INTRODUCTION AND OVERVIEW

1. This is a class action for violations of the anti-fraud provisions of the federal securities laws on behalf of all purchasers of the publicly traded securities of LHC Group Inc. (“LHC” or the “Company”) between July 30, 2008 and October 26, 2011 (the “Class Period”), who were damaged thereby (the “Class”).

2. LHC provides post-acute health care services to patients through its home nursing agencies, hospices, and long-term acute care hospitals. During the Class Period, the revenue LHC derived from providing home health care increased dramatically. Defendants LHC and Keith G. Myers (“Myers”), the Company’s Chief Executive Officer (“CEO”), told investors that this increase was due to “organic growth” and acquisitions the Company had made. Defendants, however, failed to disclose that LHC generated much of that growth by abusing and defrauding the Medicare home health program.

3. Specifically, LHC manipulated the number of home visits patients received in order to maximize revenue, regardless of patient need. Medicare pays home healthcare providers such as
LHC for each home visit, with bonuses when certain visit thresholds are met. Prior to 2008, Medicare paid a bonus after ten visits to a home health care patient. At the beginning of the Class Period, however, Medicare changed its bonus policy and began paying bonuses at six, 14, and 20 visits.

4. In order to maximize revenue from Medicare, LHC instructed its healthcare providers to meet these thresholds regardless of patient need. As a result, the number of patients who received exactly six, 14, or 20 visits increased dramatically. For example, from 2007 to 2008, the proportion of patients receiving six visits increased 126%. The proportion of patients receiving 14 visits increased 75%. And the proportion of patients receiving 20 visits increased 189%. At the same time, the proportion of patients receiving 10 visits—the old bonus threshold—declined 67% in 2008 after that threshold was discontinued.

5. Rather than disclose that LHC was defrauding Medicare and taxpayers, defendants repeatedly told investors that “we believe we are in compliance with all applicable laws,” and touted the quality and comprehensiveness of LHC’s compliance department. Defendants even claimed that LHC’s compliance program represented a competitive advantage.

6. Eventually, a newspaper article critical of LHC’s Medicare practices prompted the U.S. Senate Finance Committee to initiate an investigation on May 12, 2010. As a result, LHC’s stock price declined over 7% in two days as some artificial inflation came out of the price. LHC’s stock remained artificially inflated, however, because the full truth had yet to be disclosed. Defendants denied any wrongdoing, stating that “at LHC, patient decisions are made by the local caregiver and the patient’s physician—reimbursement is not a factor to be considered.”

7. On July 13, 2010, defendants announced that the SEC had initiated an investigation into the same Medicare abuses that prompted the Senate Finance Committee’s investigation,
prompting another 7% decline in LHC’s stock price. Once again, however, defendants kept LHC’s stock artificially inflated by claiming that LHC provided health care based only upon “patient needs,” rather than financial incentives.

8. Finally, on October 3, 2011, the Senate Finance Committee released a report (“the Senate Report”) analyzing the home therapy practices of LHC and other companies in the industry. That report concluded that “The home health therapy practices identified . . . at best represent abuses of the Medicare home health program. At worst, they may be . . . defrauding the Medicare home health program at the expense of taxpayers.” [Emphasis added.]

9. The Senate Report found that, “Therapy metrics provided to the Committee by LHC Group point to a pattern of attempting to achieve the most profitable number of therapy visits . . . .” The Senate Report further cited “a centralized push from LHC Group management to increase the number of therapy visits performed.” Indeed, the Senate Report cites an email from defendant Myers, LHC’s CEO, about the need to increase the number of therapy visits performed by LHC in order to hit the bonus thresholds. [Emphasis added.]

10. In conclusion, the Senate Report specifically rejected defendants’ claim that reimbursement was not a factor in LHC’s patient care, stating:

   Despite LHC Group’s claim in its June 4, 2010 letter to the Committee that “at LHC, patient decisions are made by the local caregiver and the patient’s physician – reimbursement is not a factor to be considered,” a number of examples illustrate that therapists and branch managers at LHC Group were pressured by supervisors to achieve a higher number of therapy visits.

   [Emphasis added.]

11. As a result of these disclosures, the price of LHC’s stock dropped from $17.06 to $15.01 in two days, at a 12% decline. This decrease was a result of the artificial inflation caused by defendants’ misleading statements coming out of the price.
12. At the same time that defendants artificially inflated the price of LHC stock by defrauding Medicare, defendant Myers, the CEO, sold over $20 million of his personal holdings of LHC stock.

JURISDICTION AND VENUE

13. The claims asserted arise under §§10(b), 20(a) and 20A of the Securities Exchange Act of 1934 ("1934 Act") and Rule 10b-5, 17 C.F.R. §240.10b-5. Jurisdiction is conferred by §27 of the 1934 Act. Venue is proper pursuant to §27 of the 1934 Act. LHC’s headquarters are located in Lafayette, Louisiana. False statements were made in this District, and acts giving rise to the violations complained of occurred in this District.

THE PARTIES

14. Plaintiff, the City of Omaha Police and Fire Retirement System ("Omaha") purchased LHC common stock during the Class Period as described in its Certification affixed to the Complaint filed herein on June 13, 2012. Plaintiff purchased its LHC stock at prices inflated by the fraud alleged herein, and suffered losses as a result of, and following the revelation of the truth. Omaha was appointed lead plaintiff by order of this Court entered September 25, 2012.

15. Defendant LHC is headquartered in Lafayette, Louisiana. LHC’s common stock is traded under the symbol LHCG on the NASDAQ, which is an efficient market.

16. Defendant Myers was, at all relevant times, CEO of the Company.

REGULATORY BACKGROUND

A. The Social Security Act Mandates that Medicare Home Health Services Are Only to Be Provided When Medically Necessary

17. The Social Security Act defines the eligibility and coverage requirements for Medicare home health benefits by stating that home health services shall be provided only to beneficiaries who (1) are homebound; (2) have medical necessity (i.e., need intermittent skilled
nursing care, physical therapy, speech therapy or occupational therapy); and (3) are under a physician’s plan of care. See Social Security Act, §§1814(a)(2)(C) and 1835(a)(2)(A), 42 U.S.C. §§1395f and 1395n(a)(2)(A). Medicare defines “medically necessary” services as those “that are needed for the diagnosis or treatment of your medical condition and meet accepted standards of medical practice.”

B. Medicare Pays Providers Like LHC Bonuses Based upon the Number of Home Visits

18. Under the Balanced Budget Act of 1997, Medicare pays for home health services such as nursing care, physical, occupational, and speech therapy, medical social work and home health aide services by requiring the implementation of a prospective payment system, or “PPS.” Under the PPS, home health service providers, such as LHC, are paid prospectively, or in advance, for a substantial portion of the total payment to which they are entitled for a given patient based on, inter alia, (a) a predetermined rate schedule established by Medicare, and (b) a pre-treatment assessment of the given patient’s condition and proposed plan of care during a 60-day time period, known as an “episode.”

19. Through 2007, the Medicare payment system included a therapy “bonus” when a home health agency provided at least 10 therapy visits. The bonus was substantial and could be as much as $2,200 for providing a patient with 10 therapy visits. CMS implemented the bonus measure, in part, to discourage “stinting,” a term used within the industry to describe healthcare providers providing the lowest level of service.

C. In 2008, Medicare Changed the Number of Visits Required for LHC to Receive Bonus Payments

20. For a variety of reasons, CMS determined to change, effective January 1, 2008, the number of therapy visits required for a service provider to receive a “bonus” payment. Instead of the 10-visit threshold, CMS established bonus thresholds at six, 14, and 20 visits. Home healthcare
providers (such as LHC) could receive substantially higher payments from Medicare if they reached the six, 14, and 20 visit thresholds within each 60-day episode period. The service providers could receive greater payments between the thresholds (i.e., for reaching seven, 10, 11, 16, or 18 therapy visits), but the payments were not as significant as the six, 14, and 20 visit payment increases.

21. Although, as noted above, under the PPS, the service provider generally receives an upfront payment of approximately 60% of the estimated payment entitlement under the Medicare payment grid, the service provider’s final payment is based on the actual number of home visits made during the 60-day episode.

D. During the Class Period, LHC Provided Therapy Visits Based on Meeting Bonus Payment Criteria Rather than Patient Medical Needs

22. After the bonus thresholds were changed, LHC attempted to visit each patient so as to maximize the bonus payments from Medicare, regardless of medical need. Evidencing this, the proportion of patients visited six, 14, or 20 times increased as much as 189%. By treating patients to maximize revenue rather than based upon medical need, defendants violated the terms of the Social Security Act, defrauding Medicare and taxpayers alike.

FALSE AND MISLEADING STATEMENTS AND OTHER EVENTS DURING THE CLASS PERIOD

23. On July 30, 2008, LHC issued a press release that stated in relevant part:

LHC Group, Inc. (NASDAQ: LHCG), one of the largest providers of home nursing services in the United States, announced today its financial results for the second quarter and 6 months ended June 30, 2008.

Financial Results for the Second Quarter

- Net service revenue for the second quarter of 2008, increased 27.7% to $90.1 million compared with $70.6 million in 2007.

*   *   *

- Internal growth (which is the combination of organic growth and internal growth on acquisitions) on Home-Based net service
revenue and Medicare net service revenue for the second quarter of 2008 was 13.6% and 16.1%, respectively.

24. In commenting on the results, CEO Myers stated in the press release, “The second quarter of 2008 was a breakout quarter for the LHC Group family and the first quarter in which the Company experienced the full impact of the Medicare reimbursement changes. We also see these results as confirmation of the ability of our management team to successfully adapt to changes in the reimbursement environment.”

25. During the Q2 2008 LHC Group Inc. Earnings Conference Call on July 31, 2008, LHC Group Chief Operating Officer (“COO”), John Indest, stated:

In closing, I would like to offer my congratulations to our operations team. This team has proven its ability to manage through many challenges over the years and they have proven themselves once again. As Keith reported earlier, this second quarter was the first true indication of how we would perform under the new reimbursement guidelines. There was a great deal of speculation about the new rule and how LHC Group might be affected. As is our custom, we studied, we evaluated and set forth a plan that would assure our success, while maintaining our focus on what drives us all at LHC, providing the highest level of service to those patients entrusted to our care.

[Emphasis added.]

26. On August 7, 2008, LHC filed a Form 10-Q with the SEC setting forth the financial results for the second quarter of 2008. That 10-Q stated in relevant part:

Home-Based Services. Net service revenue for home-based services for the three months ended June 30, 2008 was $76.4 million, an increase of $18.4 million, or 31.8%, from $58.0 million for the three months ended June 30, 2007. Total admissions increased 24.7% to 13,499 during the current period, versus 10,825 for the same period in 2007. Average home-based patient census for the three months ended June 30, 2008, increased 25.7% to 20,469 patients as compared with 16,283 patients for the three months ended June 30, 2007.

27. On October 29, 2008, LHC issued a press release that stated in relevant part:

LHC Group, Inc. (NASDAQ: LHCG), one of the largest providers of home nursing services in the United States, announced today its financial results for the third quarter and nine months ended September 30, 2008.
Financial Results for the Third Quarter

-- Net service revenue for the third quarter of 2008, increased 26.7% to $98.2 million compared with $77.5 million in 2007.

-- Net income for the third quarter of 2008 totaled $8.0 million, or $0.45 per diluted share, compared with net income of $6.0 million, or $0.34 per diluted share, for the third quarter of 2007.

-- Internal growth (which is the combination of organic growth and internal growth on acquisitions) on Home-Based net service revenue and Medicare net service revenue for the third quarter of 2008 was 16.8% and 21.1%, respectively.

