

AMEDISYS INC  
Form 10-Q  
July 28, 2009  
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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, 2009

or

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

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

Commission File Number: 0-24260

**AMEDISYS, INC.**

(Exact Name of Registrant as Specified in its Charter)

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**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 ☐ Smaller reporting company ☐  
(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ 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, 27,780,111 shares outstanding as of July 23, 2009.

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**SPECIAL CAUTION CONCERNING FORWARD-LOOKING STATEMENTS**

*When included in this Quarterly Report on Form 10-Q, 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 agencies, acquire additional agencies and integrate and operate these agencies 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, manage our information systems 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, 2008, filed with the Securities and Exchange Commission ( SEC ) on February 17, 2009, particularly Part I, Item 1A. Risk Factors therein, which are incorporated herein by reference. Additional risk factors may also be described in reports that we file from time to time with the SEC.*

**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)

|                                                                                                                                                          | June 30, 2009 | December 31, 2008 |
|----------------------------------------------------------------------------------------------------------------------------------------------------------|---------------|-------------------|
| <b>ASSETS</b>                                                                                                                                            |               |                   |
| Current assets:                                                                                                                                          |               |                   |
| Cash and cash equivalents                                                                                                                                | \$ 898        | \$ 2,847          |
| Patient accounts receivable, net of allowance for doubtful accounts of \$30,806 and \$27,052                                                             | 154,279       | 175,698           |
| Prepaid expenses                                                                                                                                         | 8,865         | 8,086             |
| Other current assets                                                                                                                                     | 9,154         | 7,719             |
| Total current assets                                                                                                                                     | 173,196       | 194,350           |
| Property and equipment, net of accumulated depreciation of \$48,326 and \$39,208                                                                         | 82,644        | 79,258            |
| Goodwill                                                                                                                                                 | 749,238       | 733,881           |
| Intangible assets, net of accumulated amortization of \$9,487 and \$7,944                                                                                | 57,332        | 42,388            |
| Other assets, net                                                                                                                                        | 20,988        | 20,317            |
| Total assets                                                                                                                                             | \$ 1,083,398  | \$ 1,070,194      |
| <b>LIABILITIES AND EQUITY</b>                                                                                                                            |               |                   |
| Current liabilities:                                                                                                                                     |               |                   |
| Accounts payable                                                                                                                                         | \$ 17,391     | \$ 18,652         |
| Accrued expenses                                                                                                                                         | 144,115       | 134,049           |
| Obligations due Medicare                                                                                                                                 | 4,618         | 4,631             |
| Current portion of long-term obligations                                                                                                                 | 44,795        | 42,632            |
| Current portion of deferred income taxes                                                                                                                 | 6,344         | 4,663             |
| Total current liabilities                                                                                                                                | 217,263       | 204,627           |
| Long-term obligations, less current portion                                                                                                              | 196,904       | 285,942           |
| Deferred income taxes                                                                                                                                    | 17,907        | 11,548            |
| Other long-term obligations                                                                                                                              | 8,482         | 5,959             |
| Total liabilities                                                                                                                                        | 440,556       | 508,076           |
| <b>Commitments and Contingencies - Note 6</b>                                                                                                            |               |                   |
| <b>Equity:</b>                                                                                                                                           |               |                   |
| 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; 27,830,092 and 27,191,946 shares issued; and 27,719,570 and 27,083,231 shares outstanding | 28            | 27                |
| Additional paid-in capital                                                                                                                               | 344,446       | 326,120           |
| Treasury stock at cost, 110,522 and 108,715 shares of common stock                                                                                       | (681)         | (617)             |
| Accumulated other comprehensive loss                                                                                                                     | (181)         | (447)             |
| Retained earnings                                                                                                                                        | 298,357       | 236,252           |

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|                                           |                  |                  |
|-------------------------------------------|------------------|------------------|
| Total Amedisys, Inc. stockholders' equity | 641,969          | 561,335          |
| Noncontrolling interests                  | 873              | 783              |
| <b>Total equity</b>                       | <b>642,842</b>   | <b>562,118</b>   |
| <br>Total liabilities and equity          | <br>\$ 1,083,398 | <br>\$ 1,070,194 |

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<br>June 30, |            | For the six-month periods ended<br>June 30, |            |
|----------------------------------------------------------------|-----------------------------------------------|------------|---------------------------------------------|------------|
|                                                                | 2009                                          | 2008       | 2009                                        | 2008       |
| Net service revenue                                            | \$ 377,892                                    | \$ 312,671 | \$ 719,731                                  | \$ 525,758 |
| Cost of service, excluding depreciation and amortization       | 178,437                                       | 148,754    | 343,477                                     | 249,522    |
| General and administrative expenses:                           |                                               |            |                                             |            |
| Salaries and benefits                                          | 82,055                                        | 72,751     | 155,080                                     | 118,699    |
| Non-cash compensation                                          | 2,779                                         | 1,268      | 4,920                                       | 2,321      |
| Other                                                          | 42,425                                        | 40,044     | 84,691                                      | 69,505     |
| Provision for doubtful accounts                                | 5,737                                         | 5,682      | 11,903                                      | 9,277      |
| Depreciation and amortization                                  | 6,919                                         | 5,419      | 13,201                                      | 9,843      |
| Operating expenses                                             | 318,352                                       | 273,918    | 613,272                                     | 459,167    |
| Operating income                                               | 59,540                                        | 38,753     | 106,459                                     | 66,591     |
| Other (expense) income:                                        |                                               |            |                                             |            |
| Interest income                                                | 52                                            | 270        | 133                                         | 738        |
| Interest expense                                               | (2,958)                                       | (5,448)    | (6,412)                                     | (6,574)    |
| Miscellaneous, net                                             | 943                                           | 148        | 1,721                                       | 177        |
| Total other expense                                            | (1,963)                                       | (5,030)    | (4,558)                                     | (5,659)    |
| Income before income taxes                                     | 57,577                                        | 33,723     | 101,901                                     | 60,932     |
| Income tax expense                                             | (22,455)                                      | (13,337)   | (39,741)                                    | (24,109)   |
| Net income                                                     | 35,122                                        | 20,386     | 62,160                                      | 36,823     |
| Net (income) loss attributable to noncontrolling interests     | (39)                                          | (2)        | (55)                                        | 25         |
| Net income attributable to Amedisys, Inc.                      | \$ 35,083                                     | \$ 20,384  | \$ 62,105                                   | \$ 36,848  |
| Net income attributable to Amedisys, Inc. common stockholders: |                                               |            |                                             |            |
| Basic                                                          | \$ 1.29                                       | \$ 0.77    | \$ 2.30                                     | \$ 1.40    |
| Diluted                                                        | \$ 1.27                                       | \$ 0.76    | \$ 2.26                                     | \$ 1.38    |
| Weighted average shares outstanding:                           |                                               |            |                                             |            |
| Basic                                                          | 27,124                                        | 26,341     | 26,989                                      | 26,267     |
| Diluted                                                        | 27,541                                        | 26,811     | 27,427                                      | 26,741     |

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 six-month periods ended<br>June 30, |           |
|-----------------------------------------------------------------------------------|---------------------------------------------|-----------|
|                                                                                   | 2009                                        | 2008      |
| <b>Cash Flows from Operating Activities:</b>                                      |                                             |           |
| Net income                                                                        | \$ 62,160                                   | \$ 36,823 |
| Adjustments to reconcile net income to net cash provided by operating activities: |                                             |           |
| Depreciation and amortization                                                     | 13,201                                      | 9,843     |
| Provision for doubtful accounts                                                   | 11,903                                      | 9,277     |
| Non-cash compensation                                                             | 4,920                                       | 2,321     |
| 401(k) employer match                                                             | 9,581                                       | 5,357     |
| Loss on disposal of property and equipment                                        | 535                                         | 483       |
| Deferred income taxes                                                             | 5,154                                       | 6,386     |
| Write off of deferred debt issuance costs                                         | -                                           | 406       |
| Equity in earnings of unconsolidated joint ventures                               | (1,066)                                     | (387)     |
| Amortization of deferred debt issuance costs                                      | 788                                         | 419       |
| Return on equity investment                                                       | 150                                         | 112       |
| Changes in operating assets and liabilities, net of impact of acquisitions:       |                                             |           |
| Patient accounts receivable                                                       | 9,465                                       | (30,416)  |
| Other current assets                                                              | (2,020)                                     | (484)     |
| Other assets                                                                      | 1,775                                       | (219)     |
| Accounts payable                                                                  | 1,754                                       | (8,237)   |
| Accrued expenses                                                                  | 9,489                                       | 24,633    |
| Other long-term obligations                                                       | 2,509                                       | 1,227     |
| Net cash provided by operating activities                                         | 130,298                                     | 57,544    |
| <b>Cash Flows from Investing Activities:</b>                                      |                                             |           |
| Proceeds from sale of deferred compensation plan assets                           | 956                                         | 600       |
| Proceeds from the sale of property and equipment                                  | 3                                           | 3         |
| Purchases of deferred compensation plan assets                                    | (2,969)                                     | (1,659)   |
| Purchases of property and equipment                                               | (15,056)                                    | (11,627)  |
| Acquisitions of businesses, net of cash acquired                                  | (19,205)                                    | (447,124) |
| Acquisitions of reacquired franchise rights                                       | (5,214)                                     | -         |
| Net cash (used in) investing activities                                           | (41,485)                                    | (459,807) |
| <b>Cash Flows from Financing Activities:</b>                                      |                                             |           |
| Outstanding checks in excess of bank balance                                      | (3,379)                                     | 1,657     |
| Proceeds from issuance of stock upon exercise of stock options and warrants       | 454                                         | 1,155     |
| Proceeds from issuance of stock to employee stock purchase plan                   | 2,734                                       | 1,688     |
| Tax benefit from stock option exercises                                           | 637                                         | 1,645     |
| Proceeds from Revolving Line of Credit                                            | 50,200                                      | 145,000   |
| Repayments of Revolving Line of Credit                                            | (119,700)                                   | (32,500)  |
| Proceeds from issuance of long-term obligations                                   | -                                           | 250,000   |
| Payment of deferred financing fees                                                | -                                           | (8,124)   |
| Principal payments of long-term obligations                                       | (21,708)                                    | (12,788)  |



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|                                                                                 |           |           |
|---------------------------------------------------------------------------------|-----------|-----------|
| Net cash (used in) provided by financing activities                             | (90,762)  | 347,733   |
| Net (decrease) in cash and cash equivalents                                     | (1,949)   | (54,530)  |
| Cash and cash equivalents at beginning of period                                | 2,847     | 56,190    |
| Cash and cash equivalents at end of period                                      | \$ 898    | \$ 1,660  |
| <b>Supplemental Disclosures of Cash Flow Information:</b>                       |           |           |
| Cash paid for interest                                                          | \$ 5,920  | \$ 4,072  |
| Cash paid for income taxes, net of refunds received                             | \$ 27,915 | \$ 16,848 |
| <b>Supplemental Disclosures of Non-Cash Financing and Investing Activities:</b> |           |           |
| Notes payable issued for acquisitions                                           | \$ 3,834  | \$ 3,499  |
| Notes payable issued for software licenses                                      | \$ -      | \$ 1,946  |

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 STATMENTS**

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 87% of our net service revenue derived from Medicare for the three and six-month periods ended June 30, 2009 and 2008. As of June 30, 2009, we had 498 Medicare-certified home health and 51 Medicare-certified hospice agencies 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, 2008 as filed with the Securities and Exchange Commission ( SEC ) on February 17, 2009 (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 them to the current period's presentation. Our adoption of Statement of Financial Accounting Standards ( SFAS ) No. 160, *Noncontrolling Interests in Consolidated Financial Statements Amendment to ARB No. 51* ( SFAS 160 ) required that we change the name of minority interests to noncontrolling interests for all periods presented. Additionally, it required that noncontrolling interests be included as part of our total reported equity in the accompanying condensed consolidated balance sheets and reordered the presentation of such amounts in the condensed consolidated income statements.

Additionally, we adopted SFAS No. 141 (Revised), *Business Combinations* ( SFAS 141R ) on January 1, 2009. SFAS 141R amended the requirements of how to account for business combinations, by requiring the expensing of most acquisition related costs associated with an acquisition as opposed to including them as part of the purchase price, as allowed under SFAS No. 141, *Business Combinations* ( SFAS 141 ). As a result, we expensed \$0.1 million and \$0.4 million in acquisition related transaction costs during the three and six-month periods ended June 30, 2009 in other general and administrative expenses in our condensed consolidated income statement. This compares to \$1.0 million and \$3.3 million in such costs that were included in the purchase price of acquisitions that occurred during the three and six-month periods ended June 30, 2008.

Additionally, as a result of our rapid growth through acquisition and start-up activities, our operating results may not be comparable for the periods that are presented.

***Principles of Consolidation***

These 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 condensed consolidated financial statements, and business combinations accounted for as purchases have been included in our condensed consolidated financial statements from their respective dates of

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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, as defined in the Financial Accounting Standards Board Interpretation No. 46 (Revised), *Consolidation of Variable Interest Entities* ( FIN 46R ), 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.

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For subsidiaries or joint ventures in which we do not have a controlling interest or for which we are not the primary beneficiary, as defined by FIN 46R, we record such investments under the equity method of accounting.

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### ***Revenue Recognition***

We earn net service revenue through our home health and hospice agencies 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 60-day episode of care basis for home health services and on a 90-day episode of care basis for the first two hospice episodes of care and on a 60-day episode of care basis for any subsequent hospice episodes), 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. For the services we provide, Medicare is our largest payor.

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 payment program ( 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; (b) a low utilization 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 (thresholds set at 6, 14 and 20 visits); (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.

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 payment 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. 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. During the three and six-month periods ended June 30, 2009, we recorded \$1.9 million and \$4.0 million, respectively, in estimated revenue adjustments to Medicare revenue as compared to \$1.4 million and \$2.2 million during the three and six-month periods ended June 30, 2008, respectively.

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, 2009 and 2008, 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 included as a reduction to our outstanding patient accounts receivable in our condensed consolidated balance sheets for such periods, since only a nominal amount represents cash collected in advance of providing services.

#### **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 Medicaid and 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

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rates realizable from patients, third parties and others for services provided and are deducted from gross

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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. 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 is subject to an inpatient cap limit and an overall payment cap, we monitor our provider numbers and estimate amounts due back to Medicare if a cap has been exceeded. We record these adjustments as a reduction to revenue and increase other accrued liabilities. We have received notice from CMS that we have exceeded the overall payment cap for the fiscal year ended October 31, 2007 by \$0.1 million, which we had previously accrued. As of June 30, 2009 we had paid the amount due and had no other amounts accrued for estimated amounts due back to Medicare. We believe that our estimates of such adjustments are reasonable, thus 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 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. 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. We believe the credit risk associated with our Medicare accounts, which represent 77% and 74% of our net patient accounts receivable at June 30, 2009 and December 31, 2008, 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. There is no other 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 360 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.

### ***Medicare Home Health***

Our Medicare billing process 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***

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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. Once each patient has been confirmed for eligibility, we will bill Medicare on a monthly basis for the services provided to the patient.

**Table of Contents***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 based on either the contracted rates or expected payment rates, which are based on our historical experience. We estimate an allowance for doubtful accounts to reduce the carrying amount of the receivables to the amounts we estimate will be ultimately collected. Our review and evaluation of non-Medicare accounts 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. Where such groups have been identified, we have given special consideration to both the billing methodology and evaluation of the ultimate collectibility of the accounts. In addition, the amount of the allowance for doubtful accounts is 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 fair value differ, as calculated in accordance with SFAS No. 157, *Fair Value Measurements* ( SFAS 157 ) (amounts in millions):

| Financial Instrument                            | As of June 30, 2009 | Fair Value at Reporting Date Using                                           |                                                     |                                                 |
|-------------------------------------------------|---------------------|------------------------------------------------------------------------------|-----------------------------------------------------|-------------------------------------------------|
|                                                 |                     | Quoted Prices in<br>Active Markets for<br>Identical<br>Items<br>(Level<br>1) | Significant Other<br>Observable Inputs<br>(Level 2) | Significant<br>Unobservable Inputs<br>(Level 3) |
| Long-term obligations, excluding capital leases | \$ 241.5            | \$ -                                                                         | \$ 231.5                                            | \$ -                                            |

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.

SFAS 157 describes a fair value hierarchy 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. Such unobservable inputs include an estimated discount rate used in our discounted present value analysis of future cash flows, which reflects our estimate of debt with similar terms in the current credit markets. As there is currently minimal activity in such markets, the actual rate could be materially different.

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 due to their short term maturity. Our deferred compensation plan assets are recorded at fair value.

***Weighted-Average Shares Outstanding***



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Net income 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):

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|                                                         | For the three-month periods<br>ended June 30, |        | For the six-month periods<br>ended June 30, |        |
|---------------------------------------------------------|-----------------------------------------------|--------|---------------------------------------------|--------|
|                                                         | 2009                                          | 2008   | 2009                                        | 2008   |
| Weighted average number of shares outstanding - basic   | 27,124                                        | 26,341 | 26,989                                      | 26,267 |
| Effect of dilutive securities:                          |                                               |        |                                             |        |
| Stock options                                           | 171                                           | 331    | 211                                         | 339    |
| Warrants                                                | -                                             | 39     | -                                           | 39     |
| Non-vested stock and stock units                        | 246                                           | 100    | 227                                         | 96     |
| Weighted average number of shares outstanding - diluted | 27,541                                        | 26,811 | 27,427                                      | 26,741 |

The following table sets forth shares that were anti-dilutive to the computation of diluted net income per common share (amounts in thousands):

|                          | For the three-month periods<br>ended June 30, |      | For the six-month periods<br>ended June 30, |      |
|--------------------------|-----------------------------------------------|------|---------------------------------------------|------|
|                          | 2009                                          | 2008 | 2009                                        | 2008 |
| Anti-dilutive securities | 43                                            | 33   | 40                                          | 18   |

**Recently Issued Accounting Pronouncements**

In June 2009, the FASB issued SFAS No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles* (SFAS 168), which divides nongovernmental U.S. GAAP into the authoritative Codification and guidance that is nonauthoritative. SFAS 168 is not intended to change U.S. GAAP; however, the Codification significantly changes the way in which accounting literature is organized and because the Codification completely replaces existing standards, it will affect the way U.S. GAAP is referenced by most companies in their financial statements and accounting policies. SFAS 168 is effective for financial statements issued for interim and annual periods ending after September 15, 2009. We do not expect SFAS 168 to have a material impact on our consolidated financial statements.

**3. ACQUISITIONS**

Each of the following acquisitions was completed 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 each acquisition was 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. Each of the following acquisitions was accounted for as a purchase and is included in our condensed consolidated financial statements from the respective acquisition date. Goodwill generated from the acquisitions was recognized for the excess of the purchase price over tangible and identifiable intangible assets because of the expected contributions of each acquisition to our overall corporate strategy.

