

AMEDISYS INC
Form 10-Q
August 02, 2011
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2011

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)

Edgar Filing: AMEDISYS INC - Form 10-Q

Delaware **11-3131700**
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)
5959 S. Sherwood Forest Blvd., Baton Rouge, LA 70816
(Address of principal executive offices, including zip code)
(225) 292-2031 or (800) 467-2662
(Registrant's telephone number, including area code)

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

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

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

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

The number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date, is as follows: Common stock, \$0.001 par value, 29,259,058 shares outstanding as of July 29, 2011.

Table of Contents

TABLE OF CONTENTS

<u>SPECIAL CAUTION CONCERNING FORWARD-LOOKING STATEMENTS AND AVAILABLE INFORMATION</u>	1
<u>PART I. FINANCIAL INFORMATION</u>	
ITEM 1. FINANCIAL STATEMENTS (UNAUDITED):	
<u>CONDENSED CONSOLIDATED BALANCE SHEETS AS OF JUNE 30, 2011 AND DECEMBER 31, 2010</u>	2
<u>CONDENSED CONSOLIDATED INCOME STATEMENTS FOR THE THREE AND SIX-MONTH PERIODS ENDED JUNE 30, 2011 AND 2010</u>	3
<u>CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE SIX MONTH PERIODS ENDED JUNE 30, 2011 AND 2010</u>	4
<u>NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS</u>	5
ITEM 2. <u>MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>	15
ITEM 3. <u>QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	25
ITEM 4. <u>CONTROLS AND PROCEDURES</u>	25
<u>PART II. OTHER INFORMATION</u>	
ITEM 1. <u>LEGAL PROCEEDINGS</u>	26
ITEM 1A. <u>RISK FACTORS</u>	26
ITEM 2. <u>UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS</u>	27
ITEM 3. <u>DEFAULTS UPON SENIOR SECURITIES</u>	27
ITEM 4. <u>RESERVED</u>	27
ITEM 5. <u>OTHER INFORMATION</u>	27
ITEM 6. <u>EXHIBITS</u>	28
<u>SIGNATURES</u>	30
<u>INDEX TO EXHIBITS</u>	31

Table of Contents

SPECIAL CAUTION CONCERNING FORWARD-LOOKING STATEMENTS AND AVAILABLE INFORMATION

Special Caution Concerning Forward-Looking Statements

When included in this Quarterly Report on Form 10-Q, or in other documents that we file with the Securities and Exchange Commission (SEC), or in statements made by or on behalf of our company, words like believes, belief, expects, plans, anticipates, intends, projects, estimates, may, might, would, should and similar expressions are intended to identify forward-looking statements as defined by the Private Securities Litigation Reform Act of 1995. These forward-looking statements involve a variety of risks and uncertainties that could cause actual results to differ materially from those described therein. These risks and uncertainties include, but are not limited to the following: changes in Medicare and other medical payment levels, adverse effects of a failure of the Federal government to fund government programs in which we participate, such as Medicare or Medicaid, adverse effects of a possible delay in the Federal budget process or a Federal government shutdown, 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 and manage our information systems, changes in or developments with respect to any litigation or investigations relating to the Company, including the United States Senate Committee on Finance inquiry, the SEC investigation and the U.S. Department of Justice Civil Investigative Demand 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, 2010, filed with the SEC on February 22, 2011, particularly Part I, Item 1A. Risk Factors therein, which are incorporated herein by reference and Part II, Item 1A. Risk Factors of this Quarterly Report on Form 10-Q. Additional risk factors may also be described in reports that we file from time to time with the SEC.

Available Information

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

Additionally, our filings can be obtained at the SEC's Public Reference Room at 100 F Street, NE, Room 1580, Washington, D.C. 20549. Information on the operation of the Public Reference Room may be obtained by calling the SEC at (800) SEC-0330. Our electronically filed reports can also be obtained on the SEC's internet site at <http://www.sec.gov>.

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

(Amounts in thousands, except share data)

(Unaudited)

	June 30, 2011	December 31, 2010
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 28,132	\$ 120,295
Patient accounts receivable, net of allowance for doubtful accounts of \$18,162 and \$20,977	153,273	141,549
Prepaid expenses	10,976	9,947
Other current assets	12,400	22,259
Total current assets	204,781	294,050
Property and equipment, net of accumulated depreciation of \$77,832 and \$78,074	144,446	138,554
Goodwill	901,611	791,412
Intangible assets, net of accumulated amortization of \$19,130 and \$17,135	62,331	53,393
Other assets, net	27,478	22,454
Total assets	\$ 1,340,647	\$ 1,299,863
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	\$ 21,843	\$ 20,663
Payroll and employee benefits	78,077	82,961
Accrued expenses	70,014	61,254
Current portion of long-term obligations	35,448	37,178
Current portion of deferred income taxes	10,408	14,285
Total current liabilities	215,790	216,341
Long-term obligations, less current portion	127,901	144,688
Deferred income taxes	61,516	52,286
Other long-term obligations	5,460	6,833
Total liabilities	410,667	420,148
Commitments and Contingencies - Note 6		
Equity:		
Preferred stock, \$0.001 par value, 5,000,000 shares authorized; none issued or outstanding		
Common stock, \$0.001 par value, 60,000,000 shares authorized; 30,575,814 and 29,867,701 shares issued; and 29,890,269 and 29,232,807 shares outstanding	30	29
Additional paid-in capital	422,273	407,156
Treasury stock at cost, 685,545 and 634,894 shares of common stock	(15,702)	(14,022)
Accumulated other comprehensive income	15	25
Retained earnings	521,612	484,669

Edgar Filing: AMEDISYS INC - Form 10-Q

Total Amedisys, Inc. stockholders' equity	928,228	877,857
Noncontrolling interests	1,752	1,858
Total equity	929,980	879,715
Total liabilities and equity	\$ 1,340,647	\$ 1,299,863

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 June 30,		For the Six-Month Periods Ended June 30,	
	2011	2010	2011	2010
Net service revenue	\$ 373,722	\$ 422,349	\$ 738,024	\$ 835,316
Cost of service, excluding depreciation and amortization	193,147	209,293	384,326	413,352
General and administrative expenses:				
Salaries and benefits	80,862	88,586	166,512	175,553
Non-cash compensation	3,205	3,168	5,115	5,681
Other	46,644	52,431	92,209	97,446
Provision for doubtful accounts	2,128	4,463	5,290	8,808
Depreciation and amortization	9,726	8,279	19,081	16,465
Operating expenses	335,712	366,220	672,533	717,305
Operating income	38,010	56,129	65,491	118,011
Other (expense) income:				
Interest income	89	92	207	177
Interest expense	(2,254)	(2,350)	(4,506)	(4,761)
Equity in earnings from unconsolidated joint ventures	466	734	789	1,522
Miscellaneous, net	(425)	(1,576)	(764)	(1,543)
Total other expense, net	(2,124)	(3,100)	(4,274)	(4,605)
Income before income taxes	35,886	53,029	61,217	113,406
Income tax expense	(14,175)	(20,663)	(24,182)	(44,210)
Net income	21,711	32,366	37,035	69,196
Net income attributable to noncontrolling interests	(55)	(164)	(91)	(348)
Net income attributable to Amedisys, Inc.	\$ 21,656	\$ 32,202	\$ 36,944	\$ 68,848
Net income per share attributable to Amedisys, Inc. common stockholders:				
Basic	\$ 0.76	\$ 1.15	\$ 1.30	\$ 2.46
Diluted	\$ 0.75	\$ 1.13	\$ 1.28	\$ 2.42
Weighted average shares outstanding:				
Basic	28,625	28,106	28,495	27,963
Diluted	29,010	28,597	28,938	28,478

