined as a fluctuating rate per annum equal to the highest of (a) the Federal Funds Rate in effect on such day plus 0.5% (b) the Prime Rate in effect on such day and (c) the Eurodollar Rate for a one month interest period on such day plus 1.0%, plus a margin ranging from 0.75% to 1.5% per annum or Eurodollar rate plus a margin ranging from 1.75% to 2.5% per annum. Swing line loans bear interest at the Base Rate. The Company is limited to 15 Eurodollar borrowings

Table of Contents

outstanding at the same time. The Company is required to pay a commitment fee for the unused commitments at rates ranging from 0.225% to 0.375% per annum depending upon the Company s consolidated Leverage Ratio, as defined in the Credit Agreement. The Base Rate at June 30, 2014 was 4.25% and the Eurodollar rate was 2.15%.

As of June 30, 2014 and December 31, 2013, respectively, the Company had $69.0 million and $22.0 million drawn and letters of credit totaling $6.7 million outstanding under its credit facilities with Capital One, National Association.

As of June 30, 2014, the Company had $149.3 million available for borrowing under the Credit Agreement with Capital One, National Association.

Promissory Note

On January 7, 2014, the Company entered into a promissory note with American Bank & Trust Company in an aggregate principal amount of $1.2 million. The promissory note matures on January 6, 2019. Principal payments of $20,000 are due monthly over a period of 60 months. The interest rate on the promissory note is a fixed rate of 4.50%.

6. Income Taxes

As of June 30, 2014, an unrecognized tax benefit of $3.4 million was recorded in income tax payable, which, if recognized, would decrease the Company s effective tax rate. All of the Company s unrecognized tax benefit is due to the settlement with the United States of America, which was announced September 30, 2011. On July 30, 2014, the Internal Revenue Service (IRS) issued a notice of proposed adjustment that a portion of the original tax deduction claimed by the Company associated with the settlement with the United States of America would be disallowed by the IRS. The Company intends to fully cooperate with the IRS in its review of this matter and to vigorously defend its original position of the deductibility of the full settlement amount on its 2011 tax return.

7. Stockholder s Equity

Equity Based Awards

The 2010 Long Term Incentive Plan (the 2010 Incentive Plan) is administered by the Compensation Committee of the Company s Board of Directors. A total of 1,500,000 shares of the Company s common stock are reserved and available for issuance pursuant to awards granted under the 2010 Incentive Plan. A variety of discretionary awards for employees, officers, directors and consultants are authorized under the 2010 Incentive Plan, including incentive or non-qualified statutory stock options and nonvested stock. All awards must be evidenced by a written award certificate which will include the provisions specified by the Compensation Committee of the Board of Directors. The Compensation Committee determines the exercise price for non-statutory stock options. The exercise price for any option cannot be less than the fair market value of the Company s common stock as of the date of grant.

Share Based Compensation

Nonvested Stock

During the six months ended June 30, 2014, the Company s independent directors were granted 23,400 nonvested shares of common stock under the 2005 Director Compensation Plan. The shares were drawn from the 1,500,000 shares of common stock reserved and available for issuance under the 2010 Incentive Plan. The shares vest 100% on the one year anniversary date. During the six months ended June 30, 2014, employees were granted 172,545 nonvested shares of common stock pursuant to the 2010 Incentive Plan. The shares vest over a five year period, conditioned on continued employment for the full incentive period. The fair value of nonvested shares of common stock is determined based on the closing trading price of the Company s common stock on the grant

15

Table of Contents

date. The weighted average grant date fair value of nonvested shares of common stock granted during the six months ended June 30, 2014 was $23.56.

The following table represents the nonvested stock activity for the six months ended June 30, 2014: