

LHC Group, Inc
Form 10-Q
November 01, 2018
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 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 (I.R.S. Employer
incorporation or organization) 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 No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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

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 Accelerated filer

Non-accelerated filer Smaller reporting company

Emerging growth company

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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. "

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 October 30, 2018: 31,373,967 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)

	September 30, 2018 (Unaudited)	December 31, 2017
ASSETS		
Current assets:		
Cash	\$56,973	\$2,849
Receivables:		
Patient accounts receivable	258,254	161,898
Other receivables	9,929	3,163
Amounts due from governmental entities	830	830
Total receivables	269,013	165,891
Prepaid income taxes	—	7,006
Prepaid expenses	23,058	13,042
Other current assets	18,139	12,177
Total current assets	367,183	200,965
Property, building and equipment, net of accumulated depreciation of \$52,804 and \$43,565, respectively	66,315	46,453
Goodwill	1,152,232	392,601
Intangible assets, net of accumulated amortization of \$14,789 and \$13,041, respectively	301,411	134,610
Assets held for sale	2,850	—
Other assets	20,773	19,073
Total assets	\$1,910,764	\$793,702
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and other accrued liabilities	\$63,741	\$39,750
Salaries, wages, and benefits payable	113,430	44,747
Self-insurance reserve	33,456	12,450
Income tax payable	877	—
Current portion of long-term debt	12,552	286
Amounts due to governmental entities	4,508	5,019
Total current liabilities	228,564	102,252
Deferred income taxes	25,184	27,466
Income taxes payable	2,596	—
Revolving credit facility	242,000	144,000
Long term notes payable	989	—
Total liabilities	499,333	273,718
Noncontrolling interest — redeemable	14,737	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; 60,000,000 and 40,000,000 shares authorized in 2018 and 2017, respectively; 35,632,076 and 22,640,046 shares issued in 2018 and 2017, respectively	356	226
Treasury stock — 4,958,423 and 4,890,504 shares at cost, respectively	(48,968) (42,249)

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Additional paid-in capital	935,158	126,490
Retained earnings	407,423	364,401
Total LHC Group, Inc. stockholders' equity	1,293,969	448,868
Noncontrolling interest — non-redeemable	102,725	57,723
Total equity	1,396,694	506,591
Total liabilities and equity	\$1,910,764	\$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		Nine Months Ended	
	September 30,		September 30,	
	2018	2017	2018	2017
Net service revenue	\$507,043	\$269,678	\$1,300,121	\$771,462
Cost of service revenue	322,196	172,856	831,818	488,384
Gross margin	184,847	96,822	468,303	283,078
General and administrative expenses	149,917	75,492	391,940	221,054
Operating income	34,930	21,330	76,363	62,024
Interest expense	(3,264)	(995)	(7,916)	(2,615)
Income before income taxes and noncontrolling interest	31,666	20,335	68,447	59,409
Income tax expense	6,685	7,445	14,832	20,410
Net income	24,981	12,890	53,615	38,999
Less net income attributable to noncontrolling interests	3,751	1,984	10,593	7,321
Net income attributable to LHC Group, Inc.'s common stockholders	\$21,230	\$10,906	\$43,022	\$31,678
Earnings per share attributable to LHC Group, Inc.'s common stockholders:				
Basic	\$0.69	\$0.61	\$1.63	\$1.79
Diluted	\$0.68	\$0.61	\$1.61	\$1.77
Weighted average shares outstanding:				
Basic	30,750,227	17,740,818	26,393,337	17,704,561
Diluted	31,083,815	18,010,522	26,640,774	17,931,700

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	Shares	Treasury Amount	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)	—	—	—	—	—	43,022	3,308	46,330
Acquired noncontrolling interest	—	—	—	—	—	—	38,145	38,145
Noncontrolling interest distributions	—	—	—	—	—	—	(1,663)	(1,663)
NCI acquired, net of sales	—	—	—	—	5,041	—	5,212	10,253
Nonvested stock compensation	—	—	—	—	7,336	—	—	7,336
Restricted stock vesting	2	211,355	—	—	(2)	—	—	—
Treasury shares redeemed to pay income tax	—	—	(6,719)	(67,919)	—	—	—	(6,719)
Merger consideration	127	12,765,288	—	—	795,278	—	—	795,405
Issuance of common stock under Employee Stock Purchase Plan	1	15,387	—	—	1,015	—	—	1,016
Balance as of September 30, 2018	\$ 356	35,632,076	\$(48,968)	(4,958,423)	\$ 935,158	\$ 407,423	\$ 102,725	\$ 1,396,694