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 June 30,	
	2011	2010
Cash Flows from Operating Activities:		
Net income	\$ 37,035	\$ 69,196
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	19,081	16,465
Provision for doubtful accounts	5,290	8,808
Non-cash compensation	5,115	5,681
401(k) employer match	3,332	11,467
Loss on disposal of property and equipment	1,313	2,019
Deferred income taxes	3,708	6,074
Equity in earnings of unconsolidated joint ventures	(789)	(1,522)
Amortization of deferred debt issuance costs	788	788
Return on equity investment	540	840
Changes in operating assets and liabilities, net of impact of acquisitions:		
Patient accounts receivable	(3,320)	(10,395)
Other current assets	10,117	11,256
Other assets	(6,364)	(2,915)
Accounts payable	(357)	5,368
Accrued expenses	2,398	1,641
Other long-term obligations	(1,374)	663
Net cash provided by operating activities	76,513	125,434
Cash Flows from Investing Activities:		
Proceeds from sale of deferred compensation plan assets	853	2,340
Purchases of deferred compensation plan assets	(379)	(1,018)
Purchases of property and equipment	(26,032)	(23,910)
Acquisitions of businesses, net of cash acquired	(125,977)	(2,721)
Acquisitions of reacquired franchise rights		(2,377)
Net cash used in investing activities	(151,535)	(27,686)
Cash Flows from Financing Activities:		
Proceeds from issuance of stock upon exercise of stock options and warrants	236	1,358
Proceeds from issuance of stock to employee stock purchase plan	2,731	3,012
Tax benefit from stock option exercises	(334)	2,192
Non-controlling interest distribution	(198)	(185)
Principal payments of long-term obligations	(19,576)	(22,583)
Net cash used in financing activities	(17,141)	(16,206)
Net (decrease) increase in cash and cash equivalents	(92,163)	81,542
Cash and cash equivalents at beginning of period	120,295	34,485

Edgar Filing: AMEDISYS INC - Form 10-Q

Cash and cash equivalents at end of period	\$ 28,132	\$ 116,027
Supplemental Disclosures of Cash Flow Information:		
Cash paid for interest	\$ 3,656	\$ 4,266
Cash paid for income taxes, net of refunds received	\$ 6,273	\$ 31,870
Supplemental Disclosures of Non-Cash Financing and Investing Activities:		
Notes payable issued for acquisitions	\$	\$ 750
Notes payable issued for software licenses	\$	\$ 10,801

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

Table of Contents

AMEDISYS, INC. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

Amedisys, Inc., a Delaware corporation, and its consolidated subsidiaries (Amedisys, we, us, or our) are a multi-state provider of home health and hospice services with approximately 84% and 86% of our revenue derived from Medicare for the three-month periods ended June 30, 2011 and 2010, respectively and approximately 85% and 87% of our revenue derived from Medicare for the six-month periods ended June 30, 2011 and 2010, respectively. As of June 30, 2011, we had 485 Medicare-certified home health and 90 Medicare-certified hospice agencies in 45 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, 2010 as filed with the Securities and Exchange Commission (SEC) on February 22, 2011 (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.

Principles of Consolidation

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

Equity Investments

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

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

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 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.

Table of Contents

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

Home Health Revenue Recognition

Medicare Revenue

Net service revenue is recorded under the Medicare prospective payment system (PPS) based on a 60-day episode payment rate that is subject to adjustment based on certain variables including, but not limited to: (a) an outlier payment if our patient's care was unusually costly (capped at 10% of total reimbursement per provider number); (b) a low utilization payment adjustment (LUPA) if the number of visits was fewer than five; (c) a partial payment if our patient transferred to another provider or we received a patient from another provider before completing the episode; (d) a payment adjustment based upon the level of therapy services required (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.

In addition to the items noted above, the Centers for Medicare and Medicaid Services (CMS) recently added two new provisions to PPS which was implemented April 1, 2011: (1) a face-to-face encounter requirement and (2) changes to the therapy assessment schedule which require additional patient evaluations and certifications. As a condition for Medicare payment, the first new provision mandates that prior to certifying a patient's eligibility for the home health benefit, the certifying physician must document that he or she, or an allowed non-physician practitioner, has had a face-to-face encounter with the patient. The encounter must occur in the timeframe of 90 days prior to the start of care or 30 days after the start of care. Documentation regarding these encounters must be present on certifications. Under the second new provision, CMS imposed therapy assessment requirements. An assessment by a professional qualified therapist must take place at least once every 30 days during a therapy patient's course of treatment. For those qualified patients expecting to require 13 or 19 therapy visits, a qualified therapist must perform the therapy service required, assess the patient, and measure and document effectiveness on the 13th visit and the 19th visit. This requirement applies to each therapy discipline caring for the patient, but the assessment may be performed close to, but no later than, the 13th and 19th visits. Management evaluates the potential for revenue adjustments as a result of these regulations, and when appropriate, provides allowances for losses based upon the best available information.

