LHC Group, Inc
Form 10-Q
November 05, 2009
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2009

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: 0-8082

LHC GROUP, INC.

(Exact Name of Registrant as Specified in Its Charter)

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

420 West Pinhook Rd, Suite A

Lafayette, LA 70503

(Address of Principal Executive Offices Including Zip Code)

(337) 233-1307

(Registrant s Telephone Number, Including Area Code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter periods that the registrant was required to submit and post such files). Yes ¨ No ¨

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

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

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

Number of shares of common stock, par value $0.01, outstanding as of November 3, 2009: 18,446,994 shares.

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PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

LHC GROUP, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(Dollars in thousands, except share data)

(Unaudited)

	September 30, 2009	December 31, 2008
ASSETS		
Current assets:		
Cash	$ 2,508	$ 3,511
Receivables:		
Patient accounts receivable, less allowance for uncollectible accounts of $9,989 and $9,976, respectively	68,753	61,524
Other receivables	3,154	2,317
Amounts due from governmental entities	1,431	2,434
Total receivables, net	73,338	66,275
Deferred income taxes	5,413	4,959
Assets held for sale	450	
Prepaid income taxes	4,147	
Prepaid expenses and other current assets	6,404	6,464
Total current assets	92,260	81,209
Property, building and equipment, net	20,058	16,348
Goodwill	130,285	112,572
Intangible assets, net	38,125	29,975
Other assets	2,620	3,296
Total assets	$ 283,348	$ 243,400
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable and other accrued liabilities	17,365	15,422
Salaries, wages, and benefits payable	25,626	16,400
Amounts due to governmental entities	3,211	6,023
Income taxes payable		10,682
Current portion of long-term debt and capital lease obligations	427	583
Total current liabilities	46,629	49,110
Deferred income taxes	8,614	5,718
Long-term debt, less current portion	4,180	4,483
Other long-term obligations	66	145
Stockholders equity:		
LHC Group, Inc. stockholders equity:		
Common stock $0.01 par value; 40,000,000 shares authorized; 20,947,421 and 20,853,463 shares issued and 17,974,561 and 17,895,832 shares outstanding, respectively	179	179
Treasury stock 2,972,860 and 2,957,631 shares at cost, respectively	(3,402)	(3,072)

Additional paid-in capital		87,820		85,404
Retained earnings		125,530		94,310
Total LHC Group, Inc. stockholders equity		210,127		176,821
Noncontrolling interest		13,732		7,123
Total equity		223,859		183,944
Total liabilities and equity	$	283,348	$	243,400

See accompanying notes to the condensed consolidated financial statements.

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LHC GROUP, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

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

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Net service revenue	$ 132,491	$ 97,991	$ 389,300	$ 271,206
Cost of service revenue	69,242	47,207	197,723	133,103
Gross margin	63,249	50,784	191,577	138,103
Provision for bad debts	1,072	3,158	4,062	10,467
General and administrative expenses	43,790	31,237	126,000	87,897
Operating income	18,387	16,389	61,515	39,739
Interest expense	(20)	(132)	(115)	(365)
Non-operating (loss) income	51	76	(337)	891
Income from continuing operations before income taxes and noncontrolling interests	18,418	16,333	61,063	40,265
Income tax expense	5,636	5,259	18,836	12,578
Income from continuing operations	12,782	11,074	42,227	27,687
Loss from discontinued operations (net of income tax benefit of $36, $18, $124 and $175, respectively)	57	30	211	513
Net income	12,725	11,044	42,016	27,174
Less net income attributable to noncontrolling interests	2,893	3,012	10,841	7,469
Net income attributable to LHC Group, Inc	9,832	8,032	31,175	19,705
Redeemable noncontrolling interest	(3)	(29)	45	36
Net income available to LHC Group, Inc. s common stockholders	$ 9,829	$ 8,003	$ 31,220	$ 19,741
Earnings per share basic:				
Income from continuing operations attributable to LHC Group, Inc.	$ 0.55	$ 0.45	$ 1.75	$ 1.12
Loss from discontinued operations, attributable to LHC Group, Inc.			(0.01)	(0.02)
Net income attributable to LHC Group, Inc.	0.55	0.45	1.74	1.10
Redeemable noncontrolling interest				
Net income attributable to LHC Group, Inc. s common stockholders	$ 0.55	$ 0.45	$ 1.74	$ 1.10
Earnings per share diluted:				
	$ 0.54	$ 0.45	$ 1.74	$ 1.12

