

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
<b>ASSETS</b>		
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
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
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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LHC GROUP, INC. AND SUBSIDIARIES  
 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
<b>Condensed Consolidated Balance Sheets</b>			
Patient accounts receivable	\$ 161,898	\$ —	\$ 161,898
Allowance for uncollectible accounts	23,556	(23,556)	—
	Three Months Ended September 30, 2017		
<b>Condensed Consolidated Statements of Income:</b>			
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		
<b>Condensed Consolidated Statements of Income:</b>			
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
<b>Condensed Consolidated Statements of Cash Flows:</b>			
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 )
Balance as of September 30, 2018	\$14,737

#### 10. Fair Value of Financial Instruments

The carrying amounts of the Company's cash, receivables, accounts payable and accrued liabilities approximate their fair values because of their short maturity. The estimated fair value of intangible assets acquired was calculated using level 3 inputs based on the present value of anticipated future benefits. For the nine months ended September 30, 2018, the carrying value of the Company's long-term debt approximates fair value as the interest rates approximate current rates.

#### 11. Segment Information

In the second quarter of 2018, in recognition of the changes to the Company's business segments resulting from the addition of Almost Family and its subsidiaries through the Merger, the Company redefined its reporting segments to include (1) home health services, (2) hospice services, (3) home and community-based services, formerly referred to by the Company as community-based services, (4) facility-based services and (5) healthcare innovations (“HCI”). In management’s opinion, this approach provides investors clarity and best aligns with the Company’s internal decision-making processes as viewed by the

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chief operating decision maker. Reportable segments have been identified based upon how management has organized the business by services provided to customers and how the chief operating decision maker manages the business and allocates resources, consistent with the criteria in ASC 280, Segment Reporting.

The home health segment provides skilled medical services in patients' homes largely to enable recipients to reduce or avoid periods of hospitalization and/or nursing home care. During the nine months ended September 30, 2018, 72.2% of the home health services segment revenues were generated from the Medicare program, while the balance is generated from Medicaid and private insurance programs.

The hospice segment services are largely provided in patients' homes and generally require specialized hospice nursing skills. Hospice services segment revenues are generated on a per diem basis and are primarily from Medicare, which accounted for 90.5% of hospice services segment revenues during the nine months ended September 30, 2018.

The home and community-based segment provides traditional home and community-based services (generally provided by paraprofessional staff such as home health aides), which are generally of a custodial rather than skilled nature. Home and community-based services segment revenues are generated on an hourly basis and are primarily from Medicaid, which accounted for 23.4% of home and community-based services segment revenues during the nine months ended September 30, 2018.

The facility-based segment services includes services provided through LTACHs, a family health center, two pharmacies, a rural health clinic, and two physical therapy clinics. The facility-based services segment is reimbursed primarily by Medicare under the LTACH prospective payment system, which accounted for 59.9% of facility-based services segment revenue during the nine months ended September 30, 2018.

The HCI segment combines reporting on the Company's developmental activities outside its other business segments. The HCI segment includes (a) Imperium Health Management, LLC, an ACO enablement company, (b) Long Term Solutions, Inc., an in-home assessment company serving the long-term care insurance industry, and certain assets operated by Advanced Care House Calls, which provides primary medical care for patients with chronic and acute illnesses who have difficulty traveling to a doctor's office, (c) Ingenios Health Co., a Nurse-Practitioner-oriented and mobile technology-enabled health risk assessment company primarily serving managed care organizations, and (d) an investment in Care Journey (formerly NavHealth, Inc.), a population-health analytics company. These activities are intended ultimately, whether directly or indirectly, to benefit the Company's patients and payors through the enhanced provision of services in the Company's other segments. The activities all share a common goal of improving patient experiences and quality outcomes, while lowering costs. They include, but are not limited to, items such as: technology, information, population health management, risk-sharing, care-coordination and transitions, clinical advancements, enhanced patient engagement and informed clinical decision and technology enabled in-home clinical assessments.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies, as described in Note 2 of the Notes to Condensed Consolidated Financial Statements, including the adoption of ASU 2014-09.

The following tables summarize the Company's segment information for the three and nine months ended September 30, 2018 and 2017 (amounts in thousands):

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	Three Months Ended September 30, 2018					Total
	Home health services	Hospice services	Home and community-based services	Facility-based services	HCI	
Net service revenue	\$360,000	\$52,962	\$ 52,773	\$ 27,891	\$13,417	\$507,043
Cost of service revenue	222,765	34,540	39,860	20,146	4,885	322,196
General and administrative expenses	105,457	14,685	12,922	9,823	7,030	149,917
Operating income (loss)	31,778	3,737	(9	) (2,078	) 1,502	34,930
Interest expense	(2,284	) (491	) (163	) (163	) (163	) (3,264
Income (loss) before income taxes and noncontrolling interest	29,494	3,246	(172	) (2,241	) 1,339	31,666
Income tax expense (benefit)	6,209	774	(74	) (541	) 317	6,685
Net income (loss)	23,285	2,472	(98	) (1,700	) 1,022	24,981
Less net income (loss) attributable to noncontrolling interests	3,425	386	(87	) 27	—	3,751
Net income (loss) attributable to LHC Group, Inc.'s common stockholders	\$19,860	\$2,086	\$ (11	) \$ (1,727	) \$1,022	\$21,230
Total assets	\$1,316,792	\$203,921	\$ 246,963	\$ 61,089	\$81,999	\$1,910,764
	Three Months Ended September 30, 2017 (as adjusted)					
	Home health services	Hospice services	Home and community-based services	Facility-based services	HCI	Total
Net service revenue	\$196,317	\$41,057	\$ 12,116	\$ 20,188	\$ —	\$269,678
Cost of service revenue	123,204	27,441	8,971	13,240	—	172,856
General and administrative expenses	56,000	11,276	2,387	5,829	—	75,492
Operating income	17,113	2,340	758	1,119	—	21,330
Interest expense	(746	) (149	) (50	) (50	) —	(995
Income before income taxes and noncontrolling interest	16,367	2,191	708	1,069	—	20,335
Income tax expense	5,703	931	338	473	—	7,445
Net income	10,664	1,260	370	596	—	12,890
Less net income (loss) attributable to noncontrolling interests	1,759	273	(21	) (27	) —	1,984
Net income attributable to LHC Group, Inc.'s common stockholders	\$8,905	\$987	\$ 391	\$ 623	\$ —	\$10,906
Total assets	\$515,562	\$156,296	\$ 44,621	\$ 48,574	\$ —	\$765,053