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

In addition to revenue recognized on completed episodes, we also recognize a portion of revenue associated with episodes in progress. Episodes in progress are 60-day episodes of care that begin during the reporting period, but were not completed as of the end of the period. We estimate this revenue on a monthly basis based upon historical trends. The primary factors underlying this estimate are the number of episodes in progress at the end of the reporting period, expected Medicare revenue per episode and our estimate of the average percentage complete based on visits performed. As of June 30, 2011 and 2010, the difference between the cash received from Medicare for a request for anticipated payment (RAP) on episodes in progress and the associated estimated revenue was immaterial and, therefore, the resulting credits were recorded as a reduction to our outstanding patient accounts receivable in our condensed consolidated balance sheets for such periods.

Non-Medicare Revenue

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

Non-episodic Based Revenue. Gross revenue is recorded on an accrual basis based upon the date of service at amounts equal to our established or estimated per-visit rates, as applicable. Contractual adjustments are recorded for the difference between our standard rates and the contracted rates to be realized from patients, third parties and others for services provided and are deducted from gross revenue to determine net service

Edgar Filing: AMEDISYS INC - Form 10-Q

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.

Table of Contents

Hospice Revenue Recognition

Hospice Medicare Revenue

Gross revenue is recorded on an accrual basis based upon the date of service at amounts equal to the estimated payment rates. The estimated payment rates are daily or hourly rates for each of the four levels of care we deliver. The four main levels of care we provide are routine care, general inpatient care, continuous home care and respite care. Routine care accounts for 97% of our total net Medicare hospice service revenue for the three and six-month periods ended June 30, 2011, respectively, as compared to 98% and 97% for the three and six-month periods ended June 30, 2010, respectively. We make adjustments to Medicare revenue for an inability to obtain appropriate billing documentation or authorizations acceptable to the payor and other reasons unrelated to credit risk. We estimate the impact of these adjustments based on our historical experience, which primarily includes our historical collection rate on Medicare claims, and record it during the period services are rendered as an estimated revenue adjustment and as a reduction to our outstanding patient accounts receivable.

Additionally, as Medicare hospice revenue is subject to an inpatient cap limit and an overall payment cap for each provider number, we monitor these caps and estimate amounts due back to Medicare if a cap has been exceeded. We record these adjustments as a reduction to revenue and an increase in other accrued liabilities. We have settled our Medicare hospice reimbursements for all fiscal years through October 31, 2009. For the cap years ended October 31, 2010 and October 31, 2011, we have \$3.2 million recorded for estimated amounts due back to Medicare in other accrued liabilities as of June 30, 2011 and \$1.9 million recorded as of December 31, 2010. As a result of our adjustments, we believe our revenue and patients accounts receivable are recorded at amounts that will be ultimately realized.

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

Hospice Non-Medicare Revenue

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

Patient Accounts Receivable

Our patient accounts receivable are uncollateralized and consist of amounts due from Medicare, Medicaid, other third-party payors and patients. There is no single payor, other than Medicare, that accounts for more than 10% of our total outstanding patient receivables, and thus we believe there are no other significant concentrations of receivables that would subject us to any significant credit risk in the collection of our patient accounts receivable. We fully reserve for accounts which are aged at 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.

We believe the credit risk associated with our Medicare accounts, which represent 71% and 76% of our net patient accounts receivable at June 30, 2011 and December 31, 2010, respectively, is limited due to (i) our historical collection rate of over 99% from Medicare and (ii) the fact that Medicare is a U.S. government payor. Accordingly, we do not record an allowance for doubtful accounts for our Medicare patient accounts receivable, which are recorded at their net realizable value after recording estimated revenue adjustments as discussed above. During the three and six-month periods ended June 30, 2011, we recorded \$2.5 million and \$4.9 million, respectively, in estimated revenue adjustments to Medicare revenue as compared to \$1.5 million and \$1.7 million during the three and six-month periods ended June 30, 2010, respectively.