Income from continuing operations attributable to LHC Group, Inc.								
Loss from discontinued operations, attributable to LHC Group, Inc.						(0.01)		(0.02)
Net income attributable to LHC Group, Inc.		0.54		0.45		1.73		1.10
Redeemable noncontrolling interest								
Net income attributable to LHC Group, Inc. s common stockholders	$	0.54	$	0.45	$	1.73	$	1.10
Weighted average shares outstanding:								
Basic		17,971,352		17,881,228		17,951,986		17,843,869
Diluted		18,116,984		17,976,305		18,040,918		17,967,488

See accompanying notes to the condensed consolidated financial statements.

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LHC GROUP, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(Dollars in thousands except share data)

(Unaudited)

	Common Stock				Additional			
	Issued		Treasury		Paid-In	Retained	Noncontrolling	
	Amount	Shares	Amount	Shares	Capital	Earnings	Interest	Total
Balances at December 31, 2008	$ 179	20,853,463	$ (3,072)	(2,957,631)	$ 85,404	$ 94,310	$ 7,123	$ 183,944
Net income						31,175	10,841	42,016
Transfer of noncontrolling interest					181		1,228	1,409
Acquired noncontrolling interest							5,528	5,528
Noncontrolling interest distributions							(10,988)	(10,988)
Nonvested stock compensation					1,755			1,755
Issuance of vested restricted stock		74,830						
Treasury shares redeemed to pay income tax			(330)	(15,229)				(330)
Excess tax benefits from issuance of vested stock					23			23
Issuance of common stock under Employee Stock Purchase Plan		19,128			457			457
Recording noncontrolling interest in joint venture at redemption value						45		45
Balances at September 30, 2009	$ 179	20,947,421	$ (3,402)	(2,972,860)	$ 87,820	$ 125,530	$ 13,732	$ 223,859

See accompanying notes to the condensed consolidated financial statements.

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LHC GROUP, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in thousands)

(Unaudited)

	Nine Months Ended September 30,	
	2009	**2008**
Operating activities		
Net income	$ 42,016	$ 27,174
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization expense	3,494	2,730
Provision for bad debts	4,141	10,820
Stock-based compensation expense	1,755	1,380
Deferred income taxes	1,692	497
Loss on impairment of intangible assets	542	
Gain on sale of assets		(343)
Changes in operating assets and liabilities, net of acquisitions:		
Receivables	(12,208)	1,272
Prepaid expenses, income taxes and other assets	(3,613)	859
Accounts payable and accrued expenses	(1,225)	11,946
Net amounts due to/from governmental entities	(1,810)	3,099
Net cash provided by operating activities	34,784	59,434
Investing activities		
Purchases of property, building and equipment	(6,124)	(7,351)
Purchase of certificate of deposit		(522)
Proceeds from sale of assets		3,094
Cash paid for acquisitions, primarily goodwill and intangible assets	(18,481)	(40,039)
Net cash used in investing activities	(24,605)	(44,818)
Financing activities		
Proceeds from line of credit	20,605	32,851
Payments on line of credit	(20,605)	(32,851)
Payment of deferred financing fees	(263)	(71)
Proceeds from debt issuance		5,050
Principal payments on debt	(412)	(3,220)
Payments on capital leases	(74)	(74)
Excess tax benefits from vesting of restricted stock	98	34
Proceeds from employee stock purchase plan	457	385
Noncontrolling interest distributions	(10,988)	(6,724)
Net cash used infinancing activities	(11,182)	(4,620)
Change in cash	(1,003)	9,996
Cash at beginning of period	3,511	1,155
Cash at end of period	$ 2,508	$ 11,151

Supplemental disclosures of cash flow information

Interest paid	$ 115	$ 356
Income taxes paid	$ 31,828	$ 8,553

Supplemental disclosure of non-cash transactions:

In February 2009, the Company acquired a 75% interest in Southeast Louisiana HomeCare, LLC in exchange for $7.5 million of cash and a noncontrolling interest in three of the Company s home health agencies. During the nine months ended September 30, 2009, the Company acquired a majority ownership in nine entities and recorded $6.8 million of noncontrolling interests related to the acquisitions.