28. On November 10, 2008, LHC filed a Form 10-Q with the SEC setting forth the financial results for the third quarter of 2008. That 10-Q stated in relevant part:

Home-Based Services. Net service revenue for home-based services for the three months ended September 30, 2008 was $84.5 million, an increase of $21.3 million, or 33.7%, from $63.2 million for the three months ended September 30, 2007. Total admissions increased 24.2% to 13,925 during the current period, versus 11,216 for the same period in 2007. Average home-based patient census for the three months ended September 30, 2008, increased 28.9% to 21,733 patients as compared with 16,862 patients for the three months ended September 30, 2007.


In 2008, we were able to successfully adapt to the comprehensive changes in Medicare reimbursement through increased emphasis on cost management, reducing the percentage of our revenue attributable to unprofitable managed care business and by increasing the volume of patients we serve. We intend to achieve our projected financial results in 2009 through the continued implementation of these strategies.

[Emphasis added.]

30. On March 10, 2009, LHC issued a press release that stated in relevant part:
LHC Group, Inc. (NASDAQ: LHCG), one of the largest providers of home nursing services in the United States, announced today its financial results for the fourth quarter and year ended December 31, 2008.

Financial Results for the Fourth Quarter

- Net service revenue for the fourth quarter of 2008 increased 37.3% to $111.5 million compared with $81.2 million for the same period in 2007.

- Net income for the fourth quarter of 2008 totaled $10.5 million, or $0.58 per diluted share, compared with net income of $2.7 million, or $0.15 per diluted share, for the fourth quarter of 2007. Net income for the fourth quarter of 2008 includes a $357,000 after tax loss from discontinued operations, which resulted in a $0.02 decrease in earnings per share.

31. During the Q4 2008 LHC Group Inc. Earning Conference Call on March 11, 2009, Defendant Myers commented on LHC’s compliance program:

And as part of our compliance program, we monitor everything about conversations and relationships with physicians in great detail and we always have. I think that’s an important part of any home care provider’s corporate compliance plan. But generally speaking about compliance, I think we can read the tea leaves and know that there will be more emphasis on compliance in the future and so one of the – when we talk about investments in infrastructure, one of the areas that we will be also investing in is – are our compliance monitoring metrics and I mean to the point of bringing in some of the best compliance experts in the country to review what we believe are solid processes and all but to take another look and to see what we can do to add to that always with the goal of being absolute best of class and compliance just as we are in everything else.

32. On March 16, 2009, LHC filed an annual report on Form 10-K with the SEC. That report, signed by defendant Myers, stated in relevant part:

Home-Based Services

Home Nursing. Our registered and licensed practical nurses provide a variety of medically necessary services to homebound patients who are suffering from acute or chronic illness, recovering from injury or surgery, or who otherwise require care, teaching or monitoring. These services include wound care and dressing changes, cardiac rehabilitation, infusion therapy, pain management, pharmaceutical administration, skilled observation and assessment and patient education. We have also designed guidelines to treat chronic diseases and conditions including diabetes,
hypertension, arthritis, Alzheimer’s disease, low vision, spinal stenosis, Parkinson’s
disease, osteoporosis, complex wound care and chronic pain. Our home health aides
provide assistance with activities of daily living such as light housekeeping, simple
meal preparation, medication management, bathing and walking. Through our
medical social workers we counsel patients and their families with regard to
financial, personal and social concerns that arise from a patient’s health-related
problems. We provide skilled nursing, ventilator and tracheotomy services, extended
care specialties, medication administration and management and patient and family
assistance and education. We also provide management services to third-party home
nursing agencies, often as an interim solution until proper state and regulatory
approvals for an acquisition can be obtained.

Our physical, occupational and speech therapists provide therapy services to patients
in their home. Our therapists coordinate multi-disciplinary treatment plans with
physicians, nurses and social workers to restore basic mobility skills such as getting
out of bed and walking safely with crutches or a walker. As part of the treatment and
rehabilitation process, a therapist will stretch and strengthen muscles, test balance
and coordination abilities and teach home exercise programs. Our therapists assist
patients and their families with improving and maintaining a patient’s ability to
perform functional activities of daily living, such as the ability to dress, cook, clean
and manage other activities safely in the home environment. Our speech and
language therapists provide corrective and rehabilitative treatment to patients who
suffer from physical or cognitive deficits or disorders that create difficulty with
verbal communication or swallowing.

* * *

Home-Based Services. Net service revenue from home-based services for the year
ended December 31, 2008 was $326.0 million, an increase of $81.9 million, or
33.6%, from $244.1 million for the year ended December 31, 2007. Total
admissions increased 29.5% to 56,630 during the period, versus 43,736 for the same
period in 2007. Average home-based patient census for the year ended December
31, 2008 increased 29.4% to 21,519 patients as compared with 16,635 patients for
the year ended December 31, 2007. . . . the increase in revenue in 2008 resulted
from organic growth and the growth from our acquisitions during the year ended
December 31, 2008.

[Emphasis added.]

33. In a section entitled “Compliance and Quality Control,” LHC’s 10-K also stated:

In March 2008, we established The LHC Group Quality Council. The Council is
responsible for formulating quality of care indicators, identifying performance
improvement priorities, and facilitating best-practices for quality care. As part of this
council, we adopted the Plan, Do, Check, Act methodology. We also set forth a
quality platform for home care that reviews the following:
• internal audits;
• external audits;
• Joint Commission;
• state and regulatory surveys;
• home health compare; and
• patient perception of care.

Our Compliance Committee, which was established in 1996, oversees a comprehensive company-wide compliance program that provides for:

• the appointment of a compliance officer and committee;
• adoption of codes of business conduct and ethics;
• employee education and training;
• monitoring of an internal system, including a toll-free hotline, for reporting concerns on a confidential, anonymous basis;
• ongoing internal compliance auditing and monitoring programs;
• means for enforcing the compliance programs' policies; and
• a system to respond to and correct detected problems.

We have approximately 40 Performance Improvement Personnel who are all trained using a performance improvement specific orientation program and mentorship.

As part of our ongoing quality control, internal auditing and monitoring programs, we conduct internal regulatory audits and mock surveys at each of our agencies and facilities at least once a year. If an agency or facility does not achieve a satisfactory rating, we require that it prepare and implement a plan of correction. We then follow-up to verify that all deficiencies identified in the initial audit and survey have been corrected.

As required under the Medicare conditions of participation, we have a continuous quality improvement program, which involves:
ongoing education of staff and quarterly continuous quality
improvement meetings at each of our agencies and facilities
and at our home office;

• quarterly comprehensive audits of patient charts performed by
each of our agencies and facilities;

• at least annually, a comprehensive audit of patient charts
performed on each of our agencies and facilities by our home
office staff;

• review of Home Health Compare scores;

• assessment of patients’ perception of care; and

• assessment of infection control practices/risk events.

If an agency or facility fails to achieve a satisfactory rating on a patient chart audit,
we require that it prepare and implement a plan of correction. We then conduct a
follow-up patient chart audit to verify that appropriate action has been taken to
prevent future deficiencies.

The effectiveness of our compliance program is directly related to the legal and
ethics training that we provide to our employees. Compliance education for new
hires is initiated immediately upon employment through corporate video training and
is subsequently reinforced with a corporate orientation program at which the Director
of Corporate Compliance conducts a comprehensive compliance training seminar. In
addition, all of our employees are required to participate in continuing compliance
education and training each year.

We continually expand and refine our compliance and quality improvement
programs. Specific written policies, procedures, training and educational materials
and programs, as well as auditing and monitoring activities, have been prepared and
implemented to address the functional and operational aspects of our business. Our
programs also address specific problem areas identified through regulatory
interpretation and enforcement activities. Additionally, our policies, training,
standardized documentation requirements, reviews and audits specifically address
our financial arrangements with our referral sources, including fraud and abuse laws
and physician self-referral laws. We believe our consistent focus on compliance
and continuous quality improvement programs provide us with a competitive
advantage in the market.

[Emphasis added.]

34. In a section entitled “Government Regulations,” LHC’s 10-K stated:
The health care industry is highly regulated and we are required to comply with federal, state and local laws, which significantly affect our business. These laws and regulations are extremely complex and, in many instances, the industry does not have the benefit of significant regulatory or judicial interpretation. Regulations and policies frequently change, and we monitor these changes through trade and governmental publications and associations. The significant areas of federal and state regulatory laws that could affect our ability to conduct our business include the following:

- Medicare and Medicaid participation and reimbursement;
- the federal Anti-Kickback Statute and similar state laws;
- the federal Stark Law and similar state laws;
- false and other improper claims;
- the Health Insurance Portability and Accountability Act of 1996 (HIPAA);
- civil monetary penalties;
- environmental health and safety laws;
- licensing; and
- certificates of need and permits of approval.

If we fail to comply with these applicable laws and regulations, we could suffer civil or criminal penalties, including the loss of our licenses to operate and our ability to participate in federal and state health care programs. Although we believe we are in material compliance with all applicable laws, these laws are complex and a review of our practices by a court or law enforcement or regulatory authority could result in an adverse determination that could harm our business.

[Emphasis added.]

35. LHC’s 10-K included a certification signed by defendant Myers which stated:

I, Keith G. Myers, certify that:

1. I have reviewed this Annual Report on Form 10-K of LHC Group, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the
statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the
registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

36. On May 6, 2009, LHC issued a press release that stated in relevant part:

LHC Group, Inc. (NASDAQ: LHCG), one of the largest providers of home nursing services in the United States, announced today its financial results for the first quarter ended March 31, 2009.

Financial Results for the First Quarter

- Net service revenue for the first quarter of 2009 increased 49.3% to $124.6 million compared with $83.5 million for the same period in 2008.

- Home-based net service revenue for the first quarter of 2009 increased 60% to $109.3 million compared with $68.4 million for the same period in 2008.

37. On May 8, 2009, LHC filed a Form 10-Q with the SEC setting forth the financial results for the first quarter of 2009. That 10-Q stated in relevant part:

Home-Based Services. Net service revenue for home-based services for the three months ended March 31, 2009 was $109.3 million, an increase of $40.9 million, or 59.8%, from $68.4 million for the three months ended March 31, 2008. Total admissions increased 35.4% to 18,104 during the current period, versus 13,367 for the same period in 2008. Average home-based patient census for the three months ended March 31, 2009, increased 46.8% to 27,834 patients as compared with 18,958 patients for the three months ended March 31, 2008 . . . the increase in revenue is explained by organic growth and the growth from our acquisitions subsequent to the period ending March 31, 2008.

[Emphasis added.]

38. On August 4, 2009, LHC issued a press release that stated in relevant part:
LHC Group, Inc. (NASDAQ: LHCG), one of the largest providers of home health services in the United States, announced today its financial results for the second quarter and 6 months ended June 30, 2009.

Financial Results for the Second Quarter

- Net service revenue for the second quarter of 2009 increased 47.1% to $132.6 million compared with $90.1 million for the same period in 2008.

- Home-based net service revenue for the second quarter of 2009 increased 53.9% to $117.6 million compared with $76.4 million for the same period in 2008.

- Net income attributable to LHC Group for the second quarter of 2009 totaled $10.3 million, or $0.57 per diluted share, compared to net income of $6.3 million, or $0.35 per diluted share, for the second quarter of 2008.

39. On August 7, 2009, LHC filed a Form 10-Q with the SEC setting forth the financial results for the second quarter of 2009. That 10-Q stated in relevant part:

Home-Based Services. Net service revenue for home-based services for the three months ended June 30, 2009 was $117.6 million, an increase of $41.2 million, or 53.9%, from $76.4 million for the three months ended June 30, 2008. Total admissions increased 44.6% to 19,779 during the current period, versus 13,688 for the same period in 2008. Average home-based patient census for the three months ended June 30, 2009, increased 42.6% to 29,182 patients as compared to 20,469 patients for the three months ended June 30, 2008.

