

**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, 2020

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
(State or other jurisdiction of
incorporation or organization)

71-0918189
(I.R.S. Employer
Identification No.)

901 Hugh Wallis Road South

Lafayette, LA 70508
(Address of principal executive offices including zip code)

(337) 233-1307
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class
Common Stock, par value of \$0.01

Trading Symbol(s)
LHCG

Name of each exchange on which registered
NASDAQ Global Select Market

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.

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Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

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

Number of shares of common stock, par value \$0.01, outstanding as of November 3, 2020: 31,592,259 shares.

LHC GROUP, INC.
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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) (Unaudited)

	September 30, 2020	December 31, 2019
ASSETS		
Current assets:		
Cash	\$ 253,764	\$ 31,672
Receivables:		
Patient accounts receivable	313,325	284,962
Other receivables	19,858	10,832
Total receivables	333,183	295,794
Prepaid income taxes	19,687	9,652
Prepaid expenses	22,791	21,304
Other current assets	26,231	21,852
Total current assets	655,656	380,274
Property, building and equipment, net of accumulated depreciation of \$78,623 and \$69,441, respectively	132,130	97,908
Goodwill	1,235,123	1,219,972
Intangible assets, net of accumulated amortization of \$ 17,372 and \$16,431, respectively	310,967	305,556
Assets held for sale	1,900	2,500
Operating lease right of use asset	99,066	95,452
Other assets	21,494	38,633
Total assets	<u>\$ 2,456,336</u>	<u>\$ 2,140,295</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and other accrued liabilities	\$ 73,508	\$ 83,572
Salaries, wages, and benefits payable	111,108	85,631
Self-insurance reserves	31,856	31,188
Government stimulus advance	93,257	—
Contract liabilities - deferred revenue	317,938	—
Current operating lease liabilities	32,018	28,701
Amounts due to governmental entities	2,435	1,880
Total current liabilities	662,120	230,972
Deferred income taxes	75,536	60,498
Income taxes payable	6,588	3,867
Revolving credit facility	20,000	253,000
Other long term liabilities	33,632	—
Operating lease payable	69,977	69,556
Total liabilities	867,853	617,893
Noncontrolling interest — redeemable	16,897	15,151
Commitments and contingencies		
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 shares authorized; 36,351,416 and 36,129,280 shares issued, and 31,136,522 and 30,992,390 shares outstanding, respectively	364	361
Treasury stock — 5,214,894 and 5,136,890 shares at cost, respectively	(68,845)	(60,060)
Additional paid-in capital	958,212	949,321
Retained earnings	604,917	523,701
Total LHC Group, Inc. stockholders' equity	1,494,648	1,413,323
Noncontrolling interest — non-redeemable	76,938	93,928
Total stockholders' equity	1,571,586	1,507,251
Total liabilities and stockholders' equity	<u>\$ 2,456,336</u>	<u>\$ 2,140,295</u>

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Net service revenue	\$ 530,684	\$ 528,499	\$ 1,530,875	\$ 1,548,926
Cost of service revenue (excluding depreciation and amortization)	305,246	334,768	933,160	981,620
Gross margin	225,438	193,731	597,715	567,306
General and administrative expenses	161,463	146,829	469,903	440,634
Impairment of intangibles and other	22	197	622	7,534
Government stimulus (income) expense (Note 1)	44,435	—	—	—
Operating income	19,518	46,705	127,190	119,138
Interest expense	(431)	(2,596)	(4,040)	(8,533)
Income before income taxes and noncontrolling interest	19,087	44,109	123,150	110,605
Income tax expense	4,595	9,508	23,181	22,665
Net income	14,492	34,601	99,969	87,940
Less net income (loss) attributable to noncontrolling interests	(8)	4,534	18,753	14,017
Net income attributable to LHC Group, Inc.'s common stockholders	<u>\$ 14,500</u>	<u>\$ 30,067</u>	<u>\$ 81,216</u>	<u>\$ 73,923</u>
Earnings per share:				
Basic	\$ 0.47	\$ 0.97	\$ 2.61	\$ 2.39
Diluted	\$ 0.46	\$ 0.96	\$ 2.59	\$ 2.37
Weighted average shares outstanding:				
Basic	31,121	30,971	31,080	30,919
Diluted	31,411	31,247	31,334	31,203

See accompanying Notes to the Condensed Consolidated Financial Statements.

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

	For the Nine Months Ended September 30, 2020							
	Common Stock				Additional Paid-In Capital	Retained Earnings	Noncontrolling Interest Non Redeemable	Total Equity
	Issued		Treasury					
	Amount	Shares	Amount	Shares				
Balance as of December 31, 2019	\$ 361	36,129,280	\$ (60,060)	5,136,890	\$ 949,321	\$ 523,701	\$ 93,928	\$ 1,507,251
Net income (1)	—	—	—	—	—	22,024	2,099	24,123
Acquired noncontrolling interest	—	—	—	—	—	—	2,880	2,880
Noncontrolling interest distributions	—	—	—	—	—	—	(2,093)	(2,093)
Purchase of additional controlling interest	—	—	—	—	(2,470)	—	(21,105)	(23,575)
Nonvested stock compensation	—	—	—	—	3,680	—	—	3,680
Issuance of vested stock	2	163,163	—	—	—	—	—	2
Treasury shares redeemed to pay income tax	—	—	(7,122)	59,390	189	—	—	(6,933)
Issuance of common stock under Employee Stock Purchase Plan	—	4,663	—	—	610	—	—	610
Balance as of March 31, 2020	\$ 363	36,297,106	\$ (67,182)	5,196,280	\$ 951,330	\$ 545,725	\$ 75,709	\$ 1,505,945
Net income (1)	—	—	—	—	—	44,692	7,058	51,750
Noncontrolling interest distributions	—	—	—	—	—	—	(1,909)	(1,909)
Nonvested stock compensation	—	—	—	—	3,263	—	—	3,263
Issuance of vested stock	—	19,846	—	—	—	—	—	—
Treasury shares redeemed to pay income tax	—	—	(950)	6,256	(189)	—	—	(1,139)
Exercise of options	—	7,137	(522)	3,315	218	—	—	(304)
Issuance of common stock under Employee Stock Purchase Plan	—	3,730	—	—	497	—	—	497
Balance as of June 30, 2020	\$ 363	36,327,819	\$ (68,654)	5,205,851	\$ 955,119	\$ 590,417	\$ 80,858	\$ 1,558,103
Net income (loss) (1)	—	—	—	—	—	14,500	(770)	13,730
Acquired noncontrolling interest	—	—	—	—	—	—	608	608
Noncontrolling interest distributions	—	—	—	—	—	—	(6,375)	(6,375)
Sale of noncontrolling interest	—	—	—	—	(293)	—	2,617	2,324
Nonvested stock compensation	—	—	—	—	4,190	—	—	4,190
Issuance of vested stock	1	10,994	—	—	—	—	—	1
Treasury shares redeemed to pay income tax	—	—	(966)	5,030	—	—	—	(966)
Exercise of options	—	9,149	775	4,013	(1,376)	—	—	(601)
Issuance of common stock under Employee Stock Purchase Plan	—	3,454	—	—	572	—	—	572
Balance as of September 30, 2020	\$ 364	36,351,416	\$ (68,845)	5,214,894	\$ 958,212	\$ 604,917	\$ 76,938	\$ 1,571,586

(1) Net income excludes net income attributable to noncontrolling interest-redeemable of \$0.7 million and \$10.4 million during the three and nine months ended September 30, 2020, respectively. Noncontrolling interest-redeemable is reflected outside of permanent equity on the condensed consolidated balance sheets. See Note 8 of the Notes to Condensed Consolidated Financial Statements.

For the Nine Months Ended September 30, 2019								
	Common Stock				Additional Paid-In Capital	Retained Earnings	Noncontrolling Interest Non Redeemable	Total Equity
	Issued		Treasury					
	Amount	Shares	Amount	Shares				
Balance as of December 31, 2018	\$ 358	35,835,348	\$ (49,373)	5,029,429	\$ 937,965	\$ 427,975	\$ 107,549	\$ 1,424,474
Net income (1)	—	—	—	—	—	18,856	1,686	20,542
Acquired noncontrolling interest	—	—	—	—	—	—	820	820
Noncontrolling interest distributions	—	—	—	—	—	—	(6,799)	(6,799)
Purchase of additional controlling interest	—	—	—	—	—	—	(18,000)	(18,000)
Nonvested stock compensation	—	—	—	—	1,804	—	—	1,804
Issuance of vested stock	2	174,562	—	—	—	—	—	2
Treasury shares redeemed to pay income tax	—	—	(6,726)	61,465	(115)	—	—	(6,841)
Exercise of options	1	44,387	(851)	24,044	—	—	—	(850)
Issuance of common stock under Employee Stock Purchase Plan	—	5,357	—	—	478	—	—	478
Balance as of March 31, 2019	\$ 361	36,059,654	\$ (56,950)	5,114,938	\$ 940,132	\$ 446,831	\$ 85,256	\$ 1,415,630
Net income (1)	—	—	—	—	—	25,000	1,897	26,897
Acquired noncontrolling interest	—	—	—	—	—	—	6,170	6,170
Noncontrolling interest distributions	—	—	—	—	—	—	(2,026)	(2,026)
Noncontrolling interest purchased, net of sales	—	—	—	—	(1,283)	—	531	(752)
Nonvested stock compensation	—	—	—	—	2,588	—	—	2,588
Issuance of vested stock	—	17,145	—	—	—	—	—	—
Treasury shares redeemed to pay income tax	—	—	(730)	7,199	30	—	—	(700)
Exercise of options	—	3,293	(212)	1,866	—	—	—	(212)
Issuance of common stock under Employee Stock Purchase Plan	—	4,301	—	—	453	—	—	453
Balance as of June 30, 2019	\$ 361	36,084,393	\$ (57,892)	5,124,003	\$ 941,920	\$ 471,831	\$ 91,828	\$ 1,448,048
Net income (1)	—	—	—	—	—	30,067	1,479	31,546
Acquired noncontrolling interest	—	—	—	—	—	—	1,868	1,868
Noncontrolling interest distributions	—	—	—	—	—	—	(2,162)	(2,162)
Noncontrolling interest purchased, net of sales	—	—	—	—	819	—	(119)	700
Nonvested stock compensation	—	—	—	—	1,990	—	—	1,990
Issuance of vested stock	—	14,799	—	—	—	—	—	—
Treasury shares redeemed to pay income tax	—	—	(374)	3,032	234	—	—	(140)
Exercise of options	—	9,058	(529)	4,307	—	—	—	(529)
Issuance of common stock under Employee Stock Purchase Plan	—	5,360	—	—	609	—	—	609
Balance as of September 30, 2019	\$ 361	36,113,610	\$ (58,795)	5,131,342	\$ 945,572	\$ 501,898	\$ 92,894	\$ 1,481,930

(1) Net income excludes net income attributable to noncontrolling interest-redeemable of \$3.1 million and \$9.0 million during the three and nine months ended September 30, 2019, respectively. Noncontrolling interest-redeemable is reflected outside of permanent equity on the condensed consolidated balance sheets. See Note 8 of the Notes to Condensed Consolidated Financial Statements.

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	Nine Months Ended September 30,	
	2020	2019
Operating activities:		
Net income	\$ 99,969	\$ 87,940
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization expense	15,601	12,812
Amortization of operating lease right of use asset	25,799	22,952
Stock-based compensation expense	11,133	6,382
Deferred income taxes	15,038	8,102
Loss on disposal of assets	291	337
Impairment of intangibles and other	622	7,534
Changes in operating assets and liabilities, net of acquisitions:		
Receivables	(36,194)	(42,928)
Prepaid expenses	(1,487)	4,828
Other assets	(3,183)	(2,810)
Prepaid income taxes	(10,035)	8,258
Accounts payable and accrued expenses	(17,085)	(4,241)
Salaries, wages, and benefits payable	25,913	18,001
Contract liabilities - deferred revenue	317,938	—
Other long term liabilities	33,632	—
Operating lease liabilities	(25,485)	(18,428)
Income taxes payable	2,721	(715)
Net amounts due to/from governmental entities	555	(3,234)
Net cash provided by operating activities	455,743	104,790
Investing activities:		
Purchases of property, building and equipment	(51,241)	(15,401)
Proceeds from sale of property, building and equipment	7,142	—
Cash received (paid) for acquisitions	2,326	(54,120)
Net cash used in investing activities	(41,773)	(69,521)
Financing activities:		
Proceeds from line of credit	276,229	84,000
Payments on line of credit	(509,229)	(87,000)
Government stimulus advance	93,257	—
Proceeds from employee stock purchase plan	1,679	1,540
Payments on debt	—	(7,650)
Noncontrolling interest distributions	(22,505)	(18,944)
Withholding taxes paid on stock-based compensation	(9,854)	(9,422)
Purchase of additional controlling interest	(23,575)	(18,763)
Exercise of vested awards and stock options	—	153
Sale of noncontrolling interest	2,120	756
Net cash used in financing activities	(191,878)	(55,330)
Change in cash	222,092	(20,061)
Cash at beginning of period	31,672	49,363
Cash at end of period	\$ 253,764	\$ 29,302

Supplemental disclosures of cash flow information:		
Interest paid	\$ 4,556	\$ 8,549
Income taxes paid	\$ 15,583	\$ 8,015
Non-Cash Operating Activity:		
Operating right of use assets in exchange for lease obligations	\$ 25,633	\$ 115,161
Non-Cash Investing Activity:		
Accrued capital expenditures	\$ 5,851	\$ 1,514

See accompanying Notes to Condensed Consolidated Financial Statements.

LHC GROUP, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Basis of Presentation and Significant Events

Organization

LHC Group, Inc. (the "Company") is a health care provider specializing in the post-acute continuum of care. The Company provides services through five segments: home health, hospice, home and community-based services, facility-based services, the latter primarily through long-term acute care hospitals ("LTACHs"), and healthcare innovations services ("HCI").

As of September 30, 2020, the Company, through its wholly- and majority-owned subsidiaries, equity joint ventures, controlled affiliates, and management agreements operated 823 service locations in 35 states within the continental United States and the District of Columbia.

COVID-19

The effects of the worldwide pandemic caused by the outbreak of SARS-CoV-2 ("COVID-19") have materially impacted our business.

In response to the COVID-19 outbreak, we promptly convened a cross-functional COVID-19 task force comprised of the Company's leaders that continually communicates with our clinicians and other employees concerning best practices and changes in Company policies and procedures. We also implemented contingency planning policies, whereby most employees in our home offices located in Louisiana and Kentucky are continuing to work remotely in compliance with CDC recommendations. We continue to invest in technology and equipment that allows our remote work force to provide continued and seamless functionality to our clinicians who continue to care for patients on service.

We have undertaken numerous measures to promote the safety of our clinicians and other employees. For example, we have prepared and distributed to our clinicians across the country special kits of personal protective equipment and other supplies needed to properly treat our patients during the COVID-19 outbreak, adopted social distancing guidelines for our agencies and our home offices located in Louisiana and Kentucky and posted reminder signs and markers throughout our work spaces, adopted additional cleaning procedures at all locations, installed plexiglass shields at work spaces that require a physical protective barrier, and instituted temperature check points in our agencies and home office campuses. These and other measures have altered numerous clinical, operational and business processes and significantly increases our supplies and services costs.

In addition, we have implemented a number of programs to support our employees, including a pandemic grant program that supports employees experiencing financial hardships, retirement plan amendments, special cash-in opportunities for accumulated paid time off, expanded offerings in our employee assistance program, a wage supplement program designed to restore lost wages for front line patient care employees that qualified, and a paid time off replenishment program designed to restore certain hours of paid time off for front line patient care employees that qualified and for any employees who previously donated their paid time off hours to these front line patient care employees.

CARES Act

In response to COVID-19, the U.S. Government enacted the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") on March 27, 2020. The CARES Act was passed to provide \$100 billion of Provider Relief Funds for distribution to eligible providers who provided diagnoses, testing, or care for individuals with a possible or actual case of COVID-19, specifically to reimburse providers for health care related expenses related to the prevention of the spread of COVID-19, preparations for treating cases of COVID-19 positive patients, and for lost revenues attributable to COVID-19. The CARES Act also provided financial hardship relief to Medicare providers impacted by the COVID-19 pandemic in order to provide necessary funds when there is a disruption in Medicare claims submission and/or Medicare claims processing by distributing funds through the Accelerated and Advanced Payments Program ("AAPP").

In addition, the CARES Act suspended the 2% sequestration payment adjustments on Medicare patient claims with dates of service from May 1 through December 31, 2020, suspended the application of site-neutral payment for LTACH admissions that were admitted during the Public Health Emergency ("PHE"), and delayed payment of the employer portion of social security tax.

Provider Relief Fund

During the three and nine months ended September 30, 2020, the Company received \$4.6 million and \$93.3 million, respectively, in payments from the Provider Relief Fund. During the three months ended June 30, 2020, the Company recognized \$44.4 million related to these funds in government stimulus income in our condensed consolidated statements of income. This was recorded in accordance with IAS 20, *Accounting for Government Grants and Disclosure of Government Assistance*. During the three months ended September 30, 2020, the Company reversed \$44.4 million, such that the Company has recognized no funds from the Provider Relief Fund as of the nine months ended September 30, 2020. Based on the Company's improved and projected financial results, the Company intends to return these funds to the government and has recorded a short-term liability of \$93.3 million in government stimulus advance in our condensed consolidated balance sheet.

AAPP

During the nine months ended September 30, 2020, the Company received \$317.9 million of accelerated payments under the AAPP, which was recorded in contract liabilities - deferred revenue in our condensed consolidated balance sheet in accordance with Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts with Customers* ("Topic 606"). When we received these AAPP funds in April 2020, the Centers for Medicare and Medicaid Services ("CMS") issued guidance that any AAPP funds that were not then repaid to CMS would be automatically recouped from Medicare amounts otherwise payable to us by CMS beginning 120 days after our receipt of such funds, until all AAPP funds have been completely repaid to or recouped by CMS. As of September 30, 2020, CMS had not recouped any of the advanced payments provided to the Company under AAPP.

On October 1, 2020, the repayment and recoupment terms for AAPP funds were amended by the Continuing Appropriations Act, 2021 and Other Extensions Act, which provides that recoupment will begin one year from the date the AAPP funds were received. Under these revised terms, recoupment of AAPP will occur under a tiered approach. Beginning in the second quarter of 2021 and continuing for 11 months, CMS will recoup 25% of Medicare payments otherwise owed to the Company. If any amount of AAPP funds that we received from CMS remain unpaid after the initial 11 month period, CMS will recoup 50% of Medicare payments otherwise owed to the Company during the following six months. Interest will begin accruing on any amount of the AAPP funds that we received from CMS that remain unpaid following those recoupment periods. CMS will issue a repayment letter to the Company for any such outstanding amounts, which must be paid in full within 30 days from the date of the letter. The Company intends to repay the full amount before any interest accrues.

Other

During the three and nine months ended September 30, 2020, the Company recognized \$6.5 million and \$11.5 million of net service revenue due to the suspension of the 2% sequestration payment adjustment. During the three and nine months ended September 30, 2020, the Company recognized \$6.4 million and \$11.1 million of net service revenue due to the suspension of LTACH site-neutral payments. As of September 30, 2020, the Company deferred \$33.6 million of employer social security taxes, which was recorded in other long term liabilities on our condensed consolidated balance sheet.

Unaudited Interim Financial Information

The accompanying unaudited condensed consolidated balance sheets as of September 30, 2020 and December 31, 2019, the related unaudited condensed consolidated statements of income for the three and nine months ended September 30, 2020 and 2019, the unaudited condensed consolidated statements of changes in equity for the three and nine months ended September 30, 2020 and 2019, the unaudited condensed consolidated statements of cash flows for the nine months ended September 30, 2020 and 2019, 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, 2020 are not necessarily indicative of the results that may be expected for the year ending December 31, 2020.

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, 2019 (the "2019 Form 10-K"). The 2019 Form 10-K was filed with the Securities and Exchange Commission (the "SEC") on February 27, 2020, and includes information and disclosures not included herein.

Immaterial Correction of an Error

During the three and nine months ended September 30, 2019, the Company increased the reported number of common shares issued by 9,058 and 56,738, respectively, decreased the reported number of treasury shares by 368, and reclassified the reported number of treasury shares by 4,307 and 30,217 for the three and nine months ended September 30, 2019 due to the exclusion of reporting the number of common shares issued as a result of the exercise of certain outstanding stock options and the number of treasury shares redeemed to pay income tax associated with such stock option exercises. For further details of this noted item, see Note 2 of the Notes to Consolidated Financial Statements in the 2019 10K filed with the SEC on February 27, 2020.

The Company has evaluated the effects both qualitatively and quantitatively, and concluded that they did not have a material impact on previously issued financial statements for the three and nine months ended September 30, 2019.

2. Significant Accounting Policies

Use of Estimates

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

Critical Accounting Policies

The Company's most critical accounting policies relate to revenue recognition.

Net Service Revenue

Net service revenue from contracts with customers is recognized in the period the performance obligations are satisfied under the Company's contracts by transferring the requested services to patients in amounts that reflect the consideration to which is expected to be received in exchange for providing patient care, which is the transaction price allocated to the services provided in accordance with Topic 606 and ASU 2015-14, *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date* (collectively, "ASC 606").

Net service revenue is recognized as performance obligations are satisfied, which can vary depending on the type of services provided. The performance obligation is the delivery of patient care in accordance with the requested services outlined in physicians' orders, which are based on specific goals for each patient.

The performance obligations are associated with contracts in duration of less than one year; therefore, the optional exemption provided by ASC 606 was elected resulting in the Company not being required to disclose the aggregate amount of the transaction price allocated to the performance obligations that are unsatisfied or partially unsatisfied as of the end of the reporting period. The Company's unsatisfied or partially unsatisfied performance obligations are primarily completed when the patients are discharged and typically occur within days or weeks of the end of the period.

