HEALTHCARE SERVICES GROUP INC
Form 10-Q
October 27, 2017
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q
þ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2017
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: 0-12015

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

Pennsylvania	23-2018365
(State or other jurisdiction of incorporation or organization)	(I.R.S Employer Identification No.)
3220 Tillman Drive, Suite 300, Bensalem, PA	19020
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code:
(215) 639-4274

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 þ NO ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES þ 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 þ	Accelerated filer o
Non-accelerated filer o (Do not check if a smaller reporting company)	
	Smaller reporting company o
	Emerging growth company o

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. o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).
YES ¨ NO þ

Indicate the number of shares outstanding of each of the registrant’s classes of common stock, as of the latest practicable date. Common Stock, $.01 par value: 73,273,000 shares outstanding as of October 26, 2017.

Healthcare Services Group, Inc.
Quarterly Report on Form 10-Q
For the Period Ended September 30, 2017

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This report and documents incorporated by reference into this report may contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, which are not historical facts but rather are based on current expectations, estimates and projections about our business and industry, and our beliefs and assumptions. Words such as “believes,” “anticipates,” “plans,” “expects,” “will,” “goal,” and similar expressions are intended to identify forward-looking statements. The inclusion of forward-looking statements should not be regarded as a representation by us that any of our plans will be achieved. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. Such forward-looking information is also subject to various risks and uncertainties. Such risks and uncertainties include, but are not limited to, risks arising from our providing services exclusively to the health care industry, primarily providers of long-term care; having one client which accounted for approximately 16% and another client which accounted for approximately 9% of our total consolidated revenues for the nine months ended September 30, 2017; credit and collection risks associated with this industry; our claims experience related to workers’ compensation and general liability insurance; the effects of changes in, or interpretations of laws and regulations governing the industry, our workforce and services provided, including state and local regulations pertaining to the taxability of our services and other labor-related matters such as minimum wage increases; continued realization of tax benefits arising from our corporate reorganization and self-funded health insurance program; risks associated with the reorganization of our corporate structure; and the risk factors described in Part I of our Form 10-K for the fiscal year ended December 31, 2016 under “Government Regulation of Clients,” “Competition” and “Service Agreements and Collections,” and under Item IA. “Risk Factors” in such Form 10-K and in this Form 10-Q.

These factors, in addition to delays in payments from clients and/or clients in bankruptcy or clients with which we are in litigation to collect payment, have resulted in, and could continue to result in, significant additional bad debts in the near future. Additionally, our operating results would be adversely affected if unexpected increases in the costs of labor and labor-related costs, materials, supplies and equipment used in performing services could not be passed on to our clients.

In addition, we believe that to improve our financial performance we must continue to obtain service agreements with new clients, retain and provide new services to existing clients, achieve modest price increases on current service agreements with existing clients and maintain internal cost reduction strategies at our various operational levels. Furthermore, we believe that our ability to sustain the internal development of managerial personnel is an important factor impacting future operating results and the successful execution of our projected growth strategies.

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PART I — FINANCIAL INFORMATION
Item 1. Financial Statements (Unaudited)
Healthcare Services Group, Inc.
Consolidated Balance Sheets
(in thousands, except per share amounts)