40. On October 28, 2009, LHC issued a press release that stated in relevant part:

LHC Group, Inc. (Nasdaq:LHCG), one of the largest providers of home health services in the United States, announced today its financial results for the third quarter and nine months ended September 30, 2009.

Financial Results for the Third Quarter

- Net service revenue for the third quarter of 2009 increased 35.2% to $132.5 million compared with $98.0 million for the same period in 2008.

- Home-based net service revenue for the third quarter of 2009 increased 38.1% to $116.7 million compared with $84.5 million for the same period in 2008.
41. On November 5, 2009, LHC filed a Form 10-Q with the SEC setting forth the financial results for the third quarter of 2009. That 10-Q stated in relevant part:

Home-Based Services. Net service revenue for home-based services for the three months ended September 30, 2009 was $116.7 million, an increase of $32.2 million, or 38.1%, from $84.5 million for the three months ended September 30, 2008. Total admissions increased 52.2% to 21,485 during the current period, versus 14,113 for the same period in 2008. Average home-based patient census for the three months ended September 30, 2009, increased 29.5% to 28,150 patients as compared to 21,733 patients for the three months ended September 30, 2008.

* * *

... the increase in revenue is organic growth and the growth from our acquisitions subsequent to the period ending September 30, 2008.

[Emphasis added.]

42. On March 3, 2010, LHC issued a press release that stated in relevant part:

LAFAYETTE, La., March 3, 2010 (GLOBE NEWSWIRE) — LHC Group, Inc. (Nasdaq:LHCG), one of the largest providers of home health services in the United States, announced today its financial results for the fourth quarter and year ended December 31, 2009.

Financial Results for the Fourth Quarter

- Net service revenue for the fourth quarter of 2009 increased 27.0% to $141.5 million compared with $111.4 million for the same period in 2008.

- Net income attributable to LHC Group for the fourth quarter of 2009 totaled $12.7 million, or $0.70 per diluted share, compared with net income of $10.5 million, or $0.58 per diluted share, for the fourth quarter of 2008. In the fourth quarter of 2009, the allowance for doubtful accounts was reduced by $1.6 million, which increased net income by $1.0 million, or $0.05 per diluted share. The reduction to the allowance for uncollectible accounts is due to an increased collection effort, including those related to commercial claims, increased cash collections and reduced days sales outstanding at year end.

43. On March 15, 2010, LHC filed a Form 10-K with the SEC setting forth the financial results for the year 2009. That 10-K, signed by defendant Myers, stated in relevant part:
Home-Based Services

Each of our home nursing agencies is staffed with experienced clinical home health professionals who provide a wide range of patient care services. Our home nursing agencies are managed by a Director of Nursing or Branch Manager who is also a licensed registered nurse. Our Directors of Nursing and Branch Managers are overseen by State Directors who report to Division Vice Presidents. The Senior Vice President of Home Health Operations is accountable for the oversight of the Division Vice Presidents and directly reports to the Chief Operating Officer of the Company. Our patient care operating model for our home nursing agencies is structured on a base model that requires a Medicare patient minimum census of 50 patients. At the base model level, one registered nurse is responsible for all aspects of the management of each patient's plan of care. A home nursing agency based on this model is staffed with an office manager, a field-registered nurse, a field-licensed professional nurse and a home health aide. We also contract with local community therapists and other clinicians, as appropriate, to provide additional required services. As the size and patient census of a particular home nursing agency grows, these staffing patterns are increased appropriately.

Our home nursing agencies use our Service Value Point system, a proprietary clinical resource allocation model and cost management system. The system is a quantitative tool that assigns a target level of resource units to a group of patients based upon their initial assessment and estimated skilled nursing and therapy needs. The Service Value Point system allows the Director of Nursing or Branch Manager to allocate adequate resources throughout the group of patients assigned to his or her care, rather than focusing on the profitability of an individual patient.

* * *

Home-Based Services. Net service revenue from home-based services for the year ended December 31, 2009 was $469.5 million, an increase of $143.5 million, or 44.0%, from $326.0 million for the year ended December 31, 2008. Total admissions increased 43.3% to 81,166 during the 2009 [sic], versus 56,630 for the same period in 2008. Average home-based patient census for the year ended December 31, 2009 increased 33.5% to 28,721 patients as compared with 21,519 patients for the year ended December 31, 2008. The increase in revenue in 2009 resulted from both organic growth and the growth from our acquisitions during the year ended December 31, 2009.

[Emphasis added.]

44. In a section entitled “Government Regulation,” LHC’s 10-K also stated:

The health care industry is highly regulated and we are required to comply with federal, state and local laws, which significantly affect our business. These laws and regulations are extremely complex and, in many instances, the industry does not have
the benefit of significant regulatory or judicial interpretation. Regulations and policies frequently change, and we monitor these changes through trade and governmental publications and associations. The significant areas of federal and state regulatory laws that could affect our ability to conduct our business include the following:

- Medicare and Medicaid participation and reimbursement;
- the federal Anti-Kickback Statute and similar state laws;
- the federal Stark Law and similar state laws;
- false and other improper claims;
- the Health Insurance Portability and Accountability Act of 1996 ("HIPAA");
- civil monetary penalties;
- environmental health and safety laws;
- licensing; and
- certificates of need and permits of approval.

If we fail to comply with these applicable laws and regulations, we could suffer civil or criminal penalties, including the loss of our licenses to operate and our ability to participate in federal and state health care programs, which would materially adversely affect our financial condition and results of operations. Although we believe we are in material compliance with all applicable laws, these laws are complex and a review of our practices by a court or law enforcement or regulatory authority could result in an adverse determination that could harm our business. Furthermore, the laws applicable to us are subject to change, interpretation and amendment, which could adversely affect our ability to conduct our business.

[Emphasis added.]

45. In a section entitled “Compliance,” LHC’s 10-K also stated:

We have established and maintain a comprehensive corporate compliance program that is designed to assist all of our employees to meet or exceed applicable standards established by federal and state laws and regulations and industry practice. Although we first established our corporate compliance program in 1996, in 2009 we redesigned and enhanced several aspects of our corporate compliance program. Our 2009 redesign and enhancement involved several initiatives to further our goal of
fostering and maintaining the highest standards of compliance, ethics, integrity and professionalism in every aspect of our business dealings.

The purpose of our corporate compliance program is to focus on compliance with applicable legal and regulatory requirements; the requirements of the Medicare and Medicaid programs and other government healthcare programs; industry standards; our Code of Conduct and Ethics; and our policies and procedures that support and enhance overall compliance within our company. The primary focus of our corporate compliance program is on regulations related to the federal False Claims Act, Stark Law, Anti-Kickback Law, billing and overall adherence to health care regulations.

To ensure the independence of our compliance department staff, the following measures have been implemented:

- our Chief Compliance Officer reports [sic] has direct oversight by the Audit Committee of our Board of Directors;
- the compliance department has its own operating budget; and
- the compliance department has the authority to independently investigate any compliance or ethical concerns, including, when deemed necessary, the authority to interview any company personnel, access any company property (including electronic communications) and engage counsel to assist in any investigation.

Among other activities, our compliance department staff is responsible for the following activities:

- drafting and revising company policies and procedures related to compliance and ethics issues;
- reviewing, making recommended revisions to, disseminating and tracking attestations to our Code of Conduct and Ethics;
- measuring compliance with our policies and procedures, Code of Conduct and Ethics and legal and regulatory requirements related to the Medicare and Medicaid programs and other government healthcare programs, laws and regulations;
- developing and providing compliance-related training and education to all of our employees and, as appropriate, directors, contractors and other representatives and agents, including, new-hire compliance training for all new employees, annual compliance training for all employees, sales compliance training to all members of our sales team, billing compliance training to all members of our billing and
revenue cycle team and other job-specific and role-based compliance training of certain employees;

• performing an annual company-wide risk assessment;

• implementing an annual compliance auditing and monitoring work plan and performing and following up on various risk-based auditing and monitoring activities, including both clinical and non-clinical auditing and monitoring activities at the corporate level and at the local agency/facility level;

• developing, implementing and overseeing our Health Insurance Portability and Accountability Act of 1996 ("HIPAA") privacy compliance program;

• monitoring, responding to and overseeing the resolution of issues and concerns raised through our anonymous compliance hotline;

• monitoring, responding to and resolving all compliance and ethics-related issues and concerns raised through any other form of communication; and

• ensuring that we take appropriate corrective and disciplinary action when noncompliant or improper conduct is identified.

Our Chief Compliance Officer is a member of and meets with and provides a weekly report on our compliance initiatives, investigations and other activities to our Senior Management team. We have also developed a corporate compliance committee that is chaired by our Chief Compliance Officer and also includes our Chief Executive Officer, Chief Operating Officer, Chief Financial Officer, General Counsel, Chief Corporate Development Officer, Chief Administrative Officer, Senior Counsel of Legislative and Regulatory Affairs, VP of Quality and Performance Improvement, VP of Corporate Education, Associate General Counsel, Director of Revenue Cycle, Director of Internal Audit and Director of Financial Reporting. Our corporate compliance committee meets on a quarterly basis or as called by the Chief Compliance Officer to establish the agenda for compliance initiatives and review the status of compliance initiatives, investigations and other activities, as well as the operations of our Compliance Department. Our Chief Compliance Officer also meets with and provides a quarterly report on our compliance initiatives, investigations and other activities to the Audit Committee of our Board of Directors.

All employees are required to report incidents, issues or other concerns that they believe in good faith may be in violation of our Code of Conduct and Ethics, our policies and procedures, applicable legal and regulatory requirements or the requirements of the Medicare and Medicaid programs and other government healthcare programs. All employees are encouraged to either contact our Chief
Compliance Officer directly or to contact our 24-hour toll-free compliance hotline when they have questions or concerns about any compliance or ethics issues. All reports to our compliance hotline are kept confidential to the extent allowed by law, and employees have the option to remain anonymous. In cases reported to our compliance hotline that involve a compliance or ethics issue or any possible violation of law or regulation, the matter is referred to the compliance department for investigation. Retaliation against employees in connection with reporting compliance or ethical concerns is considered a serious violation of our Code of Conduct and Ethics, and, if it occurs, it will result in discipline, up to and including termination of employment.

We continually expand and refine our compliance and ethics programs. We promote a culture of compliance, ethics, integrity and professionalism within our company through persistent messages from our senior leadership concerning the necessity of strict compliance with legal requirements and company policies and procedures. We believe our consistent focus on our compliance and ethics programs provide us with a competitive advantage in the markets we serve.

[Emphasis added.]

46. LHC’s 10-K included a certification signed by defendant Myers which stated:

I, Keith G. Myers, certify that:

1. I have reviewed this Annual Report on Form 10-K of LHC Group, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to
us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting;

5. The registrant’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

47. On April 26, 2010, The Wall Street Journal published an article entitled “Home Care Yields Medicare Bounty.” That article stated in relevant part:

[A]n analysis by The Wall Street Journal of Medicare payments to home health-care companies in recent years raises questions about whether some companies . . . are taking advantage of the Medicare reimbursement system. The results show that the number of in-home therapy visits tracks Medicare financial incentives.

*   *   *
Medicare changed its reimbursement rules in January 2008 in an attempt to blunt the incentive for home health-care visits it created. It eliminated the $2,200 bonus payment at 10 visits.

