LHC Group, Inc
Form 10-Q
May 03, 2018

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

FORM 10-Q

ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2018
OR
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission file number: 001-33989

LHC GROUP, INC.
(Exact name of registrant as specified in its charter)

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

901 Hugh Wallis Road South
Lafayette, LA 70508
(Address of principal executive offices including zip code)
(337) 233-1307
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, 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 ý No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company", and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ý	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨
	Emerging growth company ¨

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

Number of shares of common stock, par value $0.01, outstanding as of April 30, 2018: 32,833,591 shares.

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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)

	March 31, 2018	December 31, 2017
	(Unaudited)	
ASSETS		
Current assets:		
Cash	$ 9,345	$ 2,849
Receivables:		
Patient accounts receivable	168,079	161,898
Other receivables	4,377	3,163
Amounts due from governmental entities	830	830
Total receivables	173,286	165,891
Prepaid income taxes	4,548	7,006
Prepaid expenses	12,868	13,042
Other current assets	8,302	12,177
Total current assets	208,349	200,965
Property, building and equipment, net of accumulated depreciation of $46,195 and $43,565, respectively	46,249	46,453
Goodwill	396,642	392,601
Intangible assets, net of accumulated amortization of $13,482 and $13,041, respectively	134,842	134,610
Other assets	19,241	19,073
Total assets	$ 805,323	$ 793,702
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and other accrued liabilities	$ 51,803	$ 39,750
Salaries, wages, and benefits payable	56,497	44,747
Self-insurance reserve	13,598	12,450
Current portion of long-term debt	222	286
Amounts due to governmental entities	4,008	5,019
Total current liabilities	126,128	102,252
Deferred income taxes	25,540	27,466
Revolving credit facility	125,000	144,000
Total liabilities	276,668	273,718
Noncontrolling interest — redeemable	13,888	13,393
Stockholders' equity:		
LHC Group, Inc. stockholders' equity:		
Preferred stock – $0.01 par value: 5,000,000 shares authorized; none issued or outstanding	—	—
Common stock — $0.01 par value; 40,000,000 shares authorized; 22,811,147 and 22,640,046 shares issued in 2018 and 2017, respectively	228	226
Treasury stock — 4,947,276 and 4,890,504 shares at cost, respectively	(45,716)	(42,249)
Additional paid-in capital	126,348	126,490
Retained earnings	369,396	364,401
Total LHC Group, Inc. stockholders' equity	450,256	448,868
Noncontrolling interest — non-redeemable	64,511	57,723

Total equity	514,767	506,591
Total liabilities and equity	$ 805,323	$ 793,702

See accompanying notes to condensed consolidated financial statements.

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LHC GROUP, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(Amounts in thousands, except share and per share data)
(Unaudited)

	Three Months Ended March 31, 2018	Three Months Ended March 31, 2017
Net service revenue	$291,054	$244,249
Cost of service revenue	188,618	154,370
Gross margin	102,436	89,879
General and administrative expenses	92,031	72,011
Operating income	10,405	17,868
Interest expense	(1,450)	(780)
Income before income taxes and noncontrolling interest	8,955	17,088
Income tax expense	977	5,173
Net income	7,978	11,915
Less net income attributable to noncontrolling interests	2,983	2,448
Net income attributable to LHC Group, Inc.’s common stockholders	$4,995	$9,467
Earnings per share attributable to LHC Group, Inc.'s common stockholders:		
Basic	$0.28	$0.54
Diluted	$0.28	$0.53
Weighted average shares outstanding:		
Basic	17,789,863	17,643,463
Diluted	18,039,345	17,817,880

See accompanying notes to the condensed consolidated financial statements.

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

	Common Stock Issued Amount	Common Stock Issued Shares	Treasury Amount	Treasury Shares	Additional Paid-In Capital	Retained Earnings	Noncontrolling Interest Non Redeemable	Total Equity
Balance as of December 31, 2017	$226	22,640,046	$(42,249)	4,890,504	$126,490	$364,401	$ 57,723	$506,591
Net income (1)	—	—	—	—	—	4,995	597	5,592
Acquired noncontrolling interest	—	—	—	—	—	—	1,235	1,235
Noncontrolling interest distributions	—	—	—	—	—	—	(615)	(615)
Sale of noncontrolling interest	—	—	—	—	(2,029)	—	5,583	3,554
Purchase of additional controlling interest	—	—	—	—	(44)	—	(12)	(56)
Nonvested stock compensation	—	—	—	—	1,601	—	—	1,601
Issuance of vested stock	2	165,567	—	—	(2)	—	—	—
Treasury shares redeemed to pay income tax	—	—	(3,467)	56,772	—	—	—	(3,467)
Issuance of common stock under Employee Stock Purchase Plan	—	5,534	—	—	332	—	—	332
Balance as of March 31, 2018	$228	22,811,147	$(45,716)	4,947,276	$126,348	$369,396	$ 64,511	$514,767

(1) Net income excludes net income attributable to noncontrolling interest-redeemable of $2.4 million during the three months ending March 31, 2018. 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.

