LHC Group, Inc
Form 10-Q
November 09, 2011
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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, 2011

OR

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

For the transition period from to

Commission file number: 001-33989

LHC GROUP, INC.

(Exact name of registrant as specified in its charter)

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

420 West Pinhook Rd, Suite A

Lafayette, LA 70503

(Address of principal executive offices including zip code)

(337) 233-1307

(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes 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 (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter periods 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, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer, and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

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

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

Number of shares of common stock, par value $0.01, outstanding as of November 3, 2011: 18,808,399 shares.

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LHC GROUP, INC.

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PART I FINANCIAL INFORMATION

ITEM 1. CONDENSED FINANCIAL STATEMENTS.

LHC GROUP, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(Amounts in thousands, except share data)

(Unaudited)

	September 30, 2011	December 31, 2010
ASSETS		
Current assets:		
Cash	$ 11,134	$ 288
Receivables:		
Patient accounts receivable, less allowance for uncollectible accounts of $10,808 and $9,769, respectively	78,594	79,939
Other receivables	2,407	5,210
Amounts due from governmental entities	315	429
Total receivables, net	81,316	85,578
Deferred income taxes	7,745	5,941
Prepaid income taxes	30,309	5,326
Prepaid expenses	5,311	6,573
Other current assets	4,148	3,442
Total current assets	139,963	107,148
Property, building and equipment, net of accumulated depreciation of $20,163 and $15,329, respectively	27,901	26,862
Goodwill	164,731	157,338
Intangible assets, net of accumulated amortization of $2,129 and $1,499, respectively	59,585	54,051
Advance payment on acquisitions		6,947
Other assets	5,713	4,959
Total assets	$ 397,893	$ 357,305
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable and other accrued liabilities	$ 22,929	$ 21,017
Salaries, wages, and benefits payable	22,925	27,289
Amounts due to governmental entities	3,262	3,159
Total current liabilities	49,116	51,465
Deferred income taxes	21,455	16,817
Income tax payable	3,415	
Revolving credit facility	54,000	
Total liabilities	127,986	68,282
Noncontrolling interest redeemable	11,858	13,535
Stockholders equity:		

LHC Group, Inc. stockholders equity:		
Common stock $0.01 par value; 40,000,000 shares authorized; 21,352,211 and 21,180,286 shares issued and 18,281,181 and 18,172,022 shares outstanding, respectively	183	181
Treasury stock 3,071,030 and 3,008,264 shares at cost, respectively	(6,146)	(4,453)
Additional paid-in capital	94,559	91,017
Retained earnings	166,518	186,996
Total LHC Group, Inc. stockholders equity	255,114	273,741
Noncontrolling interest non-redeemable	2,935	1,747
Total equity	258,049	275,488
Total liabilities and equity	$ 397,893	$ 357,305

See accompanying notes to the condensed consolidated financial statements.

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LHC GROUP, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

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

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Net service revenue	$ 153,398	$ 165,672	$ 476,196	$ 464,475
Cost of service revenue	87,815	87,227	262,987	239,952
Gross margin	65,583	78,445	213,209	224,523
Provision for bad debts	3,199	1,699	8,903	5,299
Settlement with government agencies	65,000		65,000	
General and administrative expenses	52,656	51,056	159,851	146,509
Operating income (loss)	(55,272)	25,690	(20,545)	72,715
Interest expense	(217)	(33)	(507)	(83)
Non-operating income	1,396	90	1,573	711
Income (loss) before income taxes and noncontrolling interest	(54,093)	25,747	(19,479)	73,343
Income tax expense (benefit)	(18,130)	8,631	(6,420)	24,119
Net income (loss)	(35,963)	17,116	(13,059)	49,224
Less net income attributable to noncontrolling interests	1,997	3,818	7,419	11,910
Net income (loss) attributable to LHC Group, Inc.	(37,960)	13,298	(20,478)	37,314
Redeemable noncontrolling interest				41
Net income (loss) available to LHC Group, Inc. s common stockholders	$ (37,960)	$ 13,298	$ (20,478)	$ 37,355
Earnings per share basic:				
Net income (loss) attributable to LHC Group, Inc.	(2.08)	0.73	(1.12)	2.06
Redeemable noncontrolling interest				
Net income (loss) available to LHC Group, Inc. s common stockholders	$ (2.08)	$ 0.73	$ (1.12)	$ 2.06
Earnings per share diluted:				
Net income (loss) attributable to LHC Group, Inc.	(2.08)	0.73	(1.12)	2.05
Redeemable noncontrolling interest				
Net income (loss) available to LHC Group, Inc. s common stockholders	$ (2.08)	$ 0.73	$ (1.12)	$ 2.05
Weighted average shares outstanding:				
Basic	18,263,237	18,148,678	18,251,648	18,103,196
Diluted	18,263,237	18,224,019	18,251,648	18,208,445