* * *

LHC Group Inc. saw the percentage of patients getting 10 visits in 2008 drop by 64% from 2007.

48. On April 28, 2010, LHC issued a press release that stated in relevant part:

LAFAYETTE, La., April 28, 2010 (GLOBE NEWSWIRE) — LHC Group, Inc. (Nasdaq:LHCG), a national provider of home health and hospice services, announced today its financial results for the first quarter ended March 31, 2010.

Financial Results for the First Quarter

- Net service revenue for the first quarter of 2010 increased 17.2% to $145.9 million compared with $124.5 million for the same period in 2009.

* * *

- Net income attributable to LHC Group for the first quarter of 2010 totaled $11.6 million, or $0.64 per diluted share, compared with net income of $11.1 million, or $0.62 per diluted share, for the first quarter of 2009.

49. On May 7, 2010, LHC filed a Form 10-Q with the SEC setting forth the financial results for the first quarter of 2010. That 10-Q stated in relevant part:

Home-Based Services. Net service revenue for home-based services for the three months ended March 31, 2010 was $128.7 million, an increase of $19.3 million, or 17.6%, from $109.4 million for the three months ended March 31, 2009. Total admissions increased 20.4% to 21,805 during the current period, versus 18,104 for the same period in 2009. Average home-based patient census for the three months ended March 31, 2010, increased 10.4% to 30,721 patients as compared to 27,834 patients for the three months ended March 31, 2009. 

*the increase in revenue relates to organic growth, as well as, the growth from our acquisitions subsequent to the period ending March 31, 2009.*

[Emphasis added.]
50. On May 12, 2010, Senators Max Baucus and Charles Grassley sent defendant Myers a letter informing him that the Senate Finance Committee had begun an investigation into the allegations of *The Wall Street Journal* article and seeking documents relating to that investigation.

51. On May 12, 2010, defendants issued a press release entitled “LHC Group Responds to Senate Finance Committee Letter,” that stated in relevant part:

LAFAYETTE, La., May 12, 2010 (GLOBE NEWSWIRE) — LHC Group, Inc. (Nasdaq:LHCG) announced that at 4:37 p.m. Central Time today, the Company received a letter from the Senate Finance Committee regarding the April 26, 2010, article in *The Wall Street Journal* entitled, “Home Care Yields Medicare Bounty.” The Committee has asked us to respond to some questions regarding therapy utilization in prior years, and we intend to cooperate with the request. Although our response will contain a comprehensive analysis, we wanted to take this opportunity to provide a few of the key facts that will be included in our response.

- As a company, therapy represents a much lower portion of our episodes than the national average. In 2007, 36.6% of our total Medicare episodes received therapy versus the national average of 49.8%, and only 38.2% of our total Medicare episodes in 2008 received therapy versus the national average of 50.2%.

- *All home care services, including therapy, are dictated by an independent physician order.*

- The average number of therapy visits received by our top 20 patient diagnoses that required therapy in 2007, as compared to those same patient diagnoses in 2008, was consistent despite the change in therapy thresholds from 2007 to 2008. In fact, in none of those top 20 diagnoses did the average visits increase to a level that would result in our meeting or exceeding a higher therapy threshold.

- *The Wall Street Journal* article assumes a static patient population when in fact, due to growth resulting from industry consolidation, our home health patient population on December 31, 2007, was 17,850, and on December 31, 2008, our home health patient population was 26,163, an increase of 46.6%. During this same period, our home health locations increased from 144 to 206. We also increased the number of states in which we operated from 11 to 17. As a result of this growth, the make-up of our top 20 patient diagnoses in 2007 was very different from our top 20 patient diagnoses in 2008.

- Since 1996, we have maintained a corporate compliance program and an employee compliance hotline operated by an independent third party.
Keith Myers, our President and Chief Executive Officer, issued the following statement to Senators Baucus and Grassley: “We acknowledge receipt of your letter dated May 12, 2010, and your joint request for documents relating to our home health agency performance and operations. We intend to cooperate with the request and will be working diligently to provide as complete a production as possible by the deadline you set forth. We look forward to providing detailed and accurate answers to your questions presented, and we welcome the opportunity to demonstrate LHC Group’s commitment to compliance and program integrity. In the meantime, should you have additional questions, please do not hesitate to contact me.”

52. As a result of this disclosure, on May 13, 2010, the price of LHC’s stock dropped to $35.28 from the previous day’s closing price of $36.11. Share prices continued to tumble the following day as the disclosure further disseminated into the market, closing at $33.49 – a two-day decline of 7.2%. This decrease was a result of some artificial inflation caused by defendants’ misleading statements coming out of LHC’s stock price. The price of LHC stock remained inflated, however, because the full truth had yet to become public.

53. On June 4, 2010, LHC sent the Senate Finance Committee a letter denying any wrongdoing. Specifically, that letter stated in relevant part that, “at LHC, patient decisions are made by the local caregiver and the patient’s physician – reimbursement is not a factor to be considered.” [Emphasis added.]

54. On July 13, 2010 LHC issued a press release disclosing that the SEC had requested that LHC preserve all documents relating to the Company’s Medicare reimbursement practices. The press release stated in relevant part:

LAFAYETTE, La., July 13, 2010 (GLOBE NEWSWIRE) — LHC Group, Inc. (Nasdaq:LHCG), a national provider of home health and hospice, announced today that it has received a request from the Securities and Exchange Commission (SEC) to preserve all documents relating to the Company’s Medicare reimbursement practices. In the letter, the SEC expressed its intent to issue a subsequent request for the production of documents. LHC Group intends to fully cooperate with the review by the SEC.
"Since our inception, we have maintained a clinically driven, decentralized operating model and company culture that promotes the provision of care centered on the needs of the patients we serve. In our response to the SEC, we intend to demonstrate this commitment to patient-centered care and our commitment to compliance and program integrity," said LHC Group President and Chief Executive Officer Keith Myers.

Below are some key facts regarding LHC Group’s therapy utilization and quality outcomes:

- LHC’s overall therapy utilization from 2006 through 2008 was 13% below the national average.
- LHC’s reimbursement per episode was 13% below the national average from 2006 through 2009.
- LHC’s reimbursement per therapy episode was 8% lower than the national average from 2006 through 2009.
- LHC’s therapy patients reported outcomes that were 7% better than the national average from 2006 through 2009.
- LHC has shown a 7% increase in overall quality outcomes from 2006 through 2009.
- LHC improved the overall quality outcomes at acquired agencies by 21% from 2006 through 2009.

[Emphasis added.]

55. As a result of this disclosure, on July 13, 2010, the price of LHC’s stock dropped to $23.02 from the previous day’s closing price of $24.15. Share prices continued to tumble the following day as the disclosure was further disseminated into the market, closing at $22.49 – a two-day decline of 7.2% on heavy volume. This decrease was a result of some artificial inflation caused by defendants’ misleading statements coming out of LHC’s stock price. The price of LHC stock remained inflated, however, because the full truth had yet to become public.

56. Analysts, such as RBC, reacted to the disclosure of the SEC investigation by lowering price targets and noting the risks to LHC caused by the Senate Finance and SEC investigations.
57. On August 4, 2010, LHC issued a press release that stated in relevant part:

LAFAYETTE, La., Aug. 4, 2010 (GLOBE NEWSWIRE) — LHC Group, Inc. (Nasdaq:LHCG), a national provider of home health and hospice services, announced today its financial results for the three and 6 months ended June 30, 2010.

Financial Results for the Second Quarter

- Net service revenue for the second quarter of 2010 increased 16.0% to $154.2 million compared with $133.0 million for the same period in 2009.

- Net income attributable to LHC Group for the second quarter of 2010 totaled $12.4 million, an increase of 20.8%, compared with net income of $10.3 million for the same period in 2009.

58. On August 5, 2010, defendants held a conference call with investment analysts to discuss the Company’s performance in the second quarter of 2010. During the call, Myers stated in relevant part:

With regard to the SEC, we have received an official subpoena and are responding to their request. The information requested by the SEC is very similar to the information requested by Senate Finance, so much of the work has already been completed. At this time, we can’t speculate on the outcome of either of these matters, but we will continue to cooperate fully and are confident in our data and the historical results of our longstanding, decentralized operating model that focuses on the needs of each individual patient we serve.

This clinically driven operating philosophy combined with our strong compliance program is the cornerstone of our reputation and the relationship of trust we’ve developed with patients, payors, referral sources, and our employees over the years.

[Emphasis added.]

59. On August 6, 2010, LHC filed a Form 10-Q with the SEC setting forth the financial results for the second quarter of 2010. That 10-Q stated in relevant part:

Home-Based Services. Net service revenue for home-based services for the three months ended June 30, 2010 was $136.6 million, an increase of $18.3 million, or 15.4%, from $118.3 million for the three months ended June 30, 2009. Total admissions increased 14.0% to 22,540 during the current period, versus 19,779 for the same period in 2009. Average home-based patient census for the three months
ended June 30, 2010, increased 7.4% to 31,345 patients as compared to 29,182 patients for the three months ended June 30, 2009.

60. On November 1, 2010, LHC issued a press release that stated in relevant part:

LAFAYETTE, La., Nov. 1, 2010 (GLOBE NEWSWIRE) — LHC Group, Inc. (Nasdaq:LHCG), a national provider of home health and hospice services, announced today its financial results for the three and nine months ended September 30, 2010.

Financial Results for the Third Quarter

• Net service revenue for the third quarter of 2010 increased 25.4% to $166.6 million compared with $132.9 million for the same period in 2009.

* * *

• Net income attributable to LHC Group for the third quarter of 2010 totaled $13.3 million, an increase of 35.3%, compared with $9.8 million for the same period in 2009.

61. On November 2, 2010, defendants held a conference call with investment analysts to discuss the Company's performance in the third quarter. On that call, Myers stated in relevant part:

With regard to compliance, earlier this year we made a commitment to share our compliance program and best practices with all providers in the industry through our national association for homecare and hospice by presenting at three major national conferences in 2010. The March on Washington & Law Symposium in Washington D.C. in April of this year, the NAHC Financial Managers conference in Chicago in July of this year and at the NAHC annual meeting in Dallas in October.

I'd like to take this opportunity to thank our compliance department and our partners at Deloitte and Touche for following through on this commitment. Their presentation is located in the Investor Relations section of our website, along with an article in the November issue of Compliance Today magazine contributed by our Chief Compliance Officer.

62. The article Myers referred to in the call, written by LHC’s Chief Compliance Officer Josh Proffitt, was published in Compliance Today, the monthly news magazine of the Health Care Compliance Association. That article stated in relevant part:

How many times have we heard the phrase, “Don’t fix what’s not broken?” At LHC Group, Inc. we decided to buck that conventional wisdom in early 2009, when we
embarked on a redesign of our company’s compliance program. To do this, we team with the nationally-recognized health care consulting firm Deloitte and Touche.

* * *

... one of the primary initiatives we undertook as part of our program redesign was to perform a comprehensive assessment of the compliance-related risks within our organization. In addition to learning what compliance-related risks our company faced, we saw the value of having a compliance program that would be continually informed by the risk assessment process.

* * *

... we increased our Compliance department staff to allow for more internal audits. Based on an impact and vulnerability analysis we apply to each risk, our Compliance department performs audits on a monthly, bi-monthly, quarterly, semi-annual, or annual basis. We have also developed an extensive set of audit tools used when conducting our audits. In addition to performing routine audits, we also comb through various sets of operational and reimbursement-related data on a monthly basis to monitor each of our home health agencies. If we notice any outlier data as part of this routine data monitoring, we then work to understand the underlying cause by interviewing staff, and we may also conduct a full audit. Additionally, we have formed topic-specific task forces, such as a legislative and regulatory task force . . . .