The Company determines the transaction price based on gross charges for services provided, reduced by estimates for explicit and implicit price concessions. Explicit price concessions include contractual adjustments provided to patients and third-party payors. Implicit price concessions include discounts provided to self-pay, uninsured patients or other payors, adjustments resulting from regulatory reviews, audits, billing reviews and other matters. Subsequent changes to the estimate of the transaction price are recorded as adjustments to net service revenue in the period of change. Subsequent changes that are determined to be the result of an adverse change in the patient's ability to pay (i.e. change in credit risk) are recorded as a provision for doubtful accounts within general and administrative expenses.

Explicit price concessions are recorded for the difference between our standard rates and the contracted rates to be realized from patients, third-party payors and others for services provided.

Implicit price concessions are recorded for self-pay, uninsured patients and other payors by major payor class based on historical collection experience and current economic conditions, representing the difference between amounts billed and amounts expected to be collected. The Company assesses the ability to collect for the healthcare services provided at the time of patient admission based on the verification of the patient's insurance coverage under Medicare, Medicaid, and other commercial or managed care insurance programs.

Amounts due from third-party payors, primarily commercial health insurers and government programs (Medicare and Medicaid), include variable consideration for retroactive revenue adjustments due to settlements of audits and reviews. The

Company has determined estimates for price concessions related to regulatory reviews based on historical experience and success rates in the claim appeals and adjudication process. Revenue is recorded at amounts estimated to be realizable for services provided.

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, 2020 and 2019:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Home health:				
Medicare	66.4 %	69.7 %	67.0 %	70.6 %
Managed Care, Commercial, and Other	33.6	30.3	33.0	29.4
	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>
Hospice:				
Medicare	93.8 %	89.8 %	92.9 %	91.6 %
Managed Care, Commercial, and Other	6.2	10.2	7.1	8.4
	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>
Home and Community-Based Services:				
Medicaid	21.5 %	21.8 %	21.0 %	23.7 %
Managed Care, Commercial, and Other	78.5	78.2	79.0	76.3
	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>
Facility-Based Services:				
Medicare	54.2 %	59.3 %	55.2 %	56.6 %
Managed Care, Commercial, and Other	45.8	40.7	44.8	43.4
	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>
HCI:				
Medicare	11.1 %	17.1 %	17.9 %	20.7 %
Managed Care, Commercial, and Other	88.9	82.9	82.1	79.3
	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>

Medicare

The following describes the payment models in effect during the nine months ended September 30, 2020. Such payment models have been subject to temporary adjustments made by CMS in response to COVID-19 pandemic as described elsewhere in this Quarterly Report on Form 10-Q.

Home Health Services

Effective January 1, 2020, the Patient Driven Groupings Model ("PDGM") became the new payment model for services provided to Medicare patients with dates of service on or after the effective date, including certain Medicare Advantage patients. PDGM was implemented by CMS. Under PDGM, the initial certification of Medicare patient eligibility, plan of care, and comprehensive assessment is for a 60-day episode of care; however, unlike the former Medicare prospective payment system ("PPS"), where each 60-day episode of care could not be final billed until the episode was completed, PDGM provides for each 30-day period within the episode of care to be final billed upon completion.

As a result of PDGM, the Company now completes its final billing after each 30-day period instead of the former 60-day period under PPS. For each 30-day period, the patient is classified into one of 432 home health resource groups prior to receiving services. Each 30-day period is placed into a subgroup falling under the following categories: (i) timing being early or late, (ii) admission source being community or institutional, (iii) one of 12 clinical groupings based on the patient's principal diagnosis, (iv) functional impairment level of low, medium, or high, and (v) a co-morbidity adjustment of none, low, or high based on the patient's secondary diagnoses.

Each 30-day period payment from Medicare reflects base payment adjustments for case-mix and geographic wage differences. All Medicare patient claims with dates of service from January 1, 2020 through April 30, 2020 reflected a 2% sequestration reduction. The 2% sequestration reduction adjustment was suspended for patient claims with dates of service that began May 1, 2020 through December 31, 2020. In addition, payments may reflect one of three retroactive adjustments to the total reimbursement: (a) an outlier payment if the patient's care was unusually costly; (b) a low utilization adjustment whereby the

number of visits is dependent on the clinical grouping; and/or (c) a partial payment if the patient transferred to another provider or from another provider before completing the episode. 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

The Company records revenue based upon the date of service at amounts equal to the estimated payment rates. The Company receives one of four predetermined daily rates based upon the level of care provided by the Company, which can be routine care, general inpatient care, continuous home care, and respite care. There are two separate payment rates for routine care: payment for the first 60 days of care and care beyond 60 days. In addition to the two routine rates, the Company may also receive a service intensity add-on ("SIA"). The SIA is based on visits made in the last seven days of life by a registered nurse or medical social worker for patients in a routine level of care.

The performance obligation is the delivery of hospice services to the patient, as determined by a physician, each day the patient is on hospice care.

Adjustments to Medicare revenue are made from regulatory reviews, audits, billing reviews and other matters. The Company estimates the impact of these adjustments based on our historical experience.

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 programs receiving reimbursements in excess of a "cap amount," determined by Medicare to be payment equal to 12 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, if any, in the reporting period.

Facility-Based Services

Gross revenue is recorded as services are provided under the LTACH prospective payment system. Each patient is assigned a long-term care diagnosis-related group. The Company is paid a predetermined fixed amount intended to reflect the average cost of treating a Medicare 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.

Non-Medicare Revenues

Other sources of net service revenue for all segments fall into Medicaid, managed care or other payors of the Company's services. Medicaid reimbursement is based on a predetermined fee schedule applied to each service provided. Therefore, revenue is recognized for Medicaid services as services are provided based on this fee schedule. The Company's managed care and other payors reimburse the Company based upon a predetermined fee schedule or an episodic basis, depending on the terms of the applicable contract. Accordingly, the Company recognizes revenue from managed care and other payors as services are provided, such costs are incurred, and estimates of expected payments are known for each different payor, thus the Company's revenue is recorded at the estimated transaction price.

Contingent Service Revenues

The HCI 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 CMS to provide services to the Medicare fee-for-service population for a specified annual period with the goal of providing better care for the individual, 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.

Patient Accounts Receivable

The Company reports patient accounts receivable from services rendered at their estimated transaction price, which includes price concessions based on the amounts expected to be due from payors. The Company's patient accounts receivable is uncollateralized and primarily consist of amounts due from Medicare, Medicaid, other third-party payors, and to a lesser degree patients. The credit risk from other payors is limited due to the significance of Medicare as the primary payor. The Company believes the credit risk associated with its Medicare accounts 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 significant concentrations from any particular payor that would subject it to any significant credit risk in the collection of patient accounts receivable.

A portion of the estimated Medicare PDGM system reimbursement from each submitted home nursing episode is received in the form of a request for anticipated payment ("RAP"). For a standard 60-day episode of care, the Company will submit two RAPs, one for the first 30-day period and a second for the next 30-day period. The Company submits a RAP for 20% of the estimated reimbursement for each of the 30-day periods at the start of care. A final bill is submitted at the end of each 30-day period. If a final bill is not submitted within the greater of 120 days from the start of the 30-day period, or 60 days from the date the RAP was paid, any RAP received for that 30-day period 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.

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, 2020 and 2019 (amounts in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Weighted average number of shares outstanding for basic per share calculation	31,121	30,971	31,080	30,919
Effect of dilutive potential shares:				
Nonvested stock	290	276	254	284
Adjusted weighted average shares for diluted per share calculation	31,411	31,247	31,334	31,203
Anti-dilutive shares	—	4	5	141

Assets Held for Sale

As of September 30, 2020, the Company's assets held for sale consisted of property and fixed assets of one hospice facility in Knoxville, Tennessee. The Company has accepted a purchase offer from a buyer that indicated the fair market value of the property was \$1.9 million. The Company performed an impairment analysis and recorded an impairment charge of \$0.6 million during the nine months ended September 30, 2020, which was recorded in impairment of intangibles and other on our condensed consolidated statements of income.

Recently Adopted Accounting Pronouncements

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 was effective for annual and interim periods in fiscal years beginning after December 15, 2019, and did not have a significant impact to the Company.

In June 2016, the FASB issued ASU 2016-13, *Measurement of Credit Losses on Financial Instruments* which amends *Financial Instruments - Credit Losses* ("Topic 326"). ASU 2016-13 provides guidance for measuring credit losses on financial instruments. Early adoption is permitted. The amendments in this ASU should be applied retrospectively. This ASU was effective for annual and interim periods in fiscal years beginning after December 15, 2019, and did not have a significant impact to the Company.

Recently Issued Accounting Pronouncements

In December 2019, the FASB issued ASU 2019-12, *Simplifications to accounting for income taxes*, which removes certain exceptions to the general principles of Topic 740 and adds guidance to reduce complexity in accounting for income taxes. The ASU is effective for annual and interim periods in fiscal years beginning December 15, 2020. Early adoption is permitted. The Company is currently evaluating the impact of the adoption of this standard on the Company's condensed consolidated financial statements.

3. Acquisitions and Joint Venture Activities

Acquisitions

The Company acquired the majority-ownership of eight home health agencies, three hospice agencies, and five home and community-based agencies during the nine months ended September 30, 2020. The total aggregate purchase price for these transactions was \$14.9 million. The purchase prices were determined based on the Company's analysis of comparable acquisitions and the target market's potential future cash flows.

The Company funded three of these acquisitions in 2019 by paying cash consideration of \$16.4 million. During the nine months ended September 30, 2020, the Company received \$3.1 million from an equity joint venture partnership for the partner's noncontrolling interest for one of the Company's acquired home health and hospice agencies. In addition, the Company received \$1.3 million for consideration of an equity joint venture partnership, whereby the Company acquired home health and home and community-based agencies for \$0.9 million and sold membership interests in three home health agencies for \$2.1 million. The transaction for the sale of the membership interests was accounted for as an equity transaction. The total cash consideration includes adjustments for assets acquired and liabilities assumed.

Goodwill generated from the acquisitions was recognized based on the expected contributions of each acquisition to the overall corporate strategy. The Company expects its portion of goodwill to be fully tax deductible. The acquisitions were accounted for under the acquisition method of accounting. Accordingly, the accompanying interim financial information includes the results of operations of the acquired entities from the date of acquisition.

The following table summarizes the amounts of the assets acquired and liabilities assumed at the acquisition dates, as well as their fair value at the acquisition dates and the noncontrolling interest acquired during the nine months ended September 30, 2020:

Fair value of total consideration transferred	
Recognized amounts of identifiable assets acquired and liabilities assumed:	
Trade names	\$ 2,243
Certificates of need/licenses	3,824
Other assets and (liabilities), net	(508)
Total identifiable assets	\$ 5,559
Noncontrolling interest	\$ 6,996
Goodwill, including noncontrolling interest of \$5,047	\$ 15,583

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 need are valued using the replacement cost approach based on registration fees and opportunity costs. Licenses are valued based on the 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. Noncontrolling interest is recorded at fair value.

