LHC Group, Inc
Form 10-Q
May 09, 2007

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

þ **Quarterly report pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1934**
For the quarterly period ended March 31, 2007

or

o **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the transition period from __________ to __________

Commission file number: 0-8082
LHC GROUP, INC.
(Exact Name of Registrant as Specified in Charter)

Delaware	**71-0918189**
(State or Other Jurisdiction of Incorporation or Organization)	**(I.R.S. Employer Identification No.)**

420 West Pinhook Rd, Suite A
Lafayette, LA 70503
(Address of principal executive offices including zip code)
(337) 233-1307
(Registrant s telephone number, including area code)

Indicate by check mark whether the issuer (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer o Accelerated Filer þ Non-accelerated filer o

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

Number of shares of common stock, par value $0.01, outstanding as of May 3, 2007: 17,998,246 shares

LHC GROUP, INC.
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PART I FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS.
LHC GROUP, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

	March 31, 2007 (unaudited)	December 31, 2006
	(in thousands, except share data)	
ASSETS		
Current assets:		
Cash	$ 20,856	$ 26,877
Receivables:		
Patient accounts receivable, less allowance for uncollectible accounts of $7,378, and $5,769 at March 31, 2007 and December 31, 2006, respectively	62,705	50,029
Other receivables	2,359	3,367
Employee receivables	134	34
Amounts due from governmental entities	2,518	2,518
	67,716	55,948
Deferred income taxes	2,953	1,935
Prepaid expenses and other current assets	3,133	4,120
Assets held for sale	374	1,171
Total current assets	95,032	90,051
Property, building, and equipment, net	12,006	11,705
Goodwill	44,913	39,681
Intangible assets, net	9,294	8,262
Other assets	3,559	2,995
Total assets	$ 164,804	$ 152,694
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable and other accrued liabilities	$ 5,268	$ 5,903
Salaries, wages, and benefits payable	12,835	10,572
Amounts due to governmental entities	3,162	3,223
Amounts payable under cooperative endeavor agreements	56	51
Income taxes payable	4,460	1,219
Current portion of capital lease obligations	164	211
Current portion of long-term debt	430	428
Total current liabilities	26,375	21,607
Deferred income taxes, less current portion	2,525	2,104
Capital lease obligations, less current portion	128	147

Long-term debt, less current portion	3,010	3,051
Minority interests subject to exchange contracts and/or put options	285	317
Other minority interests	3,928	3,579
Stockholders equity:		
Common stock $0.01 par value: 40,000,000 shares authorized; 20,700,211 and 20,682,317 shares issued and 17,750,142 and 17,732,258 shares outstanding at March 31, 2007 and December 31, 2006, respectively	177	177
Treasury stock 2,950,059 shares at cost	(2,856)	(2,856)
Additional paid-in capital	80,639	80,273
Retained earnings	50,593	44,295
Total stockholders equity	128,553	121,889
Total liabilities and stockholders equity	$ 164,804	$ 152,694

See accompanying notes.

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LHC GROUP, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME

	Three Months Ended March 31,	
	2007	2006
Net service revenue	$ 70,034	$ 46,468
Cost of service revenue	35,194	24,860
Gross margin	34,840	21,608
General and administrative expenses	23,038	15,247
Operating income	11,802	6,361
Interest expense	83	86
Non-operating income, including (gain) on sales of assets	(293)	(166)
Income from continuing operations before income taxes and minority interest and cooperative endeavor allocations	12,012	6,441
Income tax expense	3,939	1,697
Minority interest and cooperative endeavor allocations	1,807	995
Income from continuing operations	6,266	3,749
Gain (Loss) from discontinued operations (net of income taxes (benefit) of $(2) and $(129) in the three months ended March 31, 2007 and 2006, respectively	(3)	(210)
Gain on sale of discontinued operations (net of income taxes of $365 for the three months ended March 31, 2006)		597
Net income	6,263	4,136
Redeemable minority interests	35	843
Net income available to common stockholders	$ 6,298	$ 4,979
Earnings per share basic:		
Income from continuing operations	$ 0.35	$ 0.23
Gain (Loss) from discontinued operations, net		(0.01)
Gain on sale of discontinued operations, net		0.04
Net income	0.35	0.26
Redeemable minority interests		0.05
Net income available to common shareholders	$ 0.35	$ 0.31
Earnings per share diluted:		
Income from continuing operations	$ 0.35	$ 0.23
Gain (Loss) from discontinued operations, net		(0.01)