63. On November 3, 2010, LHC filed a Form 10-Q with the SEC setting forth the financial results for the third quarter of 2010. That 10-Q stated in relevant part:

Home-Based Services. Net service revenue for home-based services for the three months ended September 30, 2010 was $145.8 million, an increase of $28.7 million, or 24.5%, from $117.1 million for the three months ended September 30, 2009. Total admissions increased 21.6% to 23,807 during the current period, compared to 19,582 for the same period in 2009. Average home-based patient census for the three months ended September 30, 2010, increased 18.7% to 33,402 patients as compared to 28,150 patients for the three months ended September 30, 2009.

64. On January 13, 2011, defendants made a presentation at the JP Morgan HealthCare Conference. During that presentation, Myers stated, “We have always had a strong focus on quality and compliance. It has always been important, but it just seems to become more and more important with each passing year, right? And so we continue to focus a lot of effort and resources on that.”

65. On March 2, 2011, LHC issued a press release that stated in relevant part:
LAFAYETTE, La., March 2, 2011 (GLOBE NEWSWIRE) – LHC Group, Inc. (Nasdaq:LHCG), a national provider of home health and hospice services, announced today its financial results for the three months and year ended December 31, 2010.

Financial Results for the Fourth Quarter

- Net service revenue for the fourth quarter of 2010 increased 18.8% to $168.1 million compared with $141.5 million for the same period in 2009. Net service revenue for the fourth quarter of 2010 reflects a decrease of approximately $1.8 million related to the reduction in fiscal year 2011 home health reimbursement rates of approximately 5% that affected episodes in November and December of 2010.

- Net income attributable to LHC Group for the fourth quarter of 2010 decreased 9.6% to $11.4 million compared with $12.7 million for the same period in 2009. Net income attributable to LHC Group for the fourth quarter of 2010 includes costs associated with converting multiple home health and hospice information systems to two systems. These costs were approximately $1.6 million or $0.05 in diluted earnings per share in the fourth quarter.

66. On March 10, 2011, LHC filed a Form 10-K with the SEC setting forth the financial results for the year 2010. That 10-K, signed by defendant Myers, stated in relevant part:

Home-Based Services

Each of our home nursing agencies is staffed with experienced clinical home health professionals who provide a wide range of patient care services. Our home nursing agencies are managed by a Director of Nursing or Branch Manager who is also a licensed registered nurse. Our Directors of Nursing and Branch Managers are overseen by State Directors who report to Division Vice Presidents. The Senior Vice President of Home Health Operations is accountable for the oversight of the Division Vice Presidents and directly reports to the Chief Operating Officer of the Company. Our patient care operating model for our home nursing agencies is structured on a base model that requires a Medicare patient minimum census of 50 patients. At the base model level, one registered nurse is responsible for all aspects of the management of each patient’s plan of care. A home nursing agency based on this model is staffed with an office manager, a field-registered nurse, a field-licensed professional nurse and a home health aide. We also contract with local community therapists and other clinicians, as appropriate, to provide additional required services. As the size and patient census of a particular home nursing agency grows, these staffing patterns are increased appropriately.
Our home nursing agencies use our Service Value Point system, a proprietary clinical resource allocation model and cost management system. The system is a quantitative tool that assigns a target level of resource units to a group of patients based upon their initial assessment and estimated skilled nursing and therapy needs. The Service Value Point system allows the Director of Nursing or Branch Manager to allocate adequate resources throughout the group of patients assigned to his or her care, rather than focusing on the profitability of an individual patient.

* * *

Home-Based Services. Net service revenue from home-based services for the year ended December 31, 2010 was $558.6 million, an increase of $89.1 million, or 19.0%, from $469.5 million for the year ended December 31, 2009. Total admissions increased 21.6% to 92,764 during the 2010, compared to 76,286 for the same period in 2009. Average home-based patient census for the year ended December 31, 2010 increased 12.7% to 32,375 patients as compared with 28,721 patients for the year ended December 31, 2009. The increase in revenue in 2010 resulted from both organic growth and the growth from our acquisitions during the year ended December 31, 2010.

[Emphasis added.]

67. In a section entitled “Government Regulation,” LHC’s 10-K stated:

The health care industry is highly regulated and we are required to comply with federal, state and local laws, which significantly affect our business. These laws and regulations are extremely complex and, in many instances, the industry does not have the benefit of significant regulatory or judicial interpretation. Regulations and policies frequently change, and we monitor these changes through trade and governmental publications and associations. The significant areas of federal and state regulatory laws that could affect our ability to conduct our business include the following:

- Medicare and Medicaid participation and reimbursement;
- the federal Anti-Kickback Statute and similar state laws;
- the federal Stark Law and similar state laws;
- false and other improper claims;
- the Health Insurance Portability and Accountability Act of 1996 (“HIPAA”);
- civil monetary penalties;
environmental health and safety laws;

- licensing; and

- certificates of need and permits of approval.

If we fail to comply with these applicable laws and regulations, we could suffer civil or criminal penalties, including the loss of our licenses to operate and our ability to participate in federal and state health care programs, which would materially adversely affect our financial condition and results of operations. Although we believe we are in material compliance with all applicable laws, these laws are complex and a review of our practices by a court or law enforcement or regulatory authority could result in an adverse determination that could harm our business. Furthermore, the laws applicable to us are subject to change, interpretation and amendment, which could adversely affect our ability to conduct our business.

[Emphasis added.]

68. In a section entitled “Compliance,” LHC’s 10-K stated:

We have established and maintain a comprehensive compliance and ethics program that is designed to assist all of our employees to meet or exceed applicable standards established by federal and state laws and regulations and industry practice. Although we first established our compliance and ethics program in 1996, in 2009 we redesigned and enhanced several aspects of our compliance and ethics program. Our redesign and enhancement involved several initiatives to further our goal of fostering and maintaining the highest standards of compliance, ethics, integrity and professionalism in every aspect of our business dealings.

The purpose of our compliance and ethics program is to focus on compliance with applicable legal and regulatory requirements; the requirements of the Medicare and Medicaid programs and other government healthcare programs; industry standards; our Code of Conduct and Ethics; and our policies and procedures that support and enhance overall compliance within our company. The primary focus of our compliance and ethics program is on regulations related to the federal False Claims Act, Stark Law, Anti-Kickback Law, billing and overall adherence to health care regulations.

To ensure the independence of our compliance department staff, the following measures have been implemented:

- our Chief Compliance Officer reports to and has direct oversight by the Audit Committee of our Board of Directors;

- the compliance department has its own operating budget; and
the compliance department has the authority to independently
investigate any compliance or ethical concerns, including, when
demed necessary, the authority to interview any company personnel,
access any company property (including electronic communications)
and engage counsel to assist in any investigation.

Among other activities, our compliance department staff is responsible for the
following activities:

• drafting and revising company policies and procedures related to
  compliance and ethics issues;

• reviewing, making recommended revisions to, disseminating and
  tracking attestations to our Code of Conduct and Ethics;

• measuring compliance with our policies and procedures, Code of
  Conduct and Ethics and legal and regulatory requirements related to
  the Medicare and Medicaid programs and other government
  healthcare programs, laws and regulations;

• developing and providing compliance-related training and education
  to all of our employees and, as appropriate, directors, contractors and
  other representatives and agents, including, new-hire compliance
  training for all new employees, annual compliance training for all
  employees, sales compliance training to all members of our sales
  team, billing compliance training to all members of our billing and
  revenue cycle team and other job-specific and role-based compliance
  training of certain employees;

• performing an annual company-wide risk assessment;

• implementing an annual compliance auditing and monitoring work
  plan and performing and following up on various risk-based auditing
  and monitoring activities, including both clinical and non-clinical
  auditing and monitoring activities at the corporate level and at the
  local agency/facility level;

• developing, implementing and overseeing our Health Insurance
  Portability and Accountability Act of 1996 ("HIPAA") privacy and
  security compliance program;

• monitoring, responding to and overseeing the resolution of issues and
  concerns raised through our anonymous compliance hotline;
• monitoring, responding to and resolving all compliance and ethics-related issues and concerns raised through any other form of communication; and

• ensuring that we take appropriate corrective and disciplinary action when noncompliant or improper conduct is identified.

Our Chief Compliance Officer is a member of and meets with and provides routine reports on our compliance initiatives, investigations and other activities to our Senior Management team. We have also developed a corporate compliance committee that is chaired by our Chief Compliance Officer and also includes our Chief Executive Officer, Chief Operating Officer, Chief Financial Officer, General Counsel, Chief Administrative Officer, Senior Counsel of Legislative and Regulatory Affairs, Senior VP of Clinical Services, VP of Corporate Education, Associate General Counsel, VP of Revenue Cycle, Director of Compliance, Director of Internal Audit, Director of Financial Reporting and Privacy Officer. Our corporate compliance committee meets on a quarterly basis or as called by the Chief Compliance Officer to establish the agenda for compliance initiatives and review the status of compliance initiatives, investigations and other activities, as well as the operations of our compliance department. Our Chief Compliance Officer also meets with and provides a quarterly report on our compliance initiatives, investigations and other activities to the Audit Committee of our Board of Directors.

All employees are required to report incidents, issues or other concerns that they believe in good faith may be in violation of our Code of Conduct and Ethics, our policies and procedures, applicable legal and regulatory requirements or the requirements of the Medicare and Medicaid programs and other government healthcare programs. All employees are encouraged to either contact our Chief Compliance Officer directly or to contact our 24-hour toll-free compliance hotline when they have questions or concerns about any compliance or ethics issues. All reports to our compliance hotline are kept confidential to the extent allowed by law, and employees have the option to remain anonymous. In cases reported to our compliance hotline that involve a compliance or ethics issue or any possible violation of law or regulation, the matter is referred to the compliance department for investigation. Retaliation against employees in connection with reporting compliance or ethical concerns is considered a serious violation of our Code of Conduct and Ethics, and, if it occurs, it will result in discipline, up to and including termination of employment.

We continually expand and refine our compliance and ethics programs. We promote a culture of compliance, ethics, integrity and professionalism within our company through persistent messages from our senior leadership concerning the necessity of strict compliance with legal requirements and company policies and procedures. **We believe our consistent focus on our compliance and ethics programs provide us with a competitive advantage in the markets we serve.**
69. LHC's 10-K included a certification signed by defendant Myers which stated:

I, Keith G. Myers, certify that:

1. I have reviewed this Annual Report on Form 10-K of LHC Group, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the
case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

70. On May 4, 2011, LHC issued a press release that stated in relevant part:

LAFAYETTE, La., May 4, 2011 (GLOBE NEWSWIRE) — LHC Group, Inc. (Nasdaq:LHCG), a national provider of home health and hospice services, announced today its financial results for the three months ended March 31, 2011.

Financial Results for the First Quarter

• Net service revenue for the first quarter of 2011 increased to $161.8 million compared with $145.2 million for the same period in 2010.

• Net income attributable to LHC Group for the first quarter of 2011 decreased to $7.7 million compared with $11.7 million for the same period in 2010.

71. On May 10, 2011, LHC filed a Form 10-Q with the SEC setting forth the financial results for the first quarter of 2011. That 10-Q stated in relevant part:

Home-Based Services. Net service revenue for home-based services for the three months ended March 31, 2011 was $141.8 million, an increase of $13.8 million, or 10.8%, from $128.0 million for the three months ended March 31, 2010. Total admissions increased 20.7% to 27,113 during the current period, compared to 22,470 for the same period in 2010. Average home-based patient census for the three months ended March 31, 2011 increased 12.8% to 35,299 patients as compared to 31,282 patients for the three months ended March 31, 2010.
72. On August 3, 2011, LHC issued a press release that stated in relevant part:

LAFAYETTE, La., August 3, 2011 (GLOBE NEWSWIRE) — LHC Group, Inc. (Nasdaq:LHCG), a national provider of home health and hospice services, announced today its financial results for the three and 6 months ended June 30, 2011.