	September 30, 2017 (Unaudited)	December 31, 2016
ASSETS:		
Current assets:		
Cash and cash equivalents	$ 11,005	$ 23,853
Marketable securities, at fair value	70,384	67,730
Accounts and notes receivable, less allowance for doubtful accounts of $9,795 as of September 30, 2017 and $6,911 as of December 31, 2016	367,009	271,276
Inventories and supplies	41,516	37,800
Prepaid expenses and other assets	25,628	13,965
Total current assets	515,542	414,624
Property and equipment, net	13,499	13,455
Goodwill	51,084	44,438
Other intangible assets, less accumulated amortization of $11,659 as of September 30, 2017 and $14,672 as of December 31, 2016	32,075	14,409
Notes receivable — long term portion	11,495	7,531
Deferred compensation funding, at fair value	27,387	24,119
Deferred income taxes	9,196	9,822
Other noncurrent assets	1,264	48
Total Assets	$ 661,542	$ 528,446
LIABILITIES AND STOCKHOLDERS' EQUITY:		
Current liabilities:		
Accounts payable	$ 62,323	$ 42,912
Accrued payroll, accrued and withheld payroll taxes	48,786	22,303
Other accrued expenses	3,665	4,397
Borrowings under line of credit	25,000	—
Income taxes payable	10,781	7,686
Accrued insurance claims	24,827	23,573
Total current liabilities	175,382	100,871
Accrued insurance claims — long term portion	67,818	64,080
Deferred compensation liability	27,886	24,653
Commitments and contingencies		
STOCKHOLDERS' EQUITY:		
Common stock, $.01 par value; 100,000 shares authorized; 74,791 and 74,204 shares issued, and 73,265 and 72,601 shares outstanding as of September 30, 2017 and December 31, 2016, respectively	748	742
Additional paid-in capital	241,008	217,664
Retained earnings	157,678	130,940
Accumulated other comprehensive income (loss), net of taxes	844	(319)
Common stock in treasury, at cost, 1,525 shares as of September 30, 2017 and 1,603 shares as of December 31, 2016	(9,822)	(10,185)

Total stockholders’ equity	$ 390,456	$ 338,842
TOTAL LIABILITIES AND STOCKHOLDERS’ EQUITY	$ 661,542	$ 528,446

See accompanying notes.

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Healthcare Services Group, Inc.
Consolidated Statements of Comprehensive Income
(in thousands, except per share amounts)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Revenues	$491,355	$392,734	$1,366,721	$1,164,097
Operating costs and expenses:				
Costs of services provided	426,924	336,340	1,179,816	998,595
Selling, general and administrative expense	32,940	27,182	93,141	78,192
Other income, net:				
Investment and interest	1,439	1,359	4,523	2,548
Income before income taxes	32,930	30,571	98,287	89,858
Income tax provision	9,458	10,860	30,247	32,761
Net income	$23,472	$19,711	$68,040	$57,097
Per share data:				
Basic earnings per common share	$0.32	$0.27	$0.93	$0.79
Diluted earnings per common share	$0.31	$0.27	$0.92	$0.78
Weighted average number of common shares outstanding:				
Basic	73,461	72,839	73,272	72,718
Diluted	74,538	73,592	74,252	73,435
Comprehensive income:				
Net income	$23,472	$19,711	$68,040	$57,097
Other comprehensive income:				
Unrealized gain (loss) on available-for-sale marketable securities, net of taxes	82	(369)	1,163	765
Total comprehensive income	$23,554	$19,342	$69,203	$57,862

See accompanying notes.

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Healthcare Services Group, Inc.
Consolidated Statements of Cash Flows
(in thousands)
(Unaudited)

	Nine Months Ended September 30, 2017	2016
Cash flows from operating activities:		
Net income	$68,040	$57,097
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and amortization	6,342	5,632
Bad debt provision	4,000	3,200
Deferred income tax expense	—	2,748
Stock-based compensation expense, net of tax benefit from equity compensation plans [1]	(632)	1,363
Amortization of premium on marketable securities	929	1,053
Unrealized gain on deferred compensation fund investments	(3,351)	(1,041)
Changes in operating assets and liabilities:		
Accounts and notes receivable	(103,697)	(54,954)
Inventories and supplies	(997)	(1,295)
Prepaid expenses and other assets	(11,658)	(5,279)
Deferred compensation funding	83	(941)
Accounts payable and other accrued expenses	(1,102)	(6,774)
Accrued payroll, accrued and withheld payroll taxes	28,575	22,065
Income taxes payable [1]	7,865	7,870
Accrued insurance claims	4,992	4,870
Deferred compensation liability	3,733	2,284
Net cash provided by operating activities	3,122	37,898
Cash flows from investing activities:		
Disposals of fixed assets	264	177
Additions to property and equipment	(3,962)	(3,908)
Purchases of marketable securities	(22,149)	(18,751)
Sales of marketable securities	20,354	8,137
Cash paid for acquisition	(4,584)	—
Net cash used in investing activities	(10,077)	(14,345)
Cash flows from financing activities:		
Dividends paid	(41,302)	(39,849)
Reissuance of treasury stock pursuant to Dividend Reinvestment Plan	71	84
Tax benefit from equity compensation plans [1]	—	1,750
Proceeds from the exercise of stock options	10,338	5,600
Net proceeds from short-term borrowings	25,000	—
Net cash used in financing activities	(5,893)	(32,415)
Net change in cash and cash equivalents	(12,848)	(8,862)
Cash and cash equivalents at beginning of the period	23,853	33,189
Cash and cash equivalents at end of the period	$11,005	$24,327