Gain on sale of discontinued operations, net				0.04
Net income		0.35		0.26
Redeemable minority interests				0.05
Net income available to common shareholders	$	0.35	$	0.31
Weighted average shares outstanding:				
Basic		17,748,369		16,557,828
Diluted		17,807,338		16,563,368

See accompanying notes.

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LHC GROUP, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three months Ended March 31,	
	2007	2006
	(unaudited) (in thousands)	
Operating activities		
Net income	$ 6,263	$ 4,136
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation expense	710	532
Provision for bad debts	1,816	841
Stock-based compensation expense	227	96
Minority interest in earnings of subsidiaries	1,756	1,028
Deferred income taxes	(596)	(290)
Gain on divestitures and sale of assets		(963)
Changes in operating assets and liabilities, net of acquisitions:		
Receivables	(13,584)	(2,431)
Prepaid expenses, other assets	526	63
Accounts payable and accrued expenses	4,919	1,963
Net amounts due under cooperative endeavor agreements	5	23
Net amounts due governmental entities	(61)	598
Net cash provided by operating activities	1,981	5,596
Investing activities		
Purchases of property, building, and equipment	(716)	(991)
Proceeds from sale of entities		1,200
Cash paid for acquisitions, primarily goodwill and intangible assets	(5,865)	(3,269)
Net cash used in investing activities	(6,581)	(3,060)
Financing activities		
Principal payments on debt	(39)	(603)
Payments on capital leases	(66)	(109)
Proceeds from employee stock purchase plan	88	
Minority interest distributions, net	(1,404)	(1,089)
Net cash used in financing activities	(1,421)	(1,801)
Change in cash	(6,021)	735
Cash at beginning of period	26,877	17,398
Cash at end of period	$ 20,856	$ 18,133
Supplemental disclosures of cash flow information		
Interest paid	$ 83	$ 86
Income taxes paid	$ 1,240	$ 105

See accompanying notes.

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

1. Organization

LHC Group, Inc. (the Company) is a healthcare provider specializing in the post-acute continuum of care primarily for Medicare beneficiaries in rural markets in the southern United States. The Company provides home-based services, primarily through home nursing agencies and hospices, and facility-based services, primarily through long-term acute care hospitals and outpatient rehabilitation clinics. As of the date of this report, the Company, through its wholly and majority-owned subsidiaries, equity joint ventures, and controlled affiliates, operated in Louisiana, Alabama, Arkansas, Mississippi, Texas, West Virginia, Kentucky, Florida, Georgia and Tennessee.

Unaudited Interim Financial Information

The condensed consolidated balance sheet as of March 31, 2007 and the related condensed consolidated statements of income and cash flows for the three months ended March 31, 2007 and 2006 and related notes (interim financial information) have been prepared by LHC Group, Inc. and are unaudited. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation in accordance with accounting principles generally accepted in the United States have been included. Operating results for the three months ended March 31, 2007 are not necessarily indicative of the results that may be expected for the year ended December 31, 2007.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted from the interim financial information presented. These condensed consolidated financial statements should be read in conjunction with the notes to the consolidated financial statements included in the Company s Consolidated Financial Statements in the Company s Annual Report as filed with the Securities and Exchange Commission on Form 10-K for the year ended December 31, 2006, which includes information and disclosures not included herein.

2. Significant Accounting Policies

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported revenue and expenses during the reported period. Actual results could differ from those estimates.

