AMEDISYS INC
Form 10-Q
August 07, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2012

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	**11-3131700**
(State or other jurisdiction of incorporation or organization)	**(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 þ No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§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 þ 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 þ	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 þ

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, 30,637,836 shares outstanding as of August 2, 2012.

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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, 2011, filed with the SEC on February 28, 2012, 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. 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.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

AMEDISYS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(Amounts in thousands, except share data)

(Unaudited)

	June 30, 2012	December 31, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	$ 37,158	$ 48,004
Patient accounts receivable, net of allowance for doubtful accounts of $19,603, and $17,438	163,161	148,061
Prepaid expenses	11,180	11,321
Other current assets	24,801	24,630
Total current assets	236,300	232,016
Property and equipment, net of accumulated depreciation of $96,891 and $94,266	146,207	148,536
Goodwill	343,353	334,695
Intangible assets, net of accumulated amortization of $22,024 and $20,611	49,335	50,067
Deferred tax asset	59,498	68,649
Other assets, net	23,606	24,322
Total assets	$ 858,299	$ 858,285
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	$ 24,425	$ 25,475
Payroll and employee benefits	86,590	82,130
Accrued expenses	62,218	68,493
Current portion of long-term obligations	60,700	33,888
Current portion of deferred income taxes	11,071	11,748
Total current liabilities	245,004	221,734
Long-term obligations, less current portion	67,701	111,551
Other long-term obligations	4,274	4,852
Total liabilities	316,979	338,137
Commitments and Contingencies - Note 7		
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; 32,110,141, and 31,017,363 shares issued; and 31,328,783 and 30,328,549 shares outstanding	31	30
Additional paid-in capital	441,479	432,390
Treasury Stock at cost 781,358, and 688,814 shares of common stock	(17,014)	(15,770)
Accumulated other comprehensive income	15	13
Retained earnings	115,507	102,205

Total Amedisys, Inc. stockholders equity	540,018	518,868
Noncontrolling interests	1,302	1,280
Total equity	541,320	520,148
Total liabilities and equity	$ 858,299	$ 858,285

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

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AMEDISYS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED INCOME STATEMENTS

(Amounts in thousands, except per share data)

(Unaudited)

	For the Three-Month Periods Ended June 30, 2012	For the Three-Month Periods Ended June 30, 2011	For the Six-Month Periods Ended June 30, 2012	For the Six-Month Periods Ended June 30, 2011
Net service revenue	$ 378,498	$ 368,424	$ 749,331	$ 727,738
Cost of service, excluding depreciation and amortization	212,266	189,426	420,772	376,730
General and administrative expenses:				
Salaries and benefits	86,499	78,695	173,576	162,083
Non-cash compensation	2,298	3,205	4,780	5,115
Other	47,286	45,221	91,680	89,517
Provision for doubtful accounts	4,695	2,266	10,558	5,380
Depreciation and amortization	9,905	9,550	19,959	18,730
Operating expenses	362,949	328,363	721,325	657,555
Operating income	15,549	40,061	28,006	70,183
Other (expense) income:				
Interest income	27	89	42	207
Interest expense	(2,002)	(2,254)	(4,076)	(4,506)
Equity in earnings from equity investments	396	466	701	789
Miscellaneous, net	(134)	(376)	295	(671)
Total other expense, net	(1,713)	(2,075)	(3,038)	(4,181)
Income before income taxes	13,836	37,986	24,968	66,002
Income tax expense	(5,742)	(14,997)	(10,362)	(26,055)
Income from continuing operations	8,094	22,989	14,606	39,947
Discontinued operations, net of tax	(128)	(1,278)	(1,177)	(2,912)
Net income	7,966	21,711	13,429	37,035
Net income attributable to noncontrolling interests	(84)	(55)	(127)	(91)
Net income attributable to Amedisys, Inc.	$ 7,882	$ 21,656	$ 13,302	$ 36,944
Basic earnings per common share:				
Income from continuing operations attributable to Amedisys, Inc. common stockholders	$ 0.27	$ 0.80	$ 0.49	$ 1.40
Discontinued operations, net of tax	(0.01)	(0.04)	(0.04)	(0.10)
Net income attributable to Amedisys, Inc. common stockholders	$ 0.26	$ 0.76	$ 0.45	$ 1.30
Weighted average shares outstanding	29,780	28,625	29,584	28,495
Diluted earnings per common share:				
	$ 0.27	$ 0.79	$ 0.48	$ 1.38