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	Nine Months Ended September 30, 2018					
	Home health services	Hospice services	Home and community-based services	Facility-based services	HCI	Total
Net service revenue	\$924,463	\$146,142	\$ 119,617	\$ 86,345	\$23,554	\$1,300,121
Cost of service revenue	576,416	95,557	90,331	59,102	10,412	831,818
General and administrative expenses	277,711	43,090	28,664	30,058	12,417	391,940
Operating income (loss)	70,336	7,495	622	(2,815)	725	76,363
Interest expense	(5,627)	(1,181)	(393)	(395)	(320)	(7,916)
Income (loss) before income taxes and noncontrolling interest	64,709	6,314	229	(3,210)	405	68,447
Income tax expense (benefit)	14,022	1,368	50	(695)	87	14,832
Net income (loss)	50,687	4,946	179	(2,515)	318	53,615
Less net income (loss) attributable to noncontrolling interests	9,472	1,215	(157)	129	(66)	10,593
Net income (loss) attributable to LHC Group, Inc.'s common stockholders	\$41,215	\$3,731	\$ 336	\$ (2,644)	\$ 384	\$43,022

	Nine Months Ended September 30, 2017 (as adjusted)					
	Home health services	Hospice services	Home and community-based services	Facility-based services	HCI	Total
Net service revenue	\$569,384	\$114,856	\$ 33,403	\$ 53,819	\$ —	\$771,462
Cost of service revenue	352,896	75,187	24,905	35,396	—	488,384
General and administrative expenses	165,192	32,425	6,957	16,480	—	221,054
Operating income	51,296	7,244	1,541	1,943	—	62,024
Interest expense	(1,961)	(393)	(130)	(131)	—	(2,615)
Income before income taxes and noncontrolling interest	49,335	6,851	1,411	1,812	—	59,409
Income tax expense	16,712	2,439	602	657	—	20,410
Net income	32,623	4,412	809	1,155	—	38,999
Less net income (loss) attributable to noncontrolling interests	6,053	1,038	(7)	237	—	7,321
Net income attributable to LHC Group, Inc.'s common stockholders	\$26,570	\$3,374	\$ 816	\$ 918	\$ —	\$31,678

## 12. Income Taxes

On December 22, 2017, the U.S. enacted significant changes to U.S. tax law following the passage and signing of “Tax Cuts and Jobs Act” or the “TCJA”. The TCJA is complex and significantly changes the U.S. corporate income tax system by, among other things, reducing the Federal corporate income tax rate from 35% to 21%. The effective tax rate for the nine months ended September 30, 2018 and 2017 benefited from \$2.1 million and \$1.0 million, respectively, of excess tax benefits associated with stock-based compensation arrangements, which was offset by the effect of capitalized transaction costs related to the Merger during the nine months ended September 30, 2018 of \$0.9 million.

US GAAP prescribes a recognition threshold and measurement attribute for the accounting and financial statement disclosure of tax positions taken or expected to be taken in a tax return. The evaluation of a tax position is a two-step process. The first step requires the Company to determine whether it is more likely than not that a tax position will be



sustained upon examination based on the technical merits of the position. The second step requires the Company to recognize in the financial statements each tax position that meets the more likely than not criteria, measured at the amount of benefit that has a greater than 50% likelihood of being realized. The Company's unrecognized tax benefits would affect the tax rate, if

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recognized. The Company includes the full amount of unrecognized tax benefits in other noncurrent liabilities in the consolidated balance sheets. The Company anticipates it is reasonably possible an increase or decrease in the amount of unrecognized tax benefits could be made in the next twelve months. However, the Company does not presently anticipate that any increase or decrease in unrecognized tax benefits will be material to the consolidated financial statements. The amount recognized as of September 30, 2018 was \$2.6 million.

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

CAUTIONARY NOTICE REGARDING FORWARD-LOOKING STATEMENTS

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

- our expectations regarding financial condition or results of operations for periods after September 30, 2018;
- our critical accounting policies;
- our business strategies and our ability to grow our business;
- our participation in the Medicare and Medicaid programs;
- the reimbursement levels of Medicare and other third-party payors;
- the prompt receipt of payments from Medicare and other third-party payors;
- our future sources of and needs for liquidity and capital resources;
- the effect of any regulatory changes or anticipated regulatory changes;
- the effect of any changes in market rates on our operations and cash flows;
- our ability to obtain financing;
- our ability to make payments as they become due;
- the outcomes of various routine and non-routine governmental reviews, audits and investigations;
- our expansion strategy, the successful integration of recent acquisitions and, if necessary, the ability to relocate or restructure our current facilities;
- the value of our proprietary technology;
- the impact of legal proceedings;
- our insurance coverage;
- our competitors and our competitive advantages;
- our ability to attract and retain valuable employees;
- the price of our stock;
- our compliance with environmental, health and safety laws and regulations;
- our compliance with health care laws and regulations;
- the impact of federal and state government regulation on our business;

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- the impact of changes in future interpretations of fraud, anti-kickback, or other laws;
- the integration of the Almost Family and the Company's business;
- the cost savings, synergies, growth and other benefits from the Almost Family Merger, which may not be fully realized or may take longer to realize than expected; and
- costs associated with the integration of the businesses of the Company and Almost Family, which could be higher than anticipated.

The forward-looking statements included in this report reflect our current views about future events, are based on assumptions, and are subject to known and unknown risks and uncertainties. Many important factors could cause actual results or achievements to differ materially from any future results or achievements expressed in or implied by our forward-looking statements. Many of the factors that will determine future events or achievements are beyond our ability to control or predict. Important factors that could cause actual results or achievements to differ materially from the results or achievements reflected in our forward-looking statements include, among other things, the factors discussed in the Part II, Item 1A. "Risk Factors," included in this report and in our other filings with the SEC, including our Annual Report on Form 10-K for the year ended December 31, 2017 (the "2017 Form 10-K"), as updated by our subsequent filings with the SEC. This report should be read in conjunction with the 2017 Form 10-K, and all of our other filings made with the SEC through the date of this report, including quarterly reports on Form 10-Q and current reports on Form 8-K.

