

LHC Group, Inc  
Form 10-Q  
November 07, 2013  
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 September 30, 2013**

**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**  
**(State or other jurisdiction of**  
**incorporation or organization)**  
**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)**

**71-0918189**  
**(I.R.S. Employer**  
**Identification No.)**

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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Edgar Filing: LHC Group, Inc - Form 10-Q

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  (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

Number of shares of common stock, par value \$0.01, outstanding as of November 1, 2013: 17,602,664 shares.

**Table of Contents**

**LHC GROUP, INC.**

**INDEX**

	<b>Page</b>
<b>Part I. Financial Information</b>	
Item 1. Condensed Consolidated Financial Statements (Unaudited)	
<u>Condensed Consolidated Balance Sheets – September 30, 2013 and December 31, 2012</u>	3
<u>Condensed Consolidated Statements of Income – Three and nine months ended September 30, 2013 and 2012</u>	4
<u>Condensed Consolidated Statement of Changes in Equity – Nine months ended September 30, 2013</u>	5
<u>Condensed Consolidated Statements of Cash Flows – Nine months ended September 30, 2013 and 2012</u>	6
<u>Notes to Condensed Consolidated Financial Statements</u>	7
Item 2. <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	18
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	30
Item 4. <u>Controls and Procedures</u>	30
<b>Part II. Other Information</b>	
Item 1. <u>Legal Proceedings</u>	30
Item 1A. <u>Risk Factors</u>	31
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	31
Item 6. <u>Exhibits</u>	32
<u>Signatures</u>	33

**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)*

	<b>September 30, 2013</b>	<b>December 31, 2012</b>
<b>ASSETS</b>		
Current assets:		
Cash	\$ 443	\$ 9,720
Receivables:		
Patient accounts receivable, less allowance for uncollectible accounts of \$13,995 and \$11,863, respectively	92,423	83,951
Other receivables	746	589
Amounts due from governmental entities	1,223	1,596
Total receivables, net	94,392	86,136
Deferred income taxes	11,098	7,671
Prepaid income taxes	3,125	7,436
Prepaid expenses	6,175	6,818
Other current assets	4,774	2,949
Total current assets	120,007	120,730
Property, building and equipment, net of accumulated depreciation of \$39,320 and \$34,331, respectively	30,561	29,531
Goodwill	194,893	169,150
Intangible assets, net of accumulated amortization of \$3,357 and \$2,985, respectively	63,199	62,042
Other assets	5,373	5,441
Total assets	\$ 414,033	\$ 386,894
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current liabilities:		
Accounts payable and other accrued liabilities	\$ 19,254	\$ 14,897
Salaries, wages, and benefits payable	25,134	29,890
Self insurance reserve	6,868	5,444
Amounts due to governmental entities	3,975	4,979

Edgar Filing: LHC Group, Inc - Form 10-Q

Total current liabilities	55,231	55,210
Deferred income taxes	29,036	25,129
Income tax payable	3,415	3,415
Revolving credit facility	24,000	19,500
Note payable	1,138	
Total liabilities	112,820	103,254
Noncontrolling interest - redeemable	11,467	11,426
Stockholders' equity:		
LHC Group, Inc. stockholders' equity:		
Common stock - \$0.01 par value; 40,000,000 shares authorized; 21,783,323 and 21,578,772 shares issued in 2013 and 2012, respectively	218	216
Treasury stock - 4,690,392 and 4,653,039 shares at cost, respectively	(34,640)	(33,846)
Additional paid-in capital	102,761	100,619
Retained earnings	218,565	201,192
Total LHC Group, Inc. stockholders' equity	286,904	268,181
Noncontrolling interest - non-redeemable	2,842	4,033
Total equity	289,746	272,214
Total liabilities and equity	\$ 414,033	\$ 386,894

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)*

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
Net service revenue	\$ 164,748	\$ 158,926	\$ 493,003	\$ 475,742
Cost of service revenue	97,966	91,234	288,223	273,311
Gross margin	66,782	67,692	204,780	202,431
Provision for bad debts	2,708	2,987	9,833	8,395
General and administrative expenses	53,047	52,464	158,827	154,313
Other intangibles impairment charge		650		650
Operating income	11,027	11,591	36,120	39,073
Interest expense	(430)	(405)	(1,555)	(972)
Non-operating income	54	94	184	108
Income before income taxes and noncontrolling interest	10,651	11,280	34,749	38,209
Income tax expense	3,782	3,388	12,236	12,706
Net income	6,869	7,892	22,513	25,503
Less net income attributable to noncontrolling interests	1,572	1,556	5,140	5,463
Net income attributable to LHC Group, Inc. s common stockholders	\$ 5,297	\$ 6,336	\$ 17,373	\$ 20,040
<b>Earnings per share basic:</b>				
Net income attributable to LHC Group, Inc. s common stockholders	\$ 0.31	\$ 0.36	\$ 1.02	\$ 1.11
<b>Earnings per share diluted:</b>				
Net income attributable to LHC Group, Inc. s common stockholders	\$ 0.31	\$ 0.36	\$ 1.02	\$ 1.10
<b>Weighted average shares outstanding:</b>				
Basic	17,083,201	17,656,842	17,035,541	18,121,217
Diluted	17,182,013	17,726,819	17,109,675	18,160,489

See accompanying notes to the condensed consolidated financial statements.





Table of Contents**LHC GROUP, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY***(Amounts in thousands, except share data)**(Unaudited)*

	Common Stock		Treasury		Additional Paid-In Capital	Non-controlling		Total Equity
	Amount	Issued Shares	Amount	Shares		Retained Earnings	Interest Non- Redeemable	
Balances as of December 31, 2012	\$ 216	21,578,772	\$ (33,846)	(4,653,039)	\$ 100,619	\$ 201,192	\$ 4,033	\$ 272,214
Net income						17,373	899	18,272(1)
Transfer of noncontrolling interest							(1,342)	(1,342)
Purchase of additional controlling interest					(1,267)			(1,267)
Noncontrolling interest distributions							(748)	(748)
Nonvested stock compensation					2,879			2,879
Issuance of vested stock		175,721						
Treasury shares redeemed to pay income tax			(794)	(37,353)				(794)
Excess tax benefits vesting nonvested stock					(38)			(38)
Issuance of common stock under Employee Stock Purchase Plan	2	28,830			568			570
Balances as of September 30, 2013	\$ 218	21,783,323	\$ (34,640)	(4,690,392)	\$ 102,761	\$ 218,565	\$ 2,842	\$ 289,746

- (1) Net income excludes net income attributable to noncontrolling interest-redeemable of \$4.2 million during the nine months ending September 30, 2013. 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)*

	<b>Nine Months Ended September 30,</b>	
	<b>2013</b>	<b>2012</b>
<b>Operating activities</b>		
Net income	\$ 22,513	\$ 25,503
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization expense	5,958	5,801
Provision for bad debts	9,833	8,395
Stock-based compensation expense	2,879	3,398
Deferred income taxes	480	1,552
Loss on sale of assets	17	100
Other intangibles impairment charge		650
Changes in operating assets and liabilities, net of acquisitions:		
Receivables	(18,462)	(7,084)
Prepaid expenses and other assets	(1,114)	2,247
Prepaid income taxes	4,262	13,960
Accounts payable and accrued expenses	645	(6,597)
Net amounts due to/from governmental entities	(631)	135
Net cash provided by operating activities	26,380	48,060
<b>Investing activities</b>		
Purchases of property, building and equipment	(5,997)	(6,508)
Proceeds from sale of assets		25
Cash paid for acquisitions, primarily goodwill and intangible assets	(26,920)	(6,764)
Net cash (used in) investing activities	(32,917)	(13,247)
<b>Financing activities</b>		
Proceeds from line of credit	64,500	173,562
Payments on line of credit	(60,000)	(183,297)
Proceeds from employee stock purchase plan	570	587
Proceeds from debt issuance	1,138	
Noncontrolling interest distributions	(6,286)	(6,582)
Excess tax benefits from vesting of restricted stock	11	
Redemption of treasury shares	(794)	
Purchase of additional controlling interest	(1,879)	(126)
Payments on repurchase of common stock		(19,017)

Sale of noncontrolling interest		80
Net cash (used in) financing activities	(2,740)	(34,793)
Change in cash	(9,277)	20
Cash at beginning of period	9,720	256
Cash at end of period	\$ 443	\$ 276
<b>Supplemental disclosures of cash flow information</b>		
Interest paid	\$ 1,523	\$ 972
Income taxes paid	\$ 18,123	\$ 8,644

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 hospices, and facility-based services, primarily through long-term acute care hospitals (LTACHs). As of September 30, 2013, the Company, through its wholly- and majority-owned subsidiaries, equity joint ventures and controlled affiliates, operated 310 service providers in 26 states within the domestic United States.

**Unaudited Interim Financial Information**

The condensed consolidated balance sheets as of September 30, 2013 and December 31, 2012, and the related condensed consolidated statements of income for the three and nine months ended September 30, 2013 and 2012, condensed consolidated statement of changes in equity for the nine months ended September 30, 2013, condensed consolidated statements of cash flows for the nine months ended September 30, 2013 and 2012 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 nine months ended September 30, 2013 are not necessarily indicative of the results that may be expected for the year ending December 31, 2013.

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, 2012 as filed with the Securities and Exchange Commission (the SEC) on March 18, 2013, 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***

Edgar Filing: LHC Group, Inc - Form 10-Q

The condensed consolidated financial statements include 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 condensed consolidated financial statements include 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 condensed consolidated financial statements.

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

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>	<b>September 30,</b>	<b>September 30,</b>	<b>September 30,</b>
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
Equity joint ventures	48.1%	49.1%	48.9%	48.7%
Wholly-owned subsidiaries	49.3%	48.1%	48.4%	48.5%
License leasing arrangements	1.8%	1.9%	1.9%	1.9%
Management services	0.8%	0.9%	0.8%	0.9%
	100.0%	100.0%	100.0%	100.0%

**Table of Contents**

All significant intercompany accounts and transactions have been eliminated in the Company's accompanying condensed consolidated financial statements. Business combinations accounted for under the acquisition method have been included in the condensed consolidated financial statements 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 typically 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 and does not have an obligation to absorb losses of the entities or the right to receive the benefits from the entities.