Joint Venture Activities

During the nine months ended September 30, 2020, the Company purchased a portion of the noncontrolling membership interest in one of our equity joint venture partnerships, which prior to the purchase was classified as a nonredeemable noncontrolling interest in permanent equity. As a result of the purchase, the Company retained its controlling financial interests in the joint venture partnership and the noncontrolling interest of our partner will continue to be classified as a nonredeemable noncontrolling interest in permanent equity. Total consideration for this noncontrolling interest purchase was \$23.6 million.

4. Goodwill and Intangibles

The changes in recorded goodwill and intangible assets by reporting unit for the nine months ended September 30, 2020 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
Goodwill:						
Balance as of December 31, 2019	\$ 867,924	\$ 128,875	\$ 166,629	\$ 15,682	\$ 40,862	\$ 1,219,972
Acquisitions	7,725	2,677	134	—	—	10,536
Noncontrolling interests	3,259	1,778	10	—	—	5,047
Adjustments and disposals	(105)	(327)	—	—	—	(432)
Balance as of September 30, 2020	<u>\$ 878,803</u>	<u>\$ 133,003</u>	<u>\$ 166,773</u>	<u>\$ 15,682</u>	<u>\$ 40,862</u>	<u>\$ 1,235,123</u>
Intangible assets:						
Balance as of December 31, 2019	\$ 219,872	\$ 40,590	\$ 24,096	\$ 5,317	\$ 15,681	\$ 305,556
Acquisitions	5,112	930	127	—	—	6,169
Amortization	(427)	(60)	(13)	(4)	(436)	(940)
Adjustments and disposals	182	—	—	—	—	182
Balance as of September 30, 2020	<u>\$ 224,739</u>	<u>\$ 41,460</u>	<u>\$ 24,210</u>	<u>\$ 5,313</u>	<u>\$ 15,245</u>	<u>\$ 310,967</u>

The allocation of goodwill from acquisitions purchased during the nine months ended September 30, 2020 for each reporting unit is preliminary and subject to change once the valuation analysis required by ASC 805, Business Combinations is finalized.

The following tables summarize the changes in intangible assets during the nine months ended September 30, 2020 and December 31, 2019 (amounts in thousands):

	2020	2019
Indefinite-lived intangible assets:		
Trade names	\$ 165,920	\$ 163,499
Certificates of Need/Licenses	133,491	129,689
Net total	<u>\$ 299,411</u>	<u>\$ 293,188</u>
Definite-lived intangible assets:		
Trade names		
Gross carrying amount	\$ 10,209	\$ 10,182
Accumulated amortization	(9,437)	(9,229)
Net total	<u>\$ 772</u>	<u>\$ 953</u>
Non-compete agreements		
Gross carrying amount	\$ 6,897	\$ 6,795
Accumulated amortization	(6,288)	(5,991)
Net total	<u>\$ 609</u>	<u>\$ 804</u>
Customer relationships		
Gross carrying amount	\$ 11,822	\$ 11,822
Accumulated amortization	(1,647)	(1,211)
Net total	<u>\$ 10,175</u>	<u>\$ 10,611</u>
Total definite-lived intangible assets		
Gross carrying amount	\$ 28,928	\$ 28,799
Accumulated amortization	(17,372)	(16,431)
Net total	<u>\$ 11,556</u>	<u>\$ 12,368</u>
Total intangible assets:		
Gross carrying amount	\$ 328,339	\$ 321,987
Accumulated amortization	(17,372)	(16,431)
Net total	<u>\$ 310,967</u>	<u>\$ 305,556</u>

Remaining useful lives for trade names, customer relationships, and non-compete agreements were 9.0, 17.5, and 2.2 years, respectively, at September 30, 2020. Similar periods at December 31, 2019 were 9.8, 18.2, and 2.8 years for trade names, customer relationships, and non-compete agreements, respectively. Amortization expense was \$0.9 million and \$1.0 million during the nine months ended September 30, 2020 and 2019, respectively. Amortization expense was recorded in general and administrative expenses.

5. Debt

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 (the "Credit Agreement"). The 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 Credit Agreement is March 30, 2023. The Company's obligations under the 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 Credit Agreement.

Revolving loans under the Credit Agreement 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. 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, 2020 was 4.00% and the LIBOR rate was 1.94%. As of September 30, 2020, the effective interest rate on outstanding borrowings under the Credit Agreement was 1.94%.

As of September 30, 2020, the Company had \$20.0 million drawn, letters of credit issued in the amount of \$24.8 million, and \$455.2 million of remaining borrowing capacity available under the Credit Agreement. At December 31, 2019, the Company had \$253.0 million drawn and letters of credit issued in the amount of \$28.4 million under the Credit Facility.

Under the terms of the Credit Agreement, the Company is required to maintain certain financial ratios and comply with certain financial covenants. The 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 its debt covenants under the Credit Agreement at September 30, 2020.

6. Stockholder's Equity

Equity Based Awards

The 2018 Incentive Plan is 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 were 2,210,544 shares and a total of 1,874,354 shares are currently available for issuance. 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.

Share Based Compensation

Nonvested Stock

During the nine months ended September 30, 2020, the Company granted 9,900 nonvested shares of common stock to independent directors 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, 2020, one retired director was granted 775 nonvested shares of common stock under the Second Amended and Restated 2005 Non-Employee Directors Compensation Plan, which shares vest 100% at the grant date.

During the nine months ended September 30, 2020, employees and a consultant were granted 113,525 and 10,890 shares, respectively, of nonvested shares of common stock pursuant to the 2018 Incentive Plan. The shares vest over a period of five years, conditioned on continued employment and in accordance with the consulting agreement. 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 following table represents the share grants activity for the nine months ended September 30, 2020

	Restricted stock		Options	
	Number of shares	Weighted average grant date fair value	Number of shares	Weighted average grant date fair value
Share grants outstanding as of December 31, 2019	534,331	\$ 71.01	98,756	\$ 40.71
Granted	135,090	123.10	—	—
Vested or exercised	(199,330)	62.31	(16,286)	32.93
Share grants outstanding as of September 30, 2020	470,091	\$ 89.32	82,470	\$ 42.25

As of September 30, 2020, there was \$33.7 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 3.04 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 estimates forfeitures at the time of grant and revises the estimate in subsequent periods if actual forfeitures differ to ensure that

total compensation expense recognized is at least equal to the value of vested awards. The Company recorded \$11.1 million and \$6.4 million of compensation expense related to nonvested stock grants for the nine months ended September 30, 2020 and 2019, respectively.

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 2020

	Number of shares	Per share price
Shares available as of December 31, 2019	132,449	
Shares issued during the three months ended March 31, 2020	4,663	\$ 130.87
Shares issued during the three months ended June 30, 2020	3,730	\$ 133.19
Shares issued during the three months ended September 30, 2020	3,454	\$ 165.60
Shares available as of September 30, 2020	<u>120,602</u>	

Treasury Stock

In conjunction with the vesting of the nonvested shares of common stock or the exercise of stock options, 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, 2020, the Company redeemed 70,676 shares of common stock valued at \$9.0 million, related to share vesting tax obligations. Such shares are held as treasury stock and are available for reissuance by the Company.

In addition, the Company redeemed 7,328 shares of common stock valued at \$0.8 million, related to the exercise of options. During the nine months ended September 30, 2020, the Company reclassified \$0.9 million between treasury and additional paid in capital for the exercise of options.

7. Commitments and Contingencies

Contingencies

The Company provides services in a highly regulated industry and is a party to various proceedings and regulatory and other governmental and internal audits and investigations in the ordinary course of business (including audits by Zone Program Integrity Contractors ("ZPICs") and Recovery Audit Contractors ("RACs") and investigations resulting from the Company's obligation to self-report suspected violations of law). Management cannot predict the ultimate outcome of any regulatory and other governmental and internal audits and investigations. While such audits and investigations are the subject of administrative appeals, the appeals process, even if successful, may take several years to resolve. The Department of Justice, CMS, or other federal and state enforcement and regulatory agencies may conduct additional investigations related to the Company's businesses. 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 due 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.

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

Legal fees related to all legal matters are expensed as incurred.

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.

8. Noncontrolling interests

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 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, 2020, the Company determined in accordance with authoritative accounting guidance that it was not probable that an event otherwise requiring redemption of any redeemable noncontrolling interest would occur (i.e., the date for such event was not set or such event is not certain to occur). Therefore, none of the redeemable noncontrolling interests were identified as mandatorily redeemable interests at such times, and the Company did not record any values in respect of any mandatorily redeemable interests.

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

The carrying amount of each redeemable equity instrument presented in temporary equity for the nine months ended September 30, 2020 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, 2020 (amounts in thousands):

Balance as of December 31, 2019	\$ 15,151
Net income attributable to noncontrolling interest-redeemable	10,366
Noncontrolling interest-redeemable distributions	(12,128)
Acquired noncontrolling interest-redeemable	3,508
Balance as of September 30, 2020	<u>\$ 16,897</u>

9. Leases

The Company determines if a contract contains a lease at inception date. The Company's leases are operating leases, primarily for office and office equipment, that expire at various dates over the next nine years. The office leases have renewal options for periods ranging from one to five years. As it is not reasonably certain these renewal options will be exercised, the options were not considered in the lease term, and payments associated with the option years are excluded from lease payments.

Payments due under operating leases include fixed and variable payments. These variable payments for the Company's office leases can include operating expenses, utilities, property taxes, insurance, common area maintenance, and other facility-related expense. Additionally, any leases with terms less than one year were not recognized as operating lease right of use assets or payables for short term leases in accordance with the election of 'package of practical expedient' under ASU 2016-02.

The Company recognizes operating lease right of use assets and operating lease payable based on the present value of the future minimum lease payments at the lease commencement date. The Company's leases do not provide implicit rates. Therefore, the Company used an incremental borrowing rate based on the information available at the lease commencement date in determining the present value of future payments. As of September 30, 2020, the weighted-average remaining lease term was 4.22 and weighted-average discount rate was 4.63%.

Information related to the Company's operating lease right of use assets and related lease liabilities for office and equipment leases were as follows: (amounts in thousands):

	September 30, 2020	December 31, 2019
Operating lease right of use asset	99,066	95,452
Current operating lease payable	32,018	28,701
Long-term operating lease payable	69,977	69,556

The Company incurred operating lease costs of (amounts in thousands):

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
Operating lease cost	\$ 12,716	\$ 11,825	\$ 37,153	\$ 37,895

Maturities of operating lease liabilities as of September 30, 2020 were as follows (amounts in thousands):

Month ending September 30,		
2020	\$	9,466
2021		34,247
2022		25,448
2023		16,943
2024		10,493
Thereafter		15,522
Total future minimum lease payments		112,119
Less: Imputed interest		(10,124)
Total	\$	<u>101,995</u>

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, 2020, the carrying value of the Company's long-term debt approximates fair value, as the interest rates approximate current rates.