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

Table of Contents*Medicare Home Health*

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

Medicare Hospice

For our hospice patients, our pre-billing process includes verifying that we are eligible for payment from Medicare for the services that we provide to our patients. Once each patient has been confirmed for eligibility, we will bill Medicare on a monthly basis for the services provided to the patient.

Non-Medicare Home Health and Hospice

For our non-Medicare patients, our pre-billing process primarily begins with verifying a patient's eligibility for services with the applicable payor. Once the patient has been confirmed for eligibility, we will provide services to the patient and bill the applicable payor. 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 receivable includes a detailed review of outstanding balances and special consideration to concentrations of receivables from particular payors or groups of payors with similar characteristics that would subject us to any significant credit risk. 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 (amounts in millions):

Financial Instrument	Fair Value at Reporting Date Using		
	Quoted Prices in Active Markets for Identical Items Significant Other Significant		
	As of June 30, 2011	(Level 1) Observable Inputs	(Level 2) Unobservable Inputs (Level 3)
Long-term obligations	\$ 163.3	\$	\$ 171.3

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

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

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

Edgar Filing: AMEDISYS INC - Form 10-Q

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

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

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

Weighted-Average Shares Outstanding

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

Table of Contents

attributable to Amedisys, Inc. common stockholders and the shares which were anti-dilutive to the computation (amounts in thousands):

	For the Three-Month Periods Ended June 30,		For the Six-Month Periods Ended June 30,	
	2011	2010	2011	2010
Weighted average number of shares outstanding - basic	28,625	28,106	28,495	27,963
Effect of dilutive securities:				
Stock options	80	151	86	163
Non-vested stock and stock units	305	340	357	352
Weighted average number of shares outstanding - diluted	29,010	28,597	28,938	28,478
Anti-dilutive securities	2	53		

Recently Issued Accounting Pronouncements

In June 2011, the FASB issued Accounting Standards Update (ASU) 2011-05, *Comprehensive Income (Topic 220): Presentation of Comprehensive Income* requiring entities to present net income and other comprehensive income in either a single continuous statement or in two separate, but consecutive, statements of net income and other comprehensive income. The option to present items of other comprehensive income in the statement of changes in equity is eliminated. The ASU is effective for fiscal years and interim periods within those years, beginning after December 15, 2011, with early adoption permitted. We do not expect the adoption of this ASU to have a material impact on our consolidated financial statements.

In July 2011, the FASB ratified the final Emerging Issues Task Force Consensus on Issue No. 09-H, *Health Care Entities: Presentation and Disclosure of Net Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts*. The Consensus will require health care entities to separately present bad debt expense related to patient service revenue as a reduction to patient service revenue (net of contractual allowances and discounts). Health care entities will be required to disclose qualitative and quantitative information about the activity in the allowance for doubtful accounts, and their policies for assessing collectability in determining the timing and amount of revenue and bad debt expense. The Consensus will be effective for fiscal years and interim periods within those years beginning after December 15, 2011, with early application permitted. Retrospective application will be required for presenting bad debt expense related to patient service revenue as a reduction of revenue. The expanded disclosures are required to be applied prospectively. We expect the adoption of this final Consensus to decrease our net service revenue by the amount of the provision for doubtful accounts recorded, which will decrease gross margin; however, it will have no effect on net income.

3. ACQUISITIONS

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

2011 Acquisitions

On June 7, 2011, we acquired Beacon Hospice, Inc. (Beacon) for a total purchase price of \$126.0 million, net of cash acquired (subject to certain adjustments), of which \$8.2 million was placed in escrow for indemnification purposes and working capital price adjustments. The purchase price was paid with cash on hand on the date of the transaction. Beacon owns and operates 22 hospice agencies and one inpatient unit servicing the states of Massachusetts, Maine, New Hampshire, Rhode Island and Connecticut. In connection with the acquisition, we recorded substantially the entire purchase price as goodwill (\$110.2 million), other intangibles (\$10.9 million) and other assets and liabilities, net (\$4.9 million).