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

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

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

Unless the context otherwise requires, "we," "us," "our," and the "Company" refer to LHC Group, Inc. and its consolidated subsidiaries (including, as a result of the Merger, those owned and operated by Almost Family).

## OVERVIEW

### General

We provide quality, cost-effective post-acute health care services to our patients. As of September 30, 2018, we have 771 service providers in 36 states within the continental United States. Our services are classified into five segments: (1) home health services, (2) hospice services, (3) home and community-based services, (4) facility-based services offered through our long-term acute care hospitals ("LTACHs") and (5) healthcare innovations services. We intend to increase the number of service providers within each of our segments that we operate through continued acquisitions, joint ventures, and organic development.

Our home health service locations offer a wide range of services, including skilled nursing, medically-oriented social services, and physical, occupational, and speech therapy. As of September 30, 2018, we operated 565 home health services locations, of which 313 are wholly-owned, 243 are majority-owned through equity joint ventures, three are under license lease arrangements, and the operations of the remaining six locations are only managed by us.

Our hospices provide end-of-life care to patients with terminal illnesses through interdisciplinary teams of physicians, nurses, home health aides, counselors, and volunteers. We offer a wide range of services, including pain and symptom management, emotional and spiritual support, inpatient and respite care, homemaker services, and counseling. As of September 30, 2018, we operated 104 hospice locations, of which 58 are wholly-owned, 44 are majority-owned through equity joint ventures, and two are under license lease arrangements.

Through our home and community-based services segment, services are performed by skilled nursing and paraprofessional personnel, and include assistance with activities of daily living to the elderly, chronically ill, and disabled



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patients. As of September 30, 2018, we operated 80 home and community-based services locations: 71 are wholly-owned and nine are majority-owned through equity joint ventures.

We provide facility-based services principally through our LTACHs. As of September 30, 2018, we operated 11 LTACHs with 11 locations, of which all but one are located within host hospitals. Of these facility-based services locations, two are wholly-owned and nine are majority-owned through equity joint ventures. We also wholly-own and operate a family health center, two pharmacies, a rural health clinic, and two physical therapy clinics.

Our HCI segment reports on our developmental activities outside its other business segments. The HCI segment includes (a) Imperium Health Management, LLC, an ACO enablement company, (b) Long Term Solutions, Inc., an in-home assessment company serving the long-term care insurance industry, Long Term Solutions, Inc., and certain assets operated by Advanced Care House Calls, which provides primary medical care for patients with chronic and acute illnesses who have difficulty traveling to a doctor's office, (c) Ingenios Health Co., a Nurse-Practitioner-oriented and mobile technology-enabled health risk assessment company primarily serving managed care organizations, and (d) an investment in Care Journey (formerly NavHealth, Inc.), a population-health analytics company. These activities are intended ultimately, whether directly or indirectly, to benefit our patients and/or payors through the enhanced provision of services in our other segments. The activities all share a common goal of improving patient experiences and quality outcomes, while lowering costs. They include, but are not limited to, items such as: technology, information, population health management, risk-sharing, care-coordination and transitions, clinical advancements, enhanced patient engagement and informed clinical decision and technology enabled in-home clinical assessments. We have four HCI locations, of which all are wholly-owned.

The Joint Commission is a nationwide commission that establishes standards relating to the physical plant, administration, quality of patient care, and operation of medical staffs of health care organizations. Currently, Joint Commission accreditation of home nursing and hospice agencies is voluntary. However, some managed care organizations use Joint Commission accreditation as a credentialing standard for regional and state contracts. As of September 30, 2018, the Joint Commission had accredited 471 of our 565 home health services locations and 84 of our 104 hospice agencies. Those not yet accredited are working towards achieving this accreditation. As we acquire companies, we apply for accreditation 12 to 18 months after completing the acquisition.

The percentage of net service revenue contributed from each reporting segment for the three and nine months ended September 30, 2018 and 2017 was as follows:

Reporting segment	Three Months Ended		Nine Months Ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Home health services	71.0 %	72.9 %	71.1 %	73.8 %
Hospice services	10.5	15.1	11.3	14.9
Home and community-based services	10.4	4.5	9.2	4.3
Facility-based services	5.5	7.5	6.6	7.0
Healthcare innovations services	2.6	—	1.8	—
	100.0%	100.0%	100.0%	100.0%

**Recent Developments**

The reader is encouraged to review our detailed discussion of health care legislation and Medicare regulations in the similarly titled section in Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," along with the discussions in Part I, Item 1, "Business; Government Regulation" and in Part I, Item 1A, "Risk Factors" in our Annual Report on Form 10-K for the year ended December 30, 2017, as supplemented in Part I, Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations" in each of our Quarterly Reports on our Form 10-Qs for the quarters ended March 31, 2018 and June 30, 2018.



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## Home Health Services

On October 31, 2018, CMS released the final rule regarding payment rates for home health services provided during calendar year 2019. The national, standardized 60-day episode payment rate will increase to \$3,154.27 in 2019. The rule estimates an impact of 2.2% increase in payments due to the rate and policy changes proposed in the rule. The rule implements a modified rural safeguard payment varying between 1.5% and 4.0% beginning in 2019 as prescribed by the Bipartisan Budget Act of 2018. The final rule prescribed scores for various case-weights and made minor changes to the wage indices, both in a budget neutral manner. The final rule also establishes policy changes to the home health quality reporting program, the home health value based purchasing demonstration, the home health high cost outlier policy, and simplifies certification and recertification requirements beginning January 1, 2019.

In addition, for certifications and recertifications that commence on or after January 1, 2020, CMS will implement the Patient Driven Groupings Model ("PDGM") prospective payment system, as mandated by the Bipartisan Budget Act of 2018. Under the PDGM, the initial certification of patient eligibility, plan of care, and comprehensive assessment will remain valid for 60-day episodes of care, but payments for home health services will be made based upon 30-day payment periods. Further, the PDGM eliminates the use of the number of therapy visits in determining the calculation of payments. Under the PDGM, the national standardized rate will be budget neutral and will be set in the 2020 proposed rule. While CMS has proposed to make adjustments totaling -6.42% for assumptions on changes in provider behavior affecting reimbursement, which relate to clinical group coding, comorbidity coding, and achievement of LUPA thresholds, without providing backup data to support a full understanding of the assumptions that CMS used in determining these adjustments. LHC Group intends to continue its advocacy efforts to eliminate or reduce the amount of the behavioral adjustments.