(1) The Company adopted the provisions of ASU 2016-09 prospectively, and as such the amounts reflected for the nine months ended September 30, 2016 have not been adjusted.

See accompanying notes.

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Healthcare Services Group, Inc.
Consolidated Statement of Stockholders' Equity
(in thousands, except per share amounts)
(Unaudited)

	For the Nine Months Ended September 30, 2017						
	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss), net of taxes	Retained Earnings	Treasury Stock	Stockholders' Equity
	Shares	Amount					
Balance — December 31, 2016	74,204	$ 742	$ 217,664	$ (319)	$ 130,940	$ (10,185)	$ 338,842
Comprehensive income:							
Net income for the period					68,040		68,040
Unrealized gain on available-for-sale marketable securities, net of taxes				1,163			1,163
Comprehensive income							69,203
Exercise of stock options and other stock-based compensation, net of shares tendered for payment	528	5	10,333				10,338
Share-based compensation expense — stock options, restricted stock and restricted stock units			3,773				3,773
Treasury shares issued for Deferred Compensation Plan funding and redemptions			487			14	501
Shares issued pursuant to Employee Stock Plan			1,752			339	2,091
Cash dividends					(41,302)		(41,302)
Shares issued pursuant to Dividend Reinvestment Plans			61			10	71
Shares issued pursuant to acquisition	59	1	2,500				2,501
Contingent shares issuable pursuant to acquisition			4,438				4,438
Balance — September 30, 2017	74,791	$ 748	$ 241,008	$ 844	$ 157,678	$ (9,822)	$ 390,456

See accompanying notes.

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Healthcare Services Group, Inc.
Notes to Consolidated Financial Statements
(Unaudited)

Note 1— Description of Business and Significant Accounting Policies

Nature of Operations

Healthcare Services Group, Inc. (the “Company”) provides management, administrative and operating expertise and services to the housekeeping, laundry, linen, facility maintenance and dietary service departments of the health care industry, including nursing homes, retirement complexes, rehabilitation centers and hospitals located throughout the United States. Although the Company does not directly participate in any government reimbursement programs, the Company’s clients receive government reimbursements related to Medicare and Medicaid. Therefore, they are directly affected by any legislation relating to Medicare and Medicaid reimbursement programs.

The Company provides services primarily pursuant to full service agreements with its clients. In such agreements, the Company is responsible for the day-to-day management of employees located at the clients’ facilities. The Company also provides services on the basis of management-only agreements for a limited number of clients. The agreements with clients typically provide for renewable one year service terms, cancelable by either party upon 30 to 90 days’ notice after the initial 60 to 120 day period.

The Company is organized into two reportable segments: housekeeping, laundry, linen and other services (“Housekeeping”), and dietary department services (“Dietary”).

Housekeeping consists of managing the clients’ housekeeping departments, which are principally responsible for the cleaning, disinfecting and sanitizing of resident rooms and common areas of a client’s facility, as well as the laundering and processing of the bed linens, uniforms, resident personal clothing and other assorted linen items utilized at a client facility.