11. Segment Information

The Company's reporting segments include (1) home health services, (2) hospice services, (3) home and community-based services, (4) facility-based services, and (5) HCI. 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.

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 following tables summarize the Company's segment information for the three and nine months ended September 30, 2020 and 2019 (amounts in thousands):

	Three Months Ended September 30, 2020					
	Home health services	Hospice services	Home and community-based services	Facility-based services	HCI	Total
Net service revenue	\$ 373,450	\$ 59,801	\$ 48,387	\$ 33,344	\$ 15,702	\$ 530,684
Cost of service revenue (excluding depreciation and amortization)	205,523	37,180	36,664	22,213	3,666	305,246
General and administrative expenses	118,792	16,668	10,937	11,439	3,627	161,463
Impairment of intangibles and other	22	—	—	—	—	22
Government stimulus (income) expense	35,019	4,731	2,865	1,656	164	44,435
Operating income (loss)	14,094	1,222	(2,079)	(1,964)	8,245	19,518
Interest expense	(310)	(51)	(37)	(22)	(11)	(431)
Income (loss) before income taxes and noncontrolling interest	13,784	1,171	(2,116)	(1,986)	8,234	19,087
Income tax expense (benefit)	3,403	247	(440)	(435)	1,820	4,595
Net income (loss)	10,381	924	(1,676)	(1,551)	6,414	14,492
Less net income (loss) attributable to non controlling interests	(157)	321	(153)	(12)	(7)	(8)
Net income (loss) attributable to LHC Group, Inc.'s common stockholder	\$ 10,538	\$ 603	\$ (1,523)	\$ (1,539)	\$ 6,421	\$ 14,500
Total assets	\$ 1,721,278	\$ 277,358	\$ 263,414	\$ 108,118	\$ 86,168	\$ 2,456,336

	Three Months Ended September 30, 2019					
	Home health services	Hospice services	Home and community-based services	Facility-based services	HCI	Total
Net service revenue	\$ 375,599	\$ 62,028	\$ 53,411	\$ 28,715	\$ 8,746	\$ 528,499
Cost of service revenue (excluding depreciation and amortization)	237,414	35,819	39,694	18,508	3,333	334,768
General and administrative expenses	108,318	15,218	10,809	9,498	2,986	146,829
Impairment of intangibles and other	197	—	—	—	—	197
Operating income	29,670	10,991	2,908	709	2,427	46,705
Interest expense	(1,758)	(310)	(272)	(174)	(82)	(2,596)
Income before income taxes and noncontrolling interest	27,912	10,681	2,636	535	2,345	44,109
Income tax expense	5,900	1,689	1,299	144	476	9,508
Net income	22,012	8,992	1,337	391	1,869	34,601
Less net income (loss) attributable to noncontrolling interests	3,577	1,213	(180)	(67)	(9)	4,534
Net income attributable to LHC Group, Inc.'s common stockholders	\$ 18,435	\$ 7,779	\$ 1,517	\$ 458	\$ 1,878	\$ 30,067
Total assets	\$ 1,458,991	\$ 235,865	\$ 243,779	\$ 88,905	\$ 70,324	\$ 2,097,864

Nine Months Ended September 30, 2020						
	Home health services	Hospice services	Home and community-based services	Facility-based services	HCI	Total
Net service revenue	\$ 1,081,143	\$ 181,387	\$ 144,526	\$ 96,664	\$ 27,155	\$ 1,530,875
Cost of service revenue (excluding depreciation and amortization)	631,109	112,485	113,864	64,340	11,362	933,160
General and administrative expenses	345,024	49,560	33,520	31,984	9,815	469,903
Impairment of intangibles and other	22	600	—	—	—	622
Government stimulus (income) expense	—	—	—	—	—	—
Operating income (loss)	104,988	18,742	(2,858)	340	5,978	127,190
Interest expense	(2,804)	(451)	(382)	(288)	(115)	(4,040)
Income (loss) before income taxes and noncontrolling interest	102,184	18,291	(3,240)	52	5,863	123,150
Income tax expense (benefit)	19,499	3,294	(658)	(261)	1,307	23,181
Net income (loss)	82,685	14,997	(2,582)	313	4,556	99,969
Less net income (loss) attributable to non controlling interests	14,371	3,452	(275)	1,228	(23)	18,753
Net income (loss) attributable to LHC Group, Inc.'s common stockholder	\$ 68,314	\$ 11,545	\$ (2,307)	\$ (915)	\$ 4,579	\$ 81,216
Nine Months Ended September 30, 2019						
	Home health services	Hospice services	Home and community-based services	Facility-based services	HCI	Total
Net service revenue	\$ 1,113,887	\$ 168,821	\$ 157,610	\$ 84,391	\$ 24,217	\$ 1,548,926
Cost of service revenue (excluding depreciation and amortization)	694,082	103,853	119,054	53,812	10,819	981,620
General and administrative expenses	322,115	45,167	33,004	28,010	12,338	440,634
Impairment of intangibles and other	7,263	271	—	—	—	7,534
Operating income	90,427	19,530	5,552	2,569	1,060	119,138
Interest expense	(5,919)	(976)	(857)	(524)	(257)	(8,533)
Income before income taxes and noncontrolling interest	84,508	18,554	4,695	2,045	803	110,605
Income tax expense	17,178	3,716	1,279	297	195	22,665
Net income	67,330	14,838	3,416	1,748	608	87,940
Less net income (loss) attributable to noncontrolling interests	11,305	2,712	(757)	779	(22)	14,017
Net income attributable to LHC Group, Inc.'s common stockholders	\$ 56,025	\$ 12,126	\$ 4,173	\$ 969	\$ 630	\$ 73,923

12. Income Taxes

The effective tax rate for the nine months ended September 30, 2020 benefited from \$2.4 million of excess tax benefits associated with stock-based compensation arrangements and \$2.2 million (\$4.3 million and \$2.1 million, as further described below) associated with increased tax benefits associated with the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act"). For the nine months ended September 30, 2019, the effective tax rate benefited from \$3.0 million of excess tax benefits associated with stock-based compensation arrangements.

In response to the COVID-19 pandemic, the CARES Act was signed into law in March 2020. The CARES Act lifts certain deduction limitations originally imposed by the Tax Cuts and Jobs Act of 2017 ("2017 Tax Act"). Corporate taxpayers may carryback net operating losses ("NOLs") originating during 2018 through 2020 for up to five years, which was not previously allowed under the 2017 Tax Act. The CARES Act also eliminates the 80% of taxable income limitations by allowing corporate entities to fully utilize NOL carryforwards to offset taxable income in 2018, 2019, or 2020. Taxpayers may generally deduct

interest up to the sum of 50% of adjusted taxable income plus business interest income (30% limit under the 2017 Tax Act) for tax years beginning January 1, 2019 and 2020. The CARES Act allows taxpayers with alternative minimum tax credits to claim a refund in 2020 for the entire amount of the credits instead of recovering the credits through refunds over a period of years, as originally enacted by the 2017 Tax Act. In addition, the CARES Act raises the corporate charitable deduction limit to 25% of taxable income and makes qualified improvement property generally eligible for 15-year cost-recovery and 100% bonus depreciation. The effective tax rate for the nine months ended September 30, 2020 benefited from a \$4.3 million impact from the enactment of the CARES Act. There was no material impact to our net deferred tax assets as of September 30, 2020.

U.S. 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 recognized. The Company includes the full amount of unrecognized tax benefits in other noncurrent liabilities in the Company's Condensed 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 impact of the CARES Act increased unrecognized tax benefits by \$2.1 million, which also had an impact on the Company's effective tax rate for the nine months ended September 30, 2020. As of September 30, 2020 and December 31, 2019, the Company recognized \$6.6 million and \$3.9 million, respectively, in unrecognized tax benefits.

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, including the potential future impact of COVID-19 on our results of operations and liquidity, the potential impact of actions we have taken to mitigate the impact of COVID-19, the potential impact on supply chain disruptions and increased costs associated with obtaining personal protective equipment, the expected benefit of the CARES Act on our liquidity, 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," "estimate," "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, 2020;
- 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, including changes in reimbursement resulting from regulatory changes;
- 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;
- our compliance with Securities and Exchange Commission laws and regulations and Sarbanes-Oxley requirements;
- the impact of federal and state government regulation on our business; and
- the impact of changes in future interpretations of fraud, anti-kickback, or other laws.

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 2019 Form 10-K, our quarterly report on Form 10-Q for the quarter ended March 31, 2020, and our quarterly report on Form 10-Q for the quarter ended June 30, 2020, as updated by our subsequent filings with the SEC. This report should be read in conjunction with the 2019 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.

OVERVIEW

General

We provide quality, cost-effective post-acute health care services to our patients. As of September 30, 2020, we have 823 service providers in 35 states within the continental United States and the District of Columbia. Our services are classified into five segments: (1) home health services, (2) hospice services, (3) home and community-based services, (4) facility-based services primarily offered through our long-term acute care hospitals (“LTACHs”), and (5) healthcare innovations services

("HCI"). 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, 2020, we operated 549 home health services locations, of which 336 are wholly-owned, 209 are majority-owned through equity joint ventures, two are under license lease arrangements, and the operations of the remaining two 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, 2020, we operated 111 hospice locations, of which 52 are wholly-owned, 57 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 patients. As of September 30, 2020, we operated 122 home and community-based services locations, of which 108 are wholly-owned and 14 are majority-owned through equity joint ventures.

We provide facility-based services principally through our LTACHs. As of September 30, 2020, we operated 11 LTACHs with 12 locations, all but two of which are located within host hospitals. We also operate one skilled nursing facility, one pharmacy, a family health center, a rural health clinic, and 14 therapy clinics. Of these 30 facility-based services locations, 20 are wholly-owned, and 10 are majority-owned through equity joint ventures.

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, and (c) 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. 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 11 HCI locations, of which 10 are wholly-owned and one is majority-owned through an equity joint venture.

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, 2020, the Joint Commission had accredited 483 of our 549 home health services locations and 89 of our 111 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, 2020 and 2019 was as follows :

Reporting segment	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Home health services	70.4 %	71.1 %	70.6 %	71.9 %
Hospice services	11.2	11.7	11.8	10.9
Home and community-based services	9.1	10.1	9.5	10.2
Facility-based services	6.3	5.4	6.3	5.4
Healthcare innovations services	3.0	1.7	1.8	1.6
	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>

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 2019 Form 10-K.

Coronavirus and Coronavirus Aid, Relief, and Economic Security Act

The COVID-19 outbreak has adversely impacted economic activity and conditions worldwide, including workforces, liquidity, capital markets, consumer behavior, supply chains, and macroeconomic conditions. After the declaration of a national emergency in the United States on March 13, 2020, in compliance with stay-at-home and physical distancing orders and other restrictions on movement and economic activity intended to reduce the spread of COVID-19, we have altered numerous clinical, operational, and business processes. While each of the states deemed healthcare services an essential business, allowing us to continue to deliver healthcare services to our patients, the effects of the pandemic have been wide-reaching. We have implemented contingency planning policies; whereby most employees in our home offices located in Louisiana and Kentucky are working remotely in compliance with CDC recommendations and federal and state governmental orders. We have invested in technology and equipment that allows our remote workforce to provide continued and seamless functionality to our clinicians who continue to care for our patients on service.