Critical Accounting Policies

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

Principles of Consolidation

The consolidated financial statements include all subsidiaries and entities controlled by the Company. Control is generally defined by the Company as ownership of a majority of the voting interest of an entity. The consolidated financial statements include entities in which the Company absorbs a majority of any losses, receives a majority of any residual returns, or both, as a result of ownership, contractual or other financial interests in the entity.

All significant inter-company accounts and transactions have been eliminated in consolidation. Business combinations, which are accounted for as purchases, have been included in the consolidated financial statements from the respective dates of acquisition.

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

Equity Joint Ventures

The Company s joint ventures are structured as limited liability companies in which the Company typically owns a majority equity interest ranging from 51% to 99%. Each member of all but one of the Company s equity joint ventures participates in profits and losses in proportion to their equity interests. The Company has one joint venture partner whose participation in losses is limited. The Company consolidates these entities as the Company absorbs a majority of any losses, receives a majority of any residual returns and generally has voting control over the entity.

Cooperative Endeavors

The Company has arrangements with certain partners that involve the sharing of profits and losses. Unlike the equity joint ventures, the Company owns 100% of the equity in these cooperative endeavors. In these cooperative endeavors, the Company possesses interests in the net profits and losses ranging from 67% to 70%. The Company has one cooperative endeavor partner whose participation in losses is limited. The Company consolidates these entities as the Company owns 100% of the outstanding equity and the Company absorbs a majority of any losses and receives a majority of any residual returns.

License Leasing Arrangements

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

Management Services

The Company has various management services agreements under which the Company manages certain operations of agencies and facilities. The Company does not consolidate these agencies or facilities, as the Company does not have an ownership interest and does not have a right to receive a majority of any residual returns or an obligation to absorb a majority of any losses.

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

	Three Months Ended March 31,	
	2007	**2006**
Wholly-owned subsidiaries	44.7%	38.3%
Equity joint ventures	41.8	47.5
Cooperative endeavors	1.2	1.7
License leasing arrangements	9.6	11.1
Management services	2.7	1.4
	100.0%	100.0%

Revenue Recognition

The Company reports net service revenue at the estimated net realizable amount due from Medicare, Medicaid, commercial insurance, managed care payors, patients, and others for services rendered. Under Medicare, the Company s home nursing patients are classified into a group referred to as a home health resource group prior to the receipt of services. Based on this home health resource group, the Company is entitled to receive a prospective Medicare payment for delivering care over a 60-day period referred to as an episode. Medicare adjusts these prospective payments based on a variety of factors, such as low utilization, patient transfers, changes in condition and the level of services provided. In calculating the Company s reported net service revenue from home nursing services, the Company adjusts the prospective Medicare payments by an estimate of the adjustments. The Company calculates the adjustments based on a historical average of these types of adjustments. For home nursing services, the Company recognizes revenue based on the number of days elapsed during the episode of care.

For the Company s long-term acute care hospitals, revenue is recognized as services are provided. Under Medicare, patients in the Company s long-term acute care facilities are classified into long-term diagnosis-related groups. Based on this classification, the Company is then entitled to receive a fixed payment from Medicare. This fixed payment is also subject to adjustment by Medicare due to factors such as short stays. In calculating reported net service revenue for services provided in the Company s long-term acute care hospitals, the Company reduces the prospective payment amounts by an estimate of the adjustments. The Company calculates the adjustment based on a historical average of these types of adjustments for claims paid.

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

Under Medicare, the Company is reimbursed for rehabilitation services based on a fee schedule for services provided adjusted by the geographical area in which the facility is located. The Company recognizes revenue as these services are provided.

The Company s Medicaid reimbursement is based on a predetermined fee schedule applied to each service provided. Therefore, revenue is recognized for Medicaid services as services are provided based on this fee schedule. The Company s managed care payors reimburse the Company under the terms of the related contracts. Accordingly, the Company recognizes revenue from managed care payors consistent with those terms.

The Company records management services revenue as services are provided in accordance with the various management services agreements to which the Company is a party. The agreements generally call for the Company to provide billing, management, and other consulting services suited to and designed for the efficient operation of the applicable home nursing agency, hospice, or inpatient rehabilitation facility. The Company is responsible for the costs associated with the locations and personnel required for the provision of the services. The Company is generally compensated based on a percentage of net billings or an established base fee. In addition, for certain of the management agreements, the Company may earn incentive compensation.