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LHC GROUP, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Amounts in thousands)
(Unaudited)

	Three Months Ended March 31, 2018	2017
Operating activities:		
Net income	$7,978	$11,915
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization expense	3,293	3,190
Stock-based compensation expense	1,601	1,581
Deferred income taxes	(1,926)	475
(Loss) gain on disposal of assets	(187)	152
Changes in operating assets and liabilities, net of acquisitions:		
Receivables	(7,111)	2,028
Prepaid expenses and other assets	3,881	(2,413)
Prepaid income taxes	2,458	—
Accounts payable and accrued expenses	24,859	18,524
Income taxes payable	—	164
Net amounts due to/from governmental entities	(1,011)	(985)
Net cash provided by operating activities	33,835	34,631
Investing activities:		
Purchases of property, building and equipment	(2,551)	(2,523)
Cash paid for acquisitions, primarily goodwill and intangible assets	(2,770)	(449)
Advanced payments on acquisitions	—	(4,487)
Net cash used in investing activities	(5,321)	(7,459)
Financing activities:		
Proceeds from line of credit	13,000	5,000
Payments on line of credit	(32,000)	(14,000)
Proceeds from employee stock purchase plan	332	256
Payments on debt	(64)	(65)
Noncontrolling interest distributions	(3,086)	(2,391)
Withholding taxes paid on stock-based compensation	(3,467)	(2,569)
Purchase of additional controlling interest	(55)	—
Sale of noncontrolling interest	3,322	114
Net cash (used in) financing activities	(22,018)	(13,655)
Change in cash	6,496	13,517
Cash at beginning of period	2,849	3,264
Cash at end of period	$9,345	$16,781
Supplemental disclosures of cash flow information:		
Interest paid	$1,397	$721
Income taxes paid	$792	$4,580

See accompanying notes to condensed consolidated financial statements.

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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. The Company provides home health services, hospice services, community-based services, and facility-based services, the latter primarily through long-term acute care hospitals (“LTACHs”). As of March 31, 2018, the Company, through its wholly- and majority-owned subsidiaries, equity joint ventures, controlled affiliates, and management agreements, operated 446 service providers in 27 states within the continental United States.

Unaudited Interim Financial Information

The condensed consolidated balance sheets as of March 31, 2018 and December 31, 2017, and the related condensed consolidated statements of income for the three months ended March 31, 2018 and 2017, condensed consolidated statement of changes in equity for the three months ended March 31, 2018, condensed consolidated statements of cash flows for the three months ended March 31, 2018 and 2017, and related notes (collectively, these financial statements are referred to as the "interim financial statements" and together with 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 months ended March 31, 2018 are not necessarily indicative of the results that may be expected for the year ending December 31, 2018.

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, 2017. The report was filed with the Securities and Exchange Commission (the “SEC”) on March 1, 2018, and 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, 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 and revenue recognition.

Principles of Consolidation

The interim financial information includes all subsidiaries and entities controlled by the Company through direct ownership of majority interest or controlling member ownership of such entities. Third party equity interests in the consolidated joint ventures are reflected as noncontrolling interests in the Company’s interim financial information. See Note 9 of the Notes to 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:

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	Three Months Ended March 31,	
Ownership type	2018	2017
Wholly-owned subsidiaries	48.7 %	54.2 %
Equity joint ventures	48.7	44.1
Other	2.6	1.7
	100.0%	100.0%

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

The Company consolidates equity joint venture entities as the Company has controlling interests in the entities, has voting control over these entities, or has ability to exercise significant influence in the entities. The members of the Company's equity joint ventures participate in profits and losses in proportion to their equity interests. The Company also consolidates entities which have license leasing arrangements as the Company owns 100% of the equity of these subsidiaries.

The Company has various management services agreements under which the Company manages certain operations of agencies. The Company does not consolidate these agencies because the Company does not have an ownership interest in, nor does it have an obligation to absorb losses of, or right to receive benefits from the entities that own the agencies.

Revenue Recognition

Basis of Presentation

The Company adopted ASU No. 2014-09, Revenue from Contracts with Customers, ("ASU 2014-09") on January 1, 2018 on a full retrospective basis, which required the Company to present the prior comparable period as adjusted. The adoption of the standard did not have a material impact on the Company's interim financial statements. The Company did not adjust the opening balance of retained earnings to account for the implementation of the requirements of this standard as there are no timing differences related to the recognition of implicit price concessions as part of net service revenue. All amounts previously classified as provision for bad debts are now classified as implicit price concessions in determining the transaction price of the Company's net service revenue. For the three months ended March 31, 2018, the Company recorded $4.9 million of implicit price concessions as a direct reduction of net service revenue that would have been recorded as provision for bad debts prior to the adoption of ASU 2014-09. Additionally, as of March 31, 2018, the Company recorded $26.0 million as a direct reduction of accounts receivable that would have been reflected as allowance for doubtful accounts prior to the adoption of ASU 2014-09.

