

AMEDISYS INC  
Form 10-Q  
April 30, 2013  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington D.C. 20549

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended March 31, 2013

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 0-24260

# AMEDISYS, INC.

(Exact Name of Registrant as Specified in its Charter)

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**11-3131700**  
(I.R.S. Employer  
Identification No.)

**5959 S. Sherwood Forest Blvd., Baton Rouge, LA 70816**  
(Address of principal executive offices, including zip code)

**(225) 292-2031 or (800) 467-2662**  
(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer  Accelerated filer   
Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company   
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

The number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date, is as follows: Common stock, \$0.001 par value, 31,464,919 shares outstanding as of April 25, 2013.

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**SPECIAL CAUTION CONCERNING FORWARD-LOOKING STATEMENTS**

*When included in this Quarterly Report on Form 10-Q, or in other documents that we file with the Securities and Exchange Commission ( SEC ) or in statements made by or on behalf of the Company, words like believes, belief, expects, plans, anticipates, intends, projects, estimates, may, might, would, should and similar expressions are intended to identify forward-looking statements as defined by the Private Securities Litigation Reform Act of 1995. These forward-looking statements involve a variety of risks and uncertainties that could cause actual results to differ materially from those described therein. These risks and uncertainties include, but are not limited to the following: changes in Medicare and other medical payment levels, our ability to open care centers, acquire additional care centers and integrate and operate these care centers effectively, changes in or our failure to comply with existing Federal and state laws or regulations or the inability to comply with new government regulations on a timely basis, competition in the home health industry, changes in the case mix of patients and payment methodologies, changes in estimates and judgments associated with critical accounting policies, our ability to maintain or establish new patient referral sources, our ability to attract and retain qualified personnel, changes in payments and covered services due to the economic downturn and deficit spending by Federal and state governments, future cost containment initiatives undertaken by third-party payors, our access to financing due to the volatility and disruption of the capital and credit markets, our ability to meet debt service requirements and comply with covenants in debt agreements, business disruptions due to natural disasters or acts of terrorism, our ability to integrate and manage our information systems, and changes in or developments with respect to any litigation or investigations relating to the Company, including the SEC investigation and the U.S. Department of Justice Civil Investigative Demands and various other matters, many of which are beyond our control.*

*Because forward-looking statements are inherently subject to risks and uncertainties, some of which cannot be predicted or quantified, you should not rely on any forward-looking statement as a prediction of future events. We expressly disclaim any obligation or undertaking and we do not intend to release publicly any updates or changes in our expectations concerning the forward-looking statements or any changes in events, conditions or circumstances upon which any forward-looking statement may be based, except as required by law. For a discussion of some of the factors discussed above as well as additional factors, see our Annual Report on Form 10-K for the year ended December 31, 2012, filed with the SEC on March 12, 2013, particularly Part I, Item 1A. Risk Factors therein, which are incorporated herein by reference and Part II, Item 1A. Risk Factors of this Quarterly Report on Form 10-Q. Additional risk factors may also be described in reports that we file from time to time with the SEC.*

**Available Information**

*Our company website address is [www.amedisys.com](http://www.amedisys.com). We use our website as a channel of distribution for important company information. Important information, including press releases, analyst presentations and financial information regarding our company, is routinely posted on and accessible on the Investor Relations subpage of our website, which is accessible by clicking on the tab labeled Investors on our website home page. We also use our website to expedite public access to time-critical information regarding our company in advance of or in lieu of distributing a press release or a filing with the SEC disclosing the same information. Therefore, investors should look to the Investor Relations subpage of our website for important and time-critical information. Visitors to our website can also register to receive automatic e-mail and other notifications alerting them when new information is made available on the Investor Relations subpage of our website. In addition, we make available on the Investor Relations subpage of our website (under the link SEC filings ) free of charge our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, ownership reports on Forms 3, 4 and 5 and any amendments to those reports as soon as practicable after we electronically file such reports with the SEC. Further, copies of our Certificate of Incorporation and Bylaws, our Code of Ethical Business Conduct, our Corporate Governance Guidelines and the charters for the Audit, Compensation, Quality of Care and Nominating and Corporate Governance Committees of our Board are also available on the Investor Relations subpage of our website (under the link Corporate Governance ).*

*Additionally, the public may read and copy any of the materials we file with the SEC at the SEC s Public Reference Room at 100 F Street, NE, Room 1580, Washington, D.C. 20549. Information on the operation of the Public Reference Room may be obtained by calling the SEC at (800) SEC-0330. Our electronically filed reports can also be obtained on the SEC s internet site at <http://www.sec.gov>.*

**Table of Contents****PART I. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****AMEDISYS, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS**

(Amounts in thousands, except share data)

(Unaudited)

	March 31, 2013	December 31, 2012
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 7,021	\$ 14,545
Patient accounts receivable, net of allowance for doubtful accounts of \$18,991, and \$20,994	144,659	169,172
Prepaid expenses	14,478	10,631
Other current assets	16,229	11,440
<b>Total current assets</b>	<b>182,387</b>	<b>205,788</b>
Property and equipment, net of accumulated depreciation of \$118,280 and \$113,154	156,481	156,709
Goodwill	209,994	209,594
Intangible assets, net of accumulated amortization of \$24,119 and \$23,457	46,792	47,050
Deferred tax asset	91,808	92,804
Other assets, net	24,855	18,650
<b>Total assets</b>	<b>\$ 712,317</b>	<b>\$ 730,595</b>
<b>LIABILITIES AND EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 27,646	\$ 29,175
Payroll and employee benefits	78,919	79,341
Accrued expenses	57,054	54,855
Current portion of long-term obligations	35,807	35,807
Current portion of deferred income taxes	3,395	5,609
<b>Total current liabilities</b>	<b>202,821</b>	<b>204,787</b>
Long-term obligations, less current portion	42,952	66,904
Other long-term obligations	4,761	4,671
<b>Total liabilities</b>	<b>250,534</b>	<b>276,362</b>
Commitments and Contingencies Note 4		
Equity:		
Preferred stock, \$0.001 par value, 5,000,000 shares authorized; none issued or outstanding		
Common Stock, \$0.001 par value, 60,000,000 shares authorized; 32,173,099, and 31,876,508 shares issued; and 31,382,932 and 31,086,619 shares outstanding	32	32
Additional paid-in capital	456,046	450,792
Treasury Stock at cost 790,167, and 789,889 shares of common stock	(17,119)	(17,116)
Accumulated other comprehensive income	15	15
Retained earnings	21,296	18,617