*Revenue Recognition*

The Company reports net service revenue at the estimated net realizable amount due from Medicare, Medicaid, commercial insurance, managed care payors, patients and others for services rendered. All payors contribute to both the home-based 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 nine months ended September 30, 2013 and 2012:

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
Payor:				
Medicare	80.3%	77.2%	79.8%	77.9%
Medicaid	1.3%	1.7%	1.4%	1.9%
Other	18.4%	21.1%	18.8%	20.2%
	100.0%	100.0%	100.0%	100.0%

The percentage of net service revenue contributed from each reporting segment for the three and nine months ended September 30, 2013 and 2012 was as follows:

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
Home-based services	89.2%	88.3%	88.3%	88.3%
Facility-based services	10.8%	11.7%	11.7%	11.7%
	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.



---

**Table of Contents**

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. 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***

*Long-Term Acute Care 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 in a manner similar to either Medicare or Medicaid. Accordingly, the Company recognizes revenue from managed care and other payors in the same manner as the Company recognizes revenue from Medicare or Medicaid.

***Management Services***

The Company records management services revenue as such services are provided in accordance with the various management services agreements to which the Company is a party. As described in the management services agreements, the Company provides billing, management and other consulting services suited to and designed for the efficient operation of the applicable home nursing agency. The Company is responsible for the costs associated with the locations and personnel required for the provision of services. The Company is compensated based on two

management fee structures. One management fee structure is based on a percentage of cash collections, while the second management fee structure is based on reimbursement of operating expenses plus a percentage of operating net income.

***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 60% 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.

**Table of Contents**

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 Medicare population is paid at a prospectively set amount 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 are structured similar to either the Medicare or Medicaid payment methodologies. 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.

**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:

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
Weighted average number of shares outstanding for basic per share calculation	17,083,201	17,656,842	17,035,541	18,121,217
Effect of dilutive potential shares:				
Options	4,208	1,935	4,032	1,849
Nonvested stock	94,604	68,042	70,102	37,423
Adjusted weighted average shares for diluted per share calculation	17,182,013	17,726,819	17,109,675	18,160,489

Anti-dilutive shares	94,299	176,641	181,648	348,595
----------------------	--------	---------	---------	---------

### 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 the home-based service line of Addus HomeCare, which consisted of 19 home health agencies and one hospice agency, during the nine months ended September 30, 2013. Additionally, in separate acquisitions, the Company acquired one hospice agency and four home health agencies. The Company maintains an ownership interest in the acquired entities as set forth below:

Acquired Entity	Ownership Percentage	State of Operations	Acquisition Date
LHCG XXXVII, LLC (d/b/a Addus HealthCare)	90%	Illinois	03/01/2013
LHCG XXXVIII, LLC (d/b/a Addus HealthCare)	90%	California	03/01/2013
LHCG XLII, LLC (d/b/a/ Arkansas HomeCare)	100%	Arkansas	03/01/2013
LHCG XLI, LLC (d/b/a South Carolina HomeCare)	100%	South Carolina	03/01/2013
LHCG XXXIX, LLC (d/b/a Addus HealthCare)	100%	Nevada	03/01/2013
LHCG XXXIV, LLC (d/b/a Alabama Hospice Care of Mobile)	100%	Alabama	04/01/2013
LHCG XL, LLC (d/b/a Georgia Home Health)	100%	Georgia	07/01/2013

**Table of Contents**

<b>Acquired Entity</b>	<b>Ownership Percentage</b>	<b>State of Operations</b>	<b>Acquisition Date</b>
LHCG XXVII, LLC (d/b/a Pennsylvania Home Health)	100%	Pennsylvania	07/01/2013
LHCG XLVIII, LLC (d/b/a Minnesota Home Health)	100%	Minnesota	07/01/2013
LHCG XLVII, LLC (d/b/a Wisconsin Home Health)	100%	Wisconsin	07/01/2013

Each of the acquisitions was accounted for under the acquisition method of accounting, and accordingly, the accompanying condensed consolidated financial statements include the results of operations of each acquired entity from the date of acquisition.

The total aggregate purchase price for the Company's acquisitions was \$27.3 million, of which \$26.9 million was paid in cash and \$380,000 in assumed liabilities. 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 \$569,000 in acquisition-related costs, which was recorded in general and administrative expenses.

The Company's home-based services segment recognized aggregate goodwill of \$25.7 million for the acquisitions, including \$622,000 of noncontrolling goodwill. 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):

<b>Consideration</b>	
Cash	\$ 26,920
<b>Fair value of total consideration transferred</b>	
\$ 26,920	
<b>Recognized amounts of identifiable assets acquired and liabilities assumed</b>	
Trade name	\$ 1,177
Certificate of need/license	598
Other identifiable intangible assets	331
Other assets and (liabilities), net	(321)
<b>Total identifiable assets</b>	
\$ 1,785	
<b>Noncontrolling interest</b>	\$ 608
<b>Goodwill, including noncontrolling interest of \$622</b>	\$ 25,743

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.

***Purchase of Membership Interest in Company s Subsidiary***

During the nine months ended September 30, 2013, the Company purchased additional membership interests in six of its equity joint ventures. The total purchase price for the additional ownership from these equity transactions was \$1.9 million, resulting in the Company reducing noncontrolling interest-redeemable by \$612,000 and additional paid in capital by \$1.3 million.

**4. Goodwill and Intangibles**

The changes in recorded goodwill by segment for the nine months ended September 30, 2013 were as follows (amounts in thousands):

	<b>Nine Months Ended September 30, 2013</b>	
<b>Home-based services segment:</b>		
Balance at beginning of period	\$	157,559
Goodwill from acquisitions		25,121
Goodwill related to noncontrolling interest		622
<b>Balance as of September 30, 2013</b>	<b>\$</b>	<b>183,302</b>

**Table of Contents**

	<b>Nine Months Ended September 30, 2013</b>	
<b>Facility-based services segment:</b>		
Balance at beginning of period	\$	11,591
<b>Balance as of September 30, 2013</b>	<b>\$</b>	<b>11,591</b>
<b>Consolidated balance as of September 30, 2013</b>	<b>\$</b>	<b>194,893</b>

The following table summarizes the changes in intangible assets during the nine months ended September 30, 2013 (amounts in thousands):

	<b>Trade Names</b>	<b>Certificate of Need/ License</b>	<b>Other Intangibles</b>	<b>Total</b>
<b>Balance as of December 31, 2012</b>	\$ 51,408	\$ 10,100	\$ 534	\$ 62,042
Additions	1,177	598	331	2,106
Amortization	(569)		(380)	(949)
<b>Balance as of September 30, 2013</b>	<b>\$ 52,016</b>	<b>\$ 10,698</b>	<b>\$ 485</b>	<b>\$ 63,199</b>

Intangible assets of \$62.1 million, net of accumulated amortization, were related to the home-based services segment and \$1.1 million were related to the facility-based services segment as of September 30, 2013.

During the nine months ended September 30, 2013, the Company determined there was no impairment of goodwill in any reporting unit nor certain intangible assets. During the nine months ended September 30, 2012, the Company recorded an impairment charge related to certain intangible assets of \$650,000.

**5. Credit Facility**

As of September 30, 2013 and December 31, 2012, respectively, the Company had \$24.0 million and \$19.5 million drawn and letters of credit totaling \$6.2 million and \$6.0 million outstanding under the Company's credit agreement with Capital One, National Association. The interest rate for borrowings under its credit facility is a function of the prime rate (base rate) or London Interbank Offered Rate ( LIBOR ) as elected by the Company, plus the applicable margin based on the Leverage Ratio, as defined in the credit agreement. The interest rate at September 30, 2013 was 4.25%.

**6. Income Taxes**

As of September 30, 2013, 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.

**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 is 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.



**Table of Contents*****Share Based Compensation******Nonvested Stock***

During the nine months ended September 30, 2013, the Company's independent directors were granted 24,300 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 nine months ended September 30, 2013, employees were granted 181,648 nonvested shares of common stock pursuant to the 2010 Incentive Plan. The shares generally 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 date. The weighted average grant date fair value of nonvested shares of common stock granted during the nine months ended September 30, 2013 was \$21.21.

The following table represents the nonvested stock activity for the nine months ended September 30, 2013:

	<b>Number of Shares</b>	<b>Weighted average grant date fair value</b>
Nonvested shares outstanding as of December 31, 2012	486,061	\$ 22.33
Granted	205,948	\$ 21.21
Vested	(175,721)	\$ 21.82
Nonvested shares outstanding as of September 30, 2013	516,288	\$ 22.05

During the nine months ended September 30, 2013, an independent director of the Company received a share based award, which will be settled in cash at March 1, 2014. The amount of such cash payment will equal the fair market value of 2,700 shares on the settlement date.

As of September 30, 2013, there was \$8.5 million of total unrecognized compensation cost related to nonvested shares of common stock granted. That cost is expected to be recognized over the weighted average period of 3.28 years. The total fair value of shares of common stock vested during the nine months ended September 30, 2013 and 2012 was \$3.8 million and \$3.5 million, respectively. The Company records compensation expense related to nonvested stock awards at the grant date for shares of common stock that are awarded fully vested, and over the vesting term on a straight line basis for shares of common stock that vest over time. The Company recorded \$2.9 million and \$3.4 million of compensation expense related to nonvested stock grants in the nine months ended September 30, 2013 and 2012, respectively.

***Employee Stock Purchase Plan***

In 2006, the Company adopted the Employee Stock Purchase Plan whereby eligible employees may purchase the Company's common stock at 95% of the market price on the last day of the calendar quarter. There were 250,000 shares of common stock initially reserved for the plan.

On June 20, 2013, the Amended and Restated Employee Stock Purchase Plan was approved by the Company's stockholders.