Adoption of the standard impacted the Company's previously reported results as follows (amounts in thousands):

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	As previously reported	Adjustment for ASU 2014-09	As adjusted
	As of December 31, 2017		
Condensed Consolidated Balance Sheets			
Patient accounts receivable	$161,898	$ —	$161,898
Allowance for uncollectible accounts	23,556	(23,556)	—
	Three Months Ended March 31, 2017		
Condensed Consolidated Statements of Income:			
Net service revenue	246,618	(2,369)	244,249
Provision for bad debts	2,369	(2,369)	—
Net income attributable to LHC Group, Inc.'s common stockholders	9,467	—	9,467
Condensed Consolidated Statements of Cash Flows:			
Provision for bad debts	2,369	(2,369)	—
Changes in operating assets and liabilities, net of acquisitions:			
Receivables	(341)	2,369	2,028

Net service revenue is reported at the amount that reflects the consideration to which the Company expects to be entitled in exchange for providing services. These amounts are due from Medicare, Medicaid, Managed Care, Commercial, and others for services rendered, and they include implicit price concessions for retroactive revenue adjustments due to actual receipts from third-party payors, settlement of audits, and reviews. The estimated uncollectible amounts due from these payors are considered implicit price concessions that are a direct reduction to net service revenue. The Company assesses the patient's ability to pay for their healthcare services at the time of patient admission based on the Company's verification of the patient's insurance coverage under the Medicare, Medicaid, and other commercial or managed care insurance programs. Medicare contributes to the net service revenue of the Company’s home health services, hospice services, and facility-based services. Medicaid and other payors contribute to the net service revenue of all of the Company's services.

Performance obligations are determined based on the nature of the services provided by the Company. The Company's performance obligation is to provide services to each patient based on medical necessity and identifies the bundle of services to be provided to achieve the goals established in the contract. Revenue for performance obligations is satisfied over time and recognized based on actual charges incurred in relation to total expected charges over the measurement period of the performance obligation, which depicts the transfer of services and related benefits received by the patient over the term of the contract to satisfy the obligations. The Company measures the satisfaction of the performance obligation as services are provided from admission to discharge or recertification, which creates a new performance obligation.

The Company's performance obligations relate to contracts with a duration of less than one year; therefore, the Company has elected to apply the optional exemption provided by ASC 606 - Revenue Recognition, and is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period. The unsatisfied or partially unsatisfied performance obligations are generally completed when the patients are discharged.

The Company determines the transaction price based on gross charges for services provided, reduced by contractual adjustments provided to third-party payors, and implicit price concessions. The Company determines estimates of contractual adjustments and implicit price concessions based on historical collection experience. Estimates of contractual allowance and implicit price concessions are periodically reviewed to ensure they encompass the Company's current contract terms, are reflective of the Company's current patient mix, and are indicative of the Company's historic collections to ensure net service revenue is recognized at its net realizable value.

The following table sets forth the percentage of net service revenue earned by category of payor for the three months ended March 31, 2018 and 2017:

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Payor:	Three Months Ended March 31, 2018	2017
Home health:		
Medicare	71.2 %	73.6 %
Medicaid	0.9	1.0
Managed Care, Commercial, and Other	27.9	25.4
	100.0%	100.0%
Hospice:		
Medicare	92.3 %	94.1 %
Medicaid	0.6	0.3
Managed Care, Commercial, and Other	7.1	5.6
	100.0%	100.0%
Community based services:		
Medicaid	17.3 %	16.5 %
Managed Care, Commercial, and Other	82.7	83.5
	100.0%	100.0%
Facility-based services:		
Medicare	64.0 %	63.9 %
Medicaid	—	—
Managed Care, Commercial, and Other	36.0	36.1
	100.0%	100.0%

Medicare

Home Health 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 elects to use the same 60-day length of episode that Medicare recognizes as standard but accelerates revenue upon discharge to align with a patient's episode length if less than the expected 60 days, which depicts the transfer of services and related benefits received by the patient over the term of the contract necessary to satisfy the obligations. The Company recognizes revenue based on the number of days elapsed during an episode of care within the reporting period.

Final payments from Medicare will reflect base payment adjustments for case-mix and geographic wage differences and 2% sequestration reduction for episodes beginning after March 31, 2013. In addition, final payments may reflect one of four retroactive adjustments to 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. The retroactive adjustments outlined above are recognized in net service revenue when the event causing the adjustment occurs and during the period in which the services are provided to the patient. The Company reviews these adjustments to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustments is subsequently resolved. Net service revenue and related patient accounts receivable are recorded at amounts estimated to be realized from Medicare for services rendered.