Net service revenue was comprised of the following:

	Three Months Ended March 31,	
	2007	**2006**
Home-based services	78.6%	69.8%
Facility-based services	21.4	30.2
	100.0%	100.0%

The following table sets forth the percentage of net service revenue earned by category of payor:

	Three Months Ended March 31,	
	2007	**2006**
Payor:		
Medicare	80.8%	86.1%
Medicaid	6.1	5.2
Other	13.1	8.7
	100.0%	100.0%

Home-Based Services

Home Nursing Services. The Company receives a standard prospective Medicare payment for delivering care. The base payment, established through federal legislation, is a flat rate that is adjusted upward or downward based

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upon differences in the expected resource needs of individual patients as indicated by clinical severity, functional severity, and service utilization. The magnitude of the adjustment is determined by each patient s categorization into one of 80 payment groups, known as home health resource groups, and the costliness of care for patients in each group relative to the average patient. The Company s payment is also adjusted for differences in local prices using the hospital wage index. The Company performs payment variance analyses to verify the models utilized in projecting total net service revenue are accurately reflecting the payments to be received.

Medicare rates are subject to change. Due to the length of the Company s episodes of care, a situation may arise where Medicare rate changes affect a prior period s net service revenue. In the event that Medicare rates experience change, the net effect of that change will be reflected in the current reporting period.

Final payments from Medicare may reflect one of five retroactive adjustments to ensure the adequacy and effectiveness of the total reimbursement: (a) an outlier payment if the patient s care was unusually costly; (b) a low utilization adjustment if the number of visits was fewer than five; (c) a partial payment if the patient transferred to another provider before completing the episode; (d) a change-in-condition adjustment if the patient s medical status changes significantly, resulting in the need for more or less care; or (e) a payment adjustment based upon the level of therapy services required in the population base. Management estimates the impact of these payment adjustments based on historical experience and records this estimate during the period the services are rendered.

Hospice Services. The Company s Medicare hospice reimbursement is based on an annually-updated prospective payment system. Hospice payments are also subject to two caps. One cap relates to individual programs receiving more than 20% of their total Medicare reimbursement from inpatient care services. The second cap relates to individual programs receiving reimbursements in excess of a cap amount, calculated by multiplying the number of beneficiaries during the period by a statutory amount that is indexed for inflation. The determination for each cap is made annually based on the 12-month period ending on October 31 of each year. This limit is computed on a program-by-program basis. None of the Company s hospices exceeded either cap during the three months ended March 31, 2007 or 2006.

Facility-Based Services

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

Outpatient Rehabilitation Services. Outpatient therapy services are reimbursed on a fee schedule, subject to annual limitations. Outpatient therapy providers receive a fixed fee for each procedure performed, adjusted by the geographical area in which the facility is located. The Company recognizes revenue as the services are provided. There are also annual per Medicare beneficiary caps that limit Medicare coverage for outpatient rehabilitation services.

Accounts Receivable and Allowances for Uncollectible Accounts

The Company reports accounts receivable net of estimated allowances for uncollectible accounts and adjustments. Accounts receivable are uncollateralized and primarily consist of amounts due from third-party payors and patients. To provide for accounts receivable that could become uncollectible in the future, the Company establishes an allowance for uncollectible accounts to reduce the carrying amount of such receivables to their estimated net realizable value. The credit risk for other concentrations of receivables is limited due to the significance of Medicare as the primary payor. The Company does not believe that there are any other significant concentrations of receivables from any particular payor that would subject it to any significant credit risk in the collection of accounts receivable.

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The amount of the provision for bad debts is based upon the Company s assessment of historical and expected net collections, business and economic conditions, and trends in government reimbursement. Uncollectible accounts are written off when the Company has determined the account will not be collected.

