LHC Group, Inc
Form 10-Q
May 09, 2008

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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, 2008

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

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

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

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

Number of shares of common stock, par value $0.01, outstanding as of May 6, 2008: 18,092,646 shares

LHC GROUP, INC.
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PART I FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS.
LHC GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Dollars in thousands, except share data)

	March 31, 2008 (unaudited)	December 31, 2007
ASSETS		
Current assets:		
Cash	$ 1,072	$ 1,155
Receivables:		
Patient accounts receivable, less allowance for uncollectible accounts of $7,027 and $8,953, respectively	68,165	70,033
Other receivables	2,998	2,425
Amounts due from governmental entities	1,249	1,459
Total Receivables, net	72,412	73,917
Deferred income taxes	2,331	2,946
Prepaid expenses and other current assets	3,830	4,423
Assets held for sale	556	556
Total current assets	80,201	82,997
Property, building and equipment, net	14,440	12,523
Goodwill	66,985	62,227
Intangible assets, net	14,167	14,055
Advance payments on acquisitions	8,300	
Other assets	4,067	3,183
Total assets	$ 188,160	$ 174,985
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable and other accrued liabilities	$ 7,938	$ 6,103
Salaries, wages, and benefits payable	14,085	11,303
Amounts due to governmental entities	3,162	3,162
Income taxes payable	1,691	863
Current portion of capital lease obligations	105	88
Current portion of long-term debt	527	433
Total current liabilities	27,508	21,952
Deferred income taxes, less current portion	3,284	3,243
Capital lease obligations, less current portion	23	63
Long-term debt, less current portion	4,871	2,847
Minority interests subject to exchange contracts and/or put options	20	121

Other minority interests		3,288		3,388
Stockholders equity:				
Common stock $0.01 par value: 40,000,000 shares authorized; 20,770,254 and 20,725,713 shares issued and 17,816,466 and 17,775,284 shares outstanding, respectively		178		177
Treasury stock 2,953,788 and 2,950,429 shares at cost, respectively		(2,939)		(2,866)
Additional paid-in capital		82,411		81,983
Retained earnings		69,516		64,077
Total stockholders equity		149,166		143,371
Total liabilities and stockholders equity	$	188,160	$	174,985

See accompanying notes.

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

	Three Months Ended March 31, 2008	Three Months Ended March 31, 2007
Net service revenue	$ 83,473	$ 68,727
Cost of service revenue	41,896	34,617
Gross margin	41,577	34,110
Provision for bad debts	3,686	1,741
General and administrative expenses	26,873	20,927
Operating income	11,018	11,442
Interest expense	148	83
Non-operating income, including gain on sales of assets	(402)	(293)
Income from continuing operations before income taxes and minority interest allocations	11,272	11,652
Income tax expense	3,363	3,794
Minority interest	2,440	1,807
Income from continuing operations	5,469	6,051
Loss from discontinued operations (net of income tax benefit of $84 and $162, respectively)	(131)	(266)
Net income	5,338	5,785
Redeemable minority interests	101	35
Net income available to common stockholders	$ 5,439	$ 5,820
Earnings per share basic and diluted:		
Income from continuing operations	$ 0.31	$ 0.34
Loss from discontinued operations, net	(0.01)	(0.01)
Net income	0.30	0.33
Redeemable minority interests	0.01	
Net income available to common shareholders	$ 0.31	$ 0.33
Weighted average shares outstanding:		
Basic	17,800,066	17,748,369
Diluted	17,813,967	17,807,338

See accompanying notes.