Income from continuing operations attributable to Amedisys, Inc. common stockholders				
Discontinued operations, net of tax	(0.01)	(0.04)	(0.04)	(0.10)
Net income attributable to Amedisys, Inc. common stockholders	$ 0.26	$ 0.75	$ 0.44	$ 1.28
Weighted average shares outstanding	30,026	29,010	29,903	28,938
Amounts attributable to Amedisys, Inc. common stockholders:				
Income from continuing operations	$ 8,010	$ 22,934	$ 14,479	$ 39,856
Discontinued operations, net of tax	(128)	(1,278)	(1,177)	(2,912)
Net income	$ 7,882	$ 21,656	$ 13,302	$ 36,944

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

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AMEDISYS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in thousands)

(Unaudited)

	For the Six-Month Periods Ended June 30, 2012	2011
Cash Flows from Operating Activities:		
Net income	$ 13,429	$ 37,035
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	20,071	19,081
Provision for doubtful accounts	10,621	5,290
Non-cash compensation	4,780	5,115
401(k) employer match	5,040	3,332
Loss on disposal of property and equipment	848	1,313
Deferred income taxes	8,474	3,708
Equity in earnings of equity investments	(701)	(789)
Amortization of deferred debt issuance costs	788	788
Return on equity investment	625	540
Changes in operating assets and liabilities, net of impact of acquisitions:		
Patient accounts receivable	(25,722)	(3,320)
Other current assets	411	10,117
Other assets	(545)	(6,364)
Accounts payable	1,457	(357)
Accrued expenses	(3,976)	2,398
Other long-term obligations	(578)	(1,374)
Net cash provided by operating activities	35,022	76,513
Cash Flows from Investing Activities:		
Proceeds from sale of deferred compensation plan assets	239	853
Proceeds from the sale of property and equipment	590	
Purchases of deferred compensation plan assets	(127)	(379)
Purchases of property and equipment	(20,241)	(26,032)
Acquisitions of businesses, net of cash acquired	(8,392)	(125,977)
Net cash used in investing activities	(27,931)	(151,535)
Cash Flows from Financing Activities:		
Proceeds from issuance of stock upon exercise of stock options and warrants	145	236
Proceeds from issuance of stock to employee stock purchase plan	1,978	2,731
Tax benefit from stock option exercises	(2,917)	(334)
Non-controlling interest distribution	(105)	(198)
Principal payments of long-term obligations	(17,038)	(19,576)
Net cash used in financing activities	(17,937)	(17,141)
Net decrease in cash and cash equivalents	(10,846)	(92,163)
Cash and cash equivalents at beginning of period	48,004	120,295

Cash and cash equivalents at end of period	$ 37,158	$ 28,132
Supplemental Disclosures of Cash Flow Information:		
Cash paid for interest	$ 3,494	$ 3,656
Cash paid for income taxes, net of refunds received	$ 1,470	$ 6,273

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 heal and hospice services with approximately 82% and 84% of our revenue derived from Medicare for the three-month periods ended June 30, 2012 and 2011, respectively and approximately 83% and 85% of our revenue derived from Medicare for the six-month periods ended June 30, 2012 and 2011, respectively. As of June 30, 2012, we had 437 Medicare-certified home health care centers, 93 Medicare-certified hospice care centers and two hospice inpatient units 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, 2011 as filed with the Securities and Exchange Commission (SEC) on February 28, 2012 (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 periods financial statements in order to conform to the current period s presentation. During the quarter ended March 31, 2012 and the year ended December 31, 2011, we exited three and 29 care centers, respectively. In accordance with applicable accounting guidance the results of operations for these care centers are presented in discontinued operations in our condensed consolidated financial statements. See Note 4 for additional information regarding our discontinued operations.