As a result of the amendment, the Employee Stock Purchase Plan was modified as follows:

An additional 250,000 shares of common stock were authorized for issuance over the term of the Employee Stock Purchase Plan.

The term of the Employee Stock Purchase Plan was extended from January 1, 2016 to January 1, 2023. The table below details the shares of common stock issued during 2013:

	<b>Number of Shares</b>	<b>Per share price</b>
Shares available as of December 31, 2012	61,247	
Additional shares authorized for issuance	250,000	
Shares issued during three months ended March 31, 2013	8,845	\$ 20.24
Shares issued during three months ended June 30, 2013	10,385	\$ 20.43
Shares issued during three months ended September 30, 2013	9,600	\$ 18.60
Shares available as of September 30, 2013	282,417	

## **Table of Contents**

### *Stock Options*

As of September 30, 2013, 15,000 options were issued and exercisable. During the nine months ended September 30, 2013, no options were exercised or forfeited and no options were granted.

### *Treasury Stock*

In conjunction with the vesting of the nonvested shares of common stock, recipients incur personal income tax obligations. The Company allows the recipients to turn in shares of common stock to satisfy minimum tax obligations. During the nine months ended September 30, 2013, the Company redeemed 37,353 shares of common stock valued at \$794,000, related to these tax obligations.

### *Stock Repurchase Program*

In October 2010, the Company's Board of Directors authorized a share repurchase program to repurchase shares of the Company's common stock, from time to time, in an amount not to exceed \$50.0 million (the Stock Repurchase Program). The Company anticipates that it will finance any future such repurchases made under the Stock Repurchase Program with cash from general corporate funds or draws under its credit facility. The Company may repurchase shares of common stock in open market purchases or in privately negotiated transactions in accordance with applicable securities laws, rules and regulations. The timing and extent to which the Company repurchases its shares will depend upon market conditions and other corporate considerations.

The Company uses the cost method to account for the repurchase of common stock and the average cost method to account for reissuance of treasury shares. During the nine months ended September 30, 2013, no shares have been repurchased or reissued from treasury shares. The remaining dollar value of shares authorized to be purchased under the Stock Repurchase Program was \$22.5 million as of September 30, 2013.

## **8. Commitments and Contingencies**

### *Contingencies*

The Company is involved in various legal proceedings arising in the ordinary course of business. Although the results of litigation cannot be predicted with certainty, management believes the outcome of pending litigation will not have a material adverse effect, after considering the effect of the Company's insurance coverage, on the Company's condensed consolidated financial statements.

On October 17, 2011, the Company received a subpoena from the Department of Health and Human Services Office of Inspector General (the OIG). The subpoena requests documents related to the Company's agencies in Oregon, Washington and Idaho. The Company is continuing to produce the requested documents and is cooperating with the OIG's review in this matter. The Company cannot predict the outcome or effect of this review, if any, on the Company's business.

On June 13, 2012, a putative shareholder securities class action was filed against the Company and its Chairman and Chief Executive Officer in the United States District Court for the Western District of Louisiana, styled City of Omaha Police & Fire Retirement System v. LHC Group, Inc., et al., Case No. 6:12-cv-01609-JTT-CMH. The action was filed on behalf of LHC shareholders who purchased shares of the Company's common stock between July 30, 2008 and October 26, 2011. Plaintiff generally alleges that the defendants caused false and misleading statements to be issued in violation of Section 10(b) of the Securities Exchange Act of 1934, amended (the Exchange Act) and Rule

10b-5 promulgated thereunder and that the Company's Chairman and Chief Executive Officer is a control person under Section 20(a) of the Exchange Act. On November 2, 2012, Lead Plaintiff City of Omaha Police & Fire Retirement System filed an Amended Complaint for Violations of the Federal Securities Laws (the Amended Complaint) on behalf of the same putative class of LHC shareholders as the original Complaint. In addition to claims under Sections 10(b) and 20(a) of the Exchange Act, the Amended Complaint added a claim against the Chairman and Chief Executive Officer for violation of Section 20A of the Exchange Act. The Company believes these claims are without merit and intends to defend this lawsuit vigorously. On December 17, 2012, the Company and the Chairman and Chief Executive Officer filed a motion to dismiss the Amended Complaint, which was denied by Order dated March 15, 2013. The parties are presently conducting fact discovery. The Company cannot predict the outcome or effect of this lawsuit, if any, on the Company's financial condition and results of operations.

On October 18, 2013, a derivative complaint was filed by a purported Company shareholder against certain of the Company's current and former executive officers, employees and members of its Board of Directors in the United States District Court for the Western District of Louisiana, styled Plummer v. Myers, et al., Case No. 6:13-cv-02899. The action was brought derivatively on behalf of the Company, which is also named as a nominal defendant. Plaintiff generally alleges that the individual defendants breached their fiduciary duties owed to the Company. The complaint also alleges claims for insider selling and unjust enrichment against the Company's Chairman and Chief Executive Officer and the Company's former President and Chief Operating Officer. The Company believes these claims are without merit and intends to defend this lawsuit vigorously. The Company cannot predict the outcome or effect of this lawsuit, if any, on the Company's financial condition and results of operations.

## **Table of Contents**

Except as discussed above, the Company is not aware of any pending or threatened investigations involving allegations of potential wrongdoing.

Any negative findings in the investigations or lawsuits described above could result in substantial financial penalties or awards against the Company or exclusion from future participation in the Medicare and Medicaid programs. At this time, the Company cannot predict the ultimate outcome of these inquiries or the potential range of damages, if any.

### ***Joint Venture Buy/Sell Provisions***

Several of the Company's equity joint ventures include a buy/sell option that grants to the Company and its equity joint venture partners the right to require the other equity joint venture party to either purchase all of the exercising member's membership interests or sell to the exercising member all of the non-exercising member's membership interest, at the non-exercising member's option, within 30 days of the receipt of notice of the exercise of the buy/sell option. In some instances, the purchase price is based on a multiple of the historical or future earnings before income taxes and depreciation and amortization of the equity joint venture at the time the buy/sell option is exercised. In other instances, the buy/sell purchase price will be negotiated by the partners and subject to a fair market valuation process.

### ***Compliance***

Certain laws and regulations governing the Company's operations, along with the terms of participation in various government programs, regulate how the Company does business, the services offered and its interactions with patients and the public. These laws and regulations and their interpretations, are subject to frequent change. Changes in existing laws or regulations, or their interpretations, or the enactment of new laws or regulations could materially and adversely affect the Company's operations and financial condition.

The Company is subject to various routine and non-routine governmental reviews, audits and investigations. In recent years, federal and state civil and criminal enforcement agencies have heightened and coordinated their oversight efforts related to the health care industry, including referral practices, cost reporting, billing practices, joint ventures and other financial relationships among health care providers. Violation of the laws governing the Company's operations, or changes in the interpretation of those laws, could result in the imposition of fines, civil or criminal penalties, and/or termination of the Company's rights to participate in federal and state-sponsored programs and suspension or revocation of the Company's licenses. The Company believes that it is in material compliance with all applicable laws and regulations.

## **9. Noncontrolling interest**

### ***Noncontrolling Interest-Redeemable***

A majority of the Company's equity joint venture agreements include a provision that requires the Company to purchase the noncontrolling partner's interest upon the occurrence of certain triggering events, such as death or bankruptcy of the partner or the partner's exclusion from the Medicare or Medicaid programs. These triggering events and the related repurchase provisions are specific to each individual equity joint venture; if the repurchase provision is triggered in any one equity joint venture, the remaining equity joint ventures would not be impacted. Upon the occurrence of a triggering event, the Company would be required to purchase the noncontrolling partner's interest at either the fair value or the book value at the time of purchase as stated in the agreement. Historically, no triggering event has occurred, and the Company believes the likelihood of a triggering event occurring is remote. The Company has never been required to purchase the noncontrolling interest of any of its equity joint venture partners. According to authoritative guidance, redeemable noncontrolling interests must be reported outside of permanent equity on the

consolidated balance sheet in instances where there is a repurchase provision with a triggering event that is outside the control of the Company.

The following table summarizes the activity of noncontrolling interest-redeemable for the nine months ended September 30, 2013 (amounts in thousands):

Balance as of December 31, 2012	\$ 11,426
Net income attributable to noncontrolling interest-redeemable	4,241
Noncontrolling interest-redeemable distributions	(5,538)
Transfer of noncontrolling interest	1,342
Acquired noncontrolling interest (1)	608
Purchase of additional controlling interest	(612)
Balance as of September 30, 2013	\$ 11,467

- (1) The noncontrolling interest balance at December 31, 2012 included a preliminary fair value of the noncontrolling interest acquired in 2012. The valuation was finalized and recorded during the nine months ended September 30, 2013.

**Table of Contents****10. Allowance for Uncollectible Accounts**

The following table summarizes the activity and ending balances in the allowance for uncollectible accounts (amounts in thousands):

Balance as of December 31, 2012	\$ 11,863
Additions and expenses	9,833
Deductions	(7,701)
Balance as of September 30, 2013	\$ 13,995

**11. Fair Value of Financial Instruments**

The carrying amounts of the Company's cash, receivables, accounts payable and accrued liabilities approximate their fair values. For the nine months ended September 30, 2013, the carrying value of the Company's long-term debt approximates fair value as the interest rates approximate current rates.

**12. Segment Information**

The Company's segments consist of home-based services and facility-based services. Home-based services include home nursing services and hospice services. Facility-based services include long-term acute care services. The accounting policies of the segments are the same as those described in the summary of significant accounting policies.

A reclassification has been made to the three and nine months ended September 30, 2012 segment information to reclassify \$400,000 of other intangibles impairment charge, \$162,400 of income tax expense and \$400,000 reduction of assets to the facility-based services segment. The amount was previously recorded in home-based services segment; however, the transactions are specific to the facility-based services segment.