(1) Net income excludes net income attributable to noncontrolling interest-redeemable of \$7.3 million during the nine months ending September 30, 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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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in thousands)

(Unaudited)

	Nine Months Ended September 30,	
	2018	2017
Operating activities:		
Net income	\$53,615	\$38,999
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization expense	11,986	9,680
Stock-based compensation expense	7,336	4,522
Deferred income taxes	2,915	6,245
(Loss) gain on disposal of assets	4	(23)
Impairment of intangibles and other	1,123	81
Changes in operating assets and liabilities, net of acquisitions:		
Receivables	(5,693)	(11,331)
Prepaid expenses and other assets	(7,489)	(3,859)
Prepaid income taxes	9,710	(4,879)
Accounts payable and accrued expenses	13,862	26,038
Income taxes payable	(313)	(3,499)
Net amounts due to/from governmental entities	(722)	(279)
Net cash provided by operating activities	86,334	61,695
Investing activities:		
Purchases of property, building and equipment	(18,889)	(7,944)
Cash acquired from business combination, net of cash paid	9,070	(61,247)
Net cash used in investing activities	(9,819)	(69,191)
Financing activities:		
Proceeds from line of credit	292,084	63,000
Payments on line of credit	(300,884)	(31,000)
Proceeds from employee stock purchase plan	1,015	776
Payments on debt	(196)	(192)
Payments on deferred financing fees	(1,881)	—
Noncontrolling interest distributions	(8,720)	(8,406)
Withholding taxes paid on stock-based compensation	(6,719)	(3,091)
Purchase of additional controlling interest	(412)	(184)
Sale of noncontrolling interest	3,322	251
Net cash provided by (used in) financing activities	(22,391)	21,154
Change in cash	54,124	13,658
Cash at beginning of period	2,849	3,264
Cash at end of period	\$56,973	\$16,922
Supplemental disclosures of cash flow information:		
Interest paid	\$6,127	\$2,694
Income taxes paid	\$2,929	\$22,376

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, home and community-based services, facility-based services, the latter primarily through long-term acute care hospitals ("LTACHs"), and healthcare innovations services ("HCI").

On April 1, 2018, the Company completed its previously announced "merger of equals" business combination (the "Merger") with Almost Family, Inc. ("Almost Family"). See Note 3 of the Notes to Condensed Consolidated Financial Statements.

As of September 30, 2018, the Company, through its wholly- and majority-owned subsidiaries, equity joint ventures, controlled affiliates, and management agreements (including, as a result of the Merger, those owned and operated by Almost Family), operated 771 service locations in 36 states within the continental United States.

Unaudited Interim Financial Information

The accompanying unaudited condensed consolidated balance sheets as of September 30, 2018 and December 31, 2017, and the related unaudited condensed consolidated statements of income for the three and nine months ended September 30, 2018 and 2017, condensed consolidated statement of changes in equity for the nine months ended September 30, 2018, condensed consolidated statements of cash flows for the nine months ended September 30, 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 and nine months ended September 30, 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. The accompanying unaudited condensed consolidated statements of income for the three and nine months ended September 30, 2018, include the results of operations for Almost Family for the period April 1, 2018 to September 30, 2018. The accompanying unaudited condensed consolidated balance sheet at September 30, 2018 includes the preliminary valuation of the assets acquired and liabilities assumed in connection with the Merger. See Note 3 of the Notes to Condensed Consolidated Financial Statements.

Reclassification

Certain acquired employee salaries that were previously classified in costs of service revenue for the second quarter of 2018 were reclassified into general and administrative expenses for the three and nine months ended September 30, 2018 to align with the Company's historical presentation of such job functions as employee roles were clarified during the payroll integration process.