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 equity investments that are accounted for as set forth below.

Equity Investments

We consolidate subsidiaries and/or joint ventures when the entity is a variable interest entity and we are the primary beneficiary or if we have controlling 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.

For subsidiaries or joint ventures in which we do not have a controlling interest or for which we are not the primary beneficiary, we record such investments under the equity method of accounting.

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AMEDISYS, INC. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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.

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) 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; (f) changes in the base episode payments established by the Medicare Program; (g) adjustments to the base episode payments for case mix and geographic wages; and (h) recoveries of overpayments.

The Centers for Medicare and Medicaid Services (CMS) added two regulations to PPS that became effective April 1, 2011: (1) a face-to-face encounter requirement and (2) changes to the therapy assessment schedule, which require additional patient evaluations and certifications. As a condition for Medicare payment, the first regulation mandates that prior to certifying a patient s eligibility for the home health benefit, the certifying physician must document that he or she, or an allowed non-physician practitioner, has had a face-to-face encounter with the patient. The second regulation mandates that periodic assessments be made by a professional qualified therapist at designated intervals, including at least once every 30 days during a therapy patient s course of treatment. Management evaluates the potential for revenue adjustments as a result of these regulations and, when appropriate, provides allowances based upon the best available information.

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 June 30, 2012 and 2011, 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.

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AMEDISYS, INC. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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.

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 main levels of care we deliver. The four main levels of care are routine care, general inpatient care, continuous home care and respite care. Routine care accounts for 96% of our total net Medicare hospice service revenue for the three and six-month periods ended June 30, 2012, respectively as compared to 97% for the three and six-month periods ended June 30, 2011, respectively. We make adjustments to Medicare revenue for 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 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, 2009. For the Federal cap years ended October 31, 2010 through October 31, 2012, we have $4.2 million recorded for estimated amounts due back to Medicare in other accrued liabilities as of June 30, 2012 and $3.1 million recorded as of December 31, 2011. As a result of our adjustments, we believe our revenue and patients accounts receivable are recorded at amounts that will be ultimately realized.

Effective April 1, 2011, CMS implemented its hospice regulation requiring that a hospice physician or nurse practitioner have a face-to-face encounter with hospice patients during the 30 day period prior to the 180th-day recertification (third benefit period) and each subsequent recertification, to gather clinical findings to determine continued eligibility for hospice care, and that the certifying hospice physician or nurse practitioner attest that such a visit took place. Management evaluates the potential for revenue adjustments due to these regulations and when appropriate provides allowances based upon the best available information.

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 visit 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.

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AMEDISYS, INC. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

We believe the credit risk associated with our Medicare accounts, which represent 68% and 73% of our net patient accounts receivable at June 30, 2012 and December 31, 2011, respectively, is limited due to (i) our historical collection rate of over 99% from Medicare and (ii) 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 and six-month periods ended June 30, 2012, we recorded $2.2 million and $5.0 million, respectively, in estimated revenue adjustments to Medicare revenue as compared to $2.4 million and $4.7 million during the three and six-month periods ended June 30, 2011, respectively.

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

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.

Medicare Hospice

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. 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 June 30, 2012	Fair Value at Reporting Date Using Quoted Prices in Active Markets for	Significant Other Observable Inputs	Significant Unobservable Inputs

		Identical Items (Level 1)	(Level 2)	(Level 3)
Long-term obligations, excluding capital leases	$ 128.4	$	$ 134.6	$

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.

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AMEDISYS, INC. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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.