A portion of the estimated Medicare prospective payment system reimbursement from each submitted home nursing episode is received in the form of a request for accelerated payment (RAP). The Company submits a RAP for 60% of the estimated reimbursement for the initial episode at the start of care. The full amount of the episode is billed after the episode has been completed. The RAP received for that particular episode is deducted from the final payment. If a final bill is not submitted within the greater of 120 days from the start of the episode, or 60 days from the date the RAP was paid, any RAPs received for that episode will be recouped by Medicare from any other claims in process for that particular provider. The RAP and final claim must then be re-submitted. For any subsequent episodes of care contiguous with the first episode for a particular patient, the Company submits a RAP for 50% instead of 60% of the estimated reimbursement. The Company has earned net service revenue in excess of billings rendered to Medicare. Only a nominal portion of the amounts due to the Medicare program represent cash collected in advance of providing services.

Our Medicare population is paid at a prospectively set amount that can be determined at the time services are rendered. Our Medicaid reimbursement is based on a predetermined fee schedule applied to each individual service we provide. Our managed care contracts are structured similar to either the Medicare or Medicaid payment methodologies. Because of our payor mix, we are able to calculate our actual amount due at the patient level and adjust the gross charges down to the actual amount at the time of billing. This negates the need for an estimated contractual allowance to be booked at the time we report net service revenue for each reporting period.

At March 31, 2007, our allowance for uncollectible accounts, as a percentage of patient accounts receivable, was approximately 10.5%. For the three months ended March 31, 2007, the provision for doubtful accounts increased to 2.6% of net service revenue compared to 1.8% of net service revenue for the same period in 2006. Adverse changes in general economic conditions, billing operations, payor mix, or trends in federal or state governmental coverage could affect our collection of accounts receivable, cash flows and results of operations.

The following table sets forth our aging of accounts receivable (based on the billing date) as of March 31, 2007:

Payor	0-30	31-60	61-90	91-120	121-150	151+	Total
				(in thousands)			
Medicare	$ 20,383	$ 4,736	$ 2,548	$ 1,202	$ 1,888	$ 9,103	$ 39,860
Medicaid	1,348	1,512	543	377	640	3,921	8,341
Other	4,745	3,049	1,822	695	1,297	10,274	21,882
Total	$ 26,476	$ 9,297	$ 4,913	$ 2,274	$ 3,825	$ 23,298	$ 70,083

Goodwill and Intangible Assets

Goodwill and other intangible assets with indefinite lives are reviewed annually for impairment or more frequently if circumstances indicate impairment may have occurred.

The Company estimates the fair value of its identified reporting units and compares those estimates against the related carrying value. For each of the reporting units, the estimated fair value is determined based on a multiple of earnings before interest, taxes, depreciation, and amortization or on the estimated fair value of assets in situations when it is readily determinable.

Included in intangible assets, net are other intangible assets such as licenses to operate home-based and/or facility-based services and trade names. The Company has valued these intangible assets separately from goodwill for each acquisition completed after January 1, 2006. The Company has concluded that these licenses and trade names have indefinite lives, as management has determined that there are no legal, regulatory, contractual, economic or other factors that would limit the useful life of these intangible assets and the Company intends to renew and operate the licenses and use these trade names indefinitely. Prior to January 1, 2006, the Company elected to recognize the fair value of indefinite-lived licenses and trade names together with goodwill as a single asset for financial reporting purposes.

Components of the Company s home nursing operating segment are generally represented by individual subsidiaries or joint ventures with individual licenses to conduct specific operations within geographic markets as limited by the terms of each license. Components of the Company s facility-based services are represented by individual operating entities. Effective January 1, 2004, management aggregates the components of these two segments into two reporting units for purposes of evaluating impairment.

Other Significant Accounting Policies

Due to/from Governmental Entities

The Company s critical access hospital and long-term acute care hospitals are reimbursed for certain activities based on tentative rates. Final reimbursement is determined based on submission of annual cost reports and audits by the fiscal intermediary. Adjustments are accrued on an estimated basis in the period the related services are rendered and further adjusted as final settlements are determined. These adjustments are accounted for as changes in estimates. There have been no significant changes in estimates during the three months ended March 31, 2007 and 2006.