Hospice Services

Hospice services provided by the Company are paid by Medicare under a per diem payment system based on the determined need for the patient on a daily basis. The Company receives one of four predetermined daily rates based upon the level of care the Company furnishes. Each level of care is contingent upon the patient's medical necessity and is distinct under contracted performance obligation, which depicts the transfer of services and related benefits received by the patient over the term of the contract to satisfy the obligations. The Company records net service revenue for hospice services based on the contracted per diem rate over time as services are provided, satisfying the performance obligation.

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Hospice payments are subject to variable consideration through an inpatient cap and an overall Medicare payment cap. The inpatient cap relates to individual programs receiving more than 20% of their 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,” determined by Medicare to be payment equal to six months of hospice care for the aggregate base of hospice patients, 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 in the reporting period. The Company reviews these estimates to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustments is subsequently resolved.

Facility-Based Services

The Company is reimbursed by Medicare for services provided under the LTACH prospective payment system. Each patient is assigned a long-term care diagnosis-related group. The Company is paid a predetermined fixed amount intended to reflect the average cost of treating a Medicare patient classified in that particular long-term care diagnosis-related group. For selected patients, the amount may be further adjusted based on length of stay and facility-specific costs, as well as in instances where a patient is discharged and subsequently re-admitted, among other factors. The Company calculates the adjustment based on a historical average of these types of adjustments for claims paid. Similar to other Medicare prospective payment systems, the rate is also adjusted for geographic wage differences. Net service revenue adjustments resulting from reviews and audits of Medicare cost report settlements are considered implicit price concessions for LTACHs and are measured at expected value. The Company reviews these estimates to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustments is subsequently resolved. Revenue for the Company’s LTACH services are satisfied over time and recognized based on actual charges incurred in relation to total expected charges, which depicts the transfer of services and related benefits received by the customer over the term of the contract to satisfy the obligations.

Medicaid, managed care, and other payors

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

Accounts Receivable

The Company reports accounts receivable based on the estimated uncollectible amounts due from payors, which are considered implicit price concessions. Accounts receivable are uncollateralized and consist of amounts due from Medicare, Medicaid, other third-party payors, and patients. 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 50% 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.

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 is recouped and the payment for the entire episode is paid. 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 prospectively set amounts that can be determined at the time services are rendered. The Company's Medicaid reimbursement is based on a predetermined fee schedule applied to each individual service it provides. The Company's managed care contracts are structured similarly to either the Medicare or Medicaid payment

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methodologies. 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:

	Three Months Ended March 31,	
	2018	2017
Weighted average number of shares outstanding for basic per share calculation	17,789,863	17,643,463
Effect of dilutive potential shares:		
Nonvested stock	249,482	174,417
Adjusted weighted average shares for diluted per share calculation	18,039,345	17,817,880
Anti-dilutive shares	169,945	151,010

Recently Adopted Accounting Pronouncements

On May 28, 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers, ("ASU 2014-09") which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. ASU 2014-09 replaced most existing revenue recognition guidance in U.S. GAAP. The Company adopted the new standard on January 1, 2018, and elected to adopt it using the full retrospective method.

In August 2016, the FASB issued ASU No. 2016-15, Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payments, which addresses eight classification issues related to the statement of cash flows. This ASU is effective for annual and interim periods in fiscal years beginning after December 15, 2017. Early adoption is permitted, including adoption in an interim period. Entities should apply this ASU using a retrospective transition method to each period presented. There is no material impact to the Company's interim financial statements upon adoption of ASU 2016-15.

In January 2017, the FASB issued ASU 2017-04, Intangibles - Goodwill and Other: Simplifying the Test for Goodwill Impairment, which requires an entity to no longer perform a hypothetical purchase price allocation to measure goodwill impairment. Instead, impairment will be measured using the difference between the carrying amount and the fair value of the reporting unit. This ASU is effective for annual and interim periods in fiscal years beginning after December 15, 2019. Early adoption is permitted for goodwill impairment tests with measurement dates on or after January 1, 2017.

In January 2017, the FASB issued ASU 2017-01, Business Combinations: Clarifying the Definition of a Business, which assist entities with evaluating whether a set of transferred assets and activities is a business. This ASU is effective for annual and interim period in fiscal years beginning after December 15, 2017.

Recently Issued Accounting Pronouncements

In February 2016, the FASB issued ASU No. 2016-02, Leases, ("ASU 2016-02") which requires lessees to recognize qualifying leases on the statement of financial position. Qualifying leases will be classified as right-of-use assets and lease liabilities. The new standard is effective on January 1, 2019. Early adoption is permitted. ASU 2016-02 mandates a modified retrospective transition method for all entities. The Company anticipates that the adoption of ASU 2016-02 will result in a material increase in total assets and total liabilities. The Company continues to evaluate the effect that ASU 2016-02 will have on its related disclosures.