We are taking precautions to protect the safety and well-being of our employees by purchasing and delivering additional supplies of personal protection equipment to our clinicians across the country. In response to the COVID-19 outbreak, we promptly convened a cross-functional COVID-19 task force comprised of our company’s leaders that continually communicates with our clinicians and other employees concerning best practices and Company changes in policies and procedures.

We continually review and adjust to changes to adapt to the current environment associated with COVID-19. We remain fully functional and continue to provide our patients with critical services during the pandemic. In addition, we currently plan to continue to execute on our strategic business plans.

In response to COVID-19, the U.S. Government enacted the CARES Act on March 27, 2020. The following portions of the CARES Act impacted us during the nine months ended September 30, 2020:

- *Provider Relief Fund:* During the three and nine months ended September 30, 2020, we received \$4.6 million and \$93.3 million, respectively, from the Provider Relief Fund. During the three months ended June 30, 2020, we recognized \$44.4 million related to these funds as government stimulus income in our condensed consolidated statements of income. During the three months ended September 30, 2020, we reversed \$44.4 million such that we recognized no funds for the nine months ended September 30, 2020. The full amount received of \$93.3 million is recorded as a short-term liability in government stimulus advance in our condensed consolidated balance sheet. It is our intent to return the funds to the government.
- *Accelerated and Advance Payments Program (AAPP):* AAPP extended financial hardship relief to Medicare providers impacted by the COVID-19 pandemic in order to provide necessary funds when there is a disruption in claims submission and/or claims processing. As of September 30, 2020, we received \$317.9 million of accelerated and advance payments. The recoupment of AAP will occur under a tiered approach. CMS will recoup 25% of Medicare payments otherwise owed to us 11 months after our receipt of such funds. If any amount of AAPP funds that we received from CMS remain unpaid after the initial 11 month period, CMS will recoup 50% of Medicare payments otherwise owed to us during the following six months. Interest will be assessed on any amount of the AAPP funds that we received from CMS that remain unpaid following those recoupment periods. CMS will issue a repayment letter to the Company for any such outstanding amounts, which must be paid in full within 30 days from the date of the letter. We intend to repay the full amount outstanding before any interest accrues.
- *Suspension of the 2% sequestration payment adjustment:* CMS suspended the 2% sequestration payment adjustment for patient claims with dates of services from May 1 through December 31, 2020. As of September 30, 2020, we recognized \$6.5 million and \$11.5 million of net service revenue due to the suspension of the 2% sequestration payment adjustment during the three and nine months ended September 30, 2020, respectively.
- *Waiver of the application of site-neutral payment:* Under Section 1886(m)(6)(A)(i) of the Act, the claims processing systems will be updated to pay all LTACH cases admitted during the COVID-19 PHE period at the LTACH PPS standard federal rate, effective for claims with an admission date occurring on or after January 27, 2020 through the end of the PHE period. During the three and nine months ended September 30, 2020, respectively, we recognized \$6.4 million and \$11.1 million of net service revenue due to the suspension of site-neutral payments.

- *Delaying payment of the employer portion of social security tax:* The Company can defer payments of the employer portion of social security tax for 2020, which will be due in 50% increments, with the first due by December 31, 2021 and the second 50% due by December 31, 2022. As of September 30, 2020, we deferred \$33.6 million of social security tax payments.

While during the nine months ended September 30, 2020, we did not experience a material disruption in our ability to continue to provide services to our patients, there is no guarantee that we won't experience such service disruption in the future or a decrease in demand for our services as a result of COVID-19. The rapid development and fluidity of this situation makes it difficult to predict the ultimate impact of COVID-19 on our business and operations. Nevertheless, COVID-19 presents a material uncertainty which could materially impact our business and results of operations in the future.

Home Health

On October 29, 2020, CMS released the final rule for fiscal year 2021 to update base payment rates by a net market basket index of 1.9%, which is an annual inflation update of 2.3%, reduced by a 0.3% productivity adjustment and 0.1% reduction in the rural add-on percentages mandated by the Bipartisan Budget Act of 2018. The base 30 day payment rate is increased from \$1,864.03 to \$1,901.12. The following lists additional fiscal year 2021 reimbursement items:

- a reduction of payment (including LUPA) rates by 2% for home health agencies that do not submit required quality data
- using wage indexes for the Office of Management and Budget's core-based statistical areas with a cap of 5% of wage index decreases and no cap on wage index increases
- continued phase-out of the rural add-on
- continued 2020 levels of PDGM case mix weights and LUPA thresholds
- finalization of plan of care requirements regarding telehealth visits.

Hospice

On July 31, 2020, CMS released the final rule for fiscal year 2021 to update payment rates and the wage index. The hospice payment update is a 2.4% increase to the payment rates. The final rule will apply a 5% cap on any decrease in a geographic area's wage index value from fiscal year 2020. No such cap will be applied in fiscal year 2022. In addition, the final rule increases the aggregate cap value of \$30,683.93 for fiscal year 2021, compared to \$29,964.78 for fiscal year 2020.

Based on these estimates, the following are the final fiscal year 2021 base payment rates for various levels of care, which began on October 1, 2020 and will end September 30, 2021 and fiscal year 2020 base payment rates for various levels of care, which began on October 1, 2019 and ended September 30, 2020 (payment rates for hospice providers not complying with the hospice quality reporting requirements will be 2% lower than the values referenced below):

Description	Fiscal Year 2021 Rate per patient day		Fiscal year 2020 Rate per patient day	
Routine Home Care days 1-60	\$	199.25	\$	194.50
Routine Home Care days 60+	\$	157.49	\$	153.72
Continuous Home Care	\$	1,432.41	\$	1,395.63
Full rate = 24 hours of care				
\$58.15 = hourly rate for 2020				
\$59.68 = hourly rate for 2021				
Inpatient Respite Care	\$	461.09	\$	450.10
General Inpatient Care	\$	1,045.66	\$	1,021.25

Facility-Based

On September 2, 2020, CMS issued a final rule for the fiscal year 2021 Long-Term Care Hospital Prospective Payment System ("LTACH-PPS"). CMS expects LTACH-PPS payments to decrease by 1.1%, which reflects continued statutory implementation of the revised LTACH-PPS payment system. LTACH-PPS payments for fiscal year 2021 for discharges paid using the standard LTACH-PPS payment rate are expected to increase by 2.2% primarily due to the annual standard Federal rate update of 2.3%.

LTACH-PPS payments for cases that will complete the statutory transition to the lower payment rates under the dual rate system are expected to decrease by 24%. This accounts for the LTACH site neutral payment rate cases that will no longer be paid a blended payment rate for LTACH discharges occurring in cost reporting periods beginning in fiscal year 2020.

RESULTS OF OPERATIONS

Three months ended September 30, 2020 compared to three months ended September 30, 2019

Summary consolidated financial information

The following table summarizes our consolidated results of operations for the three months ended September 30, 2020 and 2019 (amounts in thousands, except percentages, which are percentages of consolidated net service revenue, unless indicated otherwise):

	2020		2019		Increase (Decrease)
Net service revenue	\$	530,684	\$	528,499	\$ 2,185
Cost of service revenue (excluding depreciation and amortization)		305,246		334,768	(29,522)
		57.5 %		63.3 %	
General and administrative expenses		161,463		146,829	14,634
Impairment of intangibles and other		22		197	(175)
Government stimulus (income) expense		44,435		—	(44,435)
Interest expense		(431)		(2,596)	(2,165)
Income tax expense		4,595	27.7 (1)	9,508	27.9 (1)
Net income attributable to noncontrolling interests		(8)		4,534	(4,542)
Net income attributable to LHC Group, Inc.'s common stockholders	\$	<u>14,500</u>	\$	<u>30,067</u>	\$ <u>(15,567)</u>

(1) Effective tax rate as a percentage of income from continuing operations attributable to our common stockholders, excluding the excess tax benefits realized of \$0.7 million and \$0.4 million during the three months ended September 30, 2020 and 2019, respectively.

Consolidated net service revenue was negatively impacted due to COVID-19, which affected all percentages of revenue disclosed below.

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, 2020 and the related change from the same period in 2019 (amounts in thousands, except admissions, census, episode data, patient days and billable hours, which are actual amounts; net service revenue excludes implicit price concessions):

The below data for the three months ended September 30, 2020 was impacted by the COVID-19 pandemic.

	Organic (1)	Organic Growth (Loss) %	Acquired (2)	Total	Total Growth (Loss) %
Home health services					
Revenue	\$ 363,394	(4.1)%	\$ 11,589	\$ 374,983	(1.7)%
Revenue Medicare	\$ 238,500	(8.9)	\$ 7,994	\$ 246,494	(6.4)
Admissions	101,623	4.7	2,681	104,304	6.8
Medicare Admissions	54,653	(4.4)	1,254	55,907	(2.8)
Average Census	80,063	4.9	2,191	82,254	7.0
Average Medicare Census	45,836	(5.7)	1,284	47,120	(3.9)
Home Health Episodes	86,029	(3.5)	2,941	88,970	(3.2)
Hospice services					
Revenue	\$ 59,731	4.6	\$ 3,228	\$ 62,959	7.8
Revenue Medicare	\$ 54,941	4.2	\$ 2,653	\$ 57,594	7.6
Admissions	4,863	12.8	214	5,077	12.3
Medicare Admissions	4,395	15.2	174	4,569	14.6
Average Census	4,220	3.5	173	4,393	4.9
Average Medicare Census	3,931	3.9	160	4,091	5.4
Patient days	388,465	1.7	15,749	404,214	4.9
Home and community-based services					
Revenue	\$ 50,211	(7.6)	\$ 908	\$ 51,119	(6.3)
Billable hours	1,913,079	(14.8)	29,627	1,942,706	(14.0)
Facility-based services					
LTACHs					
Revenue	\$ 32,680	25.4	\$ —	\$ 32,680	25.4
Patient days	24,275	28.3	—	24,275	28.3
Other facility-based services					
Revenue	\$ 2,082	(33.6)	\$ —	\$ 2,082	(33.6)
HCI					
Revenue	\$ 16,178	—	\$ —	\$ 16,178	—
Consolidated					
Revenue	\$ 524,276	(1.9)	\$ 15,725	\$ 540,001	1.5

(1) Organic - combination of same store, a location that has been in service with us for greater than 12 months, and de novo, an internally developed location that has been in service for 12 months or less.

(2) Acquired - purchased location that has been in service with us 12 months or less.

We had a decrease in our home health revenue per episode during 2020. COVID-19 caused our Medicare reimbursement to decline due to a decrease in patient acuity and a decrease in institutional admissions, which was a result of the temporary suspension of elective procedures. Patient volumes declined in our home and community-based segment due to the continued impact of COVID-19.