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Total Amedisys, Inc. stockholders' equity	460,270	452,340
Noncontrolling interests	1,513	1,893
Total equity	461,783	454,233
Total liabilities and equity	\$ 712,317	\$ 730,595

The accompanying notes are an integral part of these condensed consolidated financial statements.

**Table of Contents****AMEDISYS, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED INCOME STATEMENTS**

(Amounts in thousands, except per share data)

(Unaudited)

	For the Three-Month Periods Ended March 31,	
	2013	2012
Net service revenue	\$ 339,175	\$ 370,833
Cost of service, excluding depreciation and amortization	192,504	208,506
General and administrative expenses:		
Salaries and benefits	82,794	87,077
Non-cash compensation	2,056	2,482
Other	43,562	44,394
Provision for doubtful accounts	3,967	5,863
Depreciation and amortization	10,123	10,054
Operating expenses	335,006	358,376
Operating income	4,169	12,457
Other (expense) income:		
Interest income	11	15
Interest expense	(1,106)	(2,074)
Equity in earnings from equity investments	363	305
Miscellaneous, net	59	429
Total other expense, net	(673)	(1,325)
Income before income taxes	3,496	11,132
Income tax expense	(1,363)	(4,620)
Income from continuing operations	2,133	6,512
Discontinued operations, net of tax		(1,049)
Net income	2,133	5,463
Net loss (income) attributable to noncontrolling interests	546	(43)
Net income attributable to Amedisys, Inc.	\$ 2,679	\$ 5,420
Basic earnings per common share:		
Income from continuing operations attributable to Amedisys, Inc. common stockholders	\$ 0.09	\$ 0.22
Discontinued operations, net of tax		(0.04)
Net income attributable to Amedisys, Inc. common stockholders	\$ 0.09	\$ 0.18
Weighted average shares outstanding	30,640	29,389
Diluted earnings per common share:		
Income from continuing operations attributable to Amedisys, Inc. common stockholders	\$ 0.09	\$ 0.22

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Discontinued operations, net of tax		(0.04)	
Net income attributable to Amedisys, Inc. common stockholders	\$ 0.09		\$ 0.18
Weighted average shares outstanding	31,104		29,780
Amounts attributable to Amedisys, Inc. common stockholders:			
Income from continuing operations	\$ 2,679		\$ 6,469
Discontinued operations, net of tax			(1,049)
Net income	\$ 2,679		\$ 5,420

The accompanying notes are an integral part of these condensed consolidated financial statements.



**Table of Contents****AMEDISYS, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME****(Amounts in thousands)**

	<b>For the Three-Month Periods Ended March 31,</b>	
	<b>2013</b>	<b>2012</b>
Net income	\$ 2,133	\$ 5,463
Other comprehensive income		
Unrealized gain on deferred compensation plan assets		2
Comprehensive income	2,133	5,465
Comprehensive loss (income) attributable to non-controlling interests	546	(43)
Comprehensive income attributable to Amedisys, Inc.	\$ 2,679	\$ 5,422

The accompanying notes are an integral part of these condensed consolidated financial statements.

**Table of Contents****AMEDISYS, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(Amounts in thousands)

(Unaudited)

	For the Three-Month Periods Ended March 31,	
	2013	2012
<b>Cash Flows from Operating Activities:</b>		
Net income	\$ 2,133	\$ 5,463
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	10,123	10,166
Provision for doubtful accounts	3,967	5,913
Non-cash compensation	2,056	2,482
401(k) employer match	2,240	2,347
Loss on disposal of property and equipment	211	505
Deferred income taxes	(1,287)	477
Equity in earnings of equity investments	(363)	(305)
Amortization of deferred debt issuance costs	193	394
Return on equity investment	400	150
Changes in operating assets and liabilities, net of impact of acquisitions:		
Patient accounts receivable	20,545	(19,686)
Other current assets	(8,420)	1,335
Other assets	(517)	(39)
Accounts payable	(945)	(87)
Accrued expenses	1,990	2,051
Other long-term obligations	90	(239)
Net cash provided by operating activities	32,416	10,927
<b>Cash Flows from Investing Activities:</b>		
Proceeds from sale of deferred compensation plan assets	71	230
Proceeds from the sale of property and equipment	61	
Purchases of deferred compensation plan assets	(29)	(47)
Purchases of property and equipment	(10,074)	(10,236)
Purchase of investment	(6,227)	
Acquisitions of businesses, net of cash acquired	(627)	
Net cash used in investing activities	(16,825)	(10,053)
<b>Cash Flows from Financing Activities:</b>		
Proceeds from issuance of stock to employee stock purchase plan	837	962
Proceeds from revolving line of credit	12,500	
Repayments of revolving line of credit	(12,500)	
Principal payments of long-term obligations	(23,952)	(8,550)
Net cash used in financing activities	(23,115)	(7,588)
Net decrease in cash and cash equivalents	(7,524)	(6,714)
Cash and cash equivalents at beginning of period	14,545	48,004

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Cash and cash equivalents at end of period	\$ 7,021	\$ 41,290
<b>Supplemental Disclosures of Cash Flow Information:</b>		
Cash paid for interest	\$ 1,629	\$ 3,388
Cash paid for income taxes, net of refunds received	\$ 3,135	\$ 1,150
<b>Supplemental Disclosures of Non-Cash Financing and Investing Activities:</b>		
Acquired non-controlling interests	\$ 167	\$

The accompanying notes are an integral part of these condensed consolidated financial statements.