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

	Three Months Ended March 31, 2008	Three Months Ended March 31, 2007
Operating activities		
Net income	$ 5,338	$ 5,785
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization expense	877	710
Provision for bad debts	4,040	1,816
Stock-based compensation expense	385	227
Minority interest in earnings of subsidiaries	2,330	1,756
Deferred income taxes	(86)	(596)
Gain on sale of assets	(346)	
Changes in operating assets and liabilities, net of acquisitions:		
Receivables	(2,817)	(12,801)
Prepaid expenses and other assets	472	526
Accounts payable and accrued expenses	6,112	4,573
Net amounts due governmental entities	210	(61)
Net cash provided by operating activities	16,515	1,935
Investing activities		
Purchases of property, building and equipment	(5,527)	(716)
Proceeds from sale of assets	3,081	
Cash paid for acquisitions, primarily goodwill, intangible assets and advance payments on acquisitions	(14,031)	(5,865)
Net cash used in investing activities	(16,477)	(6,581)
Financing activities		
Proceeds from line of credit	5,442	
Payments on line of credit	(5,442)	
Proceeds on debt issuance	5,050	
Principal payments on debt	(2,932)	(39)
Payments on capital leases	(23)	(66)
Excess tax benefits from vesting of restricted stock	33	46
Proceeds from employee stock purchase plan	134	88
Minority interest distributions, net	(2,383)	(1,404)
Net cash used in financing activities	(121)	(1,375)
Change in cash	(83)	(6,021)
Cash at beginning of period	1,155	26,877

Cash at end of period	$ 1,072	$ 20,856
Supplemental disclosures of cash flow information		
Interest paid	$ 148	$ 83
Income taxes paid	$ 1,885	$ 1,240

See accompanying notes.

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LHC GROUP, INC. AND SUBSIDIARIES
NOTES TO 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 non-urban markets in the 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, Tennessee, Ohio and Missouri. During the three months ended March 31, 2008, the Company acquired two home health agencies and initiated operations at six home health agencies.

Unaudited Interim Financial Information

The unaudited consolidated balance sheet as of March 31, 2008 and the related consolidated statements of income for the three months ended March 31, 2008 and 2007, and cash flows for the three months ended March 31, 2008 and 2007 and related notes (interim financial information) have been prepared by LHC Group, Inc. 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 (US GAAP) have been included. Operating results for the three months ended March 31, 2008 are not necessarily indicative of the results that may be expected for the year ending December 31, 2008.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles 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, 2007 as filed with the Securities and Exchange Commission on March 17, 2008, which includes information and disclosures not included herein.

2. Significant Accounting Policies

Use of Estimates

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

Critical Accounting Policies

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

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 the entity s expected losses, receives a majority of the entity s expected residual returns, or both, as a result of ownership, contractual or other financial interests in the entity.

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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.

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 percent. 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 the entities expected losses, receives a majority of the entities expected residual returns and generally has voting control over the entity.

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 percent 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 the entities expected residual returns and the Company s obligation to absorb a majority of the entities expected 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 the agencies or facilities expected residual returns or an obligation to absorb a majority of the agencies or facilities expected 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,	
	2008	**2007**
Wholly-owned subsidiaries	46.7%	45.4%
Equity joint ventures	49.4	42.1
License leasing arrangements	2.0	9.7
Management services	1.9	2.8
	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 the 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 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 adjustments are calculated using 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 within the reporting period.

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Revenue is recognized as services are provided for the Company s long-term acute care hospitals. Under Medicare, patients in the Company s long-term acute care facilities are classified into long-term diagnosis-related groups. Medicare provides a fixed payment, subject to adjustments due to factors such as short stays, based on the group classification. The net service revenue for the period is reduced for 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.

Medicare pays the Company a per diem payment for hospice services. 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 the 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 the fee schedule. The Company s managed care payors reimburse the Company in a manner similar to either Medicare or Medicaid. Accordingly, the Company recognizes revenue from managed care payors in the same manner as the Company recognizes revenue from Medicare or Medicaid.

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. As described in the agreements, the Company provides billing, management, and other consulting services suited to and designed for the efficient operation of the applicable home nursing agency 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. The Company is also eligible to earn incentive compensation on certain of the management agreements.