Our home health and hospice segment received the benefit of the suspension of the 2% sequestration payment adjustment for Medicare claims and the LTACHs received the benefit of the suspension of the 2% sequestration payment adjustment and the waiver of site-neutral payments for LTACH Medicare claims.

HCI revenue increased in the third quarter of 2020 due to the recognition of \$9.6 million of the Medicare Shared Services Program ("MSSP").

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, 2020 and 2019 (amounts in thousands, except percentages, which are percentages of consolidated revenue):

	Three Months Ended September 30,			
	2020	% of Net Service Revenue	2019	% of Net Service Revenue
Revenue	\$ 540,001		\$ 532,026	
Less: Implicit price concession	9,317	1.7 %	3,527	0.7 %
Net service revenue	<u>\$ 530,684</u>		<u>\$ 528,499</u>	

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,			
	2020		2019	
Home health services				
Salaries, wages and benefits	\$ 184,644	49.4 %	\$ 217,510	57.9 %
Transportation	9,019	2.4	11,161	3.0
Supplies and services	11,860	3.2	8,743	2.3
Total	<u>\$ 205,523</u>	<u>55.0 %</u>	<u>\$ 237,414</u>	<u>63.2 %</u>
Hospice services				
Salaries, wages and benefits	\$ 26,535	44.4 %	\$ 26,336	42.5 %
Transportation	1,865	3.1	2,023	3.3
Supplies and services	8,780	14.7	7,460	12.0
Total	<u>\$ 37,180</u>	<u>62.2 %</u>	<u>\$ 35,819</u>	<u>57.8 %</u>
Home and community-based services				
Salaries, wages and benefits	\$ 36,020	74.4 %	\$ 38,943	72.9 %
Transportation	457	0.9	534	1.0
Supplies and services	187	0.4	217	0.4
Total	<u>\$ 36,664</u>	<u>75.7 %</u>	<u>\$ 39,694</u>	<u>74.3 %</u>
Facility-based services				
Salaries, wages and benefits	\$ 16,271	48.8 %	\$ 13,302	46.3 %
Transportation	21	0.1	76	0.3
Supplies and services	5,921	17.8	5,130	17.9
Total	<u>\$ 22,213</u>	<u>66.7 %</u>	<u>\$ 18,508</u>	<u>64.5 %</u>
HCI				
Salaries, wages and benefits	\$ 3,496	22.3 %	\$ 3,196	36.5 %
Transportation	57	0.4	99	1.1
Supplies and services	113	0.7	38	0.4
Total	<u>\$ 3,666</u>	<u>23.4 %</u>	<u>\$ 3,333</u>	<u>38.0 %</u>
Consolidated				
Total	<u>\$ 305,246</u>	<u>57.5 %</u>	<u>\$ 334,768</u>	<u>63.3 %</u>

During 2020, our cost of service revenue was impacted by:

- cost containment efforts within our home health segment due to streamlining of leadership within each respective segment as we completed the integration of Almost Family
- cost mitigation efforts associated with PDGM within the home health segment during 2020
- increased costs within each of our segments associated with significantly increased supplies and services costs related to COVID-19, including additional PPE purchases
- prior year acquisition adjustments in our hospice segment, which resulted in higher revenue in 2019 as compared to 2020
- the recognition of MSSP earnings, which resulted in higher revenue in our HCI segment during 2020.

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,			
	2020		2019	
Home health services				
General and administrative	\$ 115,749	31.0 %	\$ 105,761	28.2 %
Depreciation and amortization	3,043	0.8	2,557	0.7
Total	<u>\$ 118,792</u>	<u>31.8 %</u>	<u>\$ 108,318</u>	<u>28.9 %</u>
Hospice services				
General and administrative	\$ 16,159	27.0 %	\$ 14,763	23.8 %
Depreciation and amortization	509	0.9	455	0.7
Total	<u>\$ 16,668</u>	<u>27.9 %</u>	<u>\$ 15,218</u>	<u>24.5 %</u>
Home and community-based services				
General and administrative	\$ 10,519	21.7 %	\$ 10,471	19.6 %
Depreciation and amortization	418	0.9	338	0.6
Total	<u>\$ 10,937</u>	<u>22.6 %</u>	<u>\$ 10,809</u>	<u>20.2 %</u>
Facility-based services				
General and administrative	\$ 10,494	31.5 %	\$ 8,713	30.3 %
Depreciation and amortization	945	2.8	785	2.7
Total	<u>\$ 11,439</u>	<u>34.3 %</u>	<u>\$ 9,498</u>	<u>33.0 %</u>
HCI				
General and administrative	\$ 3,325	21.2 %	\$ 2,709	31.0 %
Depreciation and amortization	302	1.9	277	3.2
Total	<u>\$ 3,627</u>	<u>23.1 %</u>	<u>\$ 2,986</u>	<u>34.2 %</u>
Consolidated				
Total	<u>\$ 161,463</u>	<u>30.4 %</u>	<u>\$ 146,829</u>	<u>27.8 %</u>

Consolidated general and administrative expenses increased as a percentage of net service revenue from 27.8% in 2019 to 30.4% in 2020. The increase in general and administrative expenses as a percentage of net service revenue was a result of a decrease in our home health revenue per episode due to a decrease in patient acuity caused by the COVID-19 pandemic. In addition, heightened costs and the additional administrative costs of COVID-19 and investments in our technology infrastructure increased our expenses during this quarter. Finally, the increase from 2019 to 2020 related to costs associated with the completion of certain acquisitions during latter part of 2019 and nine months ended 2020.

Nine months ended September 30, 2020 compared to nine months ended September 30, 2019

Summary consolidated financial information

The following table summarizes our consolidated results of operations for the nine months ended September 30, 2020 and 2019 (amounts in thousands, except percentages, which are percentages of consolidated net service revenue, unless indicated otherwise):

	2020		2019		Increase (Decrease)	
Net service revenue	\$	1,530,875	\$	1,548,926	\$ (18,051)	
Cost of service revenue (excluding depreciation and amortization)		933,160	61.0 %	981,620	63.4 %	(48,460)
General and administrative expenses		469,903	30.7	440,634	28.4	29,269
Impairment of intangibles and other		622		7,534		(6,912)
Government stimulus (income) expense		—		—		—
Interest expense		(4,040)		(8,533)		(4,493)
Income tax expense		23,181	26.5 (1)	22,665	27.7 (1)	516
Net income attributable to noncontrolling interests		18,753		14,017		4,736
Net income attributable to LHC Group, Inc.'s common stockholders	\$	<u>81,216</u>		<u>73,923</u>		<u>\$ 7,293</u>

(1) Effective tax rate as a percentage of income from continuing operations attributable to our common stockholders, excluding the excess tax benefits realized of \$2.4 million and \$3.0 million during the nine months ended September 30, 2020 and 2019, respectively. The effective tax rate for the nine months ended September 30, 2020 also benefited from a \$2.2 million impact from the enactment of the CARES Act.

Consolidated net service revenue was negatively impacted due to COVID-19, which affected all percentages of revenue disclosed below.

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, 2020 and the related change from the same period in 2019 (amounts in thousands, except admissions, census, episode data, patient days and billable hours, which are actual amounts; net service revenue excludes implicit price concessions):

The below data for the nine months ended September 30, 2020 was impacted by the COVID-19 pandemic.

	Organic (1)	Organic Growth (Loss) %	Acquired (2)	Total	Total Growth (Loss) %
Home health services					
Revenue	\$ 1,044,990	(6.5)%	\$ 47,256	\$ 1,092,246	(3.2)%
Revenue Medicare	\$ 692,654	(11.3)	\$ 31,313	\$ 723,967	(8.3)
Admissions	290,309	2.4	15,659	305,968	6.8
Medicare Admissions	158,649	(7.0)	7,683	166,332	(3.5)
Average Census	75,900	0.4	3,020	78,920	3.1
Average Medicare Census	44,302	(9.2)	1,706	46,008	(6.9)
Home Health Episodes	249,635	(8.1)	10,780	260,415	(5.9)
Hospice services					
Revenue	\$ 170,578	4.9	\$ 13,831	\$ 184,409	10.2
Revenue Medicare	\$ 157,532	4.7	\$ 11,946	\$ 169,478	10.2
Admissions	13,682	4.8	1,324	15,006	9.2
Medicare Admissions	12,227	5.2	1,139	13,366	9.4
Average Census	4,075	3.9	263	4,338	8.4
Average Medicare Census	3,792	4.6	245	4,037	9.2
Patient days	1,121,632	4.1	71,234	1,192,866	9.1
Home and community-based services					
Revenue	\$ 149,075	(7.3)	\$ 2,250	\$ 151,325	(6.4)
Billable hours	5,795,314	(14.2)	69,995	5,865,309	(13.7)
Facility-based services					
LTACHs					
Revenue	\$ 92,762	21.0	\$ —	\$ 92,762	21.0
Patient days	68,094	16.4	—	68,094	16.4
Other facility-based services					
Revenue	\$ 7,052	(23.3)	\$ —	\$ 7,052	(23.3)
HCI					
Revenue	\$ 28,690	—	\$ —	\$ 28,690	—
Consolidated					
Revenue	\$ 1,493,147	(3.8)	\$ 63,337	\$ 1,556,484	(0.7)

(1) Organic - combination of same store, a location that has been in service with us for greater than 12 months, and de novo, an internally developed location that has been in service for 12 months or less.

(2) Acquired - purchased location that has been in service with us 12 months or less.

We had a decrease in our home health revenue per episode due to the 4.3% behavioral adjustment associated with the implementation of PDGM during 2020. In addition, COVID-19 caused our Medicare reimbursement to decline due to several factors, such as increase in LUPAs, a decrease in patient acuity, and a decrease in institutional admissions, which was a result of the temporary suspension of elective procedures. Patient volumes declined in our home and community-based segment due to the continued impact of COVID-19.

Our home health and hospice segment received the benefit of the suspension of the 2% sequestration payment adjustment for Medicare claims and the LTACHs received the benefit of the suspension of the 2% sequestration payment adjustment and the waiver of site-neutral payments for LTACH Medicare claims.

HCI revenue increased in the third quarter of 2020 due to the recognition of \$9.6 million of the Medicare Shared Services Program ("MSSP").