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**AMEDISYS, INC. AND SUBSIDIARIES**

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**1. NATURE OF OPERATIONS, CONSOLIDATION AND PRESENTATION OF FINANCIAL STATEMENTS**

Amedisys, Inc., a Delaware corporation, and its consolidated subsidiaries ( Amedisys, we, us, or our ) are a multi-state provider of home health and hospice services with approximately 84% and 83% of our revenue derived from Medicare for the three months ended March 31, 2013 and 2012, respectively. As of March 31, 2013, we had 427 Medicare-certified home health care centers, 97 Medicare-certified hospice care centers and one hospice inpatient unit in 38 states within the United States, the District of Columbia and Puerto Rico.

***Basis of Presentation***

In our opinion, the accompanying unaudited condensed consolidated financial statements contain all adjustments (consisting solely of normal recurring adjustments) necessary to present fairly our financial position, our results of operations and our cash flows in accordance with U.S. Generally Accepted Accounting Principles ( U.S. GAAP ). Our results of operations for the interim periods presented are not necessarily indicative of results of our operations for the entire year and have not been audited by our independent auditors.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. GAAP have been condensed or omitted from the interim financial information presented. This report should be read in conjunction with our consolidated financial statements and related notes included in our Annual Report on Form 10-K for the year ended December 31, 2012 as filed with the Securities and Exchange Commission ( SEC ) on March 12, 2013 (the Form 10-K ), which includes information and disclosures not included herein.

***Use of Estimates***

Our accounting and reporting policies conform with U.S. GAAP. In preparing the unaudited condensed consolidated financial statements, we are required to make estimates and assumptions that impact the amounts reported in the condensed consolidated financial statements and accompanying notes. Actual results could materially differ from those estimates.

***Reclassifications and Comparability***

Certain reclassifications have been made to prior period s financial statements in order to conform to the current period s presentation.

***Principles of Consolidation***

These unaudited condensed consolidated financial statements include the accounts of Amedisys, Inc., and our wholly owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in our accompanying unaudited condensed consolidated financial statements, and business combinations accounted for as purchases have been included in our unaudited condensed consolidated financial statements from their respective dates of acquisition. In addition to our wholly owned subsidiaries, we also have certain investments that are accounted for as set forth below.

***Investments***

We consolidate investments when the entity is a variable interest entity and we are the primary beneficiary or if we have controlling financial interests in the entity, which is generally ownership in excess of 50%. Third party equity interests in our consolidated joint ventures are reflected as noncontrolling interests in our condensed consolidated financial statements.

We account for investments in entities which we have the ability to exercise significant influence under the equity method if we hold 50% or less of the voting stock and the entity is not a variable interest entity in which we are the primary beneficiary. The book value of investments that we accounted for under the equity method of accounting was \$5.8 million as of March 31, 2013 and \$4.8 million as of December 31, 2012. We account for investments in entities in which we have less than a 20% ownership interest under the cost method of accounting if we do not have the ability to exercise significant influence over the investee. The aggregate carrying amount of our cost method investments was \$5.0 million as of March 31, 2013.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

***Revenue Recognition***

We earn net service revenue through our home health and hospice care centers by providing a variety of services almost exclusively in the homes of our patients. This net service revenue is earned and billed either on an episode of care basis, on a per visit basis or on a daily basis depending upon the payment terms and conditions established with each payor for services provided. We refer to home health revenue earned and billed on a 60-day episode of care as episodic-based revenue.

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**AMEDISYS, INC. AND SUBSIDIARIES**

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

When we record our service revenue, we record it net of estimated revenue adjustments and contractual adjustments to reflect amounts we estimate to be realizable for services provided, as discussed below. We believe, based on information currently available to us and based on our judgment, that changes to one or more factors that impact the accounting estimates (such as our estimates related to revenue adjustments, contractual adjustments and episodes in progress) we make in determining net service revenue, which changes are likely to occur from period to period, will not materially impact our reported consolidated financial condition, results of operations, cash flows or our future financial results.

*Home Health Revenue Recognition*

**Medicare Revenue**

Net service revenue is recorded under the Medicare prospective payment system ( PPS ) based on a 60-day episode payment rate that is subject to adjustment based on certain variables including, but not limited to: (a) an outlier payment if our patient's care was unusually costly (capped at 10% of total reimbursement per provider number); (b) a low utilization payment adjustment ( LUPA ) if the number of visits was fewer than five; (c) a partial payment if our patient transferred to another provider or we received a patient from another provider before completing the episode; (d) a payment adjustment based upon the level of therapy services required (with various incremental adjustments made for additional visits, with larger payment increases associated with the sixth, fourteenth and twentieth visit thresholds); (e) adjustments to payments if we are unable to produce documentation for the face-to-face encounter requirement; (f) adjustments to payments if we are unable to perform periodic therapy assessments; (g) the number of episodes of care provided to a patient, regardless of whether the same home health provider provided care for the entire series of episodes; (h) changes in the base episode payments established by the Medicare Program; (i) adjustments to the base episode payments for case mix and geographic wages; and (j) recoveries of overpayments.