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

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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 (including, as a result of the Merger, those owned and operated by Almost Family). 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:

Ownership type	Three Months		Nine Months	
	Ended		Ended	
	September 30,		September 30,	
	2018	2017	2018	2017
Wholly-owned subsidiaries	59.5 %	50.6 %	57.5 %	52.1 %
Equity joint ventures	39.5	47.5	41.3	46.1
Other	1.0	1.9	1.2	1.8
	100.0%	100.0%	100.0%	100.0%

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

The 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 only consolidates these agencies if the Company has an ownership interest and an obligation to absorb the majority of losses, or right to receive the majority of the 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 were reclassified within the Company's net service revenue. For the three and nine months ended September 30, 2018, the Company recorded \$7.1 million and \$19.7 million, respectively, 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.

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

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	As previously reported As of December 31, 2017	Adjustment for ASU 2014-09	As adjusted
Condensed Consolidated Balance Sheets			
Patient accounts receivable	\$ 161,898	\$ —	\$ 161,898
Allowance for uncollectible accounts	23,556	(23,556)	—
	Three Months Ended September 30, 2017		
Condensed Consolidated Statements of Income:			
Net service revenue	272,872	(3,194)	269,678
Provision for bad debts	3,194	(3,194)	—
Net income attributable to LHC Group, Inc.'s common stockholders	10,906	—	10,906
	Nine Months Ended September 30, 2017		
Condensed Consolidated Statements of Income:			
Net service revenue	779,700	(8,238)	771,462
Provision for bad debts	8,238	(8,238)	—
Net income attributable to LHC Group, Inc.'s common stockholders	31,678	—	31,678
Condensed Consolidated Statements of Cash Flows:			
Provision for bad debts	8,238	(8,238)	—
Changes in operating assets and liabilities, net of acquisitions:			
Receivables	(19,569)	8,238	(11,331)

Net service revenue equals the consideration the Company expects to receive in exchange for providing services. Such consideration is due from Medicare, Medicaid, Managed Care, Commercial customers, and others for services rendered, and includes, among other things, implicit price concessions for retroactive revenue adjustments due to actual payments 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, hospice, facility-based, and healthcare innovations services. Medicaid and other payors contribute to the net service revenue of all of the Company's segments.

Performance obligations are determined based on the nature of the services provided by the Company. The majority of 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, while the healthcare innovations segment's performance obligation is largely to provide services under customer contracts. Further detail by segment is outlined below. 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 and customers over the term of the contract to satisfy the obligations. The Company measures the satisfaction of the performance obligation as services are provided.

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 for the majority of its performance obligations 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.

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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, 2018 and 2017:

	Three Months Ended September 30, 2018		Nine Months Ended September 30, 2017	
Home health:				
Medicare	72.0 %	72.5 %	72.2 %	72.8 %
Medicaid	1.2	1.1	1.3	1.2
Managed Care, Commercial, and Other	26.8	26.4	26.5	26.0
	100.0%	100.0%	100.0%	100.0%
Hospice:				
Medicare	88.4 %	92.1 %	90.5 %	93.0 %
Medicaid	1.0	—	0.7	0.4
Managed Care, Commercial, and Other	10.6	7.9	8.8	6.6
	100.0%	100.0%	100.0%	100.0%
Home and Community-Based Services:				
Medicaid	23.8 %	22.3 %	23.4 %	19.1 %
Managed Care, Commercial, and Other	76.2	77.7	76.6	80.9
	100.0%	100.0%	100.0%	100.0%
Facility-Based Services:				
Medicare	56.7 %	63.2 %	59.9 %	64.0 %
Managed Care, Commercial, and Other	43.3	36.8	40.1	36.0
	100.0%	100.0%	100.0%	100.0%
HCI:				
Medicare	16.8 %	— %	21.1 %	— %
Medicaid	0.2	—	0.3	—
Managed Care, Commercial, and Other	83.0	—	78.6	—
	100.0%	— %	100.0%	— %

Medicare

Home Health Services

The home health segment's Medicare patients, including certain Medicare Advantage 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. 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

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The Company's hospice services segment is reimbursed by Medicare under a per diem payment system based on the determined need for the patient on a daily basis. The hospice segment 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.

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's facility-based services segment is reimbursed primarily by Medicare for services provided under the LTACH prospective payment system. Each LTACH 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 LTACH patient classified in that particular long-term care diagnosis-related group. For selected LTACH 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 LTACH 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 LTACH services cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustments is subsequently resolved. Net service 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.