- Net service revenue for the second quarter of 2011 increased to $161.0 million compared with $153.6 million for the same period in 2010.
- Net income attributable to LHC Group for the second quarter of 2011 decreased to $9.8 million compared with $12.4 million for the same period in 2010.

73. On August 4, 2011, defendants held a conference call with analyst regarding the Company’s performance in the second quarter. During that call, Don Stelly, the Company’s President and COO, stated in relevant part:

. . . I want to spend just a few moments putting details to our processes and report a few associated metrics.

First, for both requirements, part of our preparation was to custom build software programs that swept every episode in our systems, the two that we converted down to on a daily basis and then yield exceptional reports that identify each at-risk episode for non-compliance in either realm. These reports are then systematically sent to our field operators on that same daily basis and serve as a guide for corrective action.

More simply put, every day every leader knows which patients have had or not had a face-to-face encounter and have workflows that we designed to address it.

74. On September 30, 2011, LHC issued a press release that stated in relevant part:

LAFAYETTE, La., Sept. 30, 2011 (GLOBE NEWSWIRE) — LHC Group, Inc. (Nasdaq:LHCG) announced today that the company has reached a settlement agreement with the government that resolves a previously announced civil inquiry involving Medicare reimbursement for home health services for the period of 2006 to 2008.

While LHC Group cooperated fully, the settlement agreement reflects that the company disputes the government’s claims and includes no admission or determination of wrongdoing. The government did not question LHC Group’s quality of patient care, and there were no findings that the company billed or received payments for services not rendered.
Under the terms of the settlement agreement, the company will pay $65 million.

The inquiry primarily centered on whether certain medical records contained sufficient documentation to support the subjective determination of medical necessity. LHC Group chose to settle to avoid the disruption and expense of a multi-year legal dispute with the government, which is both a regulator and the primary payer for healthcare services provided to elderly and disabled patients. The settlement includes a release from the government for any claims for the period of 2006 to 2008 related to home health services, including skilled nursing visits, therapy visits and home health aide visits.

**DEFENDANTS’ STATEMENTS WERE FALSE AND MISLEADING**

75. Defendants’ statements set forth above were materially false and misleading because they failed to disclose that LHC was defrauding Medicare and manipulating the number of patient visits to maximize revenue, regardless of patient need. In fact, the growth in-home health care revenue, which defendants attributed to “organic growth” and acquisitions, resulted in significant part from LHC’s abuse of the Medicare system. Defendants’ statements touting their compliance policies and procedures, and that LHC was in compliance with all applicable laws, were materially false and misleading because defendants were knowingly violating the Social Security Act by systematically providing unneeded medical care.

**THE FULL TRUTH COMES TO LIGHT**

76. On October 3, 2011, the U.S. Senate Finance committee released the Senate Report analyzing the home therapy practices of LHC and other companies in the industry. That report concluded that “The home health therapy practices identified . . . at best represent abuses of the Medicare home health program. At worst, they may be examples of . . . defrauding the Medicare home health program at the expense of taxpayers.” [Emphasis added.]

77. Regarding LHC specifically, the report stated in relevant part:

LHC Group Therapy Metrics
Therapy metrics provided to the Committee by LHC Group point to a pattern of attempting to achieve the most profitable number of therapy visits... in 2007, 20 percent of LHC Group’s therapy episodes received ten visits while only 2.6 percent of the therapy episodes received nine visits. In 2008, the number of therapy episodes that received ten visits dramatically dropped to 6.9 percent. Also, from 2007 to 2008 the number of therapy episodes receiving 6 visits increased from 2.5 percent to 5.5 percent. The number of therapy episodes receiving 14 visits increased from 4.6 percent to 8 percent. And the number of therapy visits receiving 20 visits increased from 0.7 percent to 2.1 percent.

[Emphasis added.]

78. Regarding the “LHC Group Response to 2008 CMS Payment Changes,” the Senate Report stated:

In a September 21, 2007 email following the announcement that CMS was changing its therapy payment structure, LHC Group Division Vice President Liz Starr proposed the “Development of new therapy programs that will now be VERY financially sound but would not have been in the past PPS reimbursement program.”

In an April 4, 2008 email to an Arkansas area sales manager written after CMS altered the therapy payment thresholds, LHC Group CEO Keith Myers wrote about the need to increase the number of therapy visits performed by LHC Group in order to increase case mix and revenue:

It’s all in the therapy Kevin. Episodes in the 0-5 therapy buckets have been hit the worst. We have over 70% of episodes in the 0-5 bucket since January 1, 2008. We are looking at free-standing agencies in business development that are doing much better than we are with regard to 2008 case mix and most of them actually have a pick up under the new rule. The key is that they have less than 50% of their episodes in the 0-5 therapy buckets. We took a financial hit for any therapy provide [sic] below 10 visits in the past, but under the new system an episode with 6 therapy visits is better than episode [sic] with 0-5 therapy visits. The new “10 visit threshold” is actually 6 visits on the low side and 20 visits on the high side. In other words, once you get to 6 visits, the more therapy visits provided the better, up to 20 visits. We need to move episodes out of the 0-5 buckets and up to the 6 and 7-9 buckets on the low end, and look for higher therapy need cases on the high end.

I think our sales people should be working closely with operations to recruit and employee [sic] more PT’s, PTA’s, OT’s and COTA’s. Sales incentives are driven by admission × case mix, and the only way to get case mix up is to increase therapy utilization. We need to look for opportunities especially within the OT area, i.e. low vision, etc.
Similar instructions were issued by LHC Group Division Vice President of Home Based Operations, Angie Begnaud, who wrote in a January 18, 2008 email, "We want to do more therapy visits. The point was made by Johnny that we still see our agencies doing only 10-12 visits, when in fact some of these patients we could be doing 14-20 visits if needed."

[Emphasis added.]

79. Noting that "LHC Employees Pressured to Boost Therapy," the Senate Report observed:

*Despite LHC Group’s claim in its June 4, 2010 letter to the Committee that “at LHC, patient decisions are made by the local caregiver and the patient’s physician – reimbursement is not a factor to be considered,” a number of examples illustrate that therapists and branch managers at LHC Group were pressured by supervisors to achieve a higher number of therapy visits.*

An email written by Division Vice President of Home Based Operations Angie Begnaud on April 2, 2008 demonstrates a centralized push from LHC Group management to increase the number of therapy visits performed. According to the email written by Begnaud, LHC Group President and Chief Operating Officer Donald Stelly held a conference call to:

stress the urgency of the problem with LUPAs and downgrades, and also the need for our [Directors of Nursing] to communicate with the therapists the problem with projecting visits and not completing them. The therapist [sic] also need to look at increasing the number of therapy visits if warranted to move these patients into the higher therapy buckets. In looking at all 2008 episodes, the company has a 10% LUPA rate and a 10% therapy downgrade rate for a 20% adjustment rate. Don has asked for us to have all hands on deck to look at all open episodes. He also asked that all DONs and BMs report to the state director weekly on the number of LUPAs and downgrades. The last thing that he requested was that by the end of this week, all DONs and BMs call all of the therapists that do work for them to re-educate them on the final rule and to stress the urgency of not having the downgrades, and the need to really provide the amount of therapy visits necessary to move those patients into the higher buckets. Presently on our RAP claims, 47% of our therapy patients are receiving 0- 5 therapy visits. This cannot continue to happen and the therapists need to get back with the agency asap after evaluation to let them know how many therapy visits they will be doing.

In another example, a top manager of LHC Group’s agencies in Kentucky suggested increasing therapy utilization “to get more profitable.” An October 22, 2009 email from LHC Group Kentucky State Director of Operations Lana Smith to
LHC Group employee Carolyn Cole asked, "Considerations to get more profitable: Would you be able to increase therapy utilization in improve case mix and Op Margin? [sic] Both of these would improved [sic] financials."

An employee in West Tennessee encouraged staff to attend a teleconference "so that we can get the higher paying buckets FULL." In the email, LHC Group DON/Administrator in West Tennessee, Kim Bradberry, encouraged staff to attend a "MANDATORY" teleconference called "Therapy in the PPS Final Rule." She wrote "In looking at SVP tools for each [West Tennessee] office yesterday, the greatest % of visits are in the dreaded 0-5 bucket for each office. Let’s all make a point of attending this, so that we can get the higher paying buckets FULL . . . we want to be able to say our ‘20+ buckets runneth over’! :-)

Another LHC Group administrator based in Tennessee, Susan Sylvester, instructed branch managers:

When speaking with your therapists about downcodes, please discuss front loading of visits. It appears that many of the patients begin to improve and decide to refuse the remainder of their therapy, go to outpatient, or are rehospitalized. The more therapy visits we’ve gotten in before that happens, the better off we are, as well as the patient. Obviously our goal is to improve the patient’s overall condition and functionality, however if we are providing 5 therapy visits or less, we have incurred all of the expense of the therapy without any of the reimbursement. If the visits are frontloaded, ie 3w4, 2w4, 1w1, we may be able to get in enough visits early enough to complete (or nearly complete) our plan of care.

On the subject of "discussions/emails about downcodes, LUPA's and therapy utilization over the past week or so," Susan Sylvester said, "This is a MAJOR push for Sr. Management at this time, as well as for all of us, in order to continue to operate successfully."

An LHC Group branch manager who received these instructions reported a conversation with a company therapist in which the therapist agreed to "frontloading as well as going back after a couple of week [sic] to see if patients are following their exercise program or are functionally declining, in an attempt to raise the number of visits."

The post-2007 therapy payment rules had an obvious effect on an LHC Group agency in West Virginia. The local agency manager wrote to Becky McCoy, the state director for Ohio/West Virginia, "[name redacted] now has an understanding of the therapy buckets. He now places his patient’s [sic] in 6, 10, or 14 visit ranges."

A July 8, 2009 email from LHC employee Katy Lebauve to LHC Group employee Kimberly Gordon stated: "You have 20% in the 7-9 therapy bucket range. Please
get with the therapists and have them reeval [sic] those to see if any can or need to be bumped up please.”

Additionally, LHC Group managers may have implicitly encouraged higher therapy utilization by discussing the higher revenue of some therapy thresholds. For example, the LHC Group Division Vice President Ammy Lee based in Lafayette, LA told an LHC branch manager in Guntersville, AL after reading the weekly report for December 1, 2009, “I see 19 patients in the 12-14 therapy bucket. Were you aware that there is an 18% difference in revenue between this bucket and the next highest one (15-16)?”

[Emphasis added, figures and footnotes omitted.]

80. Along with the Senate Report, the Senate Finance Committee issued a statement that included the following:

“The gaming of Medicare represents serious abuse of the home health program,” said Sen. Max Baucus, D-Mont., the committee’s chairman, in a statement. “Elderly patients in the Medicare system should not be used as pawns to increase a company’s profits. Especially in these tough economic times, taxpayers simply cannot afford for their dollars to be wasted on unnecessary care.”

81. As a result of these disclosures, the price of LHC’s stock dropped from $17.06 to $15.01 in two days, a 12% decline. This decrease was a result of the artificial inflation caused by defendants’ misleading statements coming out of the price.