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 June 30,		For the Six-Month Periods Ended June 30,	
	2012	**2011**	**2012**	**2011**
Weighted average number of shares outstanding - basic	29,780	28,625	29,584	28,495
Effect of dilutive securities:				
Stock options	23	80	16	86
Non-vested stock and stock units	223	305	303	357
Weighted average number of shares outstanding - diluted	30,026	29,010	29,903	28,938
Anti-dilutive securities	531	2	595	

3. ACQUISITIONS

We complete acquisitions from time to time in order to pursue our strategy of increasing our market presence by expanding our service base and enhancing our position in certain geographic areas as a leading provider of home health and hospice services. The purchase price paid for acquisitions is negotiated through arm s length transactions, with consideration based on our analysis of, among other things, comparable acquisitions and expected cash flows for each transaction. Acquisitions are accounted for as purchases and are included in our consolidated financial statements from their respective acquisition dates. Goodwill generated from acquisitions is recognized for the excess of the purchase price over tangible and identifiable intangible assets because of the expected contributions of the acquisitions to our overall corporate strategy.

2012 Acquisitions

On May 1, 2012, we acquired one home health care center and four hospice care centers in Louisiana for a total purchase price of $6.4 million (subject to certain adjustments). The purchase price was paid with cash on hand on the date of the transaction. In connection with the acquisition, we recorded goodwill ($6.0 million), other intangibles ($0.5 million) and other assets and liabilities, net ($0.1 million).

On June 1, 2012, we acquired an in-home physicians practice in Florida for a total purchase price of $2.0 million (subject to certain adjustments). The purchase price was paid with cash on hand on the date of the transaction. In connection with the acquisition, we recorded goodwill ($1.9 million) and other intangibles ($0.1 million).

4. DISCONTINUED OPERATIONS

As part of our ongoing management of our portfolio of care centers, we review each care center s current financial performance, market penetration, forecasted market growth and the impact of proposed CMS payment revisions. As a result of our review, we exited three home health care centers and consolidated one home health care center during 2012.

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AMEDISYS, INC. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

During 2011, we consolidated 27 home health care centers and five hospice care centers with care centers servicing the same markets, closed 27 home health care centers and two hospice care centers and discontinued the start-up process associated with two prospective unopened home health care centers.

In accordance with applicable accounting guidance, the care centers which were closed in 2012 (three home health care centers) and closed in 2011 (27 home health care centers and two hospice care centers) are presented as discontinued operations in our condensed consolidated financial statements.

Net revenues and operating results for the periods presented for the care centers closed are as follows (dollars in millions):

	For the Three-Month Periods Ended June 30,		For the Six-Month Periods Ended June 30,	
	2012	2011	2012	2011
Net revenues	$ (0.1)	$ 5.3	$ 0.1	$ 10.3
(Loss) before income taxes	(0.2)	(2.1)	(2.0)	(4.8)
Income tax benefit	0.1	0.8	0.8	1.9
Discontinued operations, net of tax	$ (0.1)	$ (1.3)	$ (1.2)	$ (2.9)

5. GOODWILL AND OTHER INTANGIBLE ASSETS, NET

The following table summarizes the activity related to our goodwill and other intangible assets, net, as of and for the six-month period ended June 30, 2012 (amounts in millions):

	Goodwill		
	Home Health	Hospice	Total
Balances at December 31, 2011	$ 152.5	$ 182.2	$ 334.7
Additions	5.0	3.7	8.7
Balances at June 30, 2012	$ 157.5	$ 185.9	$ 343.4

	Other Intangible Assets, Net			
	Certificates of Need and Licenses	Acquired Names of Business (1)	Non-Compete Agreements & Reacquired Franchise Rights (2)	Total
Balances at December 31, 2011	$ 34.0	$ 11.8	$ 4.2	$ 50.0
Additions	0.3		0.3	0.6
Amortization			(1.3)	(1.3)