Non-Medicare Revenues

Substantially all remaining revenues are derived from services provided under a per visit, per hour or unit basis, per assessment or per member per month basis for which revenues are calculated and recorded using payor-specific or patient-specific fee schedules based on the contracted rates in each underlying third party payor or services agreement. Net service revenue is recognized as such services are provided and costs for delivery of such services are incurred.

Contingent Service Revenues

The Company's Healthcare Innovations segment provides strategic health management services to Accountable Care Organizations ("ACOs") that have been approved to participate in the Medicare Shared Savings Program ("MSSP.") The HCI segment has service agreements with ACOs that provide for sharing of MSSP payments received by the ACO, if any. ACOs are legal entities that contract with Centers for Medicare and Medicaid Services ("CMS") to provide services to the Medicare fee-for-service population for a specified annual period with the goal of providing better care for individuals, improving health for populations and lowering costs. ACOs share savings with CMS to the extent that the actual costs of serving assigned beneficiaries are below certain trended benchmarks of such beneficiaries and certain quality performance measures are achieved. The generation of shared savings is the performance obligation of each ACO, which only become certain upon the final issuance of unembargoed calculations by CMS, generally in the third quarter of each year. During the three months ended September 30, 2018, the HCI segment recorded net service

revenue of \$3.7 million related to the 2017 ACO service periods, as certain ACO's served by the HCI segment received unembargoed calculations from CMS confirming the performance obligation had been met. As of September 30, 2018, no net service revenue was recognized related to potential MSSP payments for savings generated for the program periods that will end December 31, 2018, if any, as it remains unclear as to if performance obligation has been met by any ACO's served by the HCI segment.

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Accounts Receivable

The Company reports accounts receivable at amounts ultimately expected to be collected. 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 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 and, with respect to the data provided for the three and nine months ended September 30, 2018, includes shares of the Company issued to former stockholders of Almost Family in connection with the Merger. See Note 3 of the Notes to Condensed Consolidated Financial Statements:

	Three Months Ended September 30, 2018		Nine Months Ended September 30, 2018	
	2017	2018	2017	2018
Weighted average number of shares outstanding for basic per share calculation	17,740,818	30,750,227	17,704,561	26,393,337
Effect of dilutive potential shares:				
Nonvested stock	269,704	333,588	227,139	247,437
Adjusted weighted average shares for diluted per share calculation	18,010,522	31,083,815	17,931,700	26,640,774
Anti-dilutive shares	—	16,470	137,400	58,192

Effective April 1, 2018, in conjunction with the Merger, the Company increased the authorized number of common shares to 60.0 million.

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Assets Held for Sale

As of September 30, 2018, assets held for sale includes the land and building and all related equipment and fixtures of one closed hospice facility, which was acquired in the Merger that the Company is actively marketing and intends to sell.

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 2017-01, 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 periods in fiscal years beginning after December 15, 2017. The impact on the Company's consolidated financial statements and related disclosures will depend on facts and circumstances of any specific future transactions as evaluated under the new guidance.

Recently Issued Accounting Pronouncements

In February 2016, the FASB issued ASU No. 2016-02, Leases, ("ASU 2016-02") which requires lessees to recognize leases with terms exceeding 12 months on the Company's Condensed Consolidated Balance Sheet. Qualifying leases will be classified as finance or operating right-of-use ("ROU") assets and lease liabilities. The new standard is effective on January 1, 2019. Early adoption is permitted. ASU 2016-02 provides a number of optional practical expedients in transition. The Company expects: i) to elect the 'package of practical expedients', which permits us not to reassess under the new standard our prior conclusions about lease identification, lease classification and initial direct costs, ii) not to elect the use-of-hindsight or the practical expedient pertaining to land easements; the latter not being applicable to us, iii) to elect all of the new standard's available transition practical expedients. The Company expects this standard to have a significant increase in total assets and total liabilities. While the Company continues to assess all of the effects of adoption, the most significant effects relate to the recognition of ROU assets and lease liabilities on our balance sheet for our operating leased office space and copiers for locations in each segment. The Company continues to evaluate the impact of new disclosures about our leasing activities required under ASU-2016-02; and further, does not expect a significant change in its leasing activities between now and adoption. ASU 2016-02 also provides practical expedients for an entity's ongoing accounting. The Company currently expects to elect the short-term lease recognition exemption for certain medical devices and storage space leases that qualify, which means it will not recognize ROU assets or lease liabilities, including not recognizing ROU assets or lease liabilities for existing short-term leases of those assets in transition.