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3. Almost Family Merger

On April 1, 2018, the Company completed its previously announced merger of equals business combination with Almost Family, Inc. (“Almost Family”) as contemplated by that certain Agreement and Plan of Merger, dated as of November 15, 2017 (the “Merger Agreement”), by and among the Company, Almost Family and Hammer Merger Sub, Inc., a wholly owned subsidiary of the Company (“Merger Sub”), with the merger of Merger Sub with and into Almost Family (the “Merger”), with Almost Family continuing as the surviving entity in the Merger and as a wholly owned subsidiary of the Company. At the effective time of the Merger on April 1, 2018 (the “Effective Time”), each outstanding share of common stock of Almost Family, other than certain canceled shares, was converted into the right to receive 0.9150 shares of the Company’s common stock and cash in lieu of any fractional shares of any Company common stock that Almost Family shareholders would otherwise have been entitled to receive.

Since the Merger was not completed until April 1, 2018, the interim financial statements set forth in this report do not include or reflect the results of Almost Family for any of the periods set forth therein or the impact of the closing of the Merger.

The following table summarizes the consideration transferred in connection with the Merger (amounts in thousands):

Outstanding shares of Almost Family common stock as of April 1, 2018	13,951
Exchange ratio	0.9150
Shares of the Company issued	12,765
Price per share as of April 1, 2018	$ 61.56
Fair value of the Company common stock issued	785,837
Fair value of vested Almost Family equity awards exchanged for equity awards in the Company	4,664
Preliminary merger consideration	790,501

The Company is conducting preliminary valuation analysis of identifiable assets and liabilities assumed for the business combination in accordance with the requirements of ASC Topic 805. The final determination of the fair value of assets acquired and liabilities assumed will be completed in accordance with the applicable accounting guidance. Due to the significance of the Merger, the Company may use all of the measurement period to adequately analyze and asses the fair values of assets acquired and liabilities assumed.

Transaction costs associated with the Merger that were incurred by the Company during the three months ended March 31, 2018 are being expensed as incurred and are presented in the condensed consolidated statements of income as general and administrative expenses. These expenses include investment banking, legal, accounting, and other related third party costs associated with the Merger, including preparation for regulatory filings and shareholder approvals. During the three months ended March 31, 2018, the Company incurred $7.9 million of transaction costs related with the Merger.

4. Other Acquisitions and Joint Ventures

The Company acquired the majority-ownership of two home health agencies Nason Home Health in Roaring Springs, Pennsylvania and 1st Choice Home Health Care in Denton, Texas, during the three months ended March 31, 2018. The total aggregate purchase price for these transactions was $2.9 million, of which $2.8 million was primarily paid in cash. The purchase prices were determined based on the Company’s analysis of comparable acquisitions and the target market’s potential future cash flows.

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 acquisitions were accounted for under the acquisition method of accounting. Accordingly, the accompanying interim financial information includes the results of operations of the acquired entities from the date of acquisition.

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 their fair value at the acquisition dates and the noncontrolling interest acquired during the three months ended March 31, 2018 (amounts in thousands):

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Consideration	
Cash	$2,770
Fair value of total consideration transferred	
Recognized amounts of identifiable assets acquired and liabilities assumed:	
Patient accounts receivable	133
Trade name	376
Certificates of need/licenses	378
Other identifiable intangible assets	91
Other assets and (liabilities), net	(23)
Total identifiable assets	955
Noncontrolling interest	1,815
Goodwill, including noncontrolling interest of $1,396	$3,630

The Company conducted preliminary assessments and recognized provisional amounts in its initial accounting for the acquisitions of majority ownership of three joint venture partnerships for all identified assets in accordance with the requirements of ASC Topic 805. The Company is continuing its review of these matters during the measurement period. If new information about facts and circumstances that existed at the acquisition date is obtained and indicates adjustments are necessary, the acquisition accounting will be revised to adjust to the provisional amounts initially recognized.

During the three months ended March 31, 2018, the Company sold ownership interests in four of its wholly-owned subsidiaries. The total purchase prices for the sale of such ownership interests were $3.3 million, all of which were accounted for as equity transactions, resulting in the Company reducing additional paid in capital by $2.0 million.

5. Goodwill and Intangibles

The changes in recorded goodwill by reporting unit for the three months ended March 31, 2018 were as follows (amounts in thousands):

	Home health reporting unit	Hospice reporting unit	Community - based reporting unit	Facility-based reporting unit	Total
Balance as of December 31, 2017	$261,456	$ 88,814	$ 28,541	$ 13,790	$392,601
Goodwill from acquisitions	2,234	—	—	—	2,234
Goodwill related to noncontrolling interests	1,396	—	—	—	1,396
Goodwill related to prior period adjustments...	—	—	—	411	411
Balance as of March 31, 2018	$265,086	$ 88,814	$ 28,541	$ 14,201	$396,642

Intangible assets consisted of the following as of March 31, 2018 and December 31, 2017 (amounts in thousands):