We make adjustments to Medicare revenue on completed episodes to reflect differences between estimated and actual payment amounts, an inability to obtain appropriate billing documentation or authorizations acceptable to the payor and other reasons unrelated to credit risk. We estimate the impact of such adjustments based on our historical experience, which primarily includes a historical collection rate of over 99% on Medicare claims, and record this estimate during the period in which services are rendered as an estimated revenue adjustment and a corresponding reduction to patient accounts receivable. In addition, management evaluates the potential for revenue adjustments and, when appropriate, provides allowances based upon the best available information. Therefore, we believe that our reported net service revenue and patient accounts receivable will be the net amounts to be realized from Medicare for services rendered.

In addition to revenue recognized on completed episodes, we also recognize a portion of revenue associated with episodes in progress. Episodes in progress are 60-day episodes of care that begin during the reporting period, but were not completed as of the end of the period. We estimate this revenue on a monthly basis based upon historical trends. The primary factors underlying this estimate are the number of episodes in progress at the end of the reporting period, expected Medicare revenue per episode and our estimate of the average percentage complete based on visits performed. As of March 31, 2013 and 2012, the difference between the cash received from Medicare for a request for anticipated payment ( RAP ) on episodes in progress and the associated estimated revenue was immaterial and, therefore, the resulting credits were recorded as a reduction to our outstanding patient accounts receivable in our condensed consolidated balance sheets for such periods.

**Non-Medicare Revenue**

*Episodic-based Revenue.* We recognize revenue in a similar manner as we recognize Medicare revenue for episodic-based rates that are paid by other insurance carriers, including Medicare Advantage programs; however, these rates can vary based upon the negotiated terms.

*Non-episodic Based Revenue.* Gross revenue is recorded on an accrual basis based upon the date of service at amounts equal to our established or estimated per-visit rates, as applicable. Contractual adjustments are recorded for the difference between our standard rates and the contracted rates to be realized from patients, third parties and others for services provided and are deducted from gross revenue to determine net service revenue and are also recorded as a reduction to our outstanding patient accounts receivable. In addition, we receive a minimal amount of our net service revenue from patients who are either self-insured or are obligated for an insurance co-payment.



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**AMEDISYS, INC. AND SUBSIDIARIES**

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

*Hospice Revenue Recognition*

Hospice Medicare Revenue

Gross revenue is recorded on an accrual basis based upon the date of service at amounts equal to the estimated payment rates. The estimated payment rates are daily or hourly rates for each of the four levels of care we deliver. The four levels of care are routine care, general inpatient care, continuous home care and respite care. Routine care accounts for 99% and 98% of our total net Medicare hospice service revenue for the three month periods ended March 31, 2013 and 2012. We make adjustments to Medicare revenue for an inability to obtain appropriate billing documentation, acceptable authorizations or face to face documentation and other reasons unrelated to credit risk. We estimate the impact of these adjustments based on our historical experience, which primarily includes our historical collection rate on Medicare claims, and record it during the period services are rendered as an estimated revenue adjustment and as a reduction to our outstanding patient accounts receivable.

Additionally, as Medicare hospice revenue is subject to an inpatient cap limit and an overall payment cap for each provider number, we monitor these caps and estimate amounts due back to Medicare if a cap has been exceeded. We record these adjustments as a reduction to revenue and an increase in other accrued liabilities. We have settled our Medicare hospice reimbursements for all fiscal years through October 31, 2011. For the Federal cap years ended October 31, 2012 through October 31, 2013, we have \$3.8 million and \$4.8 million recorded for estimated amounts due back to Medicare in other accrued liabilities as of March 31, 2013 and December 31, 2012, respectively. As a result of our adjustments, we believe our revenue and patients accounts receivable are recorded at amounts that will be ultimately realized.

Hospice Non-Medicare Revenue

We record gross revenue on an accrual basis based upon the date of service at amounts equal to our established rates or estimated per day rates, as applicable. Contractual adjustments are recorded for the difference between our established rates and the amounts estimated to be realizable from patients, third parties and others for services provided and are deducted from gross revenue to determine our net service revenue and patient accounts receivable.

*Patient Accounts Receivable*

Our patient accounts receivable are uncollateralized and consist of amounts due from Medicare, Medicaid, other third-party payors and patients. There is no single payor, other than Medicare, that accounts for more than 10% of our total outstanding patient receivables, and thus we believe there are no other significant concentrations of receivables that would subject us to any significant credit risk in the collection of our patient accounts receivable. We fully reserve for accounts which are aged at 365 days or greater. We write off accounts on a monthly basis once we have exhausted our collection efforts and deem an account to be uncollectible.

We believe the credit risk associated with our Medicare accounts, which represent 68% of our net patient accounts receivable at March 31, 2013 and December 31, 2012, is limited due to our historical collection rate of over 99% from Medicare and the fact that Medicare is a U.S. government payor. Accordingly, we do not record an allowance for doubtful accounts for our Medicare patient accounts receivable, which are recorded at their net realizable value after recording estimated revenue adjustments as discussed above. During the three month periods ended March 31, 2013 and 2012, we recorded \$3.9 million and \$2.7 million, respectively, in estimated revenue adjustments to Medicare revenue.

We believe there is a certain level of credit risk associated with non-Medicare payors. To provide for our non-Medicare patient accounts receivable that could become uncollectible in the future, we establish an allowance for doubtful accounts to reduce the carrying amount to its estimated net realizable value.