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.

3. Almost Family Merger

On April 1, 2018, the Company completed its previously announced merger of equals business combination with Almost Family as contemplated by that certain Agreement and Plan of Merger, dated as of November 15, 2017 by merging Hammer Merger Sub, Inc., a wholly owned subsidiary of the Company (“Merger Sub”), with and into Almost Family, 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, 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

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receive. As a result, the Company issued approximately 12.8 million shares of its common stock to former stockholders of Almost Family. The Company was determined to be the accounting acquirer in the Merger. The following table summarizes the consideration transferred in connection with the Merger (amounts in thousands, except share data):

Outstanding shares of Almost Family common stock as of April 1, 2018	13,951,134
Exchange ratio	0.9150
Shares of the Company issued	12,765,288
Price per share as of April 1, 2018	\$ 61.56
Fair value of the Company common stock issued	\$ 785,831
Fair value of vested Almost Family equity awards exchanged for equity awards in the Company	\$ 9,581
Preliminary merger consideration	\$ 795,412

The Company's preliminary valuation analysis of identifiable assets and liabilities assumed for the Merger is in accordance with the requirements of ASC Topic 805, Business Combinations, the preliminary estimates of which are presented in the table below (amounts in thousands). 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 assess the fair values of assets acquired and liabilities assumed.

Preliminary merger consideration	
Stock	\$ 795,412
Preliminary fair value of total consideration transferred	
Recognized amounts of identifiable assets acquired and liabilities assumed:	
Cash and cash equivalents	\$ 16,547
Patient accounts receivable	95,185
Prepaid income taxes	2,705
Prepaid expenses and other current assets	9,466
Property and equipment	11,144
Trade name	76,090
Certificates of need/licenses	77,975
Customer relationships	13,970
Assets held for sale	2,850
Deferred income taxes	5,197
Accounts payable	(37,014)
Accrued other liabilities	(62,397)
Seller notes payable	(13,571)
NCI- Redeemable	(8,034)
Long term income taxes payable	(3,786)
Line of credit	(106,800)
NCI- Nonredeemable	(34,969)
Other assets and (liabilities), net	98
Total identifiable assets and liabilities	44,656
Preliminary goodwill	\$ 750,756

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. Trade names are valued using the relief from royalty method, a form of the income approach. Certificates of needs are valued using the replacement cost approach based on registration fees and opportunity costs. Licenses are valued based on the

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estimated direct costs associated with recreating the asset, including opportunity costs based on an income approach. In the case of states with a moratorium in place, the licenses are valued using the multi period excess earnings method. The other identifiable assets include customer relationships that are amortized over 20 years. Customer relationships was valued using the multi period excess earnings method. Noncontrolling interest is valued at fair value.

The following unaudited pro forma financial information reflects the consolidated results of operations of the Company had the Merger occurred on January 1, 2017. Almost Family's financial information has been compiled in a manner consistent with the accounting policies adopted by LHC Group. The unaudited pro forma financial information has been prepared for comparative purposes and does not purport to be indicative of what would have occurred had the Merger occurred on January 1, 2017, nor are they indicative of any future results (amounts in thousands, except per share amount).

	Pro forma - unaudited			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net service revenue	\$507,043	\$460,284	\$1,504,087	\$1,357,111
Net income attributable to the Company	21,230	14,076	58,882	43,257
Diluted earnings per share	\$0.68	\$0.84	\$1.89	\$1.39

The pro forma financial information contained in this report, including the above, is based on the Company's preliminary assignment of consideration given and therefore subject to adjustment. These pro forma amounts were calculated after applying the Company's accounting policies and adjusting Almost Family's and LHC Group's results to reflect adjustments that are directly attributable to the Merger. These adjustments mainly exclude transaction costs incurred by Almost Family and LHC Group in the fiscal quarter preceding the consummation of the Merger, together with the consequential tax effects at the statutory rate.