## Medicare Accountable Care Organizations (ACOs)

The Affordable Care Act established ACOs as a tool to improve quality and lower costs through increased care coordination in the Medicare fee-for-service ("FFS") program, also known as "Original Medicare." The Medicare FFS program covers approximately 70% of the Medicare recipients or approximately 36 million eligible Medicare beneficiaries. ACOs are typically formed as legal entities by groups of doctors and other healthcare providers who endeavor to work together to provide high quality services and care for their patients through three-year contracts with CMS. Provider and beneficiary participation in an ACO is purely voluntary and Medicare beneficiaries retain their current ability to seek treatment from any provider they wish. Beneficiaries are assigned to ACOs using an "attribution" model based on a plurality of services provided by the primary care physician. Beneficiaries retain the right to use any doctor or hospital who accepts Medicare, at any time.

CMS established the Medicare Shared Savings Program ("MSSP") to facilitate coordination and cooperation among providers to improve the quality of care for Medicare FFS beneficiaries and to reduce costs. Eligible providers, hospitals, and suppliers may participate in the MSSP by creating, participating in or contracting with an ACO. The MSSP is designed to improve beneficiary outcomes and increase value of care by (1) promoting accountability for the care of Medicare FFS beneficiaries, (2) requiring coordinated care for all services provided under Medicare FFS, and (3) encouraging investment in infrastructure and redesigned care processes. The MSSP will reward ACOs that provide healthcare services at a cost for the ACO's patients during a relevant measurement year that is below the ACO's benchmark costs established by CMS, while also meeting performance standards on quality of care. Under the final MSSP rules, Medicare is to reimburse individual providers and suppliers for specific items and services as Medicare currently does under the FFS payment methodologies. MSSP rules require CMS to develop a benchmark for savings to be achieved by each ACO, if the ACO is to receive shared savings or for ACOs that have elected to accept responsibility for losses. An ACO that meets the program's quality performance standards will be eligible to receive a share of the savings to the extent its assigned beneficiary medical expenditures are below its own medical expenditure benchmark provided by CMS. The Company's HCI services segment provides specialized management services to ACOs, and in return, the Company shares in any MSSP payments received by the ACO.

## Seasonality

Our home health services segment operations in Florida normally experience higher admissions during the first quarter and lower admissions during the third quarter than in the other quarters due to seasonal population fluctuations. In the third quarter of 2018, Florida operations generated approximately 7.4% of our net service revenue.

Further, our third quarter falls within the "hurricane season" including the peak months of August and September. Our operations may thus be subject to periods of unexpected disruption, which may lower volumes and increase costs.

RESULTS OF OPERATIONS



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## Merger with Almost Family

On April 1, 2018, we completed our "merger of equals" business combination between us and Almost Family. The Merger created the second largest in-home healthcare provider in the country with an expanded geographic service territory of 36 states, which service territory contains over sixty percent (60%) of the U.S. population aged 65 and over and more than 770 locations, including those related to the 76 joint venture partnerships with health systems that consist of 336 hospitals.

Since the Merger was completed April 1, 2018, the first day of the Company's second fiscal quarter, financial results of the Company for the nine months ended September 30, 2018 include two full fiscal quarters of revenue and operating income with Almost Family and its subsidiaries. The Company's unaudited revenue and operating income for its third fiscal quarter of 2018, which included the financial results of Almost Family and its subsidiaries, was \$507.0 million and \$34.9 million, respectively. By comparison, for its third fiscal quarter of 2017, the Company (without combining the financial results of Almost Family and its subsidiaries) reported unaudited revenue and operating income of \$269.7 million and \$21.3 million, respectively, and Almost Family reported unaudited revenues and operating income of approximately \$190.6 million and \$7.6 million, respectively. Comparable unaudited pro forma third fiscal quarter operating results for 2017 reflected aggregate unaudited pro forma revenue and operating income of \$460.3 million and \$14.1 million, respectively. Unaudited pro forma information is for illustrative purposes only and may not be indicative of the results of operations that would have actually occurred if the Merger had been completed as of the beginning of 2017. In addition, future results may vary from the results reflected in such information.

Three months ended September 30, 2018 compared to three months ended September 30, 2017

## Consolidated financial statements

The following table summarizes our consolidated results of operations for the three months ended September 30, 2018 and 2017 (amounts in thousands, except percentages which are percentages of consolidated net service revenue, unless indicated otherwise):

	2018		2017		Increase (Decrease)
Net service revenue	\$507,043		\$269,678		\$237,365
Cost of service revenue	322,196	63.5 %	172,856	64.1 %	149,340
General and administrative expenses	149,917	29.6	75,492	28.0	74,425
Interest expense	(3,264 )		(995 )		2,269
Income tax expense	6,685	28.2	(1)7,445	41.1	(1)(760 )
Net income attributable to noncontrolling interests	3,751		1,984		1,767
Net income attributable to LHC Group, Inc.'s common stockholders	\$21,230		\$10,906		\$10,324

(1) Effective tax rate as a percentage of income from continuing operations attributable to LHC Group, Inc.'s common stockholders, excluding the excess tax benefits realized during the three months ended September 30, 2018 and 2017, of \$1.2 million and \$0.09 million, respectively. The change in our effective tax rate in 2018 was a result of the passage and signing of the Tax Cuts and Job Act, which reduced the Federal corporate income tax rate.