The following tables summarize the Company's segment information for the three and nine months ended September 30, 2013 and 2012 (amounts in thousands):

	<b>Three Months Ended September 30, 2013</b>		
	<b>Home- Based Services</b>	<b>Facility- Based Services</b>	<b>Total</b>
Net service revenue	\$ 146,910	\$ 17,838	\$ 164,748
Cost of service revenue	87,082	10,884	97,966
Provision for bad debts	2,651	57	2,708
General and administrative expenses	47,969	5,078	53,047
Operating income	9,208	1,819	11,027
Interest expense	(387)	(43)	(430)
Non-operating income	36	18	54

Edgar Filing: LHC Group, Inc - Form 10-Q

Income before income taxes and noncontrolling interest	8,857	1,794	10,651
Income tax expense	3,422	360	3,782
Net income	5,435	1,434	6,869
Less net income attributable to noncontrolling interests	1,279	293	1,572
Net income attributable to LHC Group, Inc. s common stockholders	\$ 4,156	\$ 1,141	\$ 5,297
Total assets	\$ 379,340	\$ 34,693	\$ 414,033

	<b>Three Months Ended September 30, 2012</b>		
	<b>Home- Based Services</b>	<b>Facility- Based Services</b>	<b>Total</b>
Net service revenue	\$ 140,256	\$ 18,670	\$ 158,926
Cost of service revenue	80,579	10,655	91,234
Provision for bad debts	2,669	318	2,987
General and administrative expenses	47,110	5,354	52,464
Other intangibles impairment charge	250	400	650
Operating income	9,648	1,943	11,591



**Table of Contents**

	<b>Three Months Ended September 30, 2012</b>		
	<b>Home- Based Services</b>	<b>Facility- Based Services</b>	<b>Total</b>
Interest expense	(364)	(41)	(405)
Non-operating income	74	20	94
Income before income taxes and noncontrolling interest	9,358	1,922	11,280
Income tax expense	3,213	175	3,388
Net income	6,145	1,747	7,892
Less net income attributable to noncontrolling interests	1,308	248	1,556
Net income attributable to LHC Group, Inc. s common stockholders	\$ 4,837	\$ 1,499	\$ 6,336
Total assets	\$ 352,941	\$ 34,557	\$ 387,498

	<b>Nine Months Ended September 30, 2013</b>		
	<b>Home- Based Services</b>	<b>Facility- Based Services</b>	<b>Total</b>
Net service revenue	\$ 435,441	\$ 57,562	\$ 493,003
Cost of service revenue	254,924	33,299	288,223
Provision for bad debts	8,796	1,037	9,833
General and administrative expenses	142,908	15,919	158,827
Operating income	28,813	7,307	36,120
Interest expense	(1,404)	(151)	(1,555)
Non-operating income	115	69	184
Income before income taxes and noncontrolling interest	27,524	7,225	34,749
Income tax expense	11,062	1,174	12,236
Net income	16,462	6,051	22,513
Less net income attributable to noncontrolling interests	4,094	1,046	5,140
Net income attributable to LHC Group, Inc. s common stockholders	\$ 12,368	\$ 5,005	\$ 17,373

	<b>Nine Months Ended September 30, 2012</b>		
	<b>Home- Based Services</b>	<b>Facility- Based Services</b>	<b>Total</b>
Net service revenue	\$ 419,847	\$ 55,895	\$ 475,742
Cost of service revenue	240,347	32,964	273,311
Provision for bad debts	7,626	769	8,395
General and administrative expenses	137,902	16,411	154,313
Other intangibles impairment charge	250	400	650
Operating income	33,722	5,351	39,073
Interest expense	(874)	(98)	(972)
Non-operating income	77	31	108
Income before income taxes and noncontrolling interest	32,925	5,284	38,209
Income tax expense	11,641	1,065	12,706
Net income	21,284	4,219	25,503
Less net income attributable to noncontrolling interests	4,826	637	5,463
Net income attributable to LHC Group, Inc.'s common stockholders	\$ 16,458	\$ 3,582	\$ 20,040

**Table of Contents**

**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.**

**CAUTIONARY NOTICE REGARDING FORWARD-LOOKING STATEMENTS**

This Management's Discussion and Analysis of Financial Condition and Results of Operations contains certain statements and information that may constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act). Forward-looking statements relate to future plans and strategies, anticipated events or trends, future financial performance and expectations and beliefs concerning matters that are not historical facts or that necessarily depend upon future events. The words may, should, could, would, expect, plan, intend, anticipate, project, predict, potential or other similar expressions are intended to identify forward-looking statements. Specifically, this report contains, among others, forward-looking statements about:

our expectations regarding financial condition or results of operations for periods after September 30, 2013;

our critical accounting policies;

our participation in the Medicare and Medicaid programs;

the impact of healthcare reform;

the reimbursement levels of Medicare and other third-party payors;

the prompt receipt of payments from Medicare and other third-party payors;

the outcomes of various routine and non-routine governmental reviews, audits and investigations;

the impact of legal proceedings;

our compliance with health care laws and regulations;

our compliance with Securities and Exchange Commission (SEC) laws and regulations and Sarbanes-Oxley requirements;

the impact of federal and state government regulation on our business; and

the impact of changes in our future interpretations of fraud, anti-kickback or other laws.

The forward-looking statements contained in this report reflect our current views about future events and are based on assumptions and are subject to known and unknown risks and uncertainties. Many important factors could cause actual results or achievements to differ materially from any future results or achievements expressed in or implied by our forward-looking statements. Many of the factors that will determine future events or achievements are beyond our ability to control or predict. Important factors that could cause actual results or achievements to differ materially from the results or achievements reflected in our forward-looking statements include, among other things, the factors discussed in the Part II, Item 1A. Risk Factors, included in this report and in our other filings with the SEC, including our annual report on Form 10-K for the year ended December 31, 2012 (the 2012 Form 10-K), as updated by our subsequent filings with the SEC. This report should be read in conjunction with the 2012 Form 10-K, and all of our other filings, including quarterly reports on Form 10-Q and current reports on Form 8-K made with the SEC through the date of this report.

You should read this report, the information incorporated by reference into this report and the documents filed as exhibits to this report completely and with the understanding that our actual future results or achievements may be materially different from what we expect or anticipate.

The forward-looking statements contained in this report reflect our views and assumptions only as of the date this report is signed. Except as required by law, we assume no responsibility for updating any forward-looking statements.

We qualify all of our forward-looking statements by these cautionary statements. In addition, with respect to all of our forward-looking statements, we claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995.

Unless the context otherwise requires, we, us, our, and the Company refer to LHC Group, Inc. and its consolidated subsidiaries.

**Table of Contents****OVERVIEW**

We provide quality cost-effective post-acute health care services to our patients. As of September 30, 2013, we had 310 service providers in 26 states: Alabama, Arkansas, California, Florida, Georgia, Idaho, Illinois, Kentucky, Louisiana, Maryland, Minnesota, Mississippi, Missouri, Nevada, North Carolina, Ohio, Oklahoma, Oregon, Pennsylvania, South Carolina, Tennessee, Texas, Virginia, Washington, West Virginia and Wisconsin. Our services are classified into two segments: (1) home-based services offered through our home nursing agencies and hospices; and (2) facility-based services offered through our long-term acute care hospitals ( LTACHs ).

Through our home-based services segment we offer a wide range of services, including skilled nursing, private duty nursing, medically-oriented social services, hospice care and physical, occupational and speech therapy. As of September 30, 2013, the home-based services segment was comprised of the following:

<b>Type of Service</b>	<b>Locations</b>
Home Health	255
Hospice	34
Private Duty	4
Specialty Services	3
Management Companies	3
	299

Of our 299 home-based services locations, 162 are wholly-owned by us, 127 are majority-owned by us through equity joint ventures, seven are under license lease arrangements and the operations of the remaining three locations are only managed by us. We intend to increase the number of home nursing agencies and hospice locations that we operate through continued acquisitions and development.

We provide facility-based services through our LTACHs. As of September 30, 2013, we owned and operated nine LTACH locations, of which all but one are located within host hospitals. We also owned and operated a health club and a pharmacy. Of these 11 facility-based services locations, six are wholly-owned by us and five are majority-owned through equity joint ventures.

The percentage of net service revenue contributed from each reporting segment for the three and nine months ended September 30, 2013 and 2012 was as follows:

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30, 2013</b>	<b>September 30, 2012</b>	<b>September 30, 2013</b>	<b>September 30, 2012</b>
Home-based services	89.2%	88.3%	88.3%	88.3%
Facility-based services	10.8%	11.7%	11.7%	11.7%
	100.0%	100.0%	100.0%	100.0%

## Recent Developments

### *Home-based services*

*Home Nursing.* In 2010, the Patient Protection and Affordable Care Act ( PPACA ) was enacted, which made a number of changes to Medicare payment rates, including the reinstatement of the 3% home health rural add-on, which began on April 1, 2010 (expiring January 1, 2016). Other changes from PPACA that began on or after January 1, 2011 are:

a reduction in the market basket adjustment to be determined by Centers for Medicare and Medicaid Services ( CMS ) for the calendar years ( CY ) 2011, 2012 and 2013 by 1%;

a full productivity adjustment beginning in 2015; and

rebasings of the base payment rate for Medicare beginning in 2014 and phasing in over a four year period. On November 2, 2012, CMS issued the final rule effective January 1, 2013 regarding payment rates for home health services in CY 2013. Under the CY 2013 rule, CMS is:

decreasing the base payment rate to \$2,137.73 in 2013 as compared to \$2,138.52 in 2012. The decrease is made up of a market basket increase of 2.3% less a reduction of 1% to the market basket as defined by PPACA and less a 1.32% case mix adjustment carried over from 2012.

**Table of Contents**

adjusting the wage index and increasing the labor related portion of the base payment rate from 77.082% to 78.535% which decreases payments to the home health industry an aggregate of 0.37%.

Face to Face CMS will allow non-physician practitioners in an acute or post-acute setting to perform the encounter and inform the certifying physician.