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						Non-controlling Interest	
	Issued		Treasury					
	Amount	Shares	Amount	Shares	Additional Paid-In Capital	Retained Earnings	Non Redeemable	Total Equity
Balances at December 31, 2010	$ 181	21,180,286	$ (4,453)	(3,008,264)	$ 91,017	$ 186,996	$ 1,747	$ 275,488
Net income (loss)						(20,478)	676	(19,802)(1)
Acquired noncontrolling interest							1,372	1,372
Transfer of noncontrolling interest					205		163	368
Purchase of subsidiary shares from noncontrolling interest					(816)			(816)
Sale of noncontrolling interest					184		92	276
Noncontrolling interest distributions							(1,115)	(1,115)
Nonvested stock compensation					3,041			3,041
Issuance of vested restricted stock		143,330						
Treasury shares redeemed to pay income tax			(1,116)	(38,607)				(1,116)
Repurchase of common stock			(577)	(24,159)				(577)
Excess tax benefits vesting nonvested stock					282			282
Issuance of common stock under Employee Stock Purchase Plan	2	28,595			646			648
Balances at September 30, 2011	$ 183	21,352,211	$ (6,146)	(3,071,030)	$ 94,559	$ 166,518	$ 2,935	$ 258,049

(1) Net income (loss) excludes net income (loss) attributable to noncontrolling interest-redeemable of $6.7 million during the nine months ending September 30, 2011. Noncontrolling interest-redeemable is reflected outside of permanent equity on the consolidated balance sheets. See Note 9 of the Condensed Consolidated Financial Statements.

See accompanying notes to the condensed consolidated financial statements.

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LHC GROUP, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in thousands)

(Unaudited)

	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
Operating activities		
Net income (loss)	$ (13,059)	$ 49,224
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization expense	5,719	5,354
Provision for bad debts	8,903	5,299
Stock-based compensation expense	3,041	2,791
Deferred income taxes	2,834	818
Changes in operating assets and liabilities, net of acquisitions:		
Receivables	(5,871)	(9,858)
Prepaid expenses and other assets	6,762	(199)
Prepaid income taxes	(21,569)	
Accounts payable and accrued expenses	(2,627)	4,523
Net amounts due to/from governmental entities	217	498
Net cash provided by (used in) operating activities	(15,650)	58,450
Investing activities		
Purchases of property, building and equipment	(6,058)	(11,145)
Cash paid for acquisitions, primarily goodwill, intangible assets and advance payments on acquisition	(11,745)	(21,994)
Net cash used in investing activities	(17,803)	(33,139)
Financing activities		
Proceeds from line of credit	103,187	9,023
Payments on line of credit	(49,187)	(14,746)
Principal payments on debt		(303)
Payments on capital leases	(14)	(24)
Excess tax benefits from vesting of restricted stock	319	634
Proceeds from employee stock purchase plan	648	595
Noncontrolling interest distributions	(9,537)	(11,763)
Payments on repurchase of common stock	(577)	
Purchase of additional controlling interest	(816)	(1,914)
Sale of noncontrolling interest	276	
Net cash provided by (used in) financing activities	44,299	(18,498)
Change in cash	10,846	6,813
Cash at beginning of period	288	394
Cash at end of period	$ 11,134	$ 7,207

Supplemental disclosures of cash flow information

Interest paid	$ 507	$ 83
Income taxes paid	$ 12,335	$ 25,170

Note: Supplemental cash flow information provided in Note 13 of the Condensed Consolidated Financial Statements.

See accompanying notes to the 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 primarily for Medicare beneficiaries. The Company provides home-based services, primarily through home nursing agencies and hospices, and facility-based services, primarily through long-term acute care hospitals (LTACHs). As of September 30, 2011, the Company, through its wholly and majority-owned subsidiaries, equity joint ventures and controlled affiliates, operated in Alabama, Arkansas, Georgia, Florida, Idaho, Kentucky, Louisiana, Maryland, Mississippi, Missouri, North Carolina, Ohio, Oklahoma, Oregon, Tennessee, Texas, Virginia, Washington and West Virginia.

Unaudited Interim Financial Information

The condensed consolidated balance sheets as of September 30, 2011 and December 31, 2010, and the related condensed consolidated statements of operations for the three and nine months ended September 30, 2011 and 2010, condensed consolidated statement of changes in equity for the nine months ended September 30, 2011, condensed consolidated statements of cash flows for the nine months ended September 30, 2011 and 2010 and related notes (collectively, these statements 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, 2011 are not necessarily indicative of the results that may be expected for the year ending December 31, 2011.

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, 2010 as filed with the Securities and Exchange Commission (the SEC) on March 10, 2011, which includes information and disclosures not included herein.