*Medicare Home Health*



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For our home health patients, our pre-billing process includes verifying that we are eligible for payment from Medicare for the services that we provide to our patients. Our Medicare billing begins with a process to ensure that our billings are accurate through the utilization of an electronic Medicare claim review. We submit a RAP for 60% of our estimated payment for the initial episode at the start of care or 50% of the estimated payment for any subsequent episodes of care contiguous with the first episode for a particular patient. The full amount of the episode is billed after the episode has been completed ( final billed ). The RAP received for that particular episode is then deducted from our final payment. If a final bill is not submitted within the greater of 120 days from the start of the episode, or 60 days from the date the RAP was paid, any RAPs received for that episode will be recouped by Medicare from any other claims in process for that particular provider number. The RAP and final claim must then be re-submitted.

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For our hospice patients, our pre-billing process includes verifying that we are eligible for payment from Medicare for the services that we provide to our patients. Our Medicare billing begins with a process to ensure that our billings are accurate through the utilization of an electronic Medicare claim review. Once each patient has been confirmed for eligibility, we will bill Medicare on a monthly basis for the services provided to the patient.

*Non-Medicare Home Health and Hospice*

For our non-Medicare patients, our pre-billing process primarily begins with verifying a patient's eligibility for services with the applicable payor. Once the patient has been confirmed for eligibility, we will provide services to the patient and bill the applicable payor. Our review and evaluation of non-Medicare accounts receivable includes a detailed review of outstanding balances and special consideration to concentrations of receivables from particular payors or groups of payors with similar characteristics that would subject us to any significant credit risk. We estimate an allowance for doubtful accounts based upon our assessment of historical and expected net collections, business and economic conditions, trends in payment and an evaluation of collectibility based upon the date that the service was provided. Based upon our best judgment, we believe the allowance for doubtful accounts adequately provides for accounts that will not be collected due to credit risk.

*Fair Value of Financial Instruments*

The following details our financial instruments where the carrying value and the fair value differ (amounts in millions):

Financial Instrument	As of March 31, 2013	Fair Value at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Items (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Long-term obligations	\$ 78.8	\$	\$ 78.9	\$

The estimates of the fair value of our long-term debt are based upon a discounted present value analysis of future cash flows. Due to the existing uncertainty in the capital and credit markets the actual rates that would be obtained to borrow under similar conditions could materially differ from the estimates we have used.

The fair value hierarchy is based on three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value. The three levels of inputs are as follows:

Level 1 Quoted prices in active markets for identical assets and liabilities.

Level 2 Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

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Level 3 Unobservable inputs that are supported by little or no market activity and are significant to the fair value of the assets or liabilities.

For our other financial instruments, including our cash and cash equivalents, patient accounts receivable, accounts payable and accrued expenses, we estimate the carrying amounts approximate fair value. Our deferred compensation plan assets are recorded at fair value.

### *Weighted-Average Shares Outstanding*

Net income per share attributable to Amedisys, Inc. common stockholders, calculated on the treasury stock method, is based on the weighted average number of shares outstanding during the period. The following table sets forth, for the periods indicated, shares used in our computation of the weighted-average shares outstanding, which are used to calculate our basic and diluted net income attributable to Amedisys, Inc. common stockholders (amounts in thousands):

	For the Three-Month Periods Ended March 31,	
	2013	2012
Weighted average number of shares outstanding basic	30,640	29,389
Effect of dilutive securities:		
Stock options	21	16
Non-vested stock and stock units	443	375
Weighted average number of shares outstanding diluted	31,104	29,780
Anti-dilutive securities	220	340

**Table of Contents****AMEDISYS, INC. AND SUBSIDIARIES****NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)****3. LONG-TERM OBLIGATIONS**

Long-term debt consisted of the following for the periods indicated (amounts in millions):

	March 31, 2013	December 31, 2012
Senior Notes:		
\$35.0 million Series A Notes: semi-annual interest only payments; interest rate at 6.07% per annum; due March 25, 2013	\$	\$ 20.0
\$30.0 million Series B Notes: semi-annual interest only payments; interest rate at 6.28% per annum; due March 25, 2014	20.0	20.0
\$60.0 million Term Loan; \$3.0 million principal payments plus accrued interest payable quarterly; interest rate at ABR Rate plus applicable percentage or Eurodollar Rate plus the applicable percentage (2.71% at March 31, 2013); due October 26, 2017	54.0	57.0
Promissory notes	4.8	5.7
	78.8	102.7
Current portion of long-term obligations	(35.8)	(35.8)
Total	\$ 43.0	\$ 66.9

Our weighted average interest rate for our five year \$60.0 million Term Loan was 2.7% for the three months ended March 31, 2013.

As of March 31, 2013, our total leverage ratio was 0.95 and our fixed charge coverage ratio was 1.35.

As of March 31, 2013, our availability under our \$165.0 million Revolving Credit Facility was \$142.6 million as we had \$22.4 million outstanding in letters of credit.

**4. COMMITMENTS AND CONTINGENCIES*****Legal Proceedings***

We are involved in the following legal actions:

***United States Senate Committee on Finance Inquiry***

During the 111<sup>th</sup> and 112<sup>th</sup> United States Congresses, the Senate Finance Committee conducted an inquiry focused on the major publicly traded home health corporations. On May 12, 2010, we received a letter of inquiry from the Senate Finance Committee requesting documents and information relating to our policies and practices regarding home therapy visits and therapy utilization trends. A similar letter was sent to the other major publicly traded home health care companies. We cooperated with the Committee with respect to this inquiry.

On October 3, 2011, the Committee publicly issued a report titled *Staff Report on Home Health and the Medicare Therapy Threshold*. The Committee recommended that the CMS must move toward taking therapy out of the payment model. We believe that the issuance of the report concludes the Committee's inquiry, but are not in a position to speculate on the potential for future legislative or oversight action by the

Committee.