Therapy CMS revised the regulation to state that in cases where multiple therapy disciplines are involved, if the required reassessment visit was missed for any one of the therapy disciplines for which therapy services were being provided, therapy coverage would cease only for that particular therapy discipline. Therefore, as long as the required therapy reassessments were completed timely for the remaining therapy disciplines, therapy services would continue to be covered for those therapy disciplines. With respect to the timing of therapy assessments, CMS revised the regulations to clarify that in cases where the patient is receiving more than one type of therapy, qualified therapists could complete their reassessment visits during the 11th, 12th, or 13th visit for the required 13th visit reassessment and the 17th, 18th, or 19th visit for the required 19th visit reassessment.

Sanctions CMS will have additional sanctions for enforcement of survey deficiencies that will include the following (These are not mutually exclusive. CMS can impose any or all of the following, including termination.) Each of these sanctions requires a prior 15 day notice:

- (a) Civil money penalties;
- (b) Suspension of payment for all new admissions and new payment episodes;
- (c) Temporary management of the home health agency;
- (d) Directed plan of correction;
- (e) Directed in-service training.

On June 27, 2013, CMS issued the proposed rule for the Medicare Home Health Prospective Payment System ( HH PPS ) for 2014. If adopted, the rule will affect reimbursement for services provided by home health agencies to Medicare beneficiaries beginning January 1, 2014. As required by the PPACA, the proposed rule would rebase Medicare home health reimbursement amounts by a negative 3.5% each year for four years beginning on January 1, 2014. CMS projects that as a result of its proposed policies overall Medicare payments to home health agencies in 2014 will be reduced by 1.5%.

Under the proposed CY 2014 rule:

CMS proposes to establish the rebased base payment rate at \$2,860.20 in 2014 as compared to \$2,137.73 in 2013. However, CMS is simultaneously proposing to reset the average home health case-mix weight from the 2012 average case mix of 1.357 to 1.000 in 2014.

The final 2014 base payment rate would be affected by a positive budget neutrality adjustment (to account for resetting of the case-mix weight), a positive technical variation adjustment of 0.17%, a negative 2.5% outlier adjustment, a negative 3.5% rebasing adjustment and a 2.4% increase due to the market basket adjustment.

CMS proposes to remove a total of 170 International Classification of Diseases ( ICD ) ICD-9 codes from the HH PPS Grouper: diagnosis codes that reflect severely acute patients that are not treated in the home health setting; and diagnosis codes for conditions that would not impact the home health plan of care. These codes will not be included in the update to ICD-10, which is effective October 1, 2014. CMS estimates the impact of these changes will be 0.5%.

*Hospice.* On July 24, 2012, CMS issued its final rule for hospice for fiscal year ( FY ) 2013, which increases Medicare reimbursement payments by 0.9% over FY 2012 rates. The 0.9% increase consists of a 2.6% inflationary market basket update offset by a 0.6% reduction for the fourth year of CMS seven-year phase-out of its wage index budget neutrality adjustment factor ( BNAF ), a 0.7% reduction for the productivity adjustment, a 0.3% reduction to the market basket as defined by PPACA, and a 0.1% reduction related to the wage index changes. The 0.9% does not include the deficit reduction sequester approved earlier by Congress. The final rule also provides clarification regarding diagnosis reporting on hospice claims. CMS is concerned that hospices reporting a single diagnosis on claims are not providing an accurate description of the patients conditions, and believes that providers should code and report coexisting or additional diagnoses in order to more fully describe the Medicare patients they are treating. CMS indicates that it is moving forward with hospice payment reform efforts and will continue to investigate Medicare Payment Advisory Commission, Office of the Inspector General, and Government Accountability Office recommendations, as well as other payment options, as part of this comprehensive effort. CMS does not, however, provide an anticipated timeline for public release of information about proposals to alter the current hospice payment system.



**Table of Contents**

The following table shows the hospice Medicare payment rates for FY 2013, which began on October 1, 2012 and ended September 30, 2013 (the payment rates do not reflect the 2% sequestration cut):

<b>Description</b>	<b>Rate per patient day</b>
Routine Home Care	\$ 153.45
Continuous Home Care	\$ 895.56
Full Rate = 24 hours of care	
\$37.32 = hourly rate	
Inpatient Respite Care	\$ 158.72
General Inpatient Care	\$ 682.59

On August 2, 2013, CMS released its final rule for hospice for FY 2014, which increases Medicare reimbursement payments by 1.0% over FY 2013. The 1.0% increase consists of a 2.5% inflationary market basket update offset by a 0.7% reduction related to the wage index changes and the fifth year of CMS's seven-year phase-out of its wage index BNAF, a 0.5% reduction for the productivity adjustment, and a 0.3% reduction to the market basket as defined by PPACA. The following table shows the hospice Medicare payment rates for FY 2014, which began on October 1, 2013 and will end September 30, 2014:

<b>Description</b>	<b>Rate per patient day</b>
Routine Home Care	\$ 156.06
Continuous Home Care	\$ 910.78
Full Rate = 24 hours of care	
\$37.95 = hourly rate	
Inpatient Respite Care	\$ 161.42
General Inpatient Care	\$ 694.19

*Facility-Based Services*

*LTACHs.* On August 1, 2012 CMS released its final rule for LTACH Medicare reimbursement for FY 2013 which spans from October 1, 2012 through September 30, 2013. In the aggregate, payments for FY 2013 increased by 1.8% over FY 2012 rates. The 1.8% increase consists of a 2.6% inflationary market basket update offset by a 0.7% reduction for the productivity adjustment, a 0.1% reduction to the market basket as defined by PPACA. LTACH payment rates were reduced by approximately 1.3% to 0.5% for the one-time BNAF for discharges on or after December 29, 2012. The 0.5% does not include the deficit reduction sequester approved earlier by Congress.

The FY 2013 rule also includes:

A one-year extension of the existing moratorium on the 25 Percent threshold policy, pending results of an on-going research initiative to re-define the role of LTACHs in the Medicare program.

A reduction to Medicare payments for very short stay cases in LTACHs to the Inpatient Prospective Payment System ( IPPS ) comparable per diem amount payment option for discharges occurring on or after December 29, 2012 and an increase to the high cost outlier payment.

On August 2, 2013, CMS released its final rule for LTACH Medicare reimbursement for FY 2014, which spans from October 1, 2013 through September 30, 2014. In the aggregate, payments for FY 2014 will increase by 1.3% over FY 2013 rates. The 1.3% increase consists of a 2.5% inflationary market basket update offset by a 0.5% reduction for the productivity adjustment, a 0.3% reduction to the market basket as defined by PPACA. LTACH payment rates will also be reduced by approximately 1.3% for the one-time BNAF and projected increases in estimated high cost outlier payments as compared to FY 2013.

The LTACH FY 2014 final rule also addresses the 25 Percent rule. Under the 25 Percent patient threshold policy, if an LTACH admits more than 25% of its patients from a single acute care hospital, Medicare will pay it at a rate comparable to IPPS hospitals for those patients above the 25 Percent threshold. A statutory moratorium on application of the 25 Percent rule was in place from December 2007 through December 2012. CMS extended the moratorium for FY 2013 but would allow the policy to go into effect in FY 2014. The imposition of the 25 Percent rule will apply to all LTACHs beginning with their first cost reporting period beginning on or after October 1, 2013.

The estimated changes to Medicare payments for home health, hospice and LTACHs for 2013 and 2014 do not include the deficit reduction sequester approved earlier by Congress. The sequestration cut to Medicare began on April 1, 2013 and reduced Medicare payments for patients whose service dates end on or after April 1, 2013 by 2%.

**Table of Contents****RESULTS OF OPERATIONS****Three months ended September 30, 2013****Consolidated financial statements**

The following table summarizes our consolidated results of operations for the three months ended September 30, 2013 and 2012 (amounts in thousands, except percentages which are percentages of consolidated net service revenue, unless indicated otherwise):

	<b>2013</b>		<b>2012</b>		<b>Increase</b>	<b>Percentage</b>
					<b>(Decrease)</b>	<b>Change</b>
Net service revenue	\$ 164,748		\$ 158,926		\$ 5,822	3.7%
Cost of service revenue	97,966	59.5%	91,234	57.4%	6,732	7.4%
Provision for bad debts	2,708	1.6%	2,987	1.9%	(279)	(9.3)%
General and administrative expenses	53,047	32.2%	52,464	33.0%	583	1.1%
Other intangibles impairment charge			650	0.4%	(650)	
Income tax expense	3,782	41.7%(1)	3,388	34.8%(1)	394	11.6%
Noncontrolling interest	1,572		1,556		16	
Total non-operating income (loss)	(376)		(311)		(65)	
Net income attributable to LHC Group, Inc. s common stockholders	\$ 5,297		\$ 6,336		\$ (1,039)	

(1) Percentage of income from continuing operations attributable to LHC Group, Inc. s common stockholders

**Home-based services segment operating results**

The following table summarizes our home-based services results of operations for the three months ended September 30, 2013 and 2012 (amounts in thousands, except percentages which are percentages of home-based services net service revenue):

	<b>2013</b>		<b>2012</b>		<b>Increase</b>	<b>Percentage</b>
					<b>(Decrease)</b>	<b>Change</b>
Net service revenue	\$ 146,910		\$ 140,256		\$ 6,654	4.7%
Cost of service revenue	87,082	59.3%	80,579	57.5%	6,503	8.1%
Provision for bad debts	2,651	1.8%	2,669	1.9%	(18)	(0.7)%
General and administrative expenses	47,969	32.7%	47,110	33.6%	859	1.8%
Other intangibles impairment charge			250	0.2%	(250)	
Operating income	\$ 9,208		\$ 9,648			

**Net service revenue**

Edgar Filing: LHC Group, Inc - Form 10-Q

The following table sets forth home-based services revenue growth, admissions, census and episodes for the three months ended September 30, 2013 and the related change from the same period in 2012 (amounts in thousands, except admissions, census and episode data):

	Same Store(1)	De Novo(2)	Organic(3)	Organic Growth (Loss) %	Acquired(4)	Total	Total Growth (Loss) %
Revenue	\$ 138,109	\$	\$ 138,109	(1.5)%	\$ 8,801	\$ 146,910	4.7%
Revenue Medicare	\$ 110,570	\$	\$ 110,570	2.1%	\$ 7,567	\$ 118,137	9.0%
New Admissions	28,812		28,812	1.4%	2,661	31,473	10.8%
New Medicare Admissions	20,156		20,156	3.7%	1,994	22,150	14.0%
Average Census	32,948		32,948	(2.0)%	1,723	34,671	3.1%
Average Medicare Census	25,129		25,129	(0.3)%	1,418	26,547	5.3%
Home Health Episodes	43,290		43,290	3.8%	2,514	45,804	9.8%

- (1) Same store location that has been in service with us for greater than 12 months.
- (2) De Novo internally developed location that has been in service with us for 12 months or less.
- (3) Organic combination of same store and de novo.
- (4) Acquired purchased location that has been in service with us for 12 months or less.