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, 2020 and 2019 (amounts in thousands, except percentages, which are percentages of consolidated revenue):

	Nine Months Ended September 30,			
	2020	% of Net Service Revenue	2019	% of Net Service Revenue
Revenue	\$ 1,556,484		\$ 1,568,084	
Less: Implicit price concession	25,609	1.6 %	19,158	1.2 %
Net service revenue	<u>\$ 1,530,875</u>		<u>\$ 1,548,926</u>	

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,			
	2020		2019	
Home health services				
Salaries, wages and benefits	\$ 561,783	52.0 %	\$ 635,966	57.1 %
Transportation	27,554	2.5	32,755	2.9
Supplies and services	41,772	3.9	25,361	2.3
Total	<u>\$ 631,109</u>	<u>58.4 %</u>	<u>\$ 694,082</u>	<u>62.3 %</u>
Hospice services				
Salaries, wages and benefits	\$ 80,297	44.3 %	\$ 75,443	44.7 %
Transportation	5,604	3.1	5,691	3.4
Supplies and services	26,584	14.7	22,719	13.5
Total	<u>\$ 112,485</u>	<u>62.1 %</u>	<u>\$ 103,853</u>	<u>61.6 %</u>
Home and community-based services				
Salaries, wages and benefits	\$ 109,594	75.8 %	\$ 116,674	74.0 %
Transportation	1,398	1.0	1,636	1.0
Supplies and services	2,872	2.0	744	0.5
Total	<u>\$ 113,864</u>	<u>78.8 %</u>	<u>\$ 119,054</u>	<u>75.5 %</u>
Facility-based services				
Salaries, wages and benefits	\$ 46,575	48.2 %	\$ 37,696	44.7 %
Transportation	101	0.1	219	0.3
Supplies and services	17,664	18.3	15,897	18.8
Total	<u>\$ 64,340</u>	<u>66.6 %</u>	<u>\$ 53,812</u>	<u>63.8 %</u>
HCI				
Salaries, wages and benefits	\$ 10,905	40.2 %	\$ 10,215	42.2 %
Transportation	205	0.8	330	1.4
Supplies and services	252	0.9	274	1.1
Total	<u>\$ 11,362</u>	<u>41.9 %</u>	<u>\$ 10,819</u>	<u>44.7 %</u>
Consolidated				
Total	<u>\$ 933,160</u>	<u>61.0 %</u>	<u>\$ 981,620</u>	<u>63.4 %</u>

Consolidated cost of service revenue improved as a percentage of net service revenue by 2.4% from 63.4% in 2019 to 61.0% in 2020. During 2020, our cost of service revenue was impacted by:

- cost containment efforts within our home health and hospice segments due to streamlining of leadership within each respective segment as we completed the integration of Almost Family
- cost mitigation efforts associated with PDGM within the home health segment during 2020
- lower patient volumes and a decline of in-person visits at the beginning of the second quarter of 2020 due to COVID-19 policies implemented by public health and governmental authorities, which patient volumes and in-person visits began to stabilize during the end of the quarter
- increased costs within each of our segments associated with significantly increased supplies and services costs related to COVID-19, including additional PPE purchases
- the sale of Ingenious Health at the beginning of 2019, which resulted in lower net service revenue during 2020 in our HCI segment offset by the recognition of MSSP earnings, which resulted in higher revenue in our HCI segment during 2020.

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):

	Nine Months Ended September 30,			
	2020		2019	
Home health services				
General and administrative	\$ 335,892	31.1 %	\$ 314,746	28.3 %
Depreciation and amortization	9,132	0.8	7,369	0.7
Total	<u>\$ 345,024</u>	<u>31.9 %</u>	<u>\$ 322,115</u>	<u>29.0 %</u>
Hospice services				
General and administrative	\$ 48,015	26.5 %	\$ 43,856	26.0 %
Depreciation and amortization	1,545	0.9	1,311	0.8
Total	<u>\$ 49,560</u>	<u>27.4 %</u>	<u>\$ 45,167</u>	<u>26.8 %</u>
Home and community-based services				
General and administrative	\$ 32,303	22.4 %	\$ 32,038	20.3 %
Depreciation and amortization	1,217	0.8	966	0.6
Total	<u>\$ 33,520</u>	<u>23.2 %</u>	<u>\$ 33,004</u>	<u>20.9 %</u>
Facility-based services				
General and administrative	\$ 29,174	30.2 %	\$ 25,700	30.5 %
Depreciation and amortization	2,810	2.9	2,310	2.7
Total	<u>\$ 31,984</u>	<u>33.1 %</u>	<u>\$ 28,010</u>	<u>33.2 %</u>
HCI				
General and administrative	\$ 8,918	32.8 %	\$ 11,482	47.4 %
Depreciation and amortization	897	3.3	856	3.5
Total	<u>\$ 9,815</u>	<u>36.1 %</u>	<u>\$ 12,338</u>	<u>50.9 %</u>
Consolidated				
Total	<u>\$ 469,903</u>	<u>30.7 %</u>	<u>\$ 440,634</u>	<u>28.4 %</u>

Consolidated general and administrative expenses increased as a percentage of net service revenue from 28.4% in 2019 to 30.7% in 2020. The increase in general and administrative expenses as a percentage of net service revenue was a result of a decrease in our home health revenue per episode due to a decrease in our patient acuity caused by the COVID-19 pandemic. In addition, heightened costs and the additional administrative costs of COVID-19 and investments in our technology infrastructure increased our expenses during this year. Finally, the increase from 2019 to 2020 related to costs associated with the completion of certain acquisitions during latter part of 2019 and nine months ended 2020.

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 30,	
	2020	2019
Net cash provided by (used in):		
Operating activities	\$ 455,743	\$ 104,790
Investing activities	(41,773)	(69,521)
Financing activities	(191,878)	(55,330)
Change in cash	\$ 222,092	\$ (20,061)
Cash at beginning of period	31,672	49,363
Cash at end of period	\$ 253,764	\$ 29,302

The CARES Act provided additional cash during the nine months ended September 30, 2020 and increased our net cash provided by operating activities by \$317.9 million of Accelerated and Advance Payments and \$33.6 million payment deferral of our portion of social security payroll tax. The impact of COVID-19 increased our prepaid medical supplies due to the need of obtaining personal protective equipment to our clinicians and increased our salaries, wages and benefits associated with the increased staffing demands associated with our response to COVID-19. The Provider Relief Funds of \$93.3 million offset our cash used in our financing activities.

Indebtedness

On March 30, 2018, we entered into a Credit Agreement with JPMorgan Chase Bank, N.A., which was effective on April 2, 2018 (the "Credit Agreement"). The 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 Credit Agreement is March 30, 2023. Our obligations under the 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 Credit Agreement.

Revolving loans under the 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 Credit Agreement. The Base Rate as of September 30, 2020 was 4.00% and the LIBOR rate was 1.94%. As of September 30, 2020, the effective interest rates on our borrowings under the Credit Agreement was 1.94%.

As of September 30, 2020, we had \$20.0 million drawn and letters of credit outstanding in the amount of \$24.8 million under the Credit Agreement, and had approximately \$455.2 million of remaining borrowing capacity available under the Credit Agreement. We were able to utilize cash on hand to pay \$509.2 million on the Credit Agreement during the nine months ended September 30, 2020. At December 31, 2019, we had \$253.0 million drawn and letters of credit outstanding in the amount of \$28.4 million under the Credit Facility.

Under the 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 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 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 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, 2020, we were in compliance with all debt covenants.

Contingencies

For a discussion of contingencies, see Note 7 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. For a full description of the Company's other critical accounting policies, see Note 2 of the Notes to Consolidated Financial Statements in the 2019 Form 10-K.

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 \$1.0 million for the nine months ended September 30, 2020.

ITEM 4. CONTROLS AND PROCEDURES.

Evaluation of Disclosure Controls and Procedures

We established disclosure controls and procedures which are designed to provide reasonable assurance of achieving their objectives and to ensure that information required to be disclosed in its reports filed under the Securities Exchange Act of 1934 as amended (the "Exchange Act") is recorded, processed, summarized, disclosed and reported within the time periods specified in the SEC's rules and forms. This information is also accumulated and communicated to our management and Board of Directors to allow timely decisions regarding required disclosure.

In connection with the preparation of this Quarterly Report on Form 10-Q, as of September 30, 2020, under the supervision and with the participation of management, including the principal executive officer and principal financial officer, management

conducted an evaluation of the effectiveness of the disclosure controls and procedures, as such term is defined under Rules 13a-15(e) and 15d-15(e) promulgated under the Exchange Act.

Based on this evaluation, the principal executive officer and principal financial officer concluded that our disclosure controls and procedures were effective at a reasonable assurance level as of September 30, 2020, the end of the period covered by this Quarterly Report.

Changes in Internal Controls Over Financial Reporting

We, including the principal executive officer and principal financial officer, do not expect that our disclosure controls or our internal controls over financial reporting will prevent or detect all errors and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. The design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Further, because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Controls can also be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Projections of any evaluation of controls' effectiveness to future periods are subject to risks. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies and procedures. Our disclosure controls and procedures are designed to provide reasonable assurance of achieving their objectives and, based on an evaluation of the controls and procedures, the principal executive officer and principal financial officer concluded the disclosure controls and procedures were effective at a reasonable assurance level as of September 30, 2020, the end of the period covered by this Quarterly Report.

PART II — OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

For a discussion of legal proceedings, see Note 7 of the Notes to Condensed Consolidated Financial Statements, which is incorporated herein by reference.

ITEM 1A. RISK FACTORS.

Important risk factors that could materially affect the Company's business, financial condition or results of operations in future periods are described in Part I, Item 1A, "Risk Factors" of our 2019 Form 10-K and also in Part II, Item 1A, "Risk Factors" of our quarterly report on Form 10-Q for the six months ended June 30, 2020 (the "Q1 2020 Form 10-Q"). 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 Quarterly Report. Please be aware that these risks may change over time and other risks may prove to be important in the future. In addition, these risks may be heightened by the disruption and uncertainty resulting from COVID-19.

There have been no material changes in the Company's risk factors from those in Part I, Item 1A, "Risk Factors" of our 2019 Form 10-K, as updated in Part II, Item A, "Risk Factors" of our Q2 2020 Form 10-Q.

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

None.

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 Dale Mackel, 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 - The instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL 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

Attached as Exhibit 101 to this report are documents formatted in XBRL (Extensible Business Reporting Language). Users of this data are advised pursuant to Rule 406T of Regulation S-T that the interactive data file is deemed not filed or part of a registration statement or prospectus for purposes of section 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of section 18 of the Securities Exchange Act of 1934, and otherwise not subject to liability under these sections. The financial information contained in the XBRL-related documents is "unaudited" or "unreviewed."

*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.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

LHC GROUP, INC.
(Registrant)

Date: November 5, 2020

/s/ Dale Mackel

Dale Mackel
Chief Financial Officer
(Principal financial officer)

CERTIFICATION PURSUANT TO RULE 13a-14(a)/15d-14(a),
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Keith G. Myers, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of LHC Group, Inc. for the quarter ended September 30, 2020;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's Board of Directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 5, 2020

/s/ Keith G. Myers

Keith G. Myers
Chief Executive Officer (Principal executive officer)

CERTIFICATION PURSUANT TO RULE 13a-14(a)/15d-14(a),
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Dale Mackel, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of LHC Group, Inc. for the quarter ended September 30, 2020;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's Board of Directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 5, 2020

/s/ Dale Mackel

Dale Mackel
Chief Financial Officer
(Principal financial officer)

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of LHC Group, Inc. (the "Company") on Form 10-Q for the quarter ended September 30, 2020 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, Keith G. Myers, Chief Executive Officer of the Company, and Dale Mackel, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 5, 2020

/s/ Keith G. Myers

Keith G. Myers
Chief Executive Officer
(Principal executive officer)

/s/ Dale Mackel

Dale Mackel
Chief Financial Officer
(Principal financial officer)