## Net service revenue

The following table sets forth each of our segment's revenue growth or loss, admissions, census, episodes, patient days, and billable hours for the three months ended September 30, 2018 and the related change from the same period in 2017 (amounts in thousands, except admissions, census, episode data, patient days and billable hours, and revenue excludes implicit price concessions):



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	Same Store(1)	De Novo(2)	Organic(3)	Organic Growth (Loss) %	Acquired(4)	Total	Total Growth (Loss) %
Home health services							
Revenue	\$212,471	\$ 1,268	\$ 213,739	9.3 %	\$ 151,188	\$ 364,927	83.4 %
Revenue Medicare	\$145,932	\$ 1,065	\$ 146,997	4.6	\$ 113,760	\$ 260,757	82.2
Admissions	51,216	291	51,507	9.2	41,136	92,643	94.1
Medicare Admissions	30,708	204	30,912	4.9	26,206	57,118	91.4
Average Census	43,618	224	43,842	2.9	31,637	75,479	74.6
Average Medicare Census	28,614	180	28,794	(0.9 )	21,154	49,948	69.3
Home Health Episodes	53,050	342	53,392	0.7	37,144	90,536	68.4
Hospice services							
Revenue	\$43,831	\$ —	\$ 43,831	6.2	\$ 9,962	\$ 53,793	30.3
Revenue Medicare	\$37,620	\$ —	\$ 37,620	(0.7 )	\$ 9,472	\$ 47,092	24.2
Admissions	3,612	—	3,612	5.1	945	4,557	32.5
Medicare Admissions	3,126	—	3,126	5.4	805	3,931	32.5
Average Census	2,998	—	2,998	(3.5 )	806	3,804	22.4
Average Medicare Census	2,759	—	2,759	(4.5 )	732	3,491	20.8
Patient days	279,842	—	279,842	(2.1 )	66,311	346,153	21.0
Home and community-based services							
Revenue	\$12,791	\$ —	\$ 12,791	5.3	\$ 40,696	\$ 53,487	340.4
Billable hours	423,292	—	423,292	0.4	1,861,688	2,284,980	441.9
Facility-based services							
LTACHs							
Revenue	\$19,654	\$ —	\$ 19,654	7.6	\$ 5,928	\$ 25,582	40.0
Patient days	16,784	—	16,784	14.6	4,833	21,617	47.6
Other facility-based services							
Revenue	\$2,912	\$ —	\$ 2,912	33.3	\$ —	\$ 2,912	33.3
HCI							
Revenue	\$ —	\$ —	\$ —	—	\$ 13,417	\$ 13,417	100.0
Consolidated							
Revenue	\$291,659	\$ 1,268	\$ 292,927	8.7	\$ 221,191	\$ 514,118	88.4

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

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

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

(4) Acquired — purchased location that has been in service with us for 12 months or less, including all legacy Almost Family locations for the period after April 1, 2018.

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

The following table sets forth the reconciliation of total revenue disclosed above, which excludes implicit price concession, to net service revenue recognized for the three months ended September 30, 2018 and 2017 (amounts in thousands):



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	Three Months Ended			
	September 30,		September 30,	
	2018	% of Net Service Revenue	2017	% of Net Service Revenue
Revenue	\$514,118		\$272,872	
Less: Implicit price concession	7,075	1.4 %	3,194	1.2 %
Net service revenue	\$507,043		\$269,678	

## Cost of service revenue

The following table summarizes cost of service revenue (amounts in thousands, except percentages, which are percentages of the segment's respective net service revenue):

	Three Months Ended			
	September 30,		September 30,	
	2018		2017	
Home health services				
Salaries, wages and benefits	\$203,463	56.5 %	\$112,117	57.1 %
Transportation	11,450	3.2	6,271	3.2
Supplies and services	7,852	2.2	4,816	2.5
Total	\$222,765	61.9 %	\$123,204	62.8 %
Hospice services				
Salaries, wages and benefits	\$24,763	46.8 %	\$19,523	47.6 %
Transportation	1,931	3.6	1,588	3.9
Supplies and services	7,846	14.8	6,330	15.4
Total	\$34,540	65.2 %	\$27,441	66.9 %
Home and community-based services				
Salaries, wages and benefits	\$39,100	74.1 %	\$8,820	72.8 %
Transportation	576	1.1	92	0.8
Supplies and services	184	0.3	59	0.5
Total	\$39,860	75.5 %	\$8,971	74.1 %
Facility-based services				
Salaries, wages and benefits	\$13,784	49.4 %	\$9,644	47.8 %
Transportation	89	0.3	81	0.4
Supplies and services	6,273	22.5	3,515	17.4
Total	\$20,146	72.1 %	\$13,240	65.6 %
HCI				
Salaries, wages and benefits	\$4,674	34.8 %	\$—	— %
Transportation	177	1.3	—	—
Supplies and services	34	0.3	—	—
Total	\$4,885	36.4 %	—	— %
Consolidated				
Total	\$322,196	63.5 %	\$172,856	64.1 %

Consolidated cost of service revenue for the three months ended September 30, 2018 was \$322.2 million or 63.5% of net service revenue, compared to \$172.9 million, or 64.1% of net service revenue, for the same period in 2017.

Substantially all of the change in consolidated cost of service revenue was a result of the Merger and other acquisitions purchased during the latter part of 2017 and 2018.



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## General and administrative expenses

The following table summarizes general and administrative expenses (amounts in thousands, except percentages, which are percentages of the segment's respective net service revenue):

	Three Months Ended September 30,			
	2018		2017	
Home health services				
General and administrative	\$102,978	28.6%	\$53,773	27.4%
Depreciation and amortization	2,479	0.7	2,227	1.1
Total	\$105,457	29.3%	\$56,000	28.5%
Hospice services				
General and administrative	\$14,048	26.5%	\$10,710	26.1%
Depreciation and amortization	637	1.2	566	1.4
Total	\$14,685	27.7%	\$11,276	27.5%
Home and community-based services				
General and administrative	\$12,771	24.2%	\$2,275	18.8%
Depreciation and amortization	151	0.3	112	0.9
Total	\$12,922	24.5%	\$2,387	19.7%
Facility-based services				
General and administrative	\$9,056	32.5%	\$5,402	26.8%
Depreciation and amortization	767	2.7	427	2.1
Total	\$9,823	35.2%	\$5,829	28.9%
HCI				
General and administrative	\$6,624	49.4%	\$—	—%
Depreciation and amortization	406	3.0	—	—
Total	\$7,030	52.4%	\$—	—%
Consolidated				
Total	\$149,917	29.6%	\$75,492	28.0%

Consolidated general and administrative expenses for the three months ended September 30, 2018 were \$149.9 million, or 29.6% of net service revenue, compared to \$75.5 million, or 28.0% of net service revenue, for the same period in 2017. Substantially all of the change in consolidated general and administrative expenses was a result of the Merger and other acquisitions purchased during the latter part of 2017 and 2018.