Total organic home-based services revenue for the three months ended September 30, 2013 decreased 1.5% compared to the three months ended September 30, 2012, while organic Medicare revenue increased 2.1%. Lower commercial patient census and revenue in the period and the effect of Medicare sequestration and wage index adjustments, which became effective in 2013, were the primary causes for the decrease in total organic revenue in the home-based services segment, which was partially offset by Medicare admissions growth and increase in patient acuity.

**Table of Contents**

Organic growth is generated by population growth in areas covered by mature agencies, agencies five years old or older, and by increased market share in acquired and developing agencies. Historically, acquired agencies have the highest growth in admissions and average census in the first 24 months after acquisition, and have the highest contribution to organic growth, measured as a percentage, in the second full year of operation after the acquisition.

***Cost of service revenue***

The following table summarizes home-based services cost of service revenue (amounts in thousands, except percentages, which are percentages of home-based services net service revenue):

	<b>Three Months Ended September 30,</b>			
	<b>2013</b>		<b>2012</b>	
Salaries, wages and benefits	\$ 75,626	51.5%	\$ 69,428	49.5%
Transportation	6,233	4.2%	6,211	4.4%
Supplies and services	5,223	3.6%	4,940	3.6%
	\$ 87,082	59.3%	\$ 80,579	57.5%

Salaries, wages and benefits increased during the three months ended September 30, 2013 compared to the same period in 2012. The increase was primarily due to an increase in salaries, wages and benefits from agencies acquired since September 30, 2012, partially offset by productivity improvements and efficiencies gained through our Point Of Care ( POC ) initiatives that we have implemented over the past year.

***Provision for bad debts***

Provision for bad debts decreased during the three months ended September 30, 2013 compared to the same period in 2012. The decrease was associated with the resolution of claim acceptance and processing issues with specific commercial payors, which improved the expected recoverability and reduced the recorded reserves related to them.

***General and administrative expenses***

General and administrative expenses increased during the three months ended September 30, 2013 compared to the same period in 2012 due to acquisitions and POC device costs, which were partially offset by reductions of staff resulting from the benefits derived from POC initiatives implemented over the past year.

***Income tax expense***

Income tax expense as a percentage of income from continuing operations increased during the three months ended September 30, 2013 compared to the same period in 2012 due to the utilization of additional tax credits during the three months ended September 30, 2012. The tax credits were not available during the three months ended September 30, 2013.

***Facility-based services segment operating results***

The following table summarizes our facility-based services results of operations for the three months ended September 30, 2013 and 2012 (amounts in thousands, except percentages which are percentages of facility-based

services net service revenue):

	<b>2013</b>		<b>2012</b>		<b>Increase</b>	<b>Percentage</b>
					<b>(Decrease)</b>	<b>Change</b>
Net service revenue	\$ 17,838		\$ 18,670		\$ (832)	(4.5)%
Cost of service revenue	10,884	61.0%	10,655	57.1%	229	2.1%
Provision for bad debts	57	0.3%	318	1.7%	(261)	(82.1)%
General and administrative expenses	5,078	28.5%	5,354	28.7%	(276)	(5.2)%
Other intangibles impairment charge			400	2.1%	(400)	
Operating income	\$ 1,819		\$ 1,943			

***Net service revenue***

Facility-based services net service revenue decreased during the three months ended September 30, 2013 compared to the same period in 2012 due to an increase in paid patient days, which was offset by decreases in patient acuity and average length of stay.

**Table of Contents****Cost of service revenue**

The following table summarizes facility-based services cost of service revenue (amounts in thousands, except percentages, which are percentages of facility-based services net service revenue):

	<b>Three Months Ended September 30,</b>			
	<b>2013</b>		<b>2012</b>	
Salaries, wages and benefits	\$ 7,277	40.8%	\$ 6,823	36.5%
Transportation	73	0.4%	65	0.4%
Supplies and services	3,534	19.8%	3,767	20.2%
	\$ 10,884	61.0%	\$ 10,655	57.1%

Salaries, wages and benefits increased during the three months ended September 30, 2013 compared to the same period in 2012 due to the increased usage of skilled therapy services. Supplies and services decreased during the three months ended September 30, 2013 compared to the same period in 2012 due to decreases in the use of certain pharmaceutical supplies and laboratory expenses. The decrease associated with supplies and services correlates to the decrease in total patient days experienced during the three months ended September 30, 2013 compared to the same period in 2012.

**Provision for bad debts**

Provision for bad debts decreased during the three months ended September 30, 2013 compared to the same period in 2012 due to the collection of aged accounts receivable.

**Nine months ended September 30, 2013****Consolidated financial statements**

The following table summarizes our consolidated results of operations for the nine months ended September 30, 2013 and 2012 (amounts in thousands, except percentages, which are percentages of consolidated net service revenue, unless indicated otherwise):

	<b>2013</b>		<b>2012</b>		<b>Increase (Decrease)</b>	<b>Percentage Change</b>
Net service revenue	\$ 493,003		\$ 475,742		\$ 17,261	3.6%
Cost of service revenue	288,223	58.5%	273,311	57.4%	14,912	5.5%
Provision for bad debts	9,833	2.0%	8,395	1.8%	1,438	17.1%
General and administrative expenses	158,827	32.2%	154,313	32.4%	4,514	2.9%
Other intangibles impairment charge			650	0.1%	(650)	
Income tax expense	12,236	41.3%(1)	12,706	38.8%(1)	(470)	(3.7)%
Noncontrolling interest	5,140		5,463		(323)	
Total non-operating income (loss)	(1,371)		(864)		(507)	

Net income attributable to LHC Group, Inc. s common stockholders	\$ 17,373	\$ 20,040	\$ (2,667)
--	-----------	-----------	------------

(1) Percentage of income from continuing operations attributable to LHC Group, Inc. s common stockholders

#### Home-based services segment operating results

The following table summarizes our home-based services results of operations for the nine months ended September 30, 2013 and 2012 (amounts in thousands, except percentages, which are percentages of home-based net service revenue):

	2013		2012		Increase (Decrease)	Percentage Change
Net service revenue	\$ 435,441		\$ 419,847		\$ 15,594	3.7%
Cost of service revenue	254,924	58.5%	240,347	57.2%	14,577	6.1%
Provision for bad debts	8,796	2.0%	7,626	1.8%	1,170	15.3%
General and administrative expenses	142,908	32.8%	137,902	32.8%	5,006	3.6%
Other intangibles impairment charge			250	0.1%	(250)	
Operating income	\$ 28,813		\$ 33,722			



**Table of Contents****Net service revenue**

The following table sets forth home-based services revenue growth, admissions, census and episodes for the nine months ended September 30, 2013 and the related change from the same period in 2012 (amounts in thousands, except admissions, census and episode data):

	Same Store(1)	De Novo(2)	Organic(3)	Organic Growth (Loss) %	Acquired(4)	Total	Total Growth (Loss) %
Revenue	\$ 412,427	\$	\$ 412,427	(1.8)%	\$ 23,014	\$ 435,441	3.7%
Revenue Medicare	\$ 328,909	\$	\$ 328,909	0.5%	\$ 18,793	\$ 347,702	6.3%
New Admissions	87,680		87,680	3.4%	8,316	95,996	13.2%
New Medicare Admissions	60,551		60,551	3.9%	5,968	66,519	14.1%
Average Census	33,518		33,518	(0.7)%	2,109	35,627	5.6%
Average Medicare Census	25,562		25,562	0.2%	1,574	27,136	6.4%
Home Health Episodes	126,933		126,933	1.2%	6,870	133,803	6.6%

(1) Same store location that has been in service with us for greater than 12 months.

(2) De Novo internally developed location that has been in service with us for 12 months or less.

(3) Organic combination of same store and de novo.

(4) Acquired purchased location that has been in service with us for 12 months or less.

Total organic home-based services revenue for the nine months ended September 30, 2013 decreased 1.8% compared to the nine months ended September 30, 2012, while organic Medicare revenue increased 0.5%. Lower commercial patient census and revenue in the period and the effect of Medicare sequestration and wage index adjustments, which became effective in 2013, were the primary causes for the decrease in total organic revenue in the home-based services segment, which was partially offset by Medicare census growth.

Organic growth is generated by population growth in areas covered by mature agencies, agencies five years old or older, and by increased market share in acquired and developing agencies. Historically, acquired agencies have the highest growth in admissions and average census in the first 24 months after acquisition, and have the highest contribution to organic growth, measured as a percentage, in the second full year of operation after the acquisition.

**Cost of service revenue**

The following table summarizes home-based services cost of service revenue (amounts in thousands, except percentages, which are percentages of home-based services net service revenue):

	Nine Months Ended September 30,			
	2013		2012	
Salaries, wages and benefits	\$ 221,477	50.9%	\$ 207,754	49.5%
Transportation	18,303	4.2%	18,463	4.4%
Supplies and services	15,144	3.4%	14,130	3.3%

\$ 254,924	58.5%	\$ 240,347	57.2%
------------	-------	------------	-------

Salaries, wages and benefits increased during the nine months ended September 30, 2013 compared to the same period in 2012. The increase was primarily due to an increase in acquisition activity, offset by productivity improvements and efficiencies gained through our Point Of Care ( POC ) initiatives that we have implemented during the past year.