Dietary consists of managing the clients’ dietary departments which are principally responsible for food purchasing, meal preparation and dietitian professional services, which includes the development of menus that meet residents’ dietary needs.

Unaudited Interim Financial Data

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States (“U.S. GAAP”) for interim financial information and the requirements of Form 10-Q and Article 10 of Regulation S-X. Accordingly, these consolidated financial statements do not include all of the information and footnotes necessary for a complete presentation of financial position, results of operations and cash flows. However, in the Company’s opinion, all adjustments which are of a normal recurring nature and are necessary for a fair presentation have been reflected in these consolidated financial statements. The balance sheet shown in this report as of December 31, 2016 has been derived from, and does not include, all of the disclosures contained in the financial statements for the year ended December 31, 2016. These financial statements should be read in conjunction with the financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2016. The results of operations for the three and nine months ended September 30, 2017 are not necessarily indicative of the results that may be expected for any future period.

Certain amounts in the prior year financial statements have been reclassified to conform to current presentation.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Healthcare Services Group, Inc. and its wholly-owned subsidiaries. All significant intercompany transactions and balances have been eliminated in consolidation.

Cash and Cash Equivalents

Cash and cash equivalents are held in U.S. financial institutions or in custodial accounts with U.S. financial institutions. Cash equivalents are defined as short-term, highly liquid investments with a maturity of three months or less at the time of purchase, that are readily convertible into cash and have insignificant interest rate risk.

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Inventories and Supplies

Inventories and supplies include housekeeping, linen and laundry supplies, as well as food provisions and supplies. Inventories and supplies are stated at cost to approximate a first-in, first-out (FIFO) basis. Linen supplies are amortized on a straight-line basis over their estimated useful life of 24 months.

Revenue Recognition

Revenues from the Company's service agreements with clients are recognized as services are performed. Revenues are reported net of sales taxes that are collected from customers and remitted to taxing authorities.

Income Taxes

The Company uses the asset and liability method of accounting for income taxes. Under this method, income tax expense is recognized for the amount of taxes payable or refundable for the current period. The Company accrues for probable tax obligations as required by facts and circumstances in various regulatory environments. In addition, deferred tax assets and liabilities are recognized for expected future tax consequences of temporary differences between the financial reporting and tax bases of assets and liabilities. When appropriate, valuation allowances are recorded to reduce deferred tax assets to amounts for which realization is more likely than not.

Uncertain income tax positions taken or expected to be taken in tax returns are reflected within the Company's financial statements based on a recognition and measurement process.

Earnings per Common Share

Basic earnings per common share is computed by dividing income available to common shareholders by the weighted-average number of common shares outstanding for the period. Diluted earnings per common share is calculated using the weighted-average number of common shares outstanding and dilutive common shares, such as those issuable upon exercise of stock options and upon the vesting of restricted stock and restricted stock units.

Share-Based Compensation

The Company estimates the fair value of share-based awards on the date of grant using the Black-Scholes valuation model for stock options and using the share price on the date of grant for restricted stock and restricted stock units. The value of the award is recognized ratably as an expense in the Company's Consolidated Statements of Comprehensive Income over the requisite service periods, with adjustments made for forfeitures as they occur.

Use of Estimates in Financial Statements

In preparing financial statements in conformity with U.S. GAAP, estimates and assumptions are made that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities, and the reported amounts of revenues and expenses. Actual results could differ from those estimates. Significant estimates are used in determining, but are not limited to, the Company's allowance for doubtful accounts, accrued insurance claims, valuations, deferred taxes and reviews for potential impairment. The estimates are based upon various factors including current and historical trends, as well as other pertinent industry and regulatory authority information. Management regularly evaluates this information to determine if it is necessary to update the basis for its estimates and to adjust for known changes.