**Summary of 2009 Acquisitions**

The following table presents details of our acquisitions (dollars in millions):

| (1) | Date             | Acquired Entity<br>(location of assets)                                            | Purchase Price |                 | Purchase Price Allocation |                         |                                 | Number of Agencies |         | Number of States |
|-----|------------------|------------------------------------------------------------------------------------|----------------|-----------------|---------------------------|-------------------------|---------------------------------|--------------------|---------|------------------|
|     |                  |                                                                                    | Cash           | Promissory Note | Goodwill                  | Other Intangible Assets | Other Assets (Liabilities), Net | Home Health        | Hospice |                  |
|     | June 15, 2009    | Jackson, Mississippi agency                                                        | \$ 2.5         | \$ -            | \$ 2.2                    | \$ 0.3                  | \$ -                            | 1                  | -       | 1                |
|     | April 1, 2009    | Upper Chesapeake Health System and St. Joseph Medical Center (Baltimore, Maryland) | 9.2            | 2.3             | 10.7                      | 1.0                     | (0.2)                           | 1                  | 1       | 1                |
|     | March 12, 2009   | White River Health System (Batesville, Arkansas)                                   | 3.2            | -               | 2.6                       | 0.7                     | (0.1)                           | 3                  | 1       | 1                |
|     | February 3, 2009 |                                                                                    | 4.3            | 1.5             | 5.0                       | 0.8                     | -                               | 2                  | -       | 1                |

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Arizona Home Rehabilitation and Health  
Care and Yuma Home Care  
(Yuma, Arizona)

|         |    |     |         |    |     |    |       |   |   |   |
|---------|----|-----|---------|----|-----|----|-------|---|---|---|
| \$ 19.2 | \$ | 3.8 | \$ 20.5 | \$ | 2.8 | \$ | (0.3) | 7 | 2 | 4 |
|---------|----|-----|---------|----|-----|----|-------|---|---|---|

(1) The acquisitions marked with the cross symbol ( ) were asset purchases.

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***2008 TLC Health Care Services, Inc. ( TLC ) Acquisition***

During the three-month period ended March 31, 2009, the remaining \$12.8 million of the purchase price that was in escrow in connection with the TLC acquisition for indemnification and working capital price adjustments was released and paid to the selling stockholders under the indemnification provisions of the TLC acquisition agreement. Additionally, we finalized our purchase accounting for the TLC acquisition during the three-month period ended March 31, 2009.

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The following table summarizes, as of March 31, 2009, the estimated fair values of the TLC assets acquired and liabilities assumed on March 26, 2008 (amounts in millions):

|                                  |          |
|----------------------------------|----------|
| Patient accounts receivable, net | \$ 37.8  |
| Property and equipment           | 0.5      |
| Goodwill                         | 330.4    |
| Intangible assets                | 19.2     |
| Deferred taxes                   | 38.2     |
| Other current assets             | 0.9      |
| Other assets                     | 1.5      |
| Current liabilities              | (32.1)   |
|                                  | \$ 396.4 |

Our purchase price finalization included decreasing goodwill by \$5.5 million primarily as the net result of allocating an additional \$7.5 million to the estimated fair value assigned to Medicare licenses acquired and a \$2.9 million reduction in the estimated fair value of the deferred tax liability assumed.

See Note 2 of the financial statements included in our Form 10-K for additional details on our 2008 acquisitions.

## 4. GOODWILL AND OTHER INTANGIBLE ASSETS, NET

The following table summarizes the activity related to our goodwill and our other intangible assets, net as of and for the six-month period ended June 30, 2009 (amounts in millions):

|                                     | Goodwill | Certificates<br>of Need and<br>Licenses | Acquired<br>Name of<br>Business | Other Intangible Assets, Net<br>Non-Compete<br>Agreements &<br>Reacquired<br>Franchise<br>Rights (1) | Total   |
|-------------------------------------|----------|-----------------------------------------|---------------------------------|------------------------------------------------------------------------------------------------------|---------|
| Balances at December 31, 2008       | \$ 733.9 | \$ 32.7                                 | \$ 3.3                          | \$ 6.4                                                                                               | \$ 42.4 |
| Additions                           | 20.5     | 1.9                                     | 0.5                             | 6.6                                                                                                  | 9.0     |
| Adjustments related to acquisitions | (5.2)    | 7.4                                     | -                               | -                                                                                                    | 7.4     |
| Amortization                        | -        | -                                       | -                               | (1.5)                                                                                                | (1.5)   |
| Balances at June 30, 2009           | \$ 749.2 | \$ 42.0                                 | \$ 3.8                          | \$ 11.5                                                                                              | \$ 57.3 |

(1) The weighted-average amortization period of our non-compete agreements and reacquired franchise rights is 3.5 years. During 2009, we adjusted goodwill by a net \$5.2 million primarily in association with our completion of purchase accounting adjustments for our 2008 acquisition of TLC, where we allocated an additional \$7.5 million to the estimated fair value of Medicare licenses acquired and decreased the estimated fair value of the deferred tax liability assumed by \$2.9 million.

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### 5. LONG-TERM OBLIGATIONS

Long-term debt, including capital lease obligations, consisted of the following for the periods indicated (amounts in millions):

|                                                                                                                                                                                                                                                                                        | June 30, 2009 | December 31, 2008 |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------|-------------------|
| Senior Notes:                                                                                                                                                                                                                                                                          |               |                   |
| \$35.0 million Series A Notes; semi-annual interest only payments; interest rate at 6.07% per annum; due March 25, 2013                                                                                                                                                                | \$ 35.0       | \$ 35.0           |
| \$30.0 million Series B Notes; semi-annual interest only payments; interest rate at 6.28% per annum; due March 25, 2014                                                                                                                                                                | 30.0          | 30.0              |
| \$35.0 million Series C Notes; semi-annual interest only payments; interest rate at 6.49% per annum; due March 25, 2015                                                                                                                                                                | 35.0          | 35.0              |
| Term Loan; \$7.5 million principal payments plus accrued interest payable quarterly; interest rate at ABR Rate plus applicable percentage or Eurodollar Rate plus the applicable percentage (1.33% and 3.08% at June 30, 2009 and December 31, 2008, respectively); due March 26, 2013 | 112.5         | 127.5             |
| \$250.0 million Revolving Credit Facility; interest only quarterly payments; interest rate at ABR Rate plus applicable percentage or Eurodollar Rate plus the applicable percentage (1.34% and 1.72% at June 30, 2009 and December 31, 2008, respectively); due March 26, 2013         | 11.0          | 80.5              |
| Promissory notes                                                                                                                                                                                                                                                                       | 18.0          | 20.3              |
| Capital leases                                                                                                                                                                                                                                                                         | 0.2           | 0.2               |
|                                                                                                                                                                                                                                                                                        | 241.7         | 328.5             |
| Current portion of long-term obligations                                                                                                                                                                                                                                               | (44.8)        | (42.6)            |
| Total                                                                                                                                                                                                                                                                                  | \$ 196.9      | \$ 285.9          |

Our weighted-average interest rates for our five year Term Loan (the Term Loan ) and our \$250.0 million, five year Revolving Credit Facility (the Revolving Credit Facility ) were as follows:

|                           | For the three-month periods ended June 30, |      | For the six-month periods ended June 30, |      |
|---------------------------|--------------------------------------------|------|------------------------------------------|------|
|                           | 2009                                       | 2008 | 2009                                     | 2008 |
| Term Loan                 | 1.5%                                       | 4.4% | 2.1%                                     | 4.5% |
| Revolving Credit Facility | 1.6%                                       | 4.4% | 1.7%                                     | 4.5% |

As of June 30, 2009, our total leverage ratio (used to compute the margin and commitment fees, described in more detail in Note 5 of the financial statements included in our Form 10-K) was 1.0, our fixed charge coverage ratio was 2.4 and we were in compliance with the covenants associated with our long-term obligations.

The following table presents our availability under our \$250.0 million Revolving Credit Facility as of June 30, 2009 (amounts in millions):

|                                                            |          |
|------------------------------------------------------------|----------|
| Total Revolving Credit Facility                            | \$ 250.0 |
| Less: outstanding revolving credit loans                   | (10.0)   |
| Less: outstanding swingline loans                          | (1.0)    |
| Less: outstanding letters of credit                        | (10.9)   |
| Remaining availability under the Revolving Credit Facility | \$ 228.1 |

See Note 5 of the financial statements included in our Form 10-K for additional details on our outstanding long-term obligations.



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**6. COMMITMENTS AND CONTINGENCIES**

***Legal Proceedings***

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 actions, when finally concluded and determined, will have a material impact on our consolidated financial condition, results of operations or cash flows.

***Insurance***

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 in the period in which a claim is incurred, including with respect to both reported claims and claims incurred but not reported, up to specified deductible limits. 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 \$0.3 million, our workers' compensation insurance has a retention limit of \$0.4 million and our professional liability insurance has a retention limit of \$0.3 million.