See accompanying notes to the condensed consolidated financial statements.

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LHC GROUP, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Organization

LHC Group, Inc. (the Company) is a health care provider specializing in the post-acute continuum of care primarily for Medicare beneficiaries. The Company provides home-based services, primarily through home nursing agencies and hospices, and facility-based services, primarily through long-term acute care hospitals (LTACH). 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, Mississippi, Arkansas, Alabama, Texas, Virginia, West Virginia, Kentucky, Florida, Georgia, Tennessee, Ohio, Missouri, North Carolina, Maryland, Washington, Oregon and Oklahoma. During the nine months ending September 30, 2009, the Company acquired ten home health agencies, two hospices, one LTACH and initiated operations at ten home health agencies.

In September 2009, the Company sold its outpatient rehabilitation clinic. Therefore, for the three and nine months ended September 30, 2009 and 2008, the operations of the outpatient rehabilitation clinic have been presented as discontinued operations in the condensed consolidated financial statements.

Unaudited Interim Financial Information

The condensed consolidated balance sheet as of September 30, 2009, the related condensed consolidated statements of income for the three and nine months ended September 30, 2009 and 2008, condensed consolidated statement of stockholders equity as of September 30, 2009, condensed consolidated statements of cash flows for the nine months ended September 30, 2009 and related notes (collectively, these statements are referred to herein as the interim financial information) have been prepared by the Company. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation in accordance with U.S. generally accepted accounting principles (U.S. GAAP) have been included. Operating results for the three and nine months ended September 30, 2009 are not necessarily indicative of the results that may be expected for the year ending December 31, 2009.

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, 2008 as filed with the Securities and Exchange Commission (the SEC) on March 16, 2009, which includes information and disclosures not included herein.

The Company evaluated all events or transactions that occurred from September 30, 2009 through November 4, 2009, the date the financial statements were issued. During this period the Company did not have any material recognizable subsequent events.

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 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.

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Reclassifications

Certain reclassifications have been made to the 2008 financial information to conform to the 2009 presentation. These reclassifications include $624,000 and $1.9 million for the three and nine months ended September 30, 2008, respectively, from cost of service revenue to general and administrative expenses related to payroll taxes for home office employees and local administrative employees at the agencies.

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Equity joint ventures	51.1%	47.2%	51.3%	47.8%
Wholly-owned subsidiaries	44.6%	48.5%	44.8%	48.2%
License leasing arrangements	2.5%	2.0%	2.4%	2.0%
Management services	1.8%	2.3%	1.5%	2.0%
	100.0%	100.0%	100.0%	100.0%

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

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

Equity Joint Ventures

The Company s joint ventures are structured as limited liability companies in which the Company typically owns a majority equity interest ranging from 51% to 99%. The members of the Company s equity joint ventures participate in profits and losses in proportion to their equity interests. The Company consolidates these entities as the Company receives a majority of the entities expected residual returns, absorbs a majority of the entities expected losses 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 its wholly-owned subsidiaries, the Company owns 100% of the equity of

these entities and consolidates them based on such ownership as well as the Company s 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 because 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.