Concentrations of Credit Risk

The financial instruments that are subject to concentrations of credit risk are cash and cash equivalents, marketable securities, deferred compensation funding and accounts and notes receivable. The Company's marketable securities are fixed income investments which are highly liquid and can be readily purchased or sold through established markets. At September 30, 2017 and December 31, 2016, substantially all of the Company's cash and cash equivalents and marketable securities were held in one large financial institution located in the United States.

The Company's clients are concentrated in the health care industry and are primarily providers of long-term care. The revenues of many of the Company's clients are highly reliant on Medicare, Medicaid and third party payors' reimbursement funding rates. New legislation or changes in existing regulations could be made which could directly impact the governmental reimbursement

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programs in which the clients participate. The full effect of any such programs would not be realized until these laws are fully implemented and governmental agencies issue applicable regulations or guidance.

Recent Accounting Pronouncements

In March 2016, the Financial Accounting Standards Board ("FASB") issued ASU 2016-09, Stock Compensation: Improvements to Employee Share-Based Payment Accounting. ASU 2016-09 is intended to simplify several aspects of the accounting for share-based payments. The Company adopted the standard beginning January 1, 2017. The impact of adopting the standard includes the recognition of excess tax benefits related to share-based payments as a component of income tax expense, as opposed to additional paid-in capital; an amendment to the calculation of diluted earnings per share to exclude windfall tax benefits from assumed proceeds when calculating diluted shares outstanding; as well as accounting for forfeitures of share-based awards as they occur, as opposed to reserving for estimated forfeitures.

In January 2017, the FASB issued ASU 2017-01, Business Combinations: Clarifying the Definition of a Business. The guidance changes the definition of a business to assist entities in evaluating whether a set of transferred assets and activities constitutes a business under Topic 805. The guidance is effective for annual periods beginning after December 15, 2017, with early adoption permitted. The Company plans to adopt the standard effective January 1, 2018.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers, which was subsequently amended and updated throughout 2015 and 2016. The standard provides guidance on revenue recognition, among other topics such as the accounting for compensation and costs to obtain a contract. The standard requires that an entity recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Adoption is required for reporting periods beginning after December 15, 2017, with early adoption prohibited. The Company plans to adopt the standard beginning on January 1, 2018 utilizing the modified retrospective method. The Company has evaluated the impact of the adoption of this ASU by reviewing the nature and terms of existing contracts under the provisions of the new guidance and designing operational and process updates required for ongoing compliance. Management does not expect a material impact to the Company's accounting for the revenue earned related to its Housekeeping and Dietary department services. Management anticipates that the most significant impact of the new standard will relate to additional disclosure obligations.

In February 2016, the FASB issued ASU 2016-02, Leases. ASU 2016-02 requires lessees to recognize assets and liabilities on their balance sheet related to the rights and obligations created by most leases, while continuing to recognize expenses on their income statements over the lease term. It will also require disclosures designed to give financial statement users information regarding the amount, timing, and uncertainty of cash flows arising from leases. The guidance is effective for annual reporting periods beginning after December 15, 2018, and interim periods within those years. Early adoption is permitted for all entities. The Company will adopt the new guidance as of January 1, 2019. Management is continuing to evaluate the expected impact of the requirements, however it is expected that the primary impact will relate to the capitalization of operating leases of office space, vehicles and equipment.

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Note 2—Changes in Accumulated Other Comprehensive Income by Component

Accumulated other comprehensive income consists of unrealized gains and losses from the Company's available-for-sale marketable securities. The following table provides a summary of the changes in accumulated other comprehensive income for the nine months ended September 30, 2017 and 2016:

	Unrealized Gains and Losses on Available-for-Sale Securities[1] Nine Months Ended September 30,	
	2017	2016
	(in thousands)	
Accumulated other comprehensive income (loss) — beginning balance	$ (319)	$ 543
Other comprehensive income before reclassifications	1,162	909
Losses (gains) reclassified from other comprehensive income	1	(144)
Net current period other comprehensive income[2]	1,163	765
Accumulated other comprehensive income — ending balance	$ 844	$ 1,308

(1) All amounts are net of tax.