***Provision for bad debts***

Provision for bad debts increased during the nine months ended September 30, 2013 compared to the same period in 2012. The increase was associated with a combination of collection risks identified on a group of claims from certain commercial insurance payor contracts and self payor claims.

***General and administrative expenses***

General and administrative expenses increased during the nine months ended September 30, 2013 compared to the same period in 2012 due to increased acquisition costs and POC device costs, which were partially offset by reductions of staff resulting from the benefits derived from POC initiatives implemented during the past year.

**Table of Contents****Facility-based services segment operating results**

The following table summarizes our facility-based services results of operations for the nine months ended September 30, 2013 and 2012 (amounts in thousands, except percentages which are percentages of facility-based services net service revenue):

	2013		2012		Increase (Decrease)	Percentage Change
Net service revenue	\$ 57,562		\$ 55,895		\$ 1,667	3.0%
Cost of service revenue	33,299	57.8%	32,964	59.0%	335	1.0%
Provision for bad debts	1,037	1.8%	769	1.4%	268	34.9%
General and administrative expenses	15,919	27.7%	16,411	29.4%	(492)	(3.0)%
Other intangibles impairment charge			400		(400)	
Operating income	\$ 7,307		\$ 5,351			

***Net service revenue***

Facility-based services net service revenue increased during the nine months ended September 30, 2013 compared to the same period in 2012 due to an increase in paid patient days.

***Cost of service revenue***

The following table summarizes facility-based services cost of service revenue (amounts in thousands, except percentages, which are percentages of facility-based services net service revenue):

	Nine Months Ended September 30,			
	2013		2012	
Salaries, wages and benefits	\$ 21,572	37.4%	\$ 20,769	37.2%
Transportation	227	0.4%	180	0.3%
Supplies and services	11,500	20.0%	12,015	21.5%
	\$ 33,299	57.8%	\$ 32,964	59.0%

Salaries, wages and benefits increased during the nine months ended September 30, 2013 compared to the same period in 2012 due to the increased usage of skilled therapy services. Supplies and services decreased during the nine months ended September 30, 2013 compared to the same period in 2012 due to decreases in the use of certain pharmaceutical supplies and laboratory expenses. The decrease associated with supplies and services correlates to the decrease in total patient days experienced during the nine months ended September 30, 2013 compared to the same period in 2012.

***Provision for bad debts***

Provision for bad debts increased during the nine months ended September 30, 2013 compared to the same period in 2012 due to increased collection risks associated with a third-party pharmacy contract combined with collection risks

related to certain anticipated settlement denials on prior year cost reports.

## **LIQUIDITY AND CAPITAL RESOURCES**

### **Liquidity**

Our principal source of liquidity for operating activities is the collection of patient accounts receivable, most of which are collected from governmental and third party commercial payors. We also have the ability to obtain additional liquidity, if necessary, through our credit facility, which provides for aggregate borrowings, including outstanding letters of credit, up to \$100 million.

Our reported cash flows from operating activities are affected by various external and internal factors, including the following:

*Operating Results* Our net income has a significant effect on our operating cash flows. Any significant increase or decrease in our net income could have a material effect on our operating cash flows.

*Timing of Acquisitions* We use our operating cash flows for acquisitions. When the acquisitions occur at or near the end of a period, our cash outflows significantly increase.

*Timing of Payroll* Our employees are paid bi-weekly on Fridays; therefore, operating cash flows decline in reporting periods that end on a Friday.

**Table of Contents**

*Medical Insurance Plan Funding* We are self-funded for medical insurance purposes. Any significant changes in the amount of insurance claims submitted could have a direct effect on our operating cash flows.

*Medical Supplies* A significant expense associated with our business is the cost of medical supplies. Any increase in the cost of medical supplies, or in the use of medical supplies by our patients, could have a material effect on our operating cash flows.

The following table summarizes changes in cash (amounts in thousands):

	<b>Nine Months Ended September 30,</b>	
	<b>2013</b>	<b>2012</b>
Net cash provided by (used in):		
Operating activities	\$ 26,380	\$ 48,060
Investing activities	(32,917)	(13,247)
Financing activities	(2,740)	(34,793)
Change in cash	(9,277)	20
Cash and cash equivalents at beginning of period	9,720	256
Cash and cash equivalents at end of period	\$ 443	\$ 276

Cash provided by operating activities for the nine months ended September 30, 2013 decreased as compared to the same period in 2012 due to lower net income in the period combined with other changes in working capital. Additionally, for the nine months ended September 30, 2012, cash provided by operations included the benefit from the utilization of previously established prepaid taxes associated with tax loss carrybacks generated from our 2011 settlement with the United States of America.

Cash used in investing activities for the nine months ended September 30, 2013 increased as compared to the same period in 2012 due to the acquisition of the home-based service line of Addus HomeCare Corp and separately, four other home health agencies and one hospice agency.

Cash used in financing activities for the nine months ended September 30, 2013 decreased as compared to the same period in 2012 due primarily to a reduction in the amount of net repayment activity on our credit facility.

**Accounts Receivable and Allowance for Uncollectible Accounts**

As of September 30, 2013, our allowance for uncollectible accounts, as a percentage of patient accounts receivable, was approximately 13.2%, or \$14.0 million, compared to 12.4% or \$11.9 million at December 31, 2012. Days sales outstanding as of September 30, 2013 and December 31, 2012 was 52 and 48 days, respectively.

The \$106,418 of accounts receivable shown below includes \$14.5 million of accounts receivable related to 2013 acquisitions for which billing invoices are delayed until the completion of the administrative change of ownership process has been completed. The following table sets forth as of September 30, 2013, the aging of accounts receivable (based on the end of episode date) (amounts in thousands):

<b>Payor</b>	<b>0-90</b>	<b>91-180</b>	<b>181-365</b>	<b>Over 365</b>	<b>Total</b>
Medicare	\$ 48,774	\$ 17,249	\$ 7,992	\$ 817	\$ 74,832
Medicaid	2,241	459	342	227	3,269
Other	14,528	5,599	5,590	2,600	28,317
Total	\$ 65,543	\$ 23,307	\$ 13,924	\$ 3,644	\$ 106,418

For home-based services, we calculate the allowance for uncollectible accounts as a percentage of total patient receivables. The percentage changes depending on the payor and increases as the patient receivables age. For facility-based services, we calculate the allowance for uncollectible accounts based on a claim by claim review.

The following table sets forth as of December 31, 2012, the aging of accounts receivable (based on the end of episode date) (amounts in thousands):

<b>Payor</b>	<b>0-90</b>	<b>91-180</b>	<b>181-365</b>	<b>Over 365</b>	<b>Total</b>
Medicare	\$ 48,219	\$ 7,955	\$ 4,114	\$ 672	\$ 60,960
Medicaid	2,067	531	696	300	3,594
Other	18,688	4,695	5,536	2,341	31,260
Total	\$ 68,974	\$ 13,181	\$ 10,346	\$ 3,313	\$ 95,814

**Table of Contents****Indebtedness**

As of September 30, 2013 we had \$69.8 million available, \$24.0 million drawn, and \$6.2 million of letters of credit outstanding under our credit facility. At December 31, 2012, we had \$19.5 million drawn and \$6.0 million of letters of credit outstanding under our credit facility.

Our credit agreement with Capital One, National Association provides for a maximum aggregate principal borrowing of \$100 million. Our credit facility, which is scheduled to expire on August 31, 2015, is unsecured and has a letter of credit sub-limit of \$15 million. A fee of 0.5% is charged for any unused amounts. A letter of credit fee equal to the applicable LIBOR margin times the face amount of the letter of credit is charged upon the issuance and on each anniversary date while the letter of credit is outstanding. The agent's standard up-front fee and other customary administrative charges will also be due upon issuance of the letter of credit along with a renewal fee on each anniversary date of such issuance while the letter of credit is outstanding. The interest rate for the borrowings under our credit facility, at our election, shall be either at the Base Rate (as defined in the credit agreement) as a function of the prime rate or the LIBOR Rate (as defined in the credit agreement). Borrowings accruing interest under the credit facility at either the Base Rate or the LIBOR Rate are subject to the applicable margins set forth below:

<b>Leverage Ratio</b>	<b>LIBOR Margin</b>	<b>Base Rate Margin</b>
<1.00:1.00	2.25%	1.00%
≥1.00:1.00<1.50:1.00	2.50%	1.25%
≥1.50:1.00£2.00:1.00	2.75%	1.50%

Our credit facility contains customary affirmative, negative and financial covenants. For example, we are restricted in incurring additional debt, disposing of assets, making investments, allowing fundamental changes to our business or organization, and making certain payments in respect of stock or other ownership interests, such as dividends and stock repurchases, up to \$50 million. Under our credit facility, we are also required to meet certain financial covenants with respect to minimum fixed charge coverage, consolidated net worth and leverage ratios.

Our credit facility also contains customary events of default. These include bankruptcy and other insolvency events, cross-defaults to other debt agreements, a change in control involving us or any subsidiary guarantor, and the failure to comply with certain covenants.

At September 30, 2013, we were in compliance with all covenants contained in the Credit Agreement governing our credit facility.

**Contingencies**

For a discussion of contingencies, see Note 8 of the Notes to Condensed Consolidated Financial Statements.

**Off-Balance Sheet Arrangements**

We do not currently have any off-balance sheet arrangements with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. In addition, we do not engage in trading activities involving non-exchange traded contracts. As such, we are not

materially exposed to any financing, liquidity, market or credit risk that could arise if we had engaged in these relationships.

### **Critical Accounting Policies**

For a discussion of critical accounting policies, see Note 2 of the Notes to Condensed Consolidated Financial Statements.