Revenue Recognition

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

The following table sets forth the percentage of net service revenue earned by category of payor for the three months and nine months ended September 30, 2009 and 2008 was as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Payor:				
Medicare	82.4%	83.2%	82.7%	82.9%
Medicaid	3.7%	4.3%	3.5%	4.9%
Other	13.9%	12.5%	13.8%	12.2%
	100.0%	100.0%	100.0%	100.0%

The percentage of net service revenue contributed from each reporting segment for the three months and nine months ended September 30, 2009 and 2008 was as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Home-based services	88.1%	86.1%	88.3%	84.4%
Facility-based services	11.9%	13.9%	11.7%	15.6%
	100.0%	100.0%	100.0%	100.0%

Medicare

Home-Based Services

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

Final payments from Medicare may reflect one of four retroactive adjustments to ensure the adequacy and effectiveness of the total reimbursement: (a) an outlier payment if the patient s care was unusually costly; (b) a low utilization adjustment if the number of visits was fewer

than five; (c) a partial payment if the patient

transferred to another provider before completing the episode; or (d) a payment adjustment based upon the level of therapy services required in the population base. Management estimates the impact of these payment adjustments based on historical experience and records this estimate during the period the services are rendered. The Company s payment is also adjusted for differences in local prices using the hospital wage index. In calculating the Company s reported net service revenue from home nursing services, the Company adjusts the prospective Medicare payments by an estimate of the adjustments. The adjustments are calculated using a historical average of prior adjustments. The Company performs payment variance analyses to verify that the models utilized in projecting total net service revenue are accurately reflecting the payments to be received.

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

Hospice payments are also subject to an inpatient cap and an overall payment cap. Inpatient cap relates to individual programs receiving more than 20% of its total Medicare reimbursement from inpatient care services and the overall payment cap relates to individual programs receiving reimbursements in excess of a cap amount, calculated by multiplying the number of beneficiaries during the period by a statutory amount that is indexed for inflation. The determination for each cap is made annually based on the 12-month period ending on October 31 of each year. We monitor our limits on a program-by-program basis. We have not received notification that any of our hospices have exceeded the cap on inpatient care services during 2008 or 2009 to date.

Management Services. 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 services. The Company is compensated based on a percentage of cash collections or is reimbursed for operating expenses and compensated based on a percentage of operating net income.

Facility-Based Services

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

Medicaid, managed care and other payors

The Company s Medicaid reimbursement is based on a predetermined fee schedule applied to each service provided. Therefore, revenue is recognized for Medicaid services as services are provided based on this fee schedule. The Company s managed care 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.

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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 Medicare, other 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. We believe the credit risk associated with our Medicare accounts, which represent 73.9% and 75.3% of our patient accounts receivable at September 30, 2009 and December 31, 2008, respectively, is limited due to (i) our historical collection rate of over 98% 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 of receivables from any particular payor that would subject it to any significant credit risk in the collection of accounts receivable.

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 anticipated payment (RAP). The Company submits a RAP for 60% of the estimated reimbursement for the initial episode at the start of care. The full amount of the episode is billed after the episode has been completed. The RAP 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 Medicare claims in process for that particular provider. The RAP and final claim must then be resubmitted. For subsequent episodes of care contiguous with the first episode for a particular patient, the Company submits a RAP for 50% instead of 60% of the estimated reimbursement. The Company has earned net service revenue in excess of billings rendered to Medicare.

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.

Other Significant Accounting Policies

Adoption of New Accounting Standards

In June 2009, the Financial Accounting Standards Board (the FASB) issued Accounting Standards Update 2009-01, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles a replacement of FASB Statement No. 162* (SFAS 168). The *FASB Accounting Standards Codification* (Codification) is the source of authoritative U.S. GAAP recognized by the FASB to be applied by nongovernmental entities. Its primary purpose is to improve clarity and use of existing standards by grouping authoritative literature under common topics. The FASB will no longer issue new standards in the form of Statements, FASB Staff Positions or Emerging Issues Task Force Abstracts. Instead, it will issue Accounting Standards Updates which will serve to update the Codification, provide background information about the guidance and provide the basis for conclusions on the changes to the Codification. This Statement is effective for financial statements issued for interim and annual periods ending after September 15, 2009. To conform to the provisions of ASU 2009-01, the Company will also reference the Accounting Standards Codification (ASC) that replaces the previous standard reference. The Codification does not change or alter existing GAAP and did not have a material effect on the Company s condensed financial condition, results of operations, or cash flows.