Nine months ended September 30, 2018 compared to nine months ended September 30, 2017

## Consolidated financial statements

The following table summarizes our consolidated results of operations for the nine months ended September 30, 2018 and 2017 (amounts in thousands, except percentages which are percentages of consolidated net service revenue, unless indicated otherwise):

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	2018		2017		Increase (Decrease)
Net service revenue	\$1,300,121		\$771,462		\$528,659
Cost of service revenue	831,818	64.0%	488,384	63.3%	343,434
General and administrative expenses	391,940	30.1	221,054	28.7	170,886
Interest expense	(7,916 )		(2,615 )		5,301
Income tax expense	14,832	27.5	(1)20,410	41.1	(1)(5,578 )
Net income attributable to noncontrolling interests	10,593		7,321		3,272
Net income attributable to LHC Group, Inc.'s common stockholders	\$43,022		\$31,678		\$11,344

Effective tax rate as a percentage of income from continuing operations attributable to LHC Group, Inc.'s common stockholders, excluding the excess tax benefits realized during the nine months ended September 30, 2018 and (1) 2017 of \$2.1 million and \$1.0 million, respectively. The change in our effective tax rate in 2018 was a result of the passage and signing of the Tax Cuts and Job Act, which reduced the Federal corporate income tax rate.

## Net service revenue

The following table sets forth each of our segment's revenue growth or loss, admissions, census, episodes, patient days, and billable hours for the nine months ended September 30, 2018 and the related change from the same period in 2017 (amounts in thousands, except admissions, census, episode data, patient days and billable hours, and revenue excludes implicit price concessions):



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	Same Store(1)	De Novo(2)	Organic(3)	Organic Growth (Loss) %	Acquired(4)	Total	Total Growth (Loss) %
Home health services							
Revenue	\$612,836	\$4,436	\$617,272	9.1 %	\$321,097	\$938,369	63.1 %
Revenue Medicare	\$424,257	\$3,940	\$428,197	4.8	\$242,524	\$670,721	61.4
Admissions	150,468	932	151,400	7.9	88,271	239,671	68.3
Medicare Admissions	91,593	729	92,322	4.9	56,836	149,158	66.8
Average Census	42,978	271	43,249	2.8	32,831	76,080	78.3
Average Medicare Census	28,470	231	28,701	(0.9 )	22,067	50,768	72.8
Home Health Episodes	156,845	1,194	158,039	1.0	83,187	241,226	51.9
Hospice services							
Revenue	\$118,779	\$176	\$118,955	2.6	\$29,355	\$148,310	27.6
Revenue Medicare	\$105,855	\$152	\$106,007	(1.2 )	\$26,751	\$132,758	23.4
Admissions	10,084	14	10,098	4.2	3,041	13,139	35.3
Medicare Admissions	8,766	11	8,777	5.2	2,645	11,422	36.6
Average Census	2,832	7	2,839	(4.7 )	701	3,540	18.5
Average Medicare Census	2,618	6	2,624	(5.0 )	798	3,422	23.6
Patient days	777,829	1,172	779,001	(4.2 )	183,838	962,839	18.1
Home and community-based services							
Revenue	\$35,302	\$1,084	\$36,386	7.6	\$85,170	\$121,556	259.6
Billable hours	1,131,609	58,370	1,189,979	1.3	3,801,615	4,991,594	325.0
Facility-based services							
LTACHs							
Revenue	\$55,321	\$—	\$55,321	16.8	\$26,117	\$81,438	72.0
Patient days	42,436	—	42,436	2.4	20,218	62,654	51.2
Other facility-based services							
Revenue	\$6,611	\$—	\$6,611	(6.9 )	\$—	\$6,611	(6.9 )
HCI							
Revenue	\$—	\$—	\$—	—	\$23,556	\$23,556	100.0
Consolidated							
Revenue	\$828,849	\$5,696	\$834,545	8.8	\$485,295	\$1,319,840	69.3

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

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

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

(4) Acquired — purchased location that has been in service with us for 12 months or less, including all legacy Almost Family locations for the period after April 1, 2018.

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

The following table sets forth the reconciliation of total revenue disclosed above, which excludes implicit price concession, to net service revenue recognized for the nine months ended September 30, 2018 and 2017 (amounts in thousands):



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	Nine Months Ended September 30,			
	2018	% of Net Service Revenue	2017	% of Net Service Revenue
Revenue	\$ 1,319,840		\$ 779,700	
Less: Implicit price concession	19,719	1.5 %	8,238	1.1 %
Net service revenue	\$ 1,300,121		\$ 771,462	

Cost of service revenue

The following table summarizes cost of service revenue (amounts in thousands, except percentages, which are percentages of the segment's respective net service revenue):

	Nine Months Ended September 30,			
	2018		2017	
Home health services				
Salaries, wages and benefits	\$526,958	57.0%	\$320,933	56.4%
Transportation	29,483	3.2	18,064	3.2
Supplies and services	19,975	2.2	13,899	2.4
Total	\$576,416	62.3%	\$352,896	62.0%
Hospice services				
Salaries, wages and benefits	\$69,321	47.4%	\$52,800	46.0%
Transportation	5,427	3.7	4,555	4.0
Supplies and services	20,809	14.2	17,832	15.5
Total	\$95,557	65.3%	\$75,187	65.5%
Home and community-based services				
Salaries, wages and benefits	\$88,693	74.1%	\$24,514	73.4%
Transportation	1,215	1.0	231	0.7
Supplies and services	423	0.4	160	0.5
Total	\$90,331	75.6%	\$24,905	74.6%
Facility-based services				
Salaries, wages and benefits	\$41,145	47.7%	\$24,959	46.4%
Transportation	238	0.3	199	0.4
Supplies and services	17,719	20.5	10,238	19.0
Total	\$59,102	68.5%	\$35,396	65.8%
HCI				
Salaries, wages and benefits	\$10,017	42.5%	\$—	— %
Transportation	340	1.4	—	—
Supplies and services	55	0.2	—	—
Total	\$10,412	44.2%	\$—	— %
Consolidated				
Total	\$831,818	64.0%	\$488,384	63.3%

Consolidated cost of service revenue for the nine months ended September 30, 2018 was \$831.8 million or 64.0% of net service revenue, compared to \$488.4 million, or 63.3% of net service revenue, for the same period in 2017.