Net service revenue was comprised of the following:

	Three Months Ended March 31,	
	2008	**2007**
Home-based services	81.9%	80.1%
Facility-based services	18.1	19.9
	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,	
	2008	**2007**
Payor:		
Medicare	82.4%	81.9%
Medicaid	5.2	6.2
Other	12.4	11.9
	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 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

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one of 153 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 four retroactive adjustments to ensure the adequacy and effectiveness of the total reimbursement: (a) an outlier payment if the patient s care was unusually costly; (b) a low utilization adjustment if the number of visits was fewer than five; (c) a partial payment if the patient transferred to another provider before completing the episode; or (d) a payment adjustment based upon the level of therapy services required in the population base. Management estimates the effect 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 percent 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, 2008 or 2007.

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. The 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. Revenue from patients covered by private insurance is recognized in accordance with the terms of the individual contracts.

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 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 percent 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 other Medicare claims in process for that particular provider. The RAP and final claim must then be re-submitted. For subsequent episodes of care contiguous with the first episode for a particular patient, the Company submits a RAP for 50 percent instead of 60 percent of the estimated reimbursement. The remaining 50 percent reimbursement is requested upon completion of the episode. 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.

The Company s Medicare population is paid at a prospectively set amount that can be determined at the time services are rendered. Medicaid reimbursement is based on a predetermined fee schedule applied to each individual service provided by the Company. The Company s managed care contracts are structured similar to either the Medicare or Medicaid payment methodologies. Because of the payor mix, the Company is able to calculate the actual amount due at the patient level and adjust the gross charges to the actual amount expected to be received for services at the time of billing. An estimated contractual allowance is therefore not needed at the time the Company reports net service revenue for each reporting period.

Other Significant Accounting Policies

Earnings Per Share

Basic per share information is computed by dividing the relevant amounts from the Consolidated Statements of Income by the weighted-average number of shares outstanding during the period. Diluted per share information is computed by dividing the relevant amounts from the Consolidated Statements of Income 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,	
	2008	**2007**
Weighted average number of shares outstanding for basic per share calculation	17,800,066	17,748,369
Effect of dilutive potential shares:		
Options	3,291	4,789
Restricted stock	10,610	54,180
Adjusted weighted average shares for diluted per share calculation	17,813,967	17,807,338

Discontinued Operations

Certain amounts previously disclosed for the quarter ended March 31, 2007 related to the operations of the Company s critical access hospital have been reclassified into discontinued operations. The sale of the critical access hospital was completed on July 1, 2007.

Reclassifications

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Excess tax benefits from the vesting of restricted stock has been reclassed from operating activities to financing activities on the Consolidated Statement of Cash Flows for the period ended March 31, 2007 to conform to the current year presentation.

Recently Issued Accounting Pronouncements

In December 2007, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 141 (Revised 2007), *Business Combinations* (SFAS 141R). Under SFAS 141R, an acquiring entity will be required to recognize all assets acquired and liabilities assumed in a transaction at the acquisition-date fair value with limited exceptions. SFAS 141R changes the accounting treatment and disclosure requirements for certain items in a business combination. For instance, acquisition-related costs, with the exception of debt or equity issuance costs are to be recorded in the period that the costs are incurred and the services are received. SFAS 141R applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. Early adoption is prohibited. The Company expects SFAS 141R will have an effect on accounting for business combinations once adopted but the effect is dependent upon acquisitions at the time.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements An Amendment of ARB No. 51* (SFAS 160). SFAS 160 establishes new accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS 160 is effective for fiscal years beginning on or after December 15, 2008. Management has not completed its evaluation of the potential effect, if any, of the adoption of SFAS 160 on the Company s consolidated financial position, results of operations and cash flows.

Adoption of New Accounting Standards

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* (SFAS 157), which defines fair value, establishes a framework for measuring fair value in US GAAP and expands disclosures about fair value measurements. SFAS 157 does not require any new fair value measurements but rather eliminates inconsistencies in guidance found in various prior accounting pronouncements. In February 2008, the FASB issued FASB Staff Position No. 157-2, which deferred the effective date for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis, until fiscal years beginning after November 15, 2008, and interim periods within those fiscal years. These nonfinancial items include assets and liabilities such as reporting units measured at fair value in goodwill impairment tests and nonfinancial assets acquired and liabilities assumed in a business combination. The Company adopted SFAS 157 for financial assets and liabilities recognized at fair value on recurring bases effective January 1, 2008. The partial adoption of SFAS 157 for financial assets and liabilities did not have a material effect on the Company s consolidated financial position, results of operations or cash flows.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (SFAS 159). Under SFAS 159, companies may elect to measure certain financial instruments and certain other items at fair value. The standard requires that unrealized gains and losses on items for which the fair value option has been elected be reported in earnings. SFAS 159 was effective for the Company beginning in the first quarter of 2008. The Company did not elect to fair value any eligible items during the first quarter of 2008. Therefore, the adoption of SFAS 159 in the first quarter of 2008 did not affect the Company s consolidated financial position, results of operations or cash flows.