The unaudited pro forma financial information contained in this report, including the above, has been prepared for informational purposes only and does not include any anticipated synergies or other potential benefits of the Merger. Pro forma information is not presented for any other acquisitions or joint venture transactions, as the aggregate operations of the acquired businesses were not significant to the overall operations of the Company. It also does not give effect to certain future charges that the Company expects to incur in connection with the Merger, including, but not limited to, additional professional fees, legal expenses, severance, retention and other employee-related costs, contract breakage costs, and costs related to consolidation of technology systems and corporate facilities.

Transaction costs associated with the Merger that were incurred by the Company during the nine months ended September 30, 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 third party transaction costs associated with the Merger, including preparation for regulatory filings and shareholder approvals. During the nine months ended September 30, 2018, the Company incurred \$27.1 million of transaction, transition, and integration costs related to the Merger.

4. Other Acquisitions and Joint Venture Activities

The Company acquired the majority-ownership of five home health agencies and one hospice agency during the nine months ended September 30, 2018. The total aggregate purchase price for these transactions was \$7.8 million, of which \$7.5 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. Substantially all of the preliminary allocation of the purchase price for the acquisitions were allocated to goodwill of \$8.8 million, indefinite lived intangibles-trade names of \$1.3 million, and Certificates of need/licenses of \$1.1 million. Acquired noncontrolling interest was \$3.8 million.

Goodwill generated from the acquisitions was recognized based on the expected contributions of each acquisition to the overall corporate strategy. The Company expects its portion of goodwill to be fully tax deductible. The

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.

During the nine months ended September 30, 2018, the Company sold ownership interests in four of its wholly-owned subsidiaries. The total sales prices of such ownership interests were \$3.8 million, all of which were accounted for as equity transactions, resulting in the Company reducing additional paid in capital by \$2.7 million.

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During the nine months ended September 30, 2018, the Company purchased additional ownership interests in two of its equity joint venture subsidiaries. The total consideration for the purchase of such ownership interests was \$8.1 million, of which \$7.7 million was paid in shares of the Company's common stock. These transactions were accounted for as equity transactions, resulting in the Company increasing additional paid in capital by \$7.7 million.

5. Goodwill and Intangibles

The changes in recorded goodwill by reporting unit for the nine months ended September 30, 2018 were as follows (amounts in thousands):

	Home health reporting unit	Hospice reporting unit	Home and community-based services reporting unit	Facility-based reporting unit	HCI reporting unit	Total
Balance as of December 31, 2017	\$261,456	\$88,814	\$ 28,541	\$ 13,790	\$—	\$392,601
Acquisitions	543,337	27,888	142,734	—	42,817	756,776
Noncontrolling interests	2,314	506	—	—	—	2,820
Adjustments and disposals.....	(369)	—	—	404	—	35
Balance as of September 30, 2018	\$806,738	\$117,208	\$ 171,275	\$ 14,194	\$42,817	\$1,152,232

The allocation of goodwill from acquisitions for each reporting unit is preliminary and subject to change once the valuation analysis required by ASC 805, Business Combinations is finalized. The Company recorded \$1.1 million of disposal of goodwill and intangible assets during the nine months ended September 30, 2018 due to the closure of underperforming locations. Such costs were recorded in general and administrative expenses.

Intangible assets consisted of the following as of September 30, 2018 and December 31, 2017 (amounts in thousands):

	Indefinite lived assets		Definite lived assets			Total
	Trade Names	Certificates of Need	Trade Names	Customer Relationships	Non-compete	
Balance as of December 31, 2017	\$78,299	\$53,493	\$2,580	\$ —	\$ 238	\$134,610
Acquisitions	77,463	78,785	—	13,970	178	170,396
Amortization	—	—	(1,103)	(457)	(188)	(1,748)
Adjustments & disposals	—	(1,847)	—	—	—	(1,847)
Balance as of September 30, 2018	\$155,762	\$130,431	\$1,477	\$ 13,513	\$ 228	\$301,411

Remaining useful lives for trade names, customer relationships, and non-compete agreements were 9.1, 19.5 and 3.0 years, respectively, at September 30, 2018. Similar amounts at December 31, 2017 were 10.3 and 2.1 years for trade names and non-compete agreements, respectively.

Intangible assets (net of accumulated amortization) in the amount of \$217.3 million were related to the home health services segment, \$37.0 million were related to the hospice services segment, \$24.0 million were related to the home and community-based services segment, \$4.1 million were related to the facility-based services segment, and \$19.0 million were related to the HCI services segment as of September 30, 2018. Amortization expense was recorded in general and administrative expenses.