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**AMEDISYS, INC. AND SUBSIDIARIES**

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

*Securities Class Action Lawsuits*

On June 7, 2010, a putative securities class action complaint was filed in the United States District Court for the Middle District of Louisiana against the Company and certain of our current and former senior executives. Additional putative securities class actions were filed in the United States District Court for the Middle District of Louisiana on July 14, July 16, and July 28, 2010.

On October 22, 2010, the Court issued an order consolidating the putative securities class action lawsuits and the Federal Derivative Actions (described immediately below) for pre-trial purposes. In the same order, the Court appointed the Public Employees Retirement System of Mississippi and the Puerto Rico Teachers Retirement System as co-lead plaintiffs (together, the Co-Lead Plaintiffs) for the putative class. On December 10, 2010, the Court also consolidated the ERISA class action lawsuit (described below) with the putative securities class actions and Federal Derivative Actions for pre-trial purposes.

On January 18, 2011, the Co-Lead Plaintiffs filed an amended, consolidated class action complaint (the Securities Complaint) which supersedes the earlier-filed securities class action complaints. The Securities Complaint alleges that the defendants made false and/or misleading statements and failed to disclose material facts about our business, financial condition, operations and prospects, particularly relating to our policies and practices regarding home therapy visits under the Medicare home health prospective payment system and the related alleged impact on our business, financial condition, operations and prospects. The Securities Complaint seeks a determination that the action may be maintained as a class action on behalf of all persons who purchased the Company's securities between August 2, 2005 and September 28, 2010 and an unspecified amount of damages.

All defendants previously moved to dismiss the Securities Complaint. On June 28, 2012, the United States District Court for the Middle District of Louisiana granted the defendants' motion to dismiss the Securities Complaint. On July 26, 2012, the Co-Lead Plaintiffs filed a motion for reconsideration. Through that motion, the Co-Lead Plaintiffs have asked the Court to rescind its June 28, 2012 dismissal order and to reverse its decision to grant the defendants' motion to dismiss. In the alternative, the Co-Lead Plaintiffs have asked the Court to modify its dismissal order to grant Co-Lead Plaintiffs permission to file a second amended complaint. The defendants filed a response in opposition to the Co-Lead Plaintiffs' motion for reconsideration in late August 2012. The Court denied the Co-Lead Plaintiffs' motion for reconsideration on April 9, 2013.

*Derivative Actions*

On July 2, 2010, an alleged shareholder of the Company filed a derivative lawsuit in the United States District Court for the Middle District of Louisiana, purporting to assert claims on behalf of the Company against certain of our current and former officers and directors. Three similar derivative suits were filed in the United States District Court for the Middle District of Louisiana on July 15, July 21, and August 2, 2010 (together, the Federal Derivative Actions). We are named as a nominal defendant in all of those actions. As noted above, on October 22, 2010, the United States District Court for the Middle District of Louisiana issued an order consolidating the Federal Derivative Actions with the putative securities class action lawsuits and for pre-trial purposes.

On January 18, 2011, the plaintiffs in the Federal Derivative Actions filed a consolidated, amended complaint (the Derivative Complaint) which supersedes the earlier-filed derivative complaints. The Derivative Complaint alleges that certain of our current and former officers and directors breached their fiduciary duties to the Company by making allegedly false statements, by allegedly failing to establish sufficient internal controls over certain of our home health and Medicare billing practices, by engaging in alleged insider trading, and by committing unspecified acts of waste of corporate assets and unjust enrichment. All defendants in the Federal Derivative Actions, including the Company as a nominal defendant, have moved to dismiss the Derivative Complaint. That motion is fully briefed and remains pending before the court.

On July 23, 2010, a derivative suit was filed in the Nineteenth Judicial District Court, Parish of East Baton Rouge, State of Louisiana. That action also purports to assert claims on behalf of the Company against certain of our current and former officers and directors. On December 8, 2010, the Court entered an order staying the action in deference to the earlier-filed derivative actions pending in federal court.

*ERISA Class Action Lawsuit*

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On September 27, 2010 and October 22, 2010, separate putative class action complaints were filed in the United States District Court for the Middle District of Louisiana against the Company, certain of our current and former senior executives and members of our 401(k) Plan Administrative Committee. The suits allege violations of the Employee Retirement Income Security Act ( ERISA ) since January 1, 2006 and July 1, 2007, respectively. The plaintiffs brought the complaints on behalf of themselves and a class of similarly situated participants in our 401(k) plan. The plaintiffs assert that the defendants breached their fiduciary duties to the 401(k) Plan s participants by causing the 401(k) plan to offer and hold Amedisys common stock during the respective class periods when it was an allegedly unduly risky and imprudent retirement investment because of our alleged improper business practices. The complaints seek a determination that the actions may be maintained as a class action, an award of unspecified monetary damages and other unspecified relief. As noted above, on December 10, 2010, the Court consolidated the putative ERISA class actions with the putative securities class actions and derivative actions for pre-trial purposes. In addition, on December 10, 2010, the Court appointed interim lead counsel and interim liaison counsel in the ERISA class action.

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**AMEDISYS, INC. AND SUBSIDIARIES**

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**(Unaudited)**

On March 10, 2011, Wanda Corbin, Pia Galimba and Linda Trammell (the Co-ERISA Plaintiffs), filed an amended, consolidated class action complaint (the ERISA Complaint), which supersedes the earlier-filed ERISA class action complaints. The ERISA Complaint seeks a determination that the action may be maintained as a class action on behalf of themselves and a class of similarly situated participants in our 401(k) plan from January 1, 2008 through present. All of the defendants have moved to dismiss the ERISA Complaint. That motion is fully briefed and remains pending before the court.