Edgar Filing: AMEDISYS INC - Form 10-Q

The following table contains pro forma condensed consolidated income statement information assuming that the Beacon transaction closed on January 1, 2010, for the six-month periods ended June 30, 2011 and 2010 (amounts in thousands, except per share data):

	2011	2010
Net service revenue	\$ 771.7	\$ 865.3
Operating income	68.1	120.5
Net income	37.6	69.6
Basic earnings per share	\$ 1.32	\$ 2.49
Diluted earnings per share	\$ 1.30	\$ 2.44

Table of Contents**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, 2011 (amounts in millions):

	Home Health	Goodwill Hospice	Total
Balances at December 31, 2010	\$ 723.3	\$ 68.1	\$ 791.4
Additions		110.2	110.2
Balances at June 30, 2011	\$ 723.3	\$ 178.3	\$ 901.6

	Certificates of Need and Licenses	Other Intangible Assets, Net Acquired Names of Business (1)	Non-Compete Agreements & Reacquired Franchise Rights (2)	Total
Balances at December 31, 2010	\$ 41.7	\$ 4.7	\$ 7.0	\$ 53.4
Additions	2.5	8.1	0.3	10.9
Amortization		(0.1)	(1.9)	(2.0)
Balances at June 30, 2011	\$ 44.2	\$ 12.7	\$ 5.4	\$ 62.3

- (1) Acquired Names of Business includes \$12.5 million of unamortized acquired names and \$0.2 million of amortized acquired names which have a weighted-average amortization period of 2.3 years.
- (2) The weighted-average amortization period of our non-competes agreements and reacquired franchise rights is 2.3 and 2.0 years, respectively.

5. LONG-TERM OBLIGATIONS

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

	June 30, 2011	December 31, 2010
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
\$150.0 million 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 (0.94% at June 30, 2011); due March 26, 2013	52.5	67.5
Promissory notes	10.8	14.4
	163.3	181.9

Edgar Filing: AMEDISYS INC - Form 10-Q

Current portion of long-term obligations	(35.4)	(37.2)
Total	\$ 127.9	\$ 144.7

Revolving Credit Facility

On May 26, 2011, we entered into a First Amendment to our \$250.0 Million Revolving Credit Facility (the *First Amendment*). Under the terms of the First Amendment, (i) the financial covenant baskets relating to permitted *Investments in Joint Ventures* and *other Investments* were increased to give the Company greater flexibility, (ii) there was a non-substantive, clarifying amendment to the definition of *Permitted Acquisition* and (iii) certain other agreements, obligations and representations and warranties of the parties thereto were amended, modified and/or supplemented. In connection with the execution of the First Amendment, each existing guarantor under the Credit Agreement consented to the terms of the First Amendment.

Our weighted-average interest rate for our five year Term Loan for the three and six-month periods ended June 30, 2011 was 1.0% as compared to 1.1% for the three and six-month periods ended June 30, 2010.

As of June 30, 2011, our total leverage ratio (used to compute the margin and commitment fees, described in more detail in Note 6 of the financial statements included in our Form 10-K) was 0.9 and our fixed charge coverage ratio was 1.5.

Table of Contents

As of June 30, 2011, our availability under our \$250.0 million Revolving Credit Facility was \$231.3 million as we had \$18.7 million outstanding in letters of credit.

See Note 6 of the financial statements included in our Form 10-K for additional details on our outstanding long-term obligations.

6. COMMITMENTS AND CONTINGENCIES

Legal Proceedings

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

United States Senate Committee on Finance Inquiry

On May 12, 2010, we received a letter of inquiry from the United States Senate Committee on Finance requesting documents and information relating to our policies and practices regarding home therapy visits and therapy utilization trends. A similar letter was sent to the other major publicly traded home health care companies. We are cooperating with the Committee with respect to this inquiry.

Securities Class Action Lawsuits

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