**Table of Contents****ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

*The following discussion and analysis provides information we believe is relevant to an assessment and understanding of our results of operations and financial condition for the three and six-month periods ended June 30, 2009. This discussion should be read in conjunction with the condensed consolidated financial statements and notes thereto included herein, the consolidated financial statements and notes and the related Management's Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the year ended December 31, 2008 filed with the Securities and Exchange Commission (SEC) on February 17, 2009 (the Form 10-K), which are incorporated herein by this reference.*

*Unless otherwise provided, Amedisys, we, us, our and the Company refer to Amedisys, Inc. and our consolidated subsidiaries.*

**Overview**

We are a leading provider of high-quality, low-cost home health services to the chronic, co-morbid, aging American population. Our services include home health and hospice services and approximately 87% of our revenue was derived from Medicare for the three and six-month periods ended June 30, 2009 and 2008. During the three and six-month period ended June 30, 2009, our net service revenue increased 20.9% or \$65.2 and 36.9% or \$193.9 million over the same periods in 2008; our diluted earnings per share increased 67.1% or by \$0.51 per share and 63.8% or by \$0.88 per share; and our cash flow from operations more than doubled to \$130.3 million compared to \$57.5 million during 2008. The following details our owned Medicare-certified agencies, which are located in 38 states within the United States, the District of Columbia and Puerto Rico. The agencies closed were consolidated with agencies servicing the same areas. See below for a more detailed description of what caused our results for the three and six-month periods to increase compared to the same periods in 2008.

|                      | <b>Owned and Operated Agencies</b> |                |
|----------------------|------------------------------------|----------------|
|                      | <b>Home health</b>                 | <b>Hospice</b> |
| At December 31, 2008 | 480                                | 48             |
| Acquisitions         | 7                                  | 2              |
| Start-ups            | 18                                 | 1              |
| Closed               | (7)                                | -              |
| At June 30, 2009     | 498                                | 51             |

**Recent Developments**

The United States Congress is currently working on legislation as part of the 2010 fiscal budget that could impact the amounts that we are paid by Medicare for services provided to Medicare eligible patients. As of the date of this filing, the legislation has not been finalized and thus we cannot estimate the impact of such potential changes but continue to monitor these actions closely.

**Results of Operations**

Our operating results may not be comparable for the periods presented, primarily as a result of our acquisition and start-up agencies.

When we refer to base business, we mean home health and hospice agencies that we have operated for at least the last twelve months; when we refer to acquisitions, we mean home health and hospice agencies that we acquired within the last twelve months; and when we refer to start-ups, we mean any home health or hospice agency opened by us in the last twelve months. Once an agency has been in operation for a twelve month period, the results for that particular agency are included as part of our base business from that date forward. When we refer to episodic-based revenue, admissions, recertifications or completed episodes, we mean home health revenue, admissions, recertifications or completed episodes of care for those payors that pay on an episodic-basis, which includes Medicare and other insurance carriers, including Medicare Advantage programs.

**Table of Contents****Three-Month Period Ended June 30, 2009 Compared to the Three-Month Period Ended June 30, 2008****Net Service Revenue**

The following table summarizes our net service revenue growth (amounts in millions):

|                                            | For the three-month period ended June 30, 2009 |              |          | For the three-month period ended June 30, 2008 |
|--------------------------------------------|------------------------------------------------|--------------|----------|------------------------------------------------|
|                                            | Base/Start-ups (2)                             | Acquisitions | Total    |                                                |
| <b>Home health revenue:</b>                |                                                |              |          |                                                |
| Medicare revenue                           | \$ 299.3                                       | \$ 9.3       | \$ 308.6 | \$ 255.1                                       |
| Non-Medicare, episodic-based revenue       | 28.7                                           | 0.4          | 29.1     | 21.1                                           |
| Total episodic-based revenue               | 328.0                                          | 9.7          | 337.7    | 276.2                                          |
| Non-Medicare revenue                       | 16.4                                           | 0.6          | 17.0     | 18.6                                           |
|                                            | 344.4                                          | 10.3         | 354.7    | 294.8                                          |
| <b>Hospice revenue:</b>                    |                                                |              |          |                                                |
| Medicare revenue                           | 21.1                                           | 0.9          | 22.0     | 16.5                                           |
| Non-Medicare revenue                       | 1.2                                            | -            | 1.2      | 1.4                                            |
|                                            | 22.3                                           | 0.9          | 23.2     | 17.9                                           |
| <b>Total revenue:</b>                      |                                                |              |          |                                                |
| Medicare revenue                           | 320.4                                          | 10.2         | 330.6    | 271.6                                          |
| Non-Medicare revenue                       | 46.3                                           | 1.0          | 47.3     | 41.1                                           |
|                                            | \$ 366.7                                       | \$ 11.2      | \$ 377.9 | \$ 312.7                                       |
| Internal episodic-based revenue growth (1) |                                                |              | 19%      | 28%                                            |

(1) Internal episodic-based revenue growth is the percent increase in our base/start-up episodic-based revenue for the period as a percent of the total episodic-based revenue of the prior period.

(2) Our net service revenue for our base/start-up agencies of \$366.7 million included \$356.8 million from our base agencies and \$9.9 million from our start-up agencies.

Our net service revenue increased \$65.2 million from 2008 to 2009 and consisted of an increase of \$54.0 million in our base/start-up agencies and \$11.2 million from our acquisition agencies. The \$54.0 million increase in our base/start-up agencies was primarily related to our internal episodic-based revenue, which increased by \$51.8 million or 19% from 2008 to 2009, with 7% related to volume and 12% related to rate.

Our average episodic-based revenue per completed episode increased from \$2,841 to \$3,166 from 2008 to 2009 and was due primarily to the continued deployment of our therapy intensive specialty programs to more of our home health agencies, which are provided to our patients when medically necessary to achieve their desired outcomes.

**Home Health Statistics**

The following table summarizes our growth in total home health patient admissions:

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For the three-month period ended June 30, 2009

For the three-month  
period ended  
June 30, 2008

|                                              | Base/Start-ups | Acquisitions | Total  |        |
|----------------------------------------------|----------------|--------------|--------|--------|
| <b>Admissions:</b>                           |                |              |        |        |
| Medicare                                     | 49,947         | 2,594        | 52,541 | 48,745 |
| Non-Medicare, episodic-based                 | 5,596          | 72           | 5,668  | 4,816  |
| Total episodic-based                         | 55,543         | 2,666        | 58,209 | 53,561 |
| Non-Medicare                                 | 8,530          | 413          | 8,943  | 9,865  |
|                                              | 64,073         | 3,079        | 67,152 | 63,426 |
| Internal episodic-based admission growth (1) |                |              | 4%     | 13%    |

- (1) Internal episodic-based admission growth is the percent increase in our base/start-up episodic-based admissions for the period as a percent of the total episodic-based admissions of the prior period.

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The following table summarizes our growth in total home health patient recertifications:

|                                                    | For the three-month period ended June 30, 2009 |              |        | For the three-month period ended June 30, 2008 |
|----------------------------------------------------|------------------------------------------------|--------------|--------|------------------------------------------------|
|                                                    | Base/Start-ups                                 | Acquisitions | Total  |                                                |
| <b>Recertifications:</b>                           |                                                |              |        |                                                |
| Medicare                                           | 46,551                                         | 839          | 47,390 | 43,065                                         |
| Non-Medicare, episodic-based                       | 4,084                                          | 33           | 4,117  | 3,171                                          |
| Total episodic-based                               | 50,635                                         | 872          | 51,507 | 46,236                                         |
| Non-Medicare                                       | 5,398                                          | 128          | 5,526  | 5,803                                          |
|                                                    | 56,033                                         | 1,000        | 57,033 | 52,039                                         |
| Internal episodic-based recertification growth (1) |                                                |              | 10%    | 26%                                            |

(1) Internal episodic-based recertification growth is the percent increase in our base/start-up episodic-based recertifications for the period as a percent of the total episodic-based recertifications of the prior period.

The following table summarizes our home health completed episodes:

|                              | For the three-month period ended June 30, 2009 |              |         | For the three-month period ended June 30, 2008 |
|------------------------------|------------------------------------------------|--------------|---------|------------------------------------------------|
|                              | Base/Start-ups                                 | Acquisitions | Total   |                                                |
| <b>Completed Episodes:</b>   |                                                |              |         |                                                |
| Medicare                     | 90,323                                         | 3,029        | 93,352  | 87,055                                         |
| Non-Medicare, episodic-based | 8,753                                          | 104          | 8,857   | 7,148                                          |
|                              | 99,076                                         | 3,133        | 102,209 | 94,203                                         |

***Cost of Service, Excluding Depreciation and Amortization***

Our cost of service consists of the following expenses incurred by our clinical and clerical personnel in our agencies:

salaries and related benefits (including health care insurance and workers compensation insurance);

transportation expenses (primarily reimbursed mileage at a standard rate); and

supplies and services expenses (including payments to contract therapists).

The following summarizes our cost of service, visit and cost per visit information:

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For the three-month period ended June 30, 2009

For the three-month  
period ended  
June 30, 2008

|                                               | Base/Start-ups | Acquisitions | Total     |           |
|-----------------------------------------------|----------------|--------------|-----------|-----------|
| <b>Cost of service (amounts in millions):</b> |                |              |           |           |
| Home health                                   | \$ 160.7       | \$ 5.6       | \$ 166.3  | \$ 138.7  |
| Hospice                                       | 11.5           | 0.6          | 12.1      | 10.1      |
|                                               | \$ 172.2       | \$ 6.2       | \$ 178.4  | \$ 148.8  |
| <b>Home health:</b>                           |                |              |           |           |
| <b>Visits during the period:</b>              |                |              |           |           |
| Medicare                                      | 1,746,580      | 55,915       | 1,802,495 | 1,540,997 |
| Non-Medicare, episodic-based                  | 163,426        | 1,880        | 165,306   | 123,902   |
| Total episodic-based                          | 1,910,006      | 57,795       | 1,967,801 | 1,664,899 |
| Non-Medicare                                  | 210,741        | 6,973        | 217,714   | 187,364   |
|                                               | 2,120,747      | 64,768       | 2,185,515 | 1,852,263 |
| <b>Home health cost per visit (1)</b>         | \$ 75.75       | \$ 87.54     | \$ 76.10  | \$ 74.91  |

(1) We calculate home health cost per visit as home health cost of service divided by total home health visits during the period.