Substantially all of the change in consolidated cost of service revenue was a result of the Merger and other acquisitions purchased during the latter part of 2017 and 2018. Our home health same store cost of service revenue as a percentage of net service revenue increased 1.0%, which was due in part to 1.0% Medicare reimbursement cuts recognized in 2018.

General and administrative expenses

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The following table summarizes general and administrative expenses (amounts in thousands, except percentages, which are percentages of the segment's respective net service revenue):

	Nine Months Ended			
	September 30,		2017	
	2018		2017	
Home health services				
General and administrative	\$270,762	29.3%	\$158,752	27.9%
Depreciation and amortization	6,949	0.8	6,440	1.1
Total	\$277,711	30.0%	\$165,192	28.9%
Hospice services				
General and administrative	\$41,325	28.3%	\$30,696	26.7%
Depreciation and amortization	1,765	1.2	1,729	1.5
Total	\$43,090	29.4%	\$32,425	28.2%
Home and community-based services				
General and administrative	\$28,206	23.6%	\$6,621	19.8%
Depreciation and amortization	458	0.4	336	1.0
Total	\$28,664	24.0%	\$6,957	20.8%
Facility-based services				
General and administrative	\$28,028	32.5%	\$15,305	28.4%
Depreciation and amortization	2,030	2.4	1,175	2.2
Total	\$30,058	34.9%	\$16,480	30.6%
HCI				
General and administrative	\$11,633	49.4%	\$—	—%
Depreciation and amortization	784	3.3	—	—
Total	\$12,417	52.7%	\$—	—%
Consolidated				
Total	\$391,940	30.1%	\$221,054	28.7%

Consolidated general and administrative expenses for the nine months ended September 30, 2018 were \$391.9 million or 30.1% of net service revenue, compared to \$221.1 million, or 28.7% of net service revenue, for the same period in 2017. Substantially all of the change in consolidated general and administrative expenses was a result of the Merger and other acquisitions purchased during the latter part of 2017 and 2018. The increase in general and administrative expenses in the facility-based services segment was due in part to the closure of two LTACH locations and the relocation of two other LTACH locations.

**LIQUIDITY AND CAPITAL RESOURCES****Liquidity**

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

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

	Nine Months	
	Ended September	
	2018	2017
Net cash provided by (used in):		
Operating activities	\$86,334	\$61,695
Investing activities	(9,819 )	(69,191 )
Financing activities	(22,391 )	21,154



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Cash provided by operating activities and cash used in investing activities varied due to net changes in operating assets and liabilities primarily related to acquisitions acquired in 2017. Cash used in financing activities changed primarily due to the Company's payments under its credit facilities exceeding its borrowings under its credit facilities. Indebtedness

During the period from January 1, 2018 through April 1, 2018, we maintained our 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"). The interest rate for borrowing under the Prior Credit Facility was a variable rate which is a function of the prime rate (base rate) or London Interbank Offered Rate ("LIBOR") as elected by us, plus the applicable margin based on the Leverage Ratio.

On March 30, 2018, we entered into a Credit Agreement with JPMorgan Chase Bank, N.A., which was effective on April 2, 2018 (the "New Credit Agreement"). The New Credit Agreement provides a senior, secured revolving line of credit commitment with a maximum principal borrowing limit of \$500.0 million, which includes an additional \$200.0 million accordion expansion feature, and a letter of credit sub-limit equal to \$50.0 million. The expiration date of the New Credit Agreement is March 30, 2023. Our obligations under the New Credit Agreement are secured by substantially all of the assets of the Company and its wholly-owned subsidiaries, which assets include the Company's equity ownership of its wholly-owned subsidiaries and its equity ownership in joint venture entities. Our 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 bear interest at, as selected by us, 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. Swing line loans bear interest at the Base Rate. We are limited to 15 Eurodollar borrowings outstanding at the same time. We are required to pay a commitment fee for the unused commitments at rates ranging from 0.20% to 0.35% per annum depending upon our consolidated Leverage Ratio, as defined in the New Credit Agreement. The effective interest rates on our borrowings under the New Credit Agreement were 3.85% as of September 30, 2018.

On April 2, 2018, in connection with the consummation of the Merger, we 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 prior credit facility with JPMorgan Chase Bank, N.A., which was terminated in connection with the Merger, (ii) repay the approximately \$125.1 million of outstanding borrowings under the 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.

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

Under the New Credit Agreement with JPMorgan Chase Bank, N.A., a letter of credit fee shall be equal to the applicable Eurodollar rate on the average daily amount of the letter of credit exposure. The agent's standard up-front fee and other customary administrative charges will also be due upon issuance of the letter of credit along with a renewal fee on each anniversary date of such issuance while the letter of credit is outstanding. Borrowings accrue interest under the Credit Agreement at either the Base Rate or the Eurodollar rate, and are subject to the applicable margins set forth below:

Leverage Ratio	Eurodollar Margin	Base Rate Margin	Commitment Fee Rate
≤1.00:1.00	1.50 %	0.50 %	0.200 %

>1.00:1.00 ≤ 2.00:1.00	1.75 %	0.75 %	0.250 %
>2.00:1.00 ≤ 3.00:1.00	2.00 %	1.00 %	0.300 %
>3.00:1.00	2.25 %	1.25 %	0.350 %

Our New Credit Agreement contains customary affirmative, negative and financial covenants, which are subject to customary carve-outs, thresholds, and materiality qualifiers. The Credit Facility allows us to make certain restricted payments



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within certain parameters provided we maintain compliance with those financial ratios and covenants after giving effect to such restricted payments or, in the case of repurchasing shares of its stock, so long as such repurchases are within certain specified baskets.

Our New Credit Agreement also contains customary events of default, which are subject to customary carve-outs, thresholds, and materiality qualifiers. These include bankruptcy and other insolvency events, cross-defaults to other debt agreements, a change in control involving us or any subsidiary guarantor, and the failure to comply with certain covenants.

At September 30, 2018, we were in compliance with all debt covenants.

### Contingencies

For a discussion of contingencies, see Note 8 of the Notes to Condensed Consolidated Financial Statements, which is incorporated herein by reference.