6. Debt

Credit Facility

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During the period from January 1, 2018 through April 1, 2018, the Company maintained its revolving line of credit through a credit facility agreement with Capital One, National Association, which had a scheduled maturity of June 18, 2019 (the "Prior Credit Facility").

On March 30, 2018, the Company entered into a Credit Agreement with JPMorgan Chase Bank, N.A., which was effective on April 2, 2018 following the Merger (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 with Capital One, National Association, which was set to mature on June 18, 2019. The Company's obligations under the New Credit Agreement are secured by substantially all of the assets of the Company and its wholly-owned subsidiaries (subject to customary exclusions), which assets include the Company's equity ownership of its wholly-owned subsidiaries and its equity ownership in joint venture entities. The Company's wholly-owned subsidiaries also guarantee the obligations of the Company under the New Credit Agreement. Debt issuance costs of \$1.9 million were capitalized with the New Credit Agreement and will be amortized through March 30, 2023, the termination date for the New Credit Agreement.

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 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, with pricing varying based on the Company's quarterly consolidated Leverage Ratio (as defined in the New Credit Agreement). Swing line loans bear interest at the Base Rate. The Company is limited to 15 Eurodollar borrowings outstanding at any 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 quarterly consolidated Leverage Ratio. The Base Rate as of September 30, 2018 was 5.75% and the LIBOR rate was 3.88%. As of September 30, 2018, the effective interest rate on outstanding borrowings under the New Credit Agreement was 3.85%.

On April 2, 2018, in connection with the consummation of the Merger, 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 \$350.0 million credit facility, which was terminated in connection with the Merger, (ii) repay the approximately \$125.1 million of outstanding borrowings under Prior Credit Facility, which was also terminated in connection with the Merger, and (iii) pay certain debt issuance and repayment costs and Merger related fees and expenses.

As of September 30, 2018, the Company had \$242.0 million drawn, letters of credit issued in the amount of \$25.9 million, and \$232.1 million of remaining borrowing capacity available under the New Credit Agreement. At December 31, 2017, the Company had \$144.0 million drawn and letters of credit issued in the amount of \$9.6 million under the Prior Credit Facility.

Under the terms of the New Credit Agreement, the Company is required to maintain certain financial ratios and comply with certain financial covenants. The new Credit Agreement permits the Company to make certain restricted payments, such as purchasing shares of its stock, within certain parameters, provided the Company maintains compliance with those financial ratios and covenants after giving effect to such restricted payments. The Company was in compliance with debt covenants at September 30, 2018.

7. Stockholder's Equity

Equity Based Awards

At the LHC Group, Inc. 2018 Annual Meeting of Stockholders held on June 7, 2018, the stockholders of the Company approved the adoption of the LHC Group, Inc. 2018 Incentive Plan (the "2018 Incentive Plan") to replace the Company's 2010 Long Term Incentive Plan. The 2018 Incentive Plan will be administered by the Compensation Committee of the Company's Board of Directors. The total number of shares of the Company's common stock originally reserved and available for issuance pursuant to awards granted under the 2018 Incentive Plan was 2,000,000, plus an additional number of shares (not to exceed 300,000) underlying stock awards granted under the

Company's 2010 Long-Term Incentive Plan (the "Prior Plan") that terminated, expired, or forfeited. As of June 7, 2018, there were 2,210,544 shares of our common stock reserved for future awards, under the 2018 Incentive Plan. A total of 2,194,074 shares are available for issuance as of September 30, 2018. A variety of discretionary awards for employees, officers, directors, and consultants are authorized under the 2018 Incentive Plan, including incentive or non-qualified stock options and restricted stock, restricted stock units and performance-based awards. 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 stock options, which cannot be less than the fair market value of the Company's common stock as of the date of grant.

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Almost Family had Stock and Incentive Compensation Plans that provided for stock awards of the Company's common stock to employees, non-employee directors, or independent contractors. Almost Family issued restricted share and/or option awards to employees and non-employee directors. Under the change in control provisions of the Almost Family plans, all outstanding restricted stock, performance restricted stock, and options became non-forfeitable in conjunction with the Merger.