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Of the \$29.6 million increase in cost of service, \$23.4 million is related to increased costs in our base/start-up agencies and \$6.2 million is related to acquisitions. The \$23.4 million in base/start-up business expenses consisted primarily of \$23.0 million related to salaries, taxes and benefits. Typically, acquired agencies take up to 18 to 24 months to reach the labor efficiencies of existing operations.

### *General and Administrative Expenses, Provision for Doubtful Accounts, Depreciation and Amortization and Other Expense, net*

The following table summarizes our general and administrative expenses, provision for doubtful accounts, depreciation and amortization expense and other expense, net (amounts in millions):

|                                      | For the three-month periods<br>ended June 30, |         |
|--------------------------------------|-----------------------------------------------|---------|
|                                      | 2009                                          | 2008    |
| General and administrative expenses: |                                               |         |
| Salaries and benefits                | \$ 82.1                                       | \$ 72.8 |
| Non-cash compensation                | 2.8                                           | 1.3     |
| Other                                | 42.4                                          | 40.0    |
| Provision for doubtful accounts      | 5.7                                           | 5.7     |
| Depreciation and amortization        | 6.9                                           | 5.4     |
| Other expense, net                   | (2.0)                                         | (5.0)   |

Salaries and benefits increased \$9.3 million, which consisted of an increase of \$7.3 million in base/start-up agency expenses and the inclusion of \$2.0 million in acquisition agency expenses. These expenses primarily increased due to increased personnel costs for our field administrative staff necessitated by our internal growth and acquisitions.

Other expense, net changed \$3.0 million primarily as a result of a decrease in interest expense of \$2.5 million as we have reduced our outstanding debt by \$137.5 million from June 30, 2008 to June 30, 2009 and our interest rate decreased.

### *Income Tax Expense*

The following table summarizes our income tax expense and estimated income tax rate (amounts in millions, except for estimated income tax rate):

|                            | For the three-month periods<br>ended June 30, |         |
|----------------------------|-----------------------------------------------|---------|
|                            | 2009                                          | 2008    |
| Income before income taxes | \$ 57.6                                       | \$ 33.7 |
| Income tax (expense)       | (22.5)                                        | (13.3)  |
| Estimated income tax rate  | 39.0%                                         | 39.6%   |

The increase in income tax expense of \$9.2 million is attributable to an increase in income before income taxes, which was offset by a decrease in the estimated income tax rate. The decrease in the estimated income tax rate was primarily attributable to the extension of Federal income tax credits created as a result of Hurricanes Katrina, Rita and Wilma by The Emergency Economic Stabilization Act of 2008.

**Table of Contents****Six-Month Period Ended June 30, 2009 Compared to the Six-Month Period Ended June 30, 2008****Net Service Revenue**

The following table summarizes our net service revenue growth (amounts in millions):

|                                            | For the six-month period ended June 30, 2009 |              |          | For the six-month period ended June 30, 2008 |
|--------------------------------------------|----------------------------------------------|--------------|----------|----------------------------------------------|
|                                            | Base/Start-ups                               | Acquisitions | Total    |                                              |
| <b>Home health revenue:</b>                |                                              |              |          |                                              |
| Medicare revenue                           | \$ 513.1                                     | \$ 75.3      | \$ 588.4 | \$ 430.4                                     |
| Non-Medicare, episodic-based revenue       | 49.7                                         | 4.2          | 53.9     | 36.0                                         |
| Total episodic-based revenue               | 562.8                                        | 79.5         | 642.3    | 466.4                                        |
| Non-Medicare revenue                       | 26.0                                         | 7.9          | 33.9     | 28.6                                         |
|                                            | 588.8                                        | 87.4         | 676.2    | 495.0                                        |
| <b>Hospice revenue:</b>                    |                                              |              |          |                                              |
| Medicare revenue                           | 34.8                                         | 6.3          | 41.1     | 28.6                                         |
| Non-Medicare revenue                       | 2.2                                          | 0.2          | 2.4      | 2.2                                          |
|                                            | 37.0                                         | 6.5          | 43.5     | 30.8                                         |
| <b>Total revenue:</b>                      |                                              |              |          |                                              |
| Medicare revenue (1)                       | 547.9                                        | 81.6         | 629.5    | 459.0                                        |
| Non-Medicare revenue                       | 77.9                                         | 12.3         | 90.2     | 66.8                                         |
|                                            | \$ 625.8                                     | \$ 93.9      | \$ 719.7 | \$ 525.8                                     |
| Internal episodic-based revenue growth (1) |                                              |              | 21%      | 27%                                          |

(1) Internal episodic-based revenue growth is the percent increase in our base/start-up episodic-based revenue for the period as a percent of the total episodic-based revenue of the prior period. We expect this growth rate to be in the 15% range for the remainder of the year primarily due to our TLC Health Care Services, Inc. ( TLC ) agencies converting to base agencies beginning in the three-month period ended June 30, 2009. It is not unusual for acquired agencies to experience a slower revenue growth, even in the second year after converting to our operating systems and Point of Care network.

(2) Our net service revenue for our base/start-up agencies of \$625.8 million included \$608.8 million from our base agencies and \$17.0 million from our start-up agencies.

Our net service revenue increased \$193.9 million from 2008 to 2009 and consisted of an increase of \$100.0 million in our base/start-up agencies and \$93.9 million from our acquisition agencies. The \$100.0 million increase in our base/start-up agencies was primarily related to our internal episodic-based revenue, which increased by \$96.4 million or 21% from 2008 to 2009, with 8% related to volume and 13% related to rate.

Our average episodic-based revenue per completed episode increased from \$2,772 to \$3,102 from 2008 to 2009 and was due primarily to the continued deployment of our therapy intensive specialty programs to more of our home health agencies and the inclusion of the TLC agencies, which have had historically higher average revenue per completed episode primarily due to their presence in higher wage index areas (i.e. the Western and Northeastern parts of the United States).





**Table of Contents****Home Health Statistics**

The following table summarizes our growth in total home health patient admissions:

|                                              | For the six-month period ended June 30, 2009 |              |         | For the six-month period ended June 30, 2008 |
|----------------------------------------------|----------------------------------------------|--------------|---------|----------------------------------------------|
|                                              | Base/Start-ups                               | Acquisitions | Total   |                                              |
| <b>Admissions:</b>                           |                                              |              |         |                                              |
| Medicare                                     | 87,337                                       | 15,647       | 102,984 | 83,625                                       |
| Non-Medicare, episodic-based                 | 10,342                                       | 995          | 11,337  | 8,795                                        |
| Total episodic-based                         | 97,679                                       | 16,642       | 114,321 | 92,420                                       |
| Non-Medicare                                 | 15,076                                       | 3,358        | 18,434  | 16,012                                       |
|                                              | 112,755                                      | 20,000       | 132,755 | 108,432                                      |
| Internal episodic-based admission growth (1) |                                              |              | 6%      | 10%                                          |

(1) Internal episodic-based admission growth is the percent increase in our base/start-up episodic-based admissions for the period as a percent of the total episodic-based admissions of the prior period.

The following table summarizes our growth in total home health patient recertifications:

|                                                    | For the six-month period ended June 30, 2009 |              |         | For the six-month period ended June 30, 2008 |
|----------------------------------------------------|----------------------------------------------|--------------|---------|----------------------------------------------|
|                                                    | Base/Start-ups                               | Acquisitions | Total   |                                              |
| <b>Recertifications:</b>                           |                                              |              |         |                                              |
| Medicare                                           | 82,845                                       | 9,570        | 92,415  | 75,274                                       |
| Non-Medicare, episodic-based                       | 7,323                                        | 533          | 7,856   | 5,426                                        |
| Total episodic-based                               | 90,168                                       | 10,103       | 100,271 | 80,700                                       |
| Non-Medicare                                       | 8,913                                        | 2,382        | 11,295  | 9,939                                        |
|                                                    | 99,081                                       | 12,485       | 111,566 | 90,639                                       |
| Internal episodic-based recertification growth (1) |                                              |              | 12%     | 29%                                          |

(1) Internal episodic-based recertification growth is the percent increase in our base/start-up episodic-based recertifications for the period as a percent of the total episodic-based recertifications of the prior period.