Property, Building, and Equipment

Property, building, and equipment are stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the individual assets, generally ranging from three to ten years and up to thirty-nine years on buildings. Depreciation expense for the three months ended March 31, 2007 and 2006 was $710,000 and $532,000, respectively.

Capital leases are included in equipment. Capital leases are recorded at the present value of the future rentals at lease inception and are amortized over the shorter of the applicable lease term or the useful life of the equipment. Amortization of assets under the capital lease obligations is included in depreciation and amortization expense.

Long-Lived Assets

The Company reviews the recoverability of long-lived assets whenever events or circumstances occur which indicate recorded costs may not be recoverable. If the expected future cash flows (undiscounted) are less than the carrying amount of such assets, the Company recognizes an impairment loss for the difference between the carrying amount of the assets and their estimated fair value.

Income Taxes

The Company accounts for income taxes using the liability method. Under the liability method, deferred taxes are determined based on differences between the financial reporting and tax bases of assets and liabilities, and are measured using the enacted tax laws that will be in effect when the differences are expected to reverse. Management provides a valuation allowance for any net deferred tax assets when it is more likely than not that a portion of such net deferred tax assets will not be recovered.

Minority Interest and Cooperative Endeavor Agreements

The interest held by third parties in subsidiaries owned or controlled by the Company is reported on the consolidated balance sheets as minority interest. Minority interest reported in the consolidated statements of income reflects the respective interests in the income or loss of the subsidiaries attributable to the other parties, the effect of which is removed from the Company s consolidated results of operations.

Several of the Company s home health agencies have cooperative endeavor agreements with third parties that allow the third parties to be paid or recover a fee based on the profits or losses of the respective agencies. The

Company accrues for the settlement of the third party s profits or losses during the period the amounts are earned. Under the agreements, the Company has incurred net amounts due to the third parties of $56,000 and $65,000 for the three months ended March 31, 2007 and 2006, respectively. The cooperative endeavor agreements have terms expiring at the end of June 2008.

For agreements where the third party is a healthcare institution, the agreements typically require the Company to lease building and equipment and receive housekeeping and maintenance from the healthcare institutions. Ancillary services related to these arrangements are also typically provided by the healthcare institution.

Minority Interest Subject to Exchange Contracts and/or Put Options

The Company has a put option agreement with the minority interest holders of a majority-owned subsidiary, St. Landry Extended Care Hospital, LLC (St. Landry), which allows the minority interest holders to redeem their minority interests for cash. As of March 31, 2007, approximately 76.5% of the doctors have converted their minority interests to cash.

There were no redemptions in the three months ended March 31, 2007. In the three months ended March 31, 2007, the Company recorded a mark-to-market charge of $35,000 for these redeemable minority interests. Included in minority interests subject to exchange contracts and/or put options liability at March 31, 2007 and December 31, 2006 is $279,000 and $314,000, respectively, related to these redeemable minority interests.

Stock-based Compensation

The Company has two stock option plans that are administered by the Compensation Committee of the Board of Directors, which selects persons eligible to receive awards and determines the number of shares and/or options subject to each award, the terms, conditions, performance measures and other provisions of the award. Readers should refer to note 6 of the Company s consolidated financial statements in its Annual Report on Form 10-K for the year ended December 31, 2006 for additional information related to these stock-based compensation plans.

The Company accounts for its stock-based compensation plans using the fair value recognition provisions of Statement of Financial Accounting Standards.

Earnings Per Share

Basic per share information is computed by dividing the item by the weighted-average number of shares outstanding during the period. Diluted per share information is computed by dividing the item by the weighted-average number of shares outstanding plus dilutive potential shares.

The following table sets forth shares used in the computation of basic and diluted per share information:

	Three Months Ended March 31,	
	2007	**2006**
Weighted average number of shares outstanding for basic per share calculation	17,748,369	16,557,828
Effect of dilutive potential shares:		
Options	4,789	940
Restricted stock	54,180	4,600

Adjus