Each unvested restricted share award issued by Almost Family that was outstanding immediately prior to the Merger converted into a restricted stock award to acquire shares of the Company on the same terms and conditions rounded up or down to the nearest whole share, determined by multiplying the number of shares of Almost Family's common stock subject to such restricted share award by the exchange ratio. Each stock option to purchase shares of Almost Family that was outstanding immediately prior to the Merger converted into an option to purchase shares of the Company on the same terms and conditions, (A) the number of shares of LHC's common stock, rounded down to the nearest whole share, determined by multiplying (I) the total number of shares of Almost Family's common stock by (II) the exchange ratio, and (B) at a per-share exercise price, rounded up to the nearest whole cent, equal to the quotient determined by dividing (I) the exercise price per share of Almost Family's common stock by (II) the exchange ratio.

Share Based Compensation**Nonvested Stock**

During the nine months ended September 30, 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 vest 100% on the one year anniversary date. During the nine months ended September 30, 2018, four new directors were granted 14,000 nonvested shares of common stock under the Second Amended and Restated 2005 Non-Employee Directors Compensation Plan. The shares vest 33% at the grant date, then 33% each year on the anniversary date until the third year.

During the nine months ended September 30, 2018, employees were granted 213,105 nonvested shares of common stock pursuant to the 2010 Incentive Plan and 16,470 nonvested shares of common stock pursuant to the 2018 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 nine months ended September 30, 2018 was \$64.11.

The following table represents the nonvested stock activity for the nine months ended September 30, 2018:

	Restricted stock		Options	
	Number of shares	Weighted average grant date fair value	Number of shares	Weighted average grant date fair value
Nonvested shares outstanding as of December 31, 2017	529,465	\$ 37.34	—	\$ —
Granted	257,175	\$ 64.11	—	\$ —
Acquired	—	\$ —	270,710	\$ 36.48
Vested or exercised	(211,355)	\$ 37.78	(93,532)	\$ 34.55
Nonvested shares outstanding as of September 30, 2018	575,285	\$ 49.66	177,178	\$ 37.50

As of September 30, 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 3.24 years. 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 \$7.3 million and \$4.5 million of compensation expense related to nonvested stock grants for each of the nine months ended September 30, 2018 and 2017.

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:

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	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 issued during the three months ended June 30, 2018	5,171	\$ 58.48
Shares issued during the three months ended September 30, 2018	4,682	\$ 81.31
Shares available as of September 30, 2018	155,682	

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, 2018, the Company redeemed 67,919 shares of common stock valued at \$4.5 million, related to these tax obligations. In addition, the Company redeemed 60,102 shares of common stock valued at \$2.2 million, related to the exercise of Almost Family options. Such shares are held as treasury stock and are available for reissuance by the Company.

Additionally, shares were submitted by employees in lieu of exercise price that would have otherwise been due on exercise of stock options, which shares are held in treasury stock and are available for reissuance by the Company.

8. Commitments and Contingencies

Contingencies

Regulatory Matters

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. 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 appeals of 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.

Merger Related Litigation

On January 18, 2018, Jordan Rosenblatt, a purported shareholder of 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 Merger Sub. The complaint in the Rosenblatt Action ("Rosenblatt Complaint") asserts, among other things, that the Form S-4 Registration Statement ("Registration Statement") filed on December 21, 2017 in connection with the Merger contained false and misleading statements with respect to the Merger. 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. These Delaware Actions also sought, among other things, an injunction to enjoin 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.

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

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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.

Other Litigation

We are involved in various other 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 effect, 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 triggering events, which are defined as the bankruptcy of the partner or the partner's exclusion from the Medicare or Medicaid

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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 September 30, 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.

On July 1, 2018, the Company purchased the remaining redeemable noncontrolling interests for one of its joint ventures for \$7.1 million. Total consideration was paid in shares of the Company's common stock.

The carrying amount of each redeemable equity instrument presented in temporary equity for the nine months ended September 30, 2018 is not less than the initial amount reported for each instrument. The following table summarizes the activity of noncontrolling interest-redeemable for the nine months ended September 30, 2018 (amounts in thousands):

Balance as of December 31, 2017	\$13,393
Net income attributable to noncontrolling interest-redeemable	7,285
Noncontrolling interest-redeemable distributions	(7,057)
Acquired noncontrolling interest-redeemable	8,232
Noncontrolling interest-redeemable sale	(7,116)