The following table summarizes our home health completed episodes:

|  | For the six-month period ended June 30, 2009 |              |       | For the six-month period ended |
|--|----------------------------------------------|--------------|-------|--------------------------------|
|  | Base/Start-ups                               | Acquisitions | Total |                                |

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June 30, 2008

| Completed Episodes:          |         |        |         |         |
|------------------------------|---------|--------|---------|---------|
| Medicare                     | 157,546 | 23,896 | 181,442 | 147,394 |
| Non-Medicare, episodic-based | 15,684  | 1,382  | 17,066  | 12,104  |
| Total episodic-based         | 173,230 | 25,278 | 198,508 | 159,498 |

**Table of Contents****Cost of Service, Excluding Depreciation and Amortization**

The following summarizes our cost of service, visit and cost per visit information:

|                                               | For the six-month period ended June 30, 2009 |              |           | For the six-month period ended June 30, 2008 |
|-----------------------------------------------|----------------------------------------------|--------------|-----------|----------------------------------------------|
|                                               | Base/Start-ups                               | Acquisitions | Total     |                                              |
| <b>Cost of service (amounts in millions):</b> |                                              |              |           |                                              |
| Home health                                   | \$ 274.9                                     | \$ 45.0      | \$ 319.9  | \$ 231.2                                     |
| Hospice                                       | 20.4                                         | 3.2          | 23.6      | 18.3                                         |
|                                               | \$ 295.3                                     | \$ 48.2      | \$ 343.5  | \$ 249.5                                     |
| <b>Home health:</b>                           |                                              |              |           |                                              |
| <b>Visits during the period:</b>              |                                              |              |           |                                              |
| Medicare                                      | 3,031,037                                    | 444,135      | 3,475,172 | 2,624,307                                    |
| Non-Medicare, episodic-based                  | 291,207                                      | 23,987       | 315,194   | 214,778                                      |
| Total episodic-based                          | 3,322,244                                    | 468,122      | 3,790,366 | 2,839,085                                    |
| Non-Medicare                                  | 331,951                                      | 82,118       | 414,069   | 294,135                                      |
|                                               | 3,654,195                                    | 550,240      | 4,204,435 | 3,133,220                                    |
| <b>Home health cost per visit (1)</b>         | \$ 75.21                                     | \$ 81.86     | \$ 76.08  | \$ 73.81                                     |

(1) We calculate home health cost per visit as home health cost of service divided by total home health visits during the period. Of the \$94.0 million increase in cost of service, \$45.8 million is related to increased costs in our base/start-up agencies and \$48.2 million is related to acquisitions. The \$45.8 million in base/start-up business expenses consisted primarily of \$43.9 million related to salaries, taxes and benefits and \$2.0 million related to travel and training.

Our cost per visit increased from \$73.81 in 2008 to \$76.08 in 2009. The primary reason for the increase relates to our 2008 acquired agencies, which have higher wage indexes compared to our base agencies. Our 2008 acquired agencies are generally located in states that have higher labor costs and have higher numbers of visiting staff, who typically are paid on a salary basis compared to a per visit basis. Our cost per visit associated with our base/start-up agencies has increased as the majority of our 2008 acquired agencies are now categorized as base agencies beginning in the second quarter of 2009. As we transition the visiting staff to our pay per visit model, we expect the cost per visit associated with our base/start-up agencies to be more consistent with historical rates. Typically, acquired agencies take up to 18 to 24 months to reach the labor efficiencies of existing operations.

**General and Administrative Expenses, Provision for Doubtful Accounts, Depreciation and Amortization and Other Expense, net**

The following table summarizes our general and administrative expenses, provision for doubtful accounts, depreciation and amortization expense and other expense, net (amounts in millions):

|                                             | For the six-month periods ended June 30, |          |
|---------------------------------------------|------------------------------------------|----------|
|                                             | 2009                                     | 2008     |
| <b>General and administrative expenses:</b> |                                          |          |
| Salaries and benefits                       | \$ 155.1                                 | \$ 118.7 |

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|                                 |       |       |
|---------------------------------|-------|-------|
| Non-cash compensation           | 4.9   | 2.3   |
| Other                           | 84.7  | 69.5  |
| Provision for doubtful accounts | 11.9  | 9.3   |
| Depreciation and amortization   | 13.2  | 9.8   |
| Other expense, net              | (4.6) | (5.7) |

Salaries and benefits increased \$36.4 million, which consisted of an increase of \$20.6 million in base/start-up agency expenses and the inclusion of \$15.8 million in acquisition agency expenses. These expenses primarily increased due to increased personnel costs for our field administrative staff necessitated by our internal growth and acquisitions.

Other general and administrative expenses increased \$15.2 million, which consisted of an increase of \$7.8 million in base/start-up agency expenses and the inclusion of \$7.4 million in acquisition agency expenses. The \$7.8 million increase in our base/start-up agency expenses primarily included an increase in our corporate office expenses, which was necessitated by our continued development of our corporate infrastructure needed to support our growing number of agencies.

**Table of Contents*****Income Tax Expense***

The following table summarizes our income tax expense and estimated income tax rate (amounts in millions, except for estimated income tax rate):

|                            | For the six-month periods<br>ended June 30, |         |
|----------------------------|---------------------------------------------|---------|
|                            | 2009                                        | 2008    |
| Income before income taxes | \$ 101.9                                    | \$ 60.9 |
| Income tax (expense)       | (39.7)                                      | (24.1)  |
| Estimated income tax rate  | 39.0%                                       | 39.6%   |

The increase in income tax expense of \$15.6 million is attributable to an increase in income before income taxes, which was offset by a decrease in the estimated income tax rate. The decrease in the estimated income tax rate was primarily attributable to the extension of Federal income tax credits created as a result of Hurricanes Katrina, Rita and Wilma by The Emergency Economic Stabilization Act of 2008.

**Table of Contents****LIQUIDITY AND CAPITAL RESOURCES*****Cash Flows for Six-Month Period Ended June 30, 2009 Compared to the Six-Month Period Ended June 30, 2008***

The following table summarizes our cash flows for the periods indicated (amounts in millions):

|                                                  | <b>For the six-month periods<br/>ended June 30,</b> |             |
|--------------------------------------------------|-----------------------------------------------------|-------------|
|                                                  | <b>2009</b>                                         | <b>2008</b> |
| Cash provided by operating activities            | \$ 130.3                                            | \$ 57.6     |
| Cash (used in) investing activities              | (41.4)                                              | (459.8)     |
| Cash (used in) provided by financing activities  | (90.8)                                              | 347.7       |
| Net (decrease) in cash and cash equivalents      | (1.9)                                               | (54.5)      |
| Cash and cash equivalents at beginning of period | 2.8                                                 | 56.2        |
| Cash and cash equivalents at end of period       | \$ 0.9                                              | \$ 1.7      |

Cash provided by operating activities increased \$72.7 million during 2009 compared to 2008, primarily as a result of a changes in net income, patient accounts receivable, accounts payable and accrued expenses, with patient accounts receivable having the most significant impact during 2009 compared to 2008. See Outstanding Patient Accounts Receivable below for further details on our change in outstanding patient accounts receivable.

Cash used in investing activities decreased \$418.4 million during 2009 compared to 2008. Our cash flow needs for our investing activities were greater during the six-month period ended June 30, 2008 primarily due to our acquisition of TLC and Family Home Health Care, Inc. & Comprehensive Home Healthcare Services, Inc. which totaled \$437.4 million.

Cash used in financing activities increased \$438.5 million during 2009 compared to 2008, primarily due to a decrease in proceeds from the issuance of long-term obligations as a result of the debt incurred in connection with the TLC acquisition during the six-month period ended June 30, 2008 and an increase of in principal payments of our long-term obligations during the six-month period ended June 30, 2009.

***Liquidity***

Typically, our principal source of liquidity is the collection of our patient accounts receivable, primarily through the Medicare program; however, from time to time, we can and do obtain additional sources of liquidity through sales of our equity or by incurrence of additional indebtedness. As of June 30, 2009, we had \$0.9 million in cash and cash equivalents, \$228.1 million in availability under our \$250.0 million Revolving Credit Facility and the potential issuance of \$250.0 million of any combination of preferred and common stock, under our effective shelf registration statement.

During 2009, we made \$15.1 million in routine capital expenditures, which primarily included equipment and furniture and computer software. Based on our operating forecasts and our debt service requirements, we believe we will have sufficient liquidity to fund our operations, capital requirements and debt service requirements over the next twelve months and into the foreseeable future.

As we manage our liquidity needs to meet our operating forecasts, debt service requirements and our acquisition and start-up activities, we are monitoring the creditworthiness and solvency of our syndicate of banks that provide the availability of credit under our Revolving Credit Facility as well as the status of the overall equity and credit markets. This monitoring process has become more critical over the past several quarters as several financial institutions have either failed or have been acquired, there has been a severe lack of funds in the credit markets and the equity market has seen significant decreases in value and liquidity, as discussed in the risk factors incorporated herein by reference. As of the date of this filing, we do not believe the availability of funds under our Revolving Credit Facility is at risk; however, we continue to monitor our syndicate of banks in light of current credit market conditions. If the availability under our current Revolving Credit Facility decreases, we may need to consider adjusting our strategy to meet our operating forecasts, debt service requirements and acquisition and start-up activity needs.

***Outstanding Patient Accounts Receivable***

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Our patient accounts receivable, net decreased \$21.4 million from December 31, 2008 to June 30, 2009 primarily due to \$736.1 million in cash collections, which was offset by \$719.7 million in net service revenue.

Our days revenue outstanding, net at June 30, 2009 decreased 10.3 days to 36.9 from December 31, 2008. During the six month-period ended June 30, 2009 we were able to make significant progress on our outstanding accounts receivable associated with our

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2008 acquisitions, which inherently are subject to regulatory and internal delays associated with the conversion process. Additionally, our days revenue outstanding, net improved during the three month-period ended June 30, 2009 due to a \$33.0 million increase in cash collections during the quarter as compared to the cash collections during the three month-period ended December 31, 2008.

Our patient accounts receivable includes unbilled receivables, which are aged based upon our initial service date. At June 30, 2009, the unbilled patient accounts receivable, as a percentage of gross patient accounts receivable, was 18.9%, or \$36.4 million compared to 23.0% or \$48.3 million at December 31, 2008. We monitor unbilled receivables on an agency by agency basis to ensure that all efforts are made to bill claims within timely filing deadlines. The timely filing deadlines vary by state for Medicaid and among insurance companies. As of June 30, 2009, agencies acquired during the past twelve months represented \$3.8 million or 10.5% of our unbilled accounts receivable compared to \$17.0 million or 35.1% as of December 31, 2008.