*SEC Investigation*

On June 30, 2010, we received notice of a formal investigation from the SEC and received a subpoena for documents relating to the matters under review by the United States Senate Committee on Finance and other matters involving our operations. We have cooperated with the SEC with respect to this investigation.

*U.S. Department of Justice Civil Investigative Demand ( CID )*

On September 27, 2010, we received a CID issued by the U.S. Department of Justice pursuant to the federal False Claims Act. The CID requires the delivery of a wide range of documents and information relating to the Company's clinical and business operations, including reimbursement and billing claims submitted to Medicare for home health services, and related compliance activities. The CID generally covers the period from January 1, 2003. On April 26, 2011, we received a second CID related to the CID issued in September 2010, which generally covers the same time period as the previous CID and requires the production of additional documents. Such CIDs are often associated with previously filed qui tam actions, or lawsuits filed under seal under the False Claims Act ( FCA ), 31 U.S.C. § 3729 et seq. Qui tam actions are brought by private plaintiffs suing on behalf of the federal government for alleged FCA violations. Subsequently, the Company and certain current and former employees have received additional CIDs for additional documents and/or testimony. We are cooperating with the Department of Justice with respect to this investigation and the requests for information and testimony.

*Stark Law*

In May 2012, we made a disclosure to CMS under the agency's Stark Law Self-Referral Disclosure Protocol relating to certain services agreements between a subsidiary of ours and a large physician group. During some period of time since December 2007, the arrangements appear not to have complied in certain respects with an applicable exemption to the Stark Law referral prohibition. Medicare revenue earned as a result of referrals from the physician group from May 2008 to May 2012, the relevant four year lookback period under the Stark Law Self-Referral Disclosure Protocol, was approximately \$4 million. On January 11, 2013, one of our subsidiaries received a CID from the United States Attorney's Office for the Northern District of Georgia seeking certain information relating to that subsidiary's relationship with this physician group. We intend to cooperate with the government in its review of this matter.

*OIG Self-Disclosure*

In October 2012, we made a disclosure to the Office of Counsel to the Inspector General of the United States Department of Health and Human Services (the OIG) pursuant to the OIG Provider Self-Disclosure Protocol regarding certain clinical documentation issues and eligibility requirements at two of our hospice care centers. These hospice care centers did not comply in some respects with certain state and Medicare hospice regulations, including those requiring physicians to certify patient eligibility and requiring patient face-to-face encounters. We are also in discussions with state healthcare authorities regarding this matter. Our review of this matter is ongoing, and we intend to cooperate with the OIG and any other regulatory authorities in their review of this matter.

*Wage and Hour Litigation*

On July 25, 2012, a putative collective and class action complaint was filed in the United States District Court for the District of Connecticut against us in which three former employees allege wage and hour law violations. The former employees claim they were paid on both a per-visit



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and an hourly basis, thereby misclassifying them as exempt employees and entitling them to overtime pay. The plaintiffs allege violations of Federal and state law and seek damages under the Fair Labor Standards Act ( FLSA ), as well as under the Pennsylvania Minimum Wage Act. Plaintiffs seek class certification of similar employees and seek attorneys fees, back wages and liquidated damages going back three years under the FLSA and three years under the Pennsylvania statute.

On September 13, 2012, a putative collective and class action complaint was filed in the United States District Court for the Northern District of Illinois against us in which a former employee alleges wage and hour law violations. The former employee claims she was paid on both a per-visit and an hourly basis, thereby misclassifying her as an exempt employee and entitling her to overtime pay. The plaintiff alleges violations of Federal and state law and seeks damages under the FLSA and the Illinois Minimum Wage Law. Plaintiff seeks class certification of similar employees who were or are employed in Illinois and seeks attorneys fees, back wages and liquidated damages going back three years under the FLSA and three years under the Illinois statute.

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**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

We are unable to assess the probable outcome or reasonably estimate the potential liability, if any, arising from the SEC investigation, the U.S. Department of Justice CIDs, the Stark Law matter we have disclosed to CMS, the OIG Self-Disclosure issue and the securities, shareholder derivative, ERISA and wage and hour litigation described above given the preliminary stage of these matters. The Company intends to continue to vigorously defend itself in the securities, shareholder derivative, ERISA and wage and hour litigation matters. No assurances can be given as to the timing or outcome of the SEC investigation, the U.S. Department of Justice CIDs, the Stark Law matter we have disclosed to CMS, the OIG Self-Disclosure issue or the securities, shareholder derivative, ERISA and wage and hour litigation matters described above or the impact of any of the inquiry, investigation or litigation matters on the Company, its consolidated financial condition, results of operations or cash flows, which could be material, individually or in the aggregate.

We recognize that additional putative securities class action complaints and other litigation could be filed, and that other investigations and actions could be commenced, relating to matters involving our home therapy visits and therapy utilization trends or other matters.

In addition to the matters referenced in this note, we are involved in legal actions in the normal course of business, some of which seek monetary damages, including claims for punitive damages. We do not believe that these normal course actions, when finally concluded and determined, will have a material impact on our consolidated financial condition, results of operations or cash flows.

***Third Party Audits***

From time to time, in the ordinary course of business, we are subject to audits under various governmental programs in which third party firms engaged by CMS conduct extensive review of claims data to identify potential improper payments under the Medicare program.