82. On October 26, 2011, LHC issued a press release that lowered the Company’s earnings forecast in part because of the settlement of its improper Medicare practices. The release stated in relevant part:

For the third quarter of 2011, the Company expects to report net service revenue in the range of $150 million to $155 million and fully diluted loss per share in the range of $2.10 to $2.25, subject to final tax treatment of the settlement. With respect to fiscal year 2011, the Company is adjusting its guidance for net service revenue to a range of $630 million to $640 million and fully diluted loss per share to a range of $0.75 to $0.85. This change in the fiscal year 2011 guidance is primarily the result of the following factors:

• The Company’s recently announced settlement with the government and the associated legal and other expense incurred in connection with reaching the
settlement (the effect of the settlement, after tax, reduces 2011 fully diluted earnings per share by $2.50);

83. As a result of these disclosures, the price of LHC's stock dropped from $18.84 to $15.89 in one day, a 15% decline. This decrease was a result of the artificial inflation caused by defendants' misleading statements coming out of the price.

INTERVIEWS WITH FORMER LHC EMPLOYEES CONFIRM THE FINDINGS OF THE SENATE REPORT

84. Confidential Witness 1 ("CW1") was an Assistant Director of Nursing ("ADON") as well as an RN and was employed by LHC from April 2006 through June of 2009. CW1's responsibilities included scheduling patient home visits, supervising nurses and physical therapists to make sure documentation was complete as required under Medicare guidelines, and to ensure that Company policies were followed by field care personnel. CW1 reported to Cindy Barnett, the Director of Nursing ("DON") for CW1's facility. CW1 was familiar with the transition in the Medicare reimbursement structure from the 10-visit bonus threshold to the new buckets of six, 14, and 20 visits, where Medicare increased payments to LHC at those increments. According to CW1, the LHC corporate office communicated to the DON and the Branch Manager through emails, conference calls, and individual phone calls the "importance" of teaching field staff that the Company made more money at the three trigger points of six, 14, and 20 visits. Barnett communicated to CW1 the substance of those calls and emails. CW1 was present at a meeting with other staff members, including RNs and PTs where Barnett "reminded everyone" about where the Company makes money and where it doesn't – describing the importance of getting visits at the right numbers for the patients and LHC – so that the PTs knew that the Company would make more money if the visits hit 14.

85. According to CW1, the general process required by Medicare in conducting initial assessments and preparing the OASIS (Outcome and Assessment Information Set) for each patient
required that CW1 describe the general process of nurses conducting initial assessments and preparing an OASIS for each patient. CW1 said that Medicare required that an RN perform this comprehensive assessment during the initial visit to a patient, upon referral by the patient's doctor to LHC for home care. The OASIS was required to specify the types of services required to treat the patient; a weekly home care schedule and total number of visits to be made to the patient's home for the next 60 days. Medicare referred to this 60-day period as a home care "episode." CW1 added that those patients requiring less than 6 visits were defined by Medicare as "LUPAs" (Medicare acronym for "Low Utilization Payment Adjustment"), and those patients requiring 6 visits or more over the 60 day "episode" as "Episodic." CW1 stated that LHC "made sure we all knew" that the Company "did not make any money on LUPAs." As a result, RNs were taught through discussions with office supervisors, periodic conference calls with the DON, and from emails to all staff that came from headquarters that a minimum of six visits should be considered "the goal." According to CW1, after the structure changed to the six, 14, and 20 visit structure, the frequency of RNs indicating less than six visits on OASIS reports steadily declined. CW1 and other nursing supervisors were taught by the DON to "have a talk" with any RN preparing an OASIS that caused the patient to be a LUPA and remind them that Medicare rewarded the Company if the patient received six visits.

86. According to CW1, the "real money" made by LHC was in the physical therapy visits. Doctors' orders for home care often included physical therapy and, if not, the RN performing the OASIS assessments were encouraged by LHC to include a physical therapy referral and were usually able to call the patient's doctor for a verbal order. Because most patients referred to LHC were elderly and had just gotten out of the hospital or were recovering from injuries or suffering from an acute condition, it "was easy" for RNs to find reasons why physical therapy should be given.
When a referral for physical therapy was made, a Physical Therapist ("PT") was dispatched to the patient to perform a therapy assessment. Medicare required that only a PT could prepare a physical therapy assessment, therefore, the OASIS did not specify the number of therapy visits that would be made. It was, however, well understood that the visit numbers would increase and the Company would make money on patients in situations where the OASIS called for a physical therapy assessment.

87. Confidential Witness 2 ("CW2") was employed by LHC from October 2009 through March of 2012 in various positions including Home Health State Operations Director over three states reporting to Division Vice President of Sales for the Pacific Northwest, George Wyatt ("Wyatt"), who reported directly to LHC’s COO, Stelly. CW2 was responsible for creating the budget for CW2’s territory, to control costs and supervise all staff. Each type of home care staff was assigned “productivity” goals and was monitored by management to ensure they met those targets. CW2 supervised approximately 10 DONs, who then supervised Branch Managers for each of the LHC locations.

88. CW2 stated that each month CW2 and other State Operations Directors received a “Metrics Report” from the corporate office. The Metrics Report showed actual performance of each department against the budgeted forecast. As a manager, CW2 was responsible for achieving or exceeding specific categories of the budget, such as the budgeted revenue, therapy utilization and gross margin, and this was a criteria in determining bonuses. Typically, each year, 10% was added to each category of the budget, including “gross revenue.” According to CW2, the principal way to achieve the increase was to increase the revenue per-visit numbers in the six, 14, and 20 visit buckets.
89. Specifically, CW2 had weekly calls with Wyatt, who often instructed CW2 to get more patients “into these buckets,” referring to the six, 14, and 20 visit numbers, because “we can make more money.” CW2 also received numerous “policy reminders” in emails from LHC management to CW2, DONs and the Branch Managers regularly educating operational management about the Medicare bonus thresholds of six, 14, and 20 visits and the need to achieve a higher incidence of patient visits at those thresholds in order for the Company to improve financial performance. CW2 received emails from LHC’s COO Stelly to all staff reiterating the same message. CW2 consistently met the targets with respect to therapy utilization and revenue set by management.

90. Confidential Witness 3 (“CW3”) was employed by LHC as an RN in Oregon from January 2011 through November 2011 and was assigned by CW3’s immediate supervisor, Danny Ardoin (“Ardoin”), the Branch Manager, to visit patients at their homes who had been referred by their doctors for evaluation. Ardoin reported to a DON who was responsible for several branches and the DON reported to a State Director responsible for Oregon and other states in the Northwest.

91. CW3 stated that during the first couple of months of CW3’s employment, Ardoin told CW3 that CW3 “needed to make sure” that CW3 was visiting CW3’s patients at least six times because the agency made more money if they minimized LUPA patients in the caseload. According to CW3, LHC management sought to minimize LUPAs because the facility lost money, as Medicare reimbursement was for a minimum of five visits or less per patient. Ardoin told CW3 that the Company’s “policy” was to make at least six visits to each patient.

92. As part of CW3’s job, CW3 communicated with physical therapists and heard discussions among the staff that they were expected to visit patients “at least six times” and for
patients requiring more than six visits, the therapists were expected to visit the patients at least 14 times because “that was where the company made the most money for that group.”

93. Confidential Witness 4 (“CW4”) was employed for ten years as the Rehabilitation Director for Northcrest Home Health in Tennessee, a facility that was then acquired by LHC in 2Q 2007. Upon the acquisition, CW4’s position was eliminated and CW4 then worked as a physical therapist at the facility.

94. CW4 stated that once Medicare changed the bonus threshold to the three “buckets” for therapy visits at six, 14, and 20, Pam Harris, the administrator of the facility, instructed the therapy staff that they should consider these levels for every physical therapy assessment, and “always at the 14 or 20 plus” levels. Harris told CW4 that there was “no reason” a therapist should make only six visits when “the company would make more money if it was 14.”

FALSE AND MISLEADING INFORMATION ON LHC’S WEBSITE

95. LHC maintains a website that describes in detail its policies and procedures regarding compliance. On information and belief, Plaintiff alleges that these same policies and procedures were in place during the Class Period, as follows:

96. LHC’s website states that “LHC Group has had a comprehensive Corporate Compliance and Ethics Program since 1996 and has continued to improve this program throughout the many years of service to the employees, patients and families who have placed their trust in the LHC Group Family.”

97. That compliance program is also posted on the website, stating in relevant part:

LHC Group’s Corporate Compliance and Ethics Program was developed to help ensure that we conduct our business in compliance with all applicable federal and state laws, rules and regulations and to reduce the risk of misconduct. According to the Office of the Inspector General (OIG) as described in the Federal Sentencing Guidelines, a well-built compliance program should have a strong foundation that includes the following seven elements:
1. Written Policies, Procedures and Standards of Conduct;

2. Designated Compliance Officer and Compliance Committee;

3. Effective Training and Education;

4. Reporting and Investigating: Effective Lines of Communication;

5. Enforcement and Discipline: Well-Publicized Disciplinary Guidelines;

6. Strong Internal Monitoring and Auditing Program; and

7. Response and Prevention: Prompt Response to Detected Offenses.

We have developed active processes tailored to our focus on particular risk areas that are common throughout the industries in which we operate. These voluntary guidelines identify areas to improve and enhance our internal controls so that billing practices and other business arrangements are in compliance with Medicare, Medicaid and all other applicable rules and regulations. To follow the OIG guidelines, we have developed a Corporate Compliance and Ethics Program that consists of the following elements:

Development, distribution and routine review and update of the Code of Conduct and Ethics and policies and procedures which promote LHC Group’s commitment to compliance and ethics, and address specific areas of risk to the organization.

Designation of a Chief Compliance Officer who is responsible for overseeing and monitoring the Corporate Compliance and Ethics Program, and a Corporate Compliance Committee who advises the Chief Compliance Officer and assists in the execution of the Corporate Compliance and Ethics Program.

Regular and effective training and education, which addresses the various components of the Corporate Compliance and Ethics Program and effectively communicates LHC Group’s standards and procedures.

Development of an anonymous third-party compliance hotline and website, the IntegrityLine, for employees to communicate with the Chief Compliance Officer to report potential violations or ask questions.
A system to respond to allegations of improper activities, and to consistently enforce appropriate disciplinary action for non-compliance.

Performance of regular compliance audits and evaluation techniques, internally and externally, to monitor compliance with relevant healthcare standards and regulations.

Immediate response to and the investigation of possible violations of the Code of Conduct and Ethics, Compliance policies and procedures and applicable laws, rules or regulations, as well as appropriate corrective action initiatives and consistent discipline for any violations that have occurred.

98. LHC also posts its Code of Conduct and Ethics on its website. This included a letter signed by defendant Myers stating in relevant part:

The design and operation of our Compliance and Ethics Program represents a significant commitment and allocation of time, resources and energy by the Board of Directors and Senior Management of LHC Group. We request that each person associated with LHC Group make the same commitment to compliance and ethics in the performance of their duties.

99. The Auditing and Monitoring section of LHC’s website states in relevant part:

LHC Group has developed extensive auditing and monitoring programs for our home health, hospice and LTACH Divisions to assess internal controls and processes for compliance with all applicable laws, rules and regulations. The Office of Inspector General has published areas of concern for home health agencies, hospice and acute care facilities. Our Compliance Department has developed individual work plans and audit tools for each area of concern to assist in evaluating our Company’s risk for each of these areas. The Compliance Department staff works in conjunction with other departments to accomplish the necessary goals and objectives for each compliance work plan.

An example of certain audits that are conducted on and off-site include:

- OIG and Risk-Based Work Plan Audits that encompass guidelines surrounding Stark and Anti-kickback regulations, Service Utilization, Part B payments, HIPAA compliance, Accuracy of Billing and Coding, Discharge and Admission procedures and other important risk areas.