(2) For the nine months ended September 30, 2017 and 2016, these changes in other comprehensive income were net of tax effects of $0.6 million and $0.4 million respectively.

Amounts reclassified from accumulated other comprehensive income (loss) represent realized gains or losses on the sale of the Company's available-for-sale securities. Realized gains and losses are recorded pre-tax within "Other income - Investment and interest" in the Consolidated Statements of Comprehensive Income. Refer to Note 5 - Fair Value Measurements for further information. The table below shows the reclassification adjustments out of accumulated other comprehensive income (loss) for the three and nine months ended September 30, 2017 and 2016:

	Amounts Reclassified from Accumulated Other Comprehensive Income	
	2017	2016
	(in thousands)	
Three Months Ended September 30,		
Gains (losses) from the sale of available-for-sale securities	$ 171	$ (17)
Tax expense (benefit)	$ (54)	$ 8
Net gain (loss) reclassified from accumulated other comprehensive income	$ 117	$ (9)
Nine Months Ended September 30,		
Gains (losses) from the sale of available-for-sale securities	$ (2)	$ 226
Tax expense (benefit)	$ 1	$ (82)
Net gain (loss) reclassified from accumulated other comprehensive income	$ (1)	$ 144

Note 3—Property and Equipment

Property and equipment are recorded at cost. Depreciation is recorded over the estimated useful life of each class of depreciable asset, and is computed using the straight-line method. Leasehold improvements are amortized over the shorter of the estimated asset life or term of the lease. Repairs and maintenance costs are charged to expense as incurred.

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The following table sets forth the amounts of property and equipment by each class of depreciable asset as of September 30, 2017 and December 31, 2016:

	September 30, 2017	December 31, 2016
	(in thousands)	
Housekeeping and Dietary equipment	$22,057	$ 21,136
Computer hardware and software	12,381	11,750
Other [1]	988	1,133
Total property and equipment, at cost	35,426	34,019
Less accumulated depreciation	21,927	20,564
Total property and equipment, net	$13,499	$ 13,455

(1) Includes furniture and fixtures, leasehold improvements and autos and trucks.

Depreciation expense for each of the three months ended September 30, 2017 and 2016 was $1.1 million. Depreciation expense for the nine months ended September 30, 2017 and 2016 was $3.7 million and $3.5 million, respectively.

Note 4—Goodwill and Other Intangible Assets

Goodwill

Goodwill represents the excess of the purchase price over the fair value of the net assets of an acquired business. Goodwill is not amortized, but is evaluated for impairment on an annual basis, or more frequently if impairment indicators arise.

Goodwill by reportable operating segment, as described in Note 10 - Segment Information, was approximately $42.4 million and $8.7 million for Housekeeping and Dietary, respectively, as of September 30, 2017. At December 31, 2016, goodwill by reportable operating segment was $42.3 million and $2.1 million for Housekeeping and Dietary, respectively. The increase in goodwill is related to the acquisition of certain Dietary-related assets during 2017.

Intangible Assets

The Company’s intangible assets consist of customer relationships which were obtained through acquisitions and are recorded at their fair values at the date of acquisition. Intangible assets with determinable lives are amortized on a straight-line basis over their estimated useful lives. The customer relationships have a weighted-average amortization period of 9.9 years. As of September 30, 2017, certain customer relationship intangible assets were fully amortized and the respective balances were written off. The increase from year-end is related to the acquisition of certain Dietary-related assets during 2017.

The following table sets forth the estimated amortization expense for intangibles subject to amortization for the remainder of 2017, the following five fiscal years and thereafter:

Period/Year	Total Amortization Expense (in thousands)

October 1 to December 31, 2017	$	1,116
2018	$	4,363
2019	$	4,165
2020	$	4,165
2021	$	4,165
2022	$	4,165
Thereafter		