In January 2010, our subsidiary that provides home health services in Dayton, Ohio received from a Medicare Program Safeguard Contractor ( PSC ) a request for records regarding 137 claims submitted by the subsidiary paid from January 2, 2008 through November 10, 2009 (the Claim Period ) to determine whether the underlying services met pertinent Medicare payment requirements. Based on the PSC 's findings for 114 of the claims, which were extrapolated to all claims for home health services provided by the Dayton subsidiary paid during the Claim Period, on March 9, 2011, the Medicare Administrative Contractor ( MAC ) for the subsidiary issued a notice of overpayment seeking recovery from our subsidiary of an alleged overpayment of approximately \$5.6 million. We dispute these findings, and our Dayton subsidiary has requested appeal hearings through the Original Medicare Standard Appeals Process, in which we are seeking to have those findings overturned. Most recently, a consolidated administrative law judge ( ALJ ) hearing was held in late March 2013. No assurances can be given as to the outcome of the ALJ appeal. As of March 31, 2013, we have recorded no liability with respect to the pending appeals as we do not believe that an estimate of a reasonably possible loss or range of loss can be made at this time.

In July 2010, our subsidiary that provides hospice services in Florence, South Carolina received from a Zone Program Integrity Contractor ( ZPIC ) a request for records regarding a sample of 30 beneficiaries who received services from the subsidiary during the period of January 1, 2008 through March 31, 2010 (the Review Period ) to determine whether the underlying services met pertinent Medicare payment requirements. We acquired the hospice operations subject to this review on August 1, 2009; the Review Period covers time periods both before and after our ownership of these hospice operations. Based on the ZPIC 's findings for 16 beneficiaries, which were extrapolated to all claims for hospice services provided by the Florence subsidiary billed during the Review Period, on June 6, 2011, the MAC for the subsidiary issued a notice of overpayment seeking recovery from our subsidiary of an alleged overpayment. We dispute these findings, and our Florence subsidiary has requested appeal hearings through the Original Medicare Standard Appeals Process, in which we are seeking to have those findings overturned. Most recently, we have requested appeal hearings before an ALJ, but the ALJ hearings have not been scheduled, and no assurances can be given as to the timing or outcome of the ALJ appeal. The current alleged extrapolated overpayment is \$6.1 million. In the event we pay any amount of this alleged overpayment, we are indemnified by the prior owners of the hospice operations for amounts relating to the period prior to August 1, 2009. As of March 31, 2013, we have recorded no liability for this claim as we do not believe that an estimate of a reasonably possible loss or range of loss can be made at this time.

In July 2009, Beacon Hospice, Inc., a subsidiary we acquired on June 7, 2011 ( Beacon ), received from Massachusetts Peer Review Organization, Inc. ( MassPro ), an entity contracted with the Massachusetts Office of Medicaid, a request for records regarding 25 beneficiaries in

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Boston, Framingham and Plymouth, Massachusetts, who received hospice services from Beacon during the period of August 1, 2007 through July 31, 2008 (the Review Period ) to determine whether the underlying services met pertinent MassHealth Program regulations. Based on MassPro's findings for 89 of the 112 claims submitted in connection with these beneficiaries, which were extrapolated to all MassHealth claims for hospice services provided by Beacon billed during the Review Period, on February 15, 2012, MassPro issued a notice of overpayment seeking recovery from Beacon of an alleged overpayment of approximately \$6.6 million. The Review Period covers a time before our ownership of Beacon. On December 17, 2012, as a result of an appeal by Beacon, MassPro issued a final notice of determination of overpayment and fines (the Final Notice ), determining an overpayment in only 35 of the original 112 claims and seeking recovery from Beacon in the amount of \$82,210.65 (the Final Amount ). In the Final Notice, MassPro did not extrapolate the findings, and Beacon determined not to contest the Final Notice. In January 2013, Amedisys paid the Final Amount to MassPro, and the prior owners of Beacon paid the Final Amount to Amedisys, in accordance with their indemnification obligations set forth in the acquisition document.

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We are obligated for certain costs associated with our insurance programs, including employee health, workers' compensation and professional liability. While we maintain various insurance programs to cover these risks, we are self-insured for a substantial portion of our potential claims. We recognize our obligations associated with these costs, up to specified deductible limits in the period in which a claim is incurred, including with respect to both reported claims and claims incurred but not reported. These costs have generally been estimated based on historical data of our claims experience. Such estimates, and the resulting reserves, are reviewed and updated by us on a quarterly basis.

Our health insurance has a retention limit of \$0.9 million, our workers' compensation insurance has a retention limit of \$0.5 million and our professional liability insurance has a retention limit of \$0.3 million.

**5. SEGMENT INFORMATION**

Our operations involve servicing patients through our two reportable business segments: home health and hospice. Our home health segment delivers a wide range of services in the homes of individuals who may be recovering from surgery, have a chronic disability or terminal illness or need assistance with the essential activities of daily living. Our hospice segment provides palliative care and comfort to terminally ill patients and their families. The "other" column in the following tables consists of costs relating to corporate support functions that are not directly attributable to a specific segment.

Management evaluates performance and allocates resources based on the operating income of the reportable segments, which includes an allocation of corporate expenses directly attributable to the specific segment and includes revenues and all other costs directly attributable to the specific segment. Segment assets are not reviewed by the company's chief operating decision maker and therefore are not disclosed below (amounts in millions).

	<b>For the Three-Month Periods Ended March 31, 2013</b>			
	<b>Home Health</b>	<b>Hospice</b>	<b>Other</b>	<b>Total</b>
Net service revenue	\$ 272.3	\$ 66.9	\$	\$ 339.2
Cost of service, excluding depreciation and amortization	157.1	35.4		192.5
General and administrative expenses	84.7	17.4	26.3	128.4
Provision for doubtful accounts	2.1	1.9		4.0
Depreciation and amortization	2.9	0.5	6.7	10.1
Operating expenses	246.8	55.2	33.0	335.0
Operating income (loss)	\$ 25.5	\$ 11.7	\$	