2. Significant Accounting Policies

Reclassifications

A reclassification has been made to the September 30, 2010 condensed consolidated statement of operations to conform to the 2011 presentation. Net service revenue and cost of service revenue have been decreased by $960,000 and $2,498,000 for the three and nine months ended September 30, 2010, respectively, related to fees the Company collects and subsequently pays to nursing homes primarily for room and board services provided to the Company s hospice patients.

A reclassification has been made to the December 31, 2010 condensed consolidated balance sheets to reclassify $116,000 into other receivables. The amount was previously recorded in patients accounts receivable, however the transactions are not specifically related to patient claims. This reclassification had no affect on the condensed consolidated statements of cash flows.

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Use of Estimates

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

Critical Accounting Policies

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

Principles of Consolidation

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Equity joint ventures	47.6%	46.1%	46.9%	47.1%
Wholly-owned subsidiaries	49.0%	50.1%	49.8%	48.9%
License leasing arrangements	2.4%	2.5%	2.3%	2.5%
Management services	1.0%	1.3%	1.0%	1.5%
	100.0%	100.0%	100.0%	100.0%

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

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

Equity Joint Ventures

The Company s joint ventures are structured as limited liability companies in which the Company typically owns a majority equity interest ranging from 51% to 90%. The members of the Company s equity joint ventures participate in profits and losses in proportion to their equity interests. The Company consolidates these entities as the Company has the obligation to absorb losses of the entities and the right to receive benefits from the entities and generally has voting control over the entities.

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License Leasing Arrangements

The Company, through wholly-owned subsidiaries, leases home health licenses necessary to operate certain of its home nursing agencies. As with its wholly-owned subsidiaries, the Company owns 100% of the equity of these entities and consolidates them based on such ownership, as well as the Company s obligation to absorb losses of the entities and the right to receive benefits from the entities.

Management Services

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

Revenue Recognition

The Company reports net service revenue at the estimated net realizable amount due from Medicare, Medicaid, commercial insurance, managed care payors, patients and others for services rendered. All payors contribute to both the home-based services and facility-based services.

The following table sets forth the percentage of net service revenue earned by category of payor for the three months and nine months ended September 30, 2011 and 2010:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	**2010**	**2011**	**2010**
Payor:				
Medicare	79.4%	80.0%	79.7%	80.4%
Medicaid	2.4%	3.3%	2.3%	3.3%
Other	18.2%	16.7%	18.0%	16.3%
	100.0%	100.0%	100.0%	100.0%

The percentage of net service revenue contributed from each reporting segment for the three months and nine months ended September 30, 2011 and 2010 was as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	**2010**	**2011**	**2010**
Home-based services	88.0%	87.4%	87.9%	88.0%
Facility-based services	12.0%	12.6%	12.1%	12.0%
	100.0%	100.0%	100.0%	100.0%

Medicare

Home-Based Services

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

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Final payments from Medicare may reflect one of four retroactive adjustments to ensure the adequacy and effectiveness of the total reimbursement: (a) an outlier payment if the patient s care was unusually costly; (b) a low utilization adjustment if the number of visits was fewer than five; (c) a partial payment if the patient transferred to another provider before completing the episode; or (d) a payment adjustment based upon the level of therapy services required in the population base. Management estimates the impact of these payment adjustments based on historical experience and records this estimate during the period the services are rendered. The Company s payment is also adjusted for differences in local prices using the hospital wage index. In calculating the Company s reported net service revenue from home nursing services, the Company adjusts the prospective Medicare payments by an estimate of the adjustments. The adjustments are calculated using a historical average of prior adjustments.

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

Hospice payments are also subject to an inpatient cap and an overall payment cap. Inpatient cap relates to individual programs receiving more than 20% of its total Medicare reimbursement from inpatient care services and the overall payment cap relates to individual programs receiving reimbursements in excess of a cap amount, calculated by multiplying the number of beneficiaries during the period by a statutory amount that is indexed for inflation. The determination for each cap is made annually based on the 12-month period ending on October 31 of each year. The Company monitors our limits on a program-by-program basis. The Company has not received notification that any of our hospices have exceeded the cap on inpatient care services or overall payments during 2010 or 2011 to date.

Facility-Based Services

Long-Term Acute Care Services. The Company is reimbursed by Medicare for services provided under the LTACH prospective payment system, which was implemented on October 1, 2002. Each patient is assigned a long-term care diagnosis-related group. The Company is paid a predetermined fixed amount intended to reflect the average cost of treating a Medicare patient classified in that particular long-term care diagnosis-related group. For selected patients, the amount may be further adjusted based on length of stay and facility-specific costs, as well as in instances where a patient is discharged and subsequently re-admitted, among other factors. The Company calculates the adjustment based on a historical average of these types of adjustments for claims paid. Similar to other Medicare prospective payment systems, the rate is also adjusted for geographic wage differences. Revenue is recognized for the Company s LTACHs as services are provided.

Medicaid, managed care and other payors

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

Management Services