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	March 31, 2018			
	Remaining useful life	Gross carrying amount	Accumulated amortization	Net carrying amount
Indefinite-lived assets:				
Trade names	Indefinite	$78,795	$ —	$78,795
Certificates of need/licenses	Indefinite	53,579	—	53,579
Total		$132,374	$ —	$132,374
Definite-lived assets:				
Trade names	1 month — 9 years	$10,127	$ (7,917)	$2,210
Non-compete agreements	4 month — 3 years	5,823	(5,565)	258
Total		$15,950	$ (13,482)	$2,468
Balance as of March 31, 2018		$148,324	$ (13,482)	$134,842

	December 31, 2017			
	Remaining useful life	Gross carrying amount	Accumulated amortization	Net carrying amount
Indefinite-lived assets:				
Trade names	Indefinite	$78,299	$ —	$78,299
Certificates of need/licenses	Indefinite	53,493	—	$53,493
Total		$131,792	$ —	$131,792
Definite-lived assets:				
Trade names	4 months — 10 years	$10,127	$ (7,547)	$2,580
Non-compete agreements	2 months — 2 years	5,732	(5,494)	238
Total		$15,859	$ (13,041)	$2,818
Balance as of December 31, 2017		$147,651	$ (13,041)	$134,610

Intangible assets (net of accumulated amortization) in the amount of $88.7 million were related to the home health services segment, $31.9 million were related to the hospice services segment, $9.5 million were related to the community-based services segment, and $4.7 million were related to the facility-based services segment as of March 31, 2018. The Company recorded $0.4 million and $0.6 million of amortization expense during the three months ended March 31, 2018 and 2017, respectively. This was recorded in general and administrative expenses.

6. Debt

Credit Facility

As of March 31, 2018, the Company had $125.0 million drawn and letters of credit in the amount of $10.7 million. At December 31, 2017, the Company had $144.0 million drawn and letters of credit in the amount of $9.6 million. The amounts drawn and letters of credit outstanding were under its credit facility agreement with Capital One, National Association (the "Prior Credit Facility"). The interest rate for borrowing under the Prior Credit Facility is a variable rate which 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. The Base Rate as March 31, 2018 was 5.75% and the LIBOR rate was 3.88%. As of March 31, 2018, the interest rate on outstanding borrowings was 3.85%.

On March 30, 2018, the Company entered into a Credit Agreement with JPMorgan Chase Bank, N.A., which was effective on April 2, 2018 (the "New Credit Agreement"). The New Credit Agreement provides a senior, secured revolving line of credit commitment with a maximum principal borrowing limit of $500.0 million, which includes an additional $200.0 million accordion expansion feature, and a letter of credit sub-limit equal to $50.0 million. The expiration date of the New Credit Agreement is March 30, 2023. The New Credit Agreement replaced the Prior Credit Facility, which was set to mature on June 18, 2019.

Revolving loans under the New Credit Agreement with JPMorgan Chase Bank, N.A. bear interest at, as selected by the Company, either a (a) Base Rate, which is defined as a fluctuating rate per annum equal to the highest of (1) the

Federal Funds

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Rate in effect on such day plus 0.5% (2) the Prime Rate in effect on such day and (3) the Eurodollar Rate for a one month interest period on such day plus 1.5%, plus a margin ranging from 0.50% to 1.25% per annum or (b) Eurodollar rate plus a margin ranging from 1.50% to 2.25% per annum. Swing line loans bear interest at the Base Rate. The Company is limited to 15 Eurodollar borrowings outstanding at the same time. The Company is required to pay a commitment fee for the unused commitments at rates ranging from 0.20% to 0.35% per annum depending upon the Company's consolidated Leverage Ratio, as defined in the New Credit Agreement.

On April 2, 2018, the Company borrowed approximately $247.4 million under the New Credit Agreement to (i) repay the approximately $107.3 million of outstanding borrowings under Almost Family's $350 million credit facility, which had a scheduled maturity of December 2021, (ii) repay the approximately $125.1 million of outstanding borrowings under the Prior Credit Facility and (iii) pay certain debt issuance and repayment costs and Merger related fees and expenses. Following these borrowings, the Company had approximately $252.6 million of remaining borrowing capacity available under the New Credit Agreement.

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 were reserved and 278,564 shares are currently available for issuance pursuant to awards granted under the 2010 Incentive Plan. A variety of discretionary awards for employees, officers, directors, and consultants are authorized under the 2010 Incentive Plan, including incentive or non-qualified statutory stock options and nonvested stock. All awards must be evidenced by a written award certificate which will include the provisions specified by the Compensation Committee of the Board of Directors. The Compensation Committee determines the exercise price for non-statutory stock options. The exercise price for any option cannot be less than the fair market value of the Company's common stock as of the date of grant.

Share Based Compensation

Nonvested Stock

During the three months ended March 31, 2018, the Company's independent directors were granted 13,600 nonvested shares of common stock under the Second Amended and Restated 2005 Non-Employee Directors Compensation Plan. The shares were drawn from the 1,500,000 shares of common stock reserved for issuance under the 2010 Incentive Plan. The shares vest 100% on the one year anniversary date. During the three months ended March 31, 2018, employees were granted 156,345 nonvested shares of common stock pursuant to the 2010 Incentive Plan. The shares vest over a period of five years, conditioned on continued employment. 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 three months ended March 31, 2018 was $61.07.