Our provision for estimated revenue adjustments (which is deducted from our service revenue to determine net service revenue) and provision for doubtful accounts were as follows for the periods indicated:

|                                             | For the three-month periods<br>ended June 30, |        | For the six-month periods<br>ended June 30, |         |
|---------------------------------------------|-----------------------------------------------|--------|---------------------------------------------|---------|
|                                             | 2009                                          | 2008   | 2009                                        | 2008    |
| Provision for estimated revenue adjustments | \$ 1.9                                        | \$ 1.4 | \$ 4.0                                      | \$ 2.2  |
| Provision for doubtful accounts             | 5.7                                           | 5.7    | 11.9                                        | 9.3     |
| Total                                       | \$ 7.6                                        | \$ 7.1 | \$ 15.9                                     | \$ 11.5 |
| As a percent of revenue                     | 2.0%                                          | 2.3%   | 2.2%                                        | 2.2%    |

The following schedule details our patient accounts receivable, net of estimated revenue adjustments, by payor class, aged based upon initial date of service (amounts in millions, except days revenue outstanding, net):

|                                               | 0-90    | 91-180  | 181-365 | Over 365 | Total    |
|-----------------------------------------------|---------|---------|---------|----------|----------|
| <b>At June 30, 2009 (1):</b>                  |         |         |         |          |          |
| Medicare patient accounts receivable, net (2) | \$ 87.8 | \$ 23.6 | \$ 6.9  | \$ 1.1   | \$ 119.4 |
| Other patient accounts receivable:            |         |         |         |          |          |
| Medicaid                                      | 5.8     | 3.3     | 4.2     | 3.0      | 16.3     |
| Private (3)                                   | 19.4    | 11.7    | 12.4    | 5.9      | 49.4     |
| Total                                         | \$ 25.2 | \$ 15.0 | \$ 16.6 | \$ 8.9   | \$ 65.7  |
| Allowance for doubtful accounts (4)           |         |         |         |          | (30.8)   |
| Non-Medicare patient accounts receivable, net |         |         |         |          | \$ 34.9  |
| Total patient accounts receivable, net        |         |         |         |          | \$ 154.3 |
| Days revenue outstanding, net (5)             |         |         |         |          | 36.9     |
|                                               |         |         |         |          |          |
|                                               | 0-90    | 91-180  | 181-365 | Over 365 | Total    |
| <b>At December 31, 2008 (1):</b>              |         |         |         |          |          |
| Medicare patient accounts receivable, net (2) | \$ 91.0 | \$ 30.2 | \$ 8.2  | \$ 0.3   | \$ 129.7 |



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|                                               |         |         |         |        |          |
|-----------------------------------------------|---------|---------|---------|--------|----------|
| Other patient accounts receivable:            |         |         |         |        |          |
| Medicaid                                      | 7.8     | 5.0     | 6.0     | 2.0    | 20.8     |
| Private (3)                                   | 21.0    | 14.4    | 14.2    | 2.7    | 52.3     |
| Total                                         | \$ 28.8 | \$ 19.4 | \$ 20.2 | \$ 4.7 | \$ 73.1  |
| Allowance for doubtful accounts (4)           |         |         |         |        | (27.1)   |
| Non-Medicare patient accounts receivable, net |         |         |         |        | \$ 46.0  |
| Total patient accounts receivable, net        |         |         |         |        | \$ 175.7 |
| Days revenue outstanding, net (5)             |         |         |         |        | 47.2     |

- (1) Our patient accounts receivable include unbilled amounts of \$36.4 million and \$48.3 million as of June 30, 2009 and December 31, 2008, respectively, which have been aged based upon initial service date. Additionally, we have fully provided for both our Medicare and other patients accounts receivable that are aged over 360 days.

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- (2) The following table summarizes the activity and ending balances in our estimated revenue adjustments (amounts in millions), which is recorded to reduce our Medicare outstanding patient accounts receivable to their estimated net realizable value, as we do not estimate an allowance for doubtful accounts for our Medicare claims.

|                                             | For the six-month period<br>ended June 30,<br>2009 | For the year-ended<br>December 31,<br>2008 |
|---------------------------------------------|----------------------------------------------------|--------------------------------------------|
| Balance at beginning of period              | \$ 7.2                                             | \$ 3.6                                     |
| Provision for estimated revenue adjustments | 4.0                                                | 6.4                                        |
| Write offs                                  | (3.4)                                              | (3.2)                                      |
| Acquired through acquisitions               | -                                                  | 0.4                                        |
| Balance at end of period                    | \$ 7.8                                             | \$ 7.2                                     |

Our estimated revenue adjustments were 6.1% and 5.3% of our outstanding Medicare patient accounts receivable at June 30, 2009 and December 31, 2008, respectively.

- (3) Private patient accounts receivable include amounts due from other insurance carriers, including Medicare Advantage programs, amounts due for co-payments and amounts due for self-pay.
- (4) The following table summarizes the activity and ending balances in our allowance for doubtful accounts (amounts in millions), which is recorded to reduce only our Medicaid and Private outstanding patient accounts receivable to their estimated net realizable value, as we do not estimate an allowance for doubtful accounts for our Medicare claims.

|                                 | For the six-month period<br>ended June 30, 2009 | For the year-ended<br>December 31,<br>2008 |
|---------------------------------|-------------------------------------------------|--------------------------------------------|
| Balance at beginning of period  | \$ 27.1                                         | \$ 13.0                                    |
| Provision for doubtful accounts | 11.9                                            | 24.0                                       |
| Write offs                      | (8.4)                                           | (13.1)                                     |
| Acquired through acquisitions   | 0.2                                             | 3.2                                        |
| Balance at end of period        | \$ 30.8                                         | \$ 27.1                                    |

Our allowance for doubtful accounts was 46.9% and 37.0% of our outstanding Medicaid and Private patient accounts receivable at June 30, 2009 and December 31, 2008, respectively.

- (5) Our calculation of days revenue outstanding, net is derived by dividing our ending net patient accounts receivable (i.e. net of estimated revenue adjustments and allowance for doubtful accounts) at June 30, 2009 and December 31, 2008 by our average daily net patient revenue for the three-month periods ended June 30, 2009 and December 31, 2008, respectively.

**Indebtedness**

Our weighted-average interest rates for our five year Term Loan (the "Term Loan") and our \$250.0 million, five year Revolving Credit Facility (the "Revolving Credit Facility") were as follows:

|                           | For the three-month periods<br>ended June 30, |      | For the six-month periods<br>ended June 30, |      |
|---------------------------|-----------------------------------------------|------|---------------------------------------------|------|
|                           | 2009                                          | 2008 | 2009                                        | 2008 |
| Term Loan                 | 1.5%                                          | 4.4% | 2.1%                                        | 4.5% |
| Revolving Credit Facility | 1.6%                                          | 4.4% | 1.7%                                        | 4.5% |

As of June 30, 2009, our total leverage ratio (used to compute the margin and commitment fees, described in more detail in Note 5 of our Form 10-K) was 1.0, our fixed charge coverage ratio was 2.4 and we were in compliance with the covenants associated with our long-term obligations.



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The following table presents our availability under our \$250.0 million Revolving Credit Facility as of June 30, 2009 (amounts in millions):

|                                                            |          |
|------------------------------------------------------------|----------|
| Total Revolving Credit Facility                            | \$ 250.0 |
| Less: outstanding revolving credit loans                   | (10.0)   |
| Less: outstanding swingline loans                          | (1.0)    |
| Less: outstanding letters of credit                        | (10.9)   |
| Remaining availability under the Revolving Credit Facility | \$ 228.1 |

See Note 5 of the financial statements included in our Form 10-K for additional details on our outstanding long-term obligations.

## Inflation

We do not believe that inflation has significantly impacted our results of operations.

## Critical Accounting Policies

See Part II, Item 7 Critical Accounting Policies and our consolidated financial statements and related notes in Part IV, Item 15 of our Form 10-K, for accounting policies and related estimates we believe are the most critical to understanding our condensed consolidated financial statements, financial condition and results of operations and which require complex management judgment and assumptions, or involve uncertainties. These critical accounting policies include revenue recognition; patient accounts receivable; insurance; goodwill and intangible assets; and income taxes. There have not been any changes to our significant accounting policies or their application, thereof since we filed our Form 10-K.

## ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Primarily as a result of our borrowings to effect the TLC acquisition, we are now exposed to market risk from fluctuations in interest rates. Our Revolving Credit Facility and Term Loan carry a floating interest rate which is tied to the Eurodollar rate (i.e. LIBOR) and the Prime Rate and therefore, our condensed consolidated statements of operations and our condensed consolidated statements of cash flows will be exposed to changes in interest rates. The weighted-average interest rates for our Term Loan and our Revolving Credit Facility were as follows for the periods indicated below:

|                           | For the three-month periods<br>ended June 30, |      | For the six-month periods<br>ended June 30, |      |
|---------------------------|-----------------------------------------------|------|---------------------------------------------|------|
|                           | 2009                                          | 2008 | 2009                                        | 2008 |
| Term Loan                 | 1.5%                                          | 4.4% | 2.1%                                        | 4.5% |
| Revolving Credit Facility | 1.6%                                          | 4.4% | 1.7%                                        | 4.5% |

A 1.0% interest rate increase would increase interest expense by approximately \$1.2 million annually.

## ITEM 4. CONTROLS AND PROCEDURES

### Evaluation of Disclosure Controls and Procedures

We have established disclosure controls and procedures designed to ensure that information required to be disclosed in our reports filed under the Securities Exchange Act of 1934 (the Exchange Act) is recorded, processed, summarized, disclosed and reported within the time periods specified in the SEC's rules and forms. This information is also accumulated and communicated to our management and Board of Directors to allow timely decisions regarding required disclosure.