### Off-Balance Sheet Arrangements

We do not currently have any off-balance sheet arrangements with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. In addition, we do not engage in trading activities involving non-exchange traded contracts. As such, we are not materially exposed to any financing, liquidity, market, or credit risk that could arise if we had engaged in these relationships.

### Critical Accounting Policies

For a discussion of critical accounting policies, see Note 2 of the Notes to Condensed Consolidated Financial Statements, which is incorporated herein by reference.

### Insurance

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

Our employee health insurance program is self-funded, with stop-loss coverage on claims that exceed \$0.3 million for any individually covered employee or employee family member. We are responsible for workers' compensation claims up to \$0.5 million per individual incident.

Malpractice, employment practices, and general liability claims for incidents which may give rise to litigation have been asserted against us by various claimants. The claims are in various stages of processing and some may ultimately be brought to trial. We are aware of incidents that have occurred through September 30, 2018 that may result in the assertion of additional claims. We currently carry professional, general liability and employment practices insurance coverage (on a claims made basis) for this exposure.

We also carry D&O coverage (also on a claims made basis) for potential claims against our directors and officers, including securities actions, with a deductible of \$1.0 million per security claim and \$0.5 million on other claims. Pursuant to the terms of the Agreement and Plan of Merger with Almost Family, for six years following the Merger, the Company will maintain in effect Almost Family's directors' and officers' liability insurance policy covering each person covered by such policy for acts or omissions occurring prior to and through the effective time of the Merger. In lieu of maintaining Almost Family's policies, the Company may (i) substitute policies of an insurance company with the same or better rating as Almost Family's insurance carrier, the material terms of which, including coverage and amount, are no less favorable in any material respect than Almost Family's policies as of the effective date of the Merger, or (ii) obtain extended reporting period coverage under Almost Family's insurance programs for a period of six years after the effective time of the Merger.

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



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

Our exposure to market risk relates to changes in interest rates for borrowings under our credit facility. Our letter of credit fees and interest accrued on our debt borrowings are subject to the applicable Eurodollar or Base Rate. A hypothetical basis point increase in interest rates on the average daily amounts outstanding under the credit facility would have increased interest expense by \$1.6 million for the nine months ended September 30, 2018.

**ITEM 4. CONTROLS AND PROCEDURES.**

**Evaluation of Disclosure Controls and Procedures**

We maintain disclosure controls and procedures (as defined in Rule 13a-15(e) of the Exchange Act) that are designed to ensure that information that we are required to disclose in our reports filed or submitted under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. Our management, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this report.

Based on the evaluation of our disclosure controls and procedures, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures (as defined in Rule 13a-15(e) of the Exchange Act) were effective as of September 30, 2018.

**Changes in Internal Controls Over Financial Reporting**

Except in connection with the orderly integration of the operations and financial reporting of Almost Family following the Merger, there have not been any changes in our internal control over financial reporting, as such term is defined in Rule 13a-15(f) of the Exchange Act, during the quarterly period ended September 30, 2018 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. On April 1, 2018, the Company completed the Merger. The Company is in the process of integrating Almost Family into the Company's existing internal control environment. As permitted by the SEC, the Company expects to exclude Almost Family from the assessment of internal control over financial reporting as of December 31, 2018.

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PART II — OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

For a discussion of legal proceedings, see Note 8 of the Notes to Condensed Consolidated Financial Statements, which is incorporated herein by reference.

ITEM 1A. RISK FACTORS.

Important risk factors that could affect the Company's operations and financial performance, or that could cause results or events to differ from current expectations, are described in Part I, Item 1A., "Risk Factors" of the Company's 2017 Annual Report on Form 10-K and Part II, Item 1A, "Risk Factors" of the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2018. Those risk factors are supplemented by those discussed under "Management's Discussion And Analysis Of Financial Condition And Results Of Operations" in Part I, Item 2 of this report. Except as set forth in the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2018, there have been no material changes to the risk factors as disclosed in the Company's 2017 Annual Report on Form 10-K.

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

On July 1, 2018, the Company acquired all noncontrolling membership interests in Imperium Health Management, LLC ("Imperium") then-held by non-affiliated owners (the "Imperium Sellers"), which equated to approximately 29.4% of the membership interests of Imperium outstanding at such time, for an aggregate purchase price equal to \$7.1 million. Upon the closing, Imperium became a wholly-owned indirect subsidiary of the Company. At the closing, the Company issued an aggregate of 90,032 shares of its unregistered common stock to the Imperium Sellers as consideration for their noncontrolling membership interests in Imperium. The shares were issued pursuant to an exemption from registration under Section 4(2) of the Securities Act of 1933 (the "Securities Act") in a privately-negotiated transaction not involving a public offering to the Imperium Sellers, each of which is an "accredited investor" as defined in Regulation D promulgated under the Securities Act.

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ITEM 6. EXHIBITS.

- 3.1 Amended and Restated Certificate of Incorporation of LHC Group, Inc. (previously filed as an Exhibit 3.1 to LHC Group's Form 8-K filed on April 2, 2018).
- 3.2 Bylaws of LHC Group, Inc. as amended on December 31, 2007 (previously filed as Exhibit 3.2 to LHC Group's Form 10-Q filed on May 9, 2008).
- 4.1 Specimen Stock Certificate of LHC Group's Common Stock, par value \$0.01 per share (previously filed as Exhibit 4.1 to LHC Group's Form S-1/ A (File No. 333-120792) filed on February 14, 2005).
- 31.1 Certification of Keith G. Myers, Chief Executive Officer pursuant to Rule 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of Joshua L. Proffitt, Chief Financial Officer pursuant to Rule 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1\* Certification of Chief Executive Officer and Chief Financial Officer of LHC Group, Inc. pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 101.INS XBRL Instance Document
- 101.SCH XBRL Schema Document
- 101.CAL XBRL Calculation Linkbase Document
- 101.DEF XBRL Definition Linkbase Document
- 101.LAB XBRL Label Linkbase Document
- 101.PRE XBRL Presentation Linkbase Document

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

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SIGNATURES

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

LHC GROUP, INC.

Date: November 1, 2018 /s/ Joshua L. Proffitt  
Joshua L. Proffitt  
Executive Vice President and Chief Financial Officer  
(Principal financial officer)