The following table represents the nonvested stock activity for the three months ended March 31, 2018:

	Number of shares	Weighted average grant date fair value
Nonvested shares outstanding as of December 31, 2017	529,465	$ 37.34
Granted	169,945	$ 61.07
Vested	(165,567)	$ 33.91
Nonvested shares outstanding as of March 31,2018	533,843	$ 45.96

As of March 31, 2018, there was $21.4 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 3.43 years. The total fair value of shares of common stock vested during the three months ended March 31, 2018 was $5.6 million. 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 $1.6 million of compensation expense related to nonvested stock grants for each of the three months ended March 31, 2018 and 2017.

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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. In 2013, the Company adopted the Amended and Restated Employee Stock Purchase Plan, which reserved an additional 250,000 shares of common stock to the plan.

The table below details the shares of common stock issued during 2018:

	Number of shares	Per share price
Shares available as of December 31, 2017	171,069	
Shares issued during the three months ended March 31, 2018	5,534	$ 58.19
Shares available as of March 31, 2018	165,535	

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 three months ended March 31, 2018, the Company redeemed 56,772 shares of common stock valued at $3.5 million, related to these tax obligations.

8. Commitments and Contingencies

Contingencies

The Company provides services in a highly regulated industry and is a party to various proceedings and regulatory and other governmental and internal audits and investigations in the ordinary course of business (including audits by Zone Program Integrity Contractors ("ZPICs") and Recovery Audit Contractors ("RACs") and investigations resulting from the Company's obligation to self-report suspected violations of law). Management cannot predict the ultimate outcome of any regulatory and other governmental and internal audits and investigations. While such audits and investigations are the subject of administrative appeals, the appeals process, even if successful, may take several years to resolve. The Department of Justice, CMS, or other federal and state enforcement and regulatory agencies may conduct additional investigations related to the Company's businesses in the future. These audits and investigations have caused and could potentially continue to cause delays in collections, recoupments from governmental payors. Currently, the Company has recorded $16.9 million in other assets, which are from government payors related to the disputed finding of pending ZPIC audits. Additionally, these audits may subject the Company to sanctions, damages, extrapolation of damage findings, additional recoupments, fines, and other penalties (some of which may not be covered by insurance), which may, either individually or in the aggregate, have a material adverse effect on the Company's business and financial condition.

On January 18, 2018, Jordan Rosenblatt, a purported shareholder of Almost Family, Inc. (“Almost Family”) filed a complaint for Violations of the Securities Exchange Act of 1934 in the United States District Court for the Western District of Kentucky, styled Rosenblatt v. Almost Family, Inc., et al., Case No. 3:18-cv-40-TBR (the “Rosenblatt Action”). The Rosenblatt Action was filed against the Company, Almost Family, Almost Family’s board of directors, and Hammer Merger Sub. The complaint in the Rosenblatt Action (“Complaint”) asserts that the Form S-4 Registration Statement (“Registration Statement”) filed on December 21, 2017 contains false and misleading statements with respect to the Merger. The Complaint asserts claims against Almost Family and its board of directors for violations of Section 14(a) of the 1934 Act in connection with the dissemination of the Registration Statement, and asserts claims against the Almost Family board of directors and the Company for violations of Section 20(a) of the 1934 Act as controlling persons of Almost Family. The Rosenblatt Action sought, among other things, an injunction enjoining the Merger from closing and an award of attorneys’ fees and costs.

In addition to the Rosenblatt Action, two additional complaints were filed against Almost Family in the United States District Court for the District of Delaware (the "Delaware Actions") alleging similar violations as the Rosenblatt Action. While the Company is not named as a party in either of these additional complaints, these additional complaints also sought, among other things, an injunction enjoining both the vote of the Almost Family stockholders with respect to the Merger and the closing of the Merger, monetary damages and an award of attorneys’ fees and costs from Almost Family.

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On February 22, 2018, plaintiffs in the Delaware Actions moved for a preliminary injunction to enjoin the merger of Almost Family and Merger Sub. Then, on March 2, 2018, the Delaware Actions were transferred to the United States District Court for the Western District of Kentucky. Shortly thereafter, on March 12, 2018, Almost Family, LHC and Merger Sub opposed the plaintiffs' motion for a preliminary injunction, and the court heard oral argument on the plaintiffs' motion for a preliminary injunction on March 19, 2018. On March 22, 2018, the court denied plaintiffs' motion for preliminary injunction. The next day, on March 23, 2018, one of the plaintiffs in the Delaware Actions moved to consolidate the Delaware Actions with the Rosenblatt action and for the appointment of a lead plaintiff, and that motion is pending before the court.

We believe that the claims asserted in these lawsuits are entirely without merit and intend to defend these lawsuits vigorously.