In April 2009, the FASB issued FASB Staff Position (FSP) FAS 107-1 and APB 28-1, *Interim Disclosures about Fair Value of Financial Instruments*. The FSP amends SFAS 107, *Disclosures about Fair Value of Financial Instruments*, and Accounting Principles Board Opinion No. 28, *Interim Financial Reporting* (ASC Topic 820-10-50). The guidance requires publicly-traded entities to disclose in the body or in the accompanying notes of its summarized financial information for interim reporting periods and in its financial statements for annual reporting periods, the fair value of all financial instruments for which it is practicable to estimate that value, whether recognized or not recognized in the statement of financial position, as required by other authoritative guidance. The guidance is effective for interim and annual reporting periods ending after June 15, 2009. The adoption of the new disclosure requirements did not have a material effect on the Company s condensed financial condition, results of operations, or cash flows.

In May 2009, the Company adopted the provisions of FASB Statement No. 165, *Subsequent Events* (ASC Topic 855), which establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. In particular, the Statement sets forth the period after the balance sheet date during which management of the Company should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, the circumstances under which the Company should recognize events or transactions occurring after the balance sheet date in its financial statements, and the disclosures that the Company should make about events or transactions that occurred after the balance sheet date. Because the guidance only introduces the concept of financial statements being *available to be issued,* adoption of this Statement did not result in significant changes in the subsequent events that the Company reports, either through recognition or disclosure, in its consolidated financial statements.

On January 1, 2009, the Company prospectively adopted the provisions of FASB Statement No. 141 (Revised 2007), *Business Combinations* (ASC Topic 805). The authoritative guidance changes the accounting treatment and disclosure for certain specific items in a business combination. According to the guidance, an acquiring entity is required to recognize all the assets acquired and liabilities assumed in a transaction at the acquisition-date fair value with limited exceptions. This includes the fair values of the noncontrolling interest acquired. Under previous guidance, the noncontrolling interest (minority interest) was recorded at the minority owner s historical balance. Other changes include the treatment of acquisition-related costs, which, with the exception of debt or equity issuance costs, are to be recognized as an expense in the period that the costs are incurred and the services are received. The Company capitalized acquisition-related costs under previous guidance. Further, any adjustments during the measurement period to the provisional amounts recognized as part of the purchase price allocation are treated retrospectively as of the acquisition date.

In April 2009, the FASB issued FSP No. FAS 141(R)-1, *Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies* (ASC Topic 805-20). The update addresses application issues on initial recognition and measurement, subsequent measurement and accounting, and disclosure of assets and liabilities arising from contingencies in a business combination. The update required that all contractual contingencies and all noncontractual contingencies that are more likely than not to give rise to an asset or liability be recognized at their acquisition date fair value. All noncontractual contingencies that do not meet the more-likely-than not criterion as of the acquisition date would be accounted for in accordance with other U.S. GAAP. The guidance requires that when new information is obtained, a liability be measured at the higher of its acquisition-date fair value and the amount that would be recognized under other authoritative guidance. Further, an acquirer shall recognize at fair value, at the acquisition date, an asset acquired or a liability assumed in a business combination that arises from a contingency if the acquisition-date fair value of that asset or liability can be determined during the measurement period. The Company has adopted the provisions of this guidance effective January 1, 2009, and does not anticipate adoption will have a material effect on the operating results, financial position, or liquidity of the Company.

The Company also adopted the provisions of SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements An Amendment of ARB No. 51* (ASC Topic 810-10-65) on January 1, 2009. The guidance establishes new accounting and reporting standards for the noncontrolling interest, previously known as

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minority interest. Noncontrolling interest in consolidated subsidiaries is presented in the consolidated balance sheet within stockholders equity as a separate component from the parent s equity. Consolidated net income includes earnings attributable to both the parent and the noncontrolling interest. Earnings per share, which is not affected by the guidance, is based on earnings attributable only to the parent company. The guidance explains the accounting for changes in the parent s ownership interest in a subsidiary, including transactions where control is retained and where control is relinquished. The guidance requires additional disclosure information related to amounts attributable to the parent for income fr