In connection with the preparation of this Quarterly Report on Form 10-Q, as of June 30, 2009, under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our disclosure controls and procedures, as such term is defined under Rules 13a-15(e) and 15d-15(e) promulgated under the Exchange Act.

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Based on this evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were effective as of June 30, 2009, the end of the period covered by this Quarterly Report.

### ***Changes in Internal Controls***

There have been no changes in our internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f)) that have occurred during the quarter ended June 30, 2009, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**Table of Contents****PART II. OTHER INFORMATION****ITEM 1. LEGAL PROCEEDINGS**

See Note 6 to the condensed consolidated financial statements for information concerning our legal proceedings.

**ITEM 1A. RISK FACTORS**

In addition to the other information set forth in this Quarterly Report on Form 10-Q, you should carefully consider the Risk Factors included in Part I, Item 1A. Risk Factors of our Annual Report on Form 10-K. These Risk Factors could materially impact our business, financial condition and/or operating results. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely impact our business, financial condition and/or operating results.

**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

The following table provides the information with respect to purchases made by us of shares of our common stock during each of the months during the three-month period ended June 30, 2009:

| Period                              | (a) Total Number<br>of Shares<br>(or Units)<br>Purchased | (b) Average<br>Price<br>Paid<br>per Share<br>(or Unit) | (c) Total Number of<br>Share (or Units)<br>Purchased as Part of<br>Publicly Announced<br>Plans or Programs | (d) Maximum Number<br>(or Approximate Dollar<br>Value) of Shares<br>(or Units) that May Yet Be<br>Purchased Under the<br>Plans or Programs |
|-------------------------------------|----------------------------------------------------------|--------------------------------------------------------|------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------|
| April 1, 2009 to April 30, 2009 (1) | 1,164                                                    | \$ 27.40                                               | -                                                                                                          | -                                                                                                                                          |
| May 1, 2009 to May 31, 2009         | -                                                        | \$ -                                                   | -                                                                                                          | -                                                                                                                                          |
| June 1, 2009 to June 30, 2009       | -                                                        | \$ -                                                   | -                                                                                                          | -                                                                                                                                          |
| Total                               | 1,164                                                    | \$ 27.40                                               | -                                                                                                          | -                                                                                                                                          |

- (1) Represents shares of common stock surrendered to us by certain employees to satisfy tax withholding obligations in connection with the vesting of non-vested stock previously awarded to such employees under our 2008 Omnibus Incentive Compensation Plan.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None.

**ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

During the quarter ended June 30, 2009, the following matters were submitted by us to a vote of our security holders at our 2009 Annual Meeting of Stockholders held on June 4, 2009.

- (1) Election of seven members to our Board of Directors, each for a one-year term expiring at the later of the 2010 Annual Meeting of our stockholders or upon his successor being elected and qualified:

|                  | FOR        | WITHHELD  |
|------------------|------------|-----------|
| William F. Borne | 22,463,631 | 1,113,502 |
| Larry R. Graham  | 22,486,683 | 1,090,450 |

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|                     |            |           |
|---------------------|------------|-----------|
| Ronald A. LaBorde   | 22,093,154 | 1,483,979 |
| Jake L. Netterville | 22,094,034 | 1,483,099 |
| David R. Pitts      | 22,080,070 | 1,497,063 |
| Peter F. Ricchiuti  | 22,071,490 | 1,505,643 |
| Donald A. Washburn  | 22,829,285 | 747,848   |

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- (2) A proposal to ratify the appointment KPMG LLP as our independent registered public accountants for the fiscal year ending December 31, 2009:

|                  |            |
|------------------|------------|
| For              | 21,917,271 |
| Against          | 1,637,911  |
| Abstain          | 21,950     |
| Broker non-votes | -          |

**ITEM 5. OTHER INFORMATION**

None.



**Table of Contents****ITEM 6. EXHIBITS**

The exhibits marked with the cross symbol ( ) are filed and the exhibits marked with the double cross symbol ( ) are furnished with this Form 10-Q. Any exhibits marked with the asterisk symbol (\*) are management contracts or compensatory plans or arrangements filed pursuant to Item 601(b)(10)(iii) of Regulation S-K.

| <b>Exhibit Number</b> | <b>Document Description</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                           | <b>Report or Registration Statement</b>                                                                                                   | <b>SEC File or Registration Number</b> | <b>Exhibit or Other Reference</b> |
|-----------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------|-----------------------------------|
| 2.1                   | Purchase and Sale Agreement dated February 18, 2008, by and among Amedisys, Inc., Amedisys TLC Acquisition, L.L.C., TLC Health Services, Inc., TLC Holdings I, Corp. ( Holdco ) and the securityholders of TLC and Holdco                                                                                                                                                                                                                                                                             | The Company's Current Report on Form 8-K filed on April 1, 2008                                                                           | 0-24260                                | 2.1                               |
| 2.2                   | First Amendment to Purchase and Sale Agreement dated March 25, 2008, by and among Amedisys, Inc., Amedisys TLC Acquisition, L.L.C., TLC Health Services, Inc., Holdco and Arcapita Inc., as Sellers Representative on behalf of the securityholders of TLC and Holdco                                                                                                                                                                                                                                 | The Company's Current Report on Form 8-K filed on April 1, 2008                                                                           | 0-24260                                | 2.2                               |
| 3.1                   | Composite of Certificate of Incorporation of the Company inclusive of all amendments through June 14, 2007                                                                                                                                                                                                                                                                                                                                                                                            | The Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2007                                                           | 0-24260                                | 3.1                               |
| 3.2                   | Composite of By-Laws of the Company inclusive of all amendments through October 25, 2007                                                                                                                                                                                                                                                                                                                                                                                                              | The Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2007                                                      | 0-24260                                | 3.2                               |
| 4.1                   | Common Stock Specimen                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | The Company's Registration Statement on Form S-3 filed on August 20, 2007                                                                 | 333-145582                             | 4.8                               |
| 4.2.1                 | Shareholder Rights Agreement                                                                                                                                                                                                                                                                                                                                                                                                                                                                          | The Company's Current Report on Form 8-K filed June 16, 2000, and the Company's Registration Statement on Form 8-A12G filed June 16, 2000 | 0-24260                                | 4                                 |
| 4.2.2                 | Amendment No. 1 to Shareholder Rights Agreement, dated as of July 26, 2006                                                                                                                                                                                                                                                                                                                                                                                                                            | The Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2006                                                           | 0-24260                                | 4.1                               |
| 4.3                   | Note Purchase Agreement dated March 25, 2008 among Amedisys, Inc., Amedisys Holding, L.L.C. and the Purchasers identified on Schedule A thereto, relating to the issuance and sale of (a) \$35,000,000 aggregate principal amount of their 6.07% Series A Senior Notes due March 25, 2013 (b) \$30,000,000 aggregate principal amount of their 6.28% Series B Senior Notes due March 25, 2014 and (c) \$35,000,000 aggregate principal amount of their 6.49% Series C Senior Notes due March 25, 2015 | The Company's Current Report on Form 8-K filed on April 1, 2008                                                                           | 0-24260                                | 4.1                               |
| 4.4                   | Form of Series A Note due March 25, 2013 (attached as Exhibit 1 to the Note Purchase Agreement incorporated by reference as Exhibit 4.3 hereto)                                                                                                                                                                                                                                                                                                                                                       | The Company's Current Report on Form 8-K filed on April 1, 2008                                                                           | 0-24260                                | 4.1                               |

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|-----------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------|----------------------------------------|-----------------------------------|
| 4.5                   | Form of Series B Note due March 25, 2014 (attached as Exhibit 2 to the Note Purchase Agreement incorporated by reference as Exhibit 4.3 hereto)                                | The Company's Current Report on Form 8-K filed on April 1, 2008 | 0-24260                                | 4.1                               |
| 4.6                   | Form of Series C Note due March 25, 2015 (attached as Exhibit 3 to the Note Purchase Agreement incorporated by reference as Exhibit 4.3 hereto)                                | The Company's Current Report on Form 8-K filed on April 1, 2008 | 0-24260                                | 4.1                               |
| 31.1                  | Certification of William F. Borne, Chairman and Chief Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002                                             |                                                                 |                                        |                                   |
| 31.2                  | Certification of Dale E. Redman, Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002                                                            |                                                                 |                                        |                                   |
| 32.1                  | Certification William F. Borne, Chairman and Chief Executive Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |                                                                 |                                        |                                   |
| 32.2                  | Certification Dale E. Redman, Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002                |                                                                 |                                        |                                   |
| 101.INS               | XBRL Instance                                                                                                                                                                  |                                                                 |                                        |                                   |
| 101.SCH               | XBRL Taxonomy Extension Schema                                                                                                                                                 |                                                                 |                                        |                                   |
| 101.CAL               | XBRL Taxonomy Extension Calculation                                                                                                                                            |                                                                 |                                        |                                   |
| 101.LAB               | XBRL Taxonomy Extension Labels                                                                                                                                                 |                                                                 |                                        |                                   |
| 101.PRE               | XBRL Taxonomy Extension Presentation                                                                                                                                           |                                                                 |                                        |                                   |

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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

AMEDISYS, INC.

(Registrant)

By: /s/ Dale E. Redman  
Dale E. Redman  
Chief Financial Officer and

Duly Authorized Officer

DATE: July 28, 2009

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| 4.6                   | Form of Series C Note due March 25, 2015 (attached as Exhibit 3 to the Note Purchase Agreement incorporated by reference as Exhibit 4.3 hereto)                                | The Company's Current Report on Form 8-K filed on April 1, 2008 | 0-24260                                | 4.1                               |
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