We are involved in various legal proceedings arising in the ordinary course of business. Although the results of litigation cannot be predicted with certainty, we believe the outcome of pending litigation will not have a material adverse affect, after considering the effect of our insurance coverage, on our consolidated financial information.

Joint Venture Buy/Sell Provisions

Most of the Company's joint ventures include a buy/sell option that grants to the Company and its joint venture partners the right to require the other 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. The Company has not received notice from any joint venture partners of their intent to exercise the terms of the buy/sell agreement nor has the Company notified any joint venture partners of its intent to exercise the terms of the buy/sell agreement.

Compliance

The 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

The Company classifies noncontrolling interests of its joint venture parties based upon a review of the legal provisions governing the redemption of such interests. In each of the Company's joint ventures, those provisions are embodied within the joint venture's operating agreement. For joint ventures with operating agreement provisions that establish an obligation for the Company to purchase the third party partners' noncontrolling interests other than as a result of events that lead to a liquidation of the joint venture, such noncontrolling interests are classified as redeemable noncontrolling interests in temporary equity. For joint ventures with operating agreement provisions that establish an obligation that the Company purchase the third party partners' noncontrolling interests, but which obligation is triggered by events that lead to a liquidation of the joint venture, such noncontrolling interests are classified as nonredeemable noncontrolling interests in permanent equity. Additionally, for joint ventures with operating agreement provisions that do not establish an obligation for the Company to purchase the third party partners’ noncontrolling interests (e.g., where the Company has the option, but not the obligation, to purchase the third party partners’ noncontrolling interests), such noncontrolling interests are classified as nonredeemable noncontrolling interests in permanent equity. The Company’s equity joint ventures that are classified as redeemable noncontrolling interests are subject to operating agreement provisions that require the Company to purchase the noncontrolling partner’s interest upon the occurrence of certain

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triggering events, which are defined as the 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 redeemable equity joint venture, since the triggering of a repurchase obligation for any one redeemable noncontrolling interest in an equity joint venture does not necessarily impact any of the other redeemable noncontrolling interests in other equity joint ventures. Upon the occurrence of a triggering event requiring the purchase of a redeemable noncontrolling interest, the Company would be required to purchase the noncontrolling partner's interest based upon a valuation methodology set forth in the applicable joint venture agreement.

Redeemable noncontrolling interests and nonredeemable noncontrolling interests are initially recorded at their fair value as of the closing date of the transaction establishing the joint venture. Such fair values are determined using various accepted valuation methods, including the income approach, the market approach, the cost approach, and a combination of one or more of these approaches. A number of facts and circumstances concerning the operation of the joint venture are evaluated for each transaction, including (but not limited to) the ability to choose management, control over acquiring or liquidating assets, and controlling the joint venture's strategy and direction, in order to determine the fair value of the noncontrolling interest.

Based upon the Company's evaluation of the redemption provisions concerning redeemable noncontrolling interests as of March 31, 2018, the Company determined in accordance with authoritative accounting guidance that it was not probable that an event otherwise requiring redemption of any redeemable noncontrolling interest would occur (i.e., the date for such event was not set or such event is not certain to occur). Therefore, none of the redeemable noncontrolling interests were identified as mandatorily redeemable interests at such times, and the Company did not record any values in respect of any mandatorily redeemable interests.

Subsequent to the closing date of the transaction establishing the joint venture, the Company records adjustments to the carrying amounts of noncontrolling interests during each reporting period to reflect (a) comprehensive income (loss) attributed to each noncontrolling interest, which is calculated by multiplying the noncontrolling interest percentage by the comprehensive income (loss) of the joint venture's operations, (b) dividends paid to the noncontrolling interest partner, and (c) any other transactions that increase or decrease the Company's ownership interest in each joint venture, as a result of which the Company retains its controlling interest. If the Company determines that, based upon its analysis as of the end of each reporting period in accordance with authoritative accounting guidance, that it is not probable that an event would occur to otherwise require the redemption of a redeemable noncontrolling interest (i.e., the date for such event is not set or such event is not certain to occur), then the Company does not adjust the recorded amount of such redeemable noncontrolling interest.

The carrying amount of each redeemable equity instrument presented in temporary equity for the three months ended March 31, 2018 is not less than the initial amount reported for each instrument. The following table summarizes the activity of noncontrolling interest-redeemable for the three months ended March 31, 2018 (amounts in thousands):

Balance as of December 31, 2017	$13,393
Net income attributable to noncontrolling interest-redeemable	2,386
Noncontrolling interest-redeemable distributions	(2,471)
Acquired noncontrolling interest-redeemable	580
Balance as of March 31, 2018	$13,888

10. Fair Value of Financial Instruments

The carrying amounts of the Company's cash, receivables, accounts payable and accrued liabilities approximate their fair values because of their short maturity. The estimated fair value of intangible assets acquired was calculated using level 3 inputs based on the present value of anticipated future benefits. For the three