3. Acquisitions and Divestitures

The following acquisitions were completed pursuant to the Company s strategy of becoming the leading provider of post-acute healthcare services to Medicare patients in non-urban markets in the United States. The purchase price of each acquisition was determined based on the Company s analysis of comparable acquisitions and the target market s potential cash flows. Goodwill generated from the acquisitions was recognized based on the expected contributions of each acquisition to the overall corporate strategy. The Company expects the goodwill recognized in connection with the acquisition of existing operations to be fully tax deductible.

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2008 Acquisitions

During the three months ended March 31, 2008, the Company acquired the existing operations of one entity and a majority ownership interest in the existing operations of another entity for $5.2 million in cash and $323,000 in acquisition costs. Goodwill of $4.8 million was assigned to the home-based services segment. The allocation of the purchase price for certain acquisitions during the three months ended March 31, 2008 has not been finalized and is subject to change upon completion of final valuation.

On March 31, 2008, the Company paid $8.3 million in cash for acquisitions of several entities. The acquisitions were completed on April 1, 2008. The $8.3 million cash payment is recorded as advance payments on acquisitions in the balance sheet as of March 31, 2008.

The changes in recorded goodwill by segment for the three months ended March 31, 2008 were as follows:

	Three Months Ended March 31, 2008 (in thousands)
Home-based services segment:	
Balance at December 31, 2007	$ 57,884
Goodwill acquired during the period from acquisitions	4,669
Balance at March 31, 2008	$ 62,553
Facility-based services segment:	
Balance at December 31, 2007	$ 4,343
Goodwill acquired during the period from redemption of minority interest	89
Balance at March 31, 2008	$ 4,432

There were no dispositions during the three months ended March 31, 2008.

The above transactions were considered to be immaterial individually and in the aggregate. Accordingly, no supplemental pro forma information is required.

4. Credit Arrangements

Long-Term Debt

Long-term debt consisted of the following:

	March 31, 2008	December 31, 2007
	(in thousands)	
Notes payable:		
Due in yearly installments of $50,000 through August 2010 at 6.25%	$ 150	$ 150
Due in monthly installments of $20,565 through October 2015 at LIBOR plus 2.25% (6.71% at December 31, 2007)		2,870
Due in monthly installments of $28,056 through February 2015 at LIBOR plus 1.90% (4.61% at March 31, 2008)	5,022	
Due in monthly installments of $12,500 through November 2009 at 5.78%	226	260

	5,398	3,280
Less current portion of long-term debt	527	433
	$ 4,871	$ 2,847

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On February 28, 2008, the Company paid its promissory note with Bancorp Equipment Finance, Inc. in full. The note was collateralized by the Company s aircraft, which was sold in February 2008 for $3.1 million. The sale resulted in a gain of $315,000.

In February 2008, the Company entered into a loan agreement with Capital One, National Association (Capital One) for a term note in the amount of $5.1 million for the purchase of a 1999 Cessna 560 aircraft. The term note is payable in 84 monthly installments of principal plus interest commencing on March 6, 2008 and ending on February 6, 2015. The term note bears interest at the LIBOR Rate (adjusted monthly) plus the Applicable Margin of 1.9 percent.

Certain of the Company s loan agreements contain restrictive covenants, including limitations on indebtedness and the maintenance of certain financial ratios. At March 31, 2008 and December 31, 2007, the Company was in compliance with all covenants.

Other Credit Arrangements