- Provider-level clinical and billing compliance audits of medical records performed by clinicians and certified home health coders.
• Monthly review and follow-up audit of all billing compliance indicator findings from the Performance Improvement and Quality monitoring activities.

• Monthly customized compliance risk indicator reports for every home health agency to track and monitor key risk indicators such as therapy utilization, outliers and length of stay, to name a few.

• Monthly audit of sales and marketing expenses and compliance with our Code of Conduct for Sales and Marketing.

• Routine audits of our Joint Ventures.

• Monthly audits of our Medical Director program including a review of all Medical Director timesheets.

Audit frequencies range from monthly to annually depending on potential risk and vulnerability factors. Findings and recommendations are documented and monitored through our compliance information system. Each review provides Company leadership with valuable guidance to assist in strengthening controls and improving overall performance throughout our agencies and facilities. The analysis of this data assists in identifying both trends and opportunities for improvement within our company.

Annual Risk Assessment

Our Compliance Department conducts an annual risk assessment. This annual risk assessment process includes (1) review of the OIG Work Plan and other regulatory and industry guidance for risk areas applicable to each industry in which we operate, (2) interviews, including field clinicians, agency/facility leadership, home office and senior management, (3) conducting surveys to gather additional feedback and (4) processing all qualitative and quantitative information to determine appropriate risk areas and future audit activity for the approaching year’s audit work plan.

100. Regarding compliance oversight, LHC’s website contains a quote from defendant Myers stating, “The reputation of our company and the ethical business practices lived out by every LHC Group employee play a critical role in our success.”

COMPENSATION AND INSIDER TRADING

101. Defendant Myers profited greatly from his wrongdoing during the Class Period, in the form of both unusual and suspicious sales of stock at inflated prices and of excessive compensation
paid by the Company, consisting in large part of bonuses and incentive payments that would have been much smaller, or not have been paid at all, were it not for the fraudulent activity alleged herein.

102. Defendant Myers' compensation for 2008 - 2011 totaled $5,478,598, of which $1,069,057 – or 20% – was attributable to non-equity incentive payments, and $2,368,854 which was due to restricted stock awards granted by the Company. Myers also benefited from unusual and suspicious sales of stock during the Class Period. Having not sold any Company stock for over one year, Myers made twenty sales in twenty-one months during the Class Period, selling over 650,000 shares, for total proceeds of $20,909,725. In over a year since the end of the Class Period, Myers has not sold any Company stock. Following is a chart of Myers' Class Period trading activity:

103. During the Class Period, defendants had both the motive and opportunity to conduct fraud. They also had actual knowledge of the misleading nature of the statements they made or
acted in reckless disregard of the true information known to them at the time. In so doing, the
defendants participated in a scheme to defraud and committed acts and practices and participated in a
course of business that operated as a fraud or deceit on purchasers of LHC securities during the Class
Period.

**LOSS CAUSATION/ECONOMIC LOSS**

104. During the Class Period, as detailed herein, defendants made false and misleading
statements and engaged in a scheme to deceive the market. This artificially inflated the price of
LHC's securities and operated as a fraud or deceit on the Class. Later, when defendants’ prior
misrepresentations and fraudulent conduct became apparent to the market, the price of LHC’s
securities fell precipitously, as the prior artificial inflation came out of the price over time. As a
result of their purchases of LHC securities during the Class Period, plaintiff and other members of
the Class suffered economic loss, *i.e.*, damages, under the federal securities laws.

**NO SAFE HARBOR**

105. LHC's verbal “Safe Harbor” warnings accompanying its oral forward-looking
statements (“FLS”) issued during the Class Period were ineffective to shield those statements from
liability.

106. The defendants are also liable for any false or misleading FLS pleaded because, at the
time each FLS was made, the speaker knew the FLS was false or misleading and the FLS was
authorized and/or approved by an executive officer of LHC who knew that the FLS was false. None
of the historic or present tense statements made by defendants were assumptions underlying or
relating to any plan, projection or statement of future economic performance, as they were not stated
to be such assumptions underlying or relating to any projection or statement of future economic
performance when made, nor were any of the projections or forecasts made by defendants expressly
related to or stated to be dependent on those historic or present tense statements when made.
APPLICABILITY OF PRESUMPTION OF RELIANCE: FRAUD ON THE MARKET

107. Plaintiff will rely upon the presumption of reliance established by the fraud-on-the-market doctrine in that, among other things:

(a) Defendants made public misrepresentations or failed to disclose material facts during the Class Period;

(b) The omissions and misrepresentations were material;

(c) The Company’s securities traded in an efficient market;

(d) The misrepresentations alleged would tend to induce a reasonable investor to misjudge the value of the Company’s securities; and

(e) Plaintiff and other members of the Class purchased LHC securities between the time defendants misrepresented or failed to disclose material facts and the time the true facts were disclosed, without knowledge of the misrepresented or omitted facts.

108. At all relevant times, the market for LHC securities was efficient for the following reasons, among others:

(a) As a regulated issuer, LHC filed periodic public reports with the SEC; and

(b) LHC regularly communicated with public investors via established market communication mechanisms, including through regular disseminations of press releases on the major news wire services and through other wide-ranging public disclosures, such as communications with the financial press, securities analysts and other similar reporting services.

CLASS ACTION ALLEGATIONS

109. Plaintiff brings this action as a class action pursuant to Rule 23 of the Federal Rules of Civil Procedure on behalf of all persons who purchased the publicly traded securities of LHC
during the Class Period (the "Class"). Excluded from the Class are defendants, directors and officers of LHC and their families and affiliates.

110. The members of the Class are so numerous that joinder of all members is impracticable. The disposition of their claims in a class action will provide substantial benefits to the parties and the Court. LHC had more than 18 million shares outstanding, owned by thousands of persons.

111. There is a well-defined community of interest in the questions of law and fact involved in this case. Questions of law and fact common to the members of the Class which predominate over questions which may affect individual Class members include:

(a) whether the 1934 Act was violated by defendants;

(b) whether defendants omitted and/or misrepresented material facts;

(c) whether defendants’ statements omitted material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading;

(d) whether defendants knew or recklessly disregarded that their statements were false and misleading;

(e) whether the prices of LHC securities were artificially inflated; and

(f) the extent of damage sustained by Class members and the appropriate measure of damages.

112. Plaintiff’s claims are typical of those of the Class because Plaintiff and the Class sustained damages from defendants’ wrongful conduct.
113. Plaintiff will adequately protect the interests of the Class and has retained counsel who are experienced in class action securities litigation. Plaintiff has no interests which conflict with those of the Class.

114. A class action is superior to other available methods for the fair and efficient adjudication of this controversy.

COUNT I

For Violation of §10(b) of the 1934 Act and Rule 10b-5 Against All Defendants

115. Plaintiff incorporates ¶¶1-114 by reference.

116. During the Class Period, defendants disseminated or approved the false statements specified above, which they knew or recklessly disregarded were misleading in that they contained misrepresentations and failed to disclose material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading.

117. Defendants violated §10(b) of the 1934 Act and Rule 10b-5 in that they:

(a) employed devices, schemes, and artifices to defraud;

(b) made untrue statements of material facts or omitted to state material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading; or

(c) engaged in acts, practices, and a course of business that operated as a fraud or deceit upon plaintiff and others similarly situated in connection with their purchases of LHC securities during the Class Period.

118. Plaintiff and the Class have suffered damages in that, in reliance on the integrity of the market, they paid artificially inflated prices for LHC securities. Plaintiff and the Class would not
have purchased LHC securities at the prices they paid, or at all, if they had been aware that the market prices had been artificially and falsely inflated by defendants’ misleading statements.

119. As a direct and proximate result of these defendants’ wrongful conduct, plaintiff and the other members of the Class suffered damages in connection with their purchases of LHC securities during the Class Period.

**COUNT II**

**For Violation of §20(a) of the 1934 Act Against All Defendants**

120. Plaintiff incorporates ¶¶1-119 by reference.

121. Myers acted as a controlling person of LHC within the meaning of §20 of the 1934 Act. By virtue of his position and power to control public statements by LHC, Myers had the power and ability to control the actions of LHC and its employees. LHC controlled Myers and its other officers and employees. By reason of such conduct, defendants are liable pursuant to §20(a) of the 1934 Act.

**COUNT III**

**For Violation of Section 20A of the 1934 Act**
**Against Defendant Myers**

122. Plaintiff incorporates ¶¶1-121 by reference.

123. While LHC’s securities traded at artificially inflated and distorted prices, Defendant Myers personally profited by selling LHC stock while in possession of adverse, material non-public information about LHC, pocketing over $478,000 in the aggregate in illegal insider trading proceeds, as detailed herein. Plaintiff and members of the Class traded contemporaneously with Myers by purchasing LHC shares at artificially inflated prices on or within days of those purchases, and were damaged thereby, as the following chart demonstrates:
### Table 1: Purchaser Information

<table>
<thead>
<tr>
<th>Purchaser</th>
<th>Date</th>
<th>Shares</th>
<th>Price</th>
<th>Purchase Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>Omaha Police and Fire Retirement System</td>
<td>9/10/2009</td>
<td>5,880</td>
<td>$29.30</td>
<td>$172,284</td>
</tr>
</tbody>
</table>

### Table 2: Insider Seller Information

<table>
<thead>
<tr>
<th>Insider Seller</th>
<th>Date</th>
<th>Shares</th>
<th>Price</th>
<th>Total Proceeds</th>
</tr>
</thead>
<tbody>
<tr>
<td>Myers</td>
<td>9/10/2009</td>
<td>15,959</td>
<td>$30.00</td>
<td>$478,770</td>
</tr>
</tbody>
</table>

124. Plaintiff and all the other members of the Class who purchased LHC stock contemporaneously with the sales of LHC stock by Myers:

(a) have suffered substantial damages in that they paid artificially inflated prices for LHC stock as a result of violations of §10(b) of the 1934 Act and Rule 10b-5 herein described; and

(b) would not have purchased LHC stock at the prices they paid, or at all, if they had been aware that the market prices had been artificially inflated and/or distorted by these Defendants’ false and misleading statements.

125. As a result of the wrongful conduct alleged herein, Plaintiff and other members of the Class have suffered damages.

126. By reason of the foregoing, Defendant Myers violated Section 20A of the 1934 Act and is liable to Plaintiff and the other members of the Class for the substantial damages they suffered in connection with their purchase of LHC stock during the Class Period.

**PRAYER FOR RELIEF**

WHEREFORE, Plaintiff prays for judgment as follows:

A. Declaring this action to be a proper class action pursuant to Fed. R. Civ. P. 23;

B. Awarding Plaintiff and the members of the Class damages and interest;

C. Awarding Plaintiff’s reasonable costs, including attorneys’ fees; and
D. Awarding such equitable/injunctive or other relief as the Court may deem just and proper.

JURY DEMAND

Plaintiff demands a trial by jury.

Date: November 2, 2012

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Attorneys for Plaintiff City of Omaha Police
and Fire Retirement System
CERTIFICATE OF SERVICE

I hereby certify that on November 2, 2012, I caused the foregoing to be electronically filed with the Clerk of the Court using the CM/ECF system which will send notification of such filing to the email addresses denoted on the Electronic Mail Notice List, and I hereby certify that I caused the foregoing document or paper to be mailed via the United States Postal Service to the non-CM/ECF participants indicated on the Manual Notice List.

I certify under penalty of perjury under the laws of the United States of America that the foregoing is true and correct. Executed on November 2, 2012.

/s/ Andrew A. Lemmon

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