### ***Revenue Recognition***

We report net service revenue at the estimated net realizable amount due from Medicare, Medicaid, commercial insurance, managed care payors, patients and other payors for services rendered.

### ***Medicare***

### ***Home-Based Services***

*Home Nursing Services.* We are reimbursed by Medicare for delivering care over a 60-day period referred to as an episode. We recognize revenue based on the number of days elapsed during an episode of care within the appropriate reporting period.



---

**Table of Contents**

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 ). We submit 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. 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. We estimate all potential adjustments to an episode based on the best information available as the services are provided and prior to recognizing revenue or presenting the final bill. Therefore, historically, we have recorded little or no adjustments at the time payment is received. Although our estimates are based on historical experience using the best information available at the time we provide service, final payments could differ from our estimates.

*Hospice Services.* We are paid by Medicare under a per diem payment system. We receive one of four predetermined daily or hourly rates based upon the level of care we furnished. We record net service revenue from hospice services based on the daily or hourly rate and recognize revenue as these hospice services are provided.

Hospice payments are also subject to an inpatient cap and an overall payment cap. The inpatient cap relates to individual programs receiving more than 20% of its total Medicare reimbursement from inpatient care services. The overall payment cap relates to individual programs receiving reimbursements in excess of a cap amount, which is calculated by multiplying the number of beneficiaries receiving services 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. We monitor our limits on a provider-by-provider basis. Our revenue could be affected if we exceed the cap limits in the future.

***Facility-Based Services***

*Long-Term Acute Care Services.* We are reimbursed by Medicare for services provided at our LTACHs based on a predetermined fixed amount intended to reflect the average cost of treating a Medicare patient. The actual amount reimbursed can be adjusted based on length of stay and facility-specific costs, as well as in instances where a patient is discharged and subsequently re-admitted. Similar to the home health Medicare reimbursement, we estimate the adjustment based on a historical average and record revenue considering such adjustment. Similar to other Medicare prospective payment systems, the rate is also adjusted for geographic wage differences. Revenue is recognized for our LTACHs as services are provided. Although our estimates are based on historical experience using the best information available at the time we provide service, final payments could differ from our estimates.

***Medicaid, managed care and other payors***

Medicaid reimbursement is based on a predetermined fee schedule applied to each service provided. Therefore, revenue is recognized for Medicaid services as the services are provided based on this fee schedule. Managed care and other payors reimburse us in a manner similar to either Medicare or Medicaid. Accordingly, we recognize revenue from managed care and other payors in the same manner as we recognize revenue from Medicare or Medicaid.

***Accounts Receivable and Allowances for Uncollectible Accounts***

We report 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, we establish an allowance

for uncollectible accounts to reduce the carrying amount of such receivables to their estimated net realizable value.

The collection of outstanding receivables is our primary source of cash collections and is critical to our operating performance. Because Medicare is our primary payor, the credit risk associated with receivables from other payors is limited. We believe the credit risk associated with our Medicare accounts, which represent 70.3% and 63.6% of our patient accounts receivable as of September 30, 2013 and December 31, 2012, respectively, is limited due to (i) the historical collections from Medicare and (ii) the fact that Medicare is a U.S. government payor. We do not believe that there are any other significant concentrations of receivables from any particular payor that would subject it to any significant credit risk in the collection of accounts receivable.

The amount of the provision for bad debts is based upon our assessment of historical and expected net collections, business and economic conditions and trends in government reimbursement. Quarterly, we perform a detailed review of historical writeoffs and recoveries as well as recent collection trends. Uncollectible accounts are written off when we have exhausted collection efforts and concluded the account will not be collected.

Although our estimated reserves for uncollectible accounts are based on historical experience and the most current collection trends, this process requires significant judgment and interpretation of the observed trends and the actual collections could differ from our estimates.

---

**Table of Contents**

***Insurance***

We retain significant exposure for our employee health insurance, workers compensation, employment practices and professional liability insurance programs. Our insurance programs require us to estimate potential payments on filed claims and/or claims incurred but not reported. Our estimates are based on information provided by the third-party plan administrators, historical claim experience, expected costs of claims incurred but not paid and expected costs associated with settling claims. Each month we review the insurance-related recoveries and liabilities to determine if any adjustments are required.

Our employee health insurance program is self funded, with stop-loss coverage on claims that exceed \$150,000 for any individually covered employee or employee family member. We are responsible for workers compensation claims up to \$350,000 per individual incident.

Malpractice, employment practices and general liability claims for incidents which may give rise to litigation have been asserted against us by various claimants. The claims are in various stages of processing and some may ultimately be brought to trial. We are aware of incidents that have occurred through September 30, 2013 that may result in the assertion of additional claims. We currently carry professional, general liability and employment practices insurance coverage (on a claims made basis) for this exposure. We also carry D&O coverage (also on a claims made basis) for potential claims against our directors and officers, including securities actions, with a deductible of \$750,000 per security claims and \$500,000 on other claims.

We estimate our liabilities related to these programs using the most current information available. As claims develop, we may need to change the recorded liabilities and change our estimates. These changes and adjustments could be material to our financial statements, results of operations and financial condition.

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.**

As of September 30, 2013, we had cash of \$443,000. In 2013, the FDIC will insure each depositor up to \$250,000 in coverage at each separately chartered insured depository institution. At times, cash in banks is in excess of the FDIC insurance limit. The Company has not experienced any loss as a result of those deposits in excess of the FDIC insurance limit and does not expect any in the future.

Our exposure to market risk relates to changes in interest rates for borrowings under our credit facility. Our credit facility is a revolving credit facility and, as such, we borrow, repay and re-borrow amounts as needed, changing the average daily balance outstanding under our credit facility. A hypothetical 100 basis point increase in interest rates on the average daily amounts outstanding under our credit facility would have increased interest expense by \$1,000 for the three months ended September 30, 2013 and by \$14,000 for the nine months ended September 30, 2013.

**ITEM 4. CONTROLS AND PROCEDURES.**

**Evaluation of Disclosure Controls and Procedures**

We maintain disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) promulgated under the Exchange Act) that are designed to ensure that information required to be disclosed in our reports filed under the Exchange Act, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Such disclosure controls and procedures are designed also to ensure that such information required to be disclosed in our reports filed under the Exchange Act is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required

disclosure. Our management, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this report.

Based on the evaluation of our disclosure controls and procedures, our Chief Executive Officer and Chief Financial Officer concluded that we maintained effective disclosure controls and procedures at the reasonable assurance level as of September 30, 2013.

### **Changes in Internal Controls Over Financial Reporting**

There have not been any changes in our internal control over financial reporting, as such term is defined in Rule 13a-15(f) under the Exchange Act, during the quarterly period ended September 30, 2013 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## **PART II OTHER INFORMATION**

### **ITEM 1. LEGAL PROCEEDINGS.**

For a discussion of legal proceedings, see Note 8 of the Notes to Condensed Consolidated Financial Statements.

**Table of Contents**

**ITEM 1A. RISK FACTORS.**

There have been no material changes from the information included in Part I, Item 1A. Risk Factors of the Company's 2012 Form 10-K.

**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.**

In October 2010, the Company's Board of Directors authorized a share repurchase program to repurchase shares of the Company's common stock, par value \$0.01 per share, from time to time, in an amount not to exceed \$50.0 million (Stock Repurchase Program). The Company anticipates that it will finance any future such repurchases under the Stock Repurchase Program with cash from general corporate funds, or draws under its credit facility. The Company may repurchase shares of common stock in open market purchases or in privately negotiated transactions in accordance with applicable securities laws, rules and regulations. The timing and extent to which the Company repurchases its shares will depend upon market conditions and other corporate considerations. During the nine months ended September 30, 2013, no shares were repurchased. The remaining dollar value of shares authorized to be purchased under the share repurchase program was \$22.5 million as of September 30, 2013.

**Table of Contents**

**ITEM 6. EXHIBITS.**

3.1	Certificate of Incorporation of LHC Group, Inc. (previously filed as an Exhibit 3.1 to the Form S-1/A (File No. 333-120792) on February 14, 2005).
3.2	Bylaws of LHC Group, Inc. as amended on December 31, 2007 (previously filed as Exhibit 3.2 to the Form 10-Q on May 9, 2008).
4.1	Specimen Stock Certificate of LHC Group's Common Stock, par value \$0.01 per share (previously filed as Exhibit 4.1 to the Form S-1/ A (File No. 333-120792) on February 14, 2005).
10.1	Third Amended and Restated Credit Agreement, by and among LHC Group, Inc., Capital One, National Association, as a lender, administrative agent, sole book runner and sole lead arranger, JPMorgan Chase Bank, N.A., as a lender and syndication agent, Compass Bank, as a lender and documentation agent, and Whitney Bank and Regions Bank, as lenders, dated August 31, 2012 (previously filed as Exhibit 10.1 to the Form 8-K filed on September 4, 2012).
10.2	Amended and Restated Employment Agreement between Donald D. Stelly and LHC Group, Inc. dated August 19, 2013 (previously filed as Exhibit 10.1 to the Form 8-K filed August 19, 2013).
31.1	Certification of Keith G. Myers, Chief Executive Officer pursuant to Rule 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Peter J. Roman, Chief Financial Officer pursuant to Rule 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1*	Certification of Chief Executive Officer and Chief Financial Officer of LHC Group, Inc. pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document
101.SCH	XBRL Schema Document
101.CAL	XBRL Calculation Linkbase Document
101.DEF	XBRL Definition Linkbase Document
101.LAB	XBRL Label Linkbase Document
101.PRE	XBRL Presentation Linkbase Document

\* This exhibit is furnished to the SEC as an accompanying document and is not deemed to be filed for purposes of Section 18 of the Securities Exchange Act of 1934 or otherwise subject to the liabilities of that Section, and the document will not be deemed incorporated by reference into any filing under the Securities Act of 1933.

Table of Contents

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: November 7, 2013

LHC GROUP, INC.

/s/ Peter J. Roman

**Peter J. Roman**

**Executive Vice President and Chief Financial Officer**

**(Principal financial officer)**