AMEDISYS INC
Form 10-Q
November 12, 2013

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 September 30, 2013

or

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

For the transition period from to

Commission File Number: 0-24260

AMEDISYS, INC.

(Exact Name of Registrant as Specified in its Charter)

Delaware	**11-3131700**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

5959 S. Sherwood Forest Blvd., Baton Rouge, LA 70816

(Address of principal executive offices, including zip code)

(225) 292-2031 or (800) 467-2662

(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x 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 x 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	x
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 x

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, 32,460,456 shares outstanding as of November 7, 2013.

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SPECIAL CAUTION CONCERNING FORWARD-LOOKING STATEMENTS

When included in this Quarterly Report on Form 10-Q, or in other documents that we file with the Securities and Exchange Commission (SEC) or in statements made by or on behalf of the Company, words like believes, belief, expects, plans, anticipates, intends, projects, estimates, may, might, would, should and similar expressions are intended to identify forward-looking statements as defined by the Private Securities Litigation Reform Act of 1995. These forward-looking statements involve a variety of risks and uncertainties that could cause actual results to differ materially from those described therein. These risks and uncertainties include, but are not limited to the following: changes in Medicare and other medical payment levels, our ability to open care centers, acquire additional care centers and integrate and operate these care centers effectively, our ability to divest care centers currently held for sale, 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, our ability to agree on the terms of a settlement to resolve both the U.S. Department of Justice investigation and the Stark Law Self-Referral matter or fund required settlement payments in the manner currently contemplated and changes in law or developments with respect to any litigation or investigations relating to the Company, including the SEC investigation, the OIG Self-Disclosure issues and various other matters, many of which are beyond our control.

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

Available Information

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

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

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

AMEDISYS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(Amounts in thousands, except share data)

(Unaudited)

	September 30, 2013	December 31, 2012
ASSETS		
Current assets:		
Cash and cash equivalents	$ 43,626	$ 14,545
Patient accounts receivable, net of allowance for doubtful accounts of $15,601 and $20,994	111,149	169,172
Prepaid expenses	11,460	10,631
Deferred income taxes	57,008	
Other current assets	9,819	11,440
Assets held for sale	1,348	
Total current assets	234,410	205,788
Property and equipment, net of accumulated depreciation of $125,392 and $113,154	160,077	156,709
Goodwill	208,126	209,594
Intangible assets, net of accumulated amortization of $24,926 and $23,457	42,332	47,050
Deferred tax asset	83,123	92,804
Other assets, net	26,501	18,650
Total assets	$ 754,569	$ 730,595
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	$ 24,362	$ 29,175
Accrued charge related to U.S. Department of Justice settlement	150,000	
Payroll and employee benefits	68,923	79,341
Accrued expenses	54,340	54,855
Current portion of long-term obligations	34,855	35,807
Current portion of deferred income taxes		5,609
Total current liabilities	332,480	204,787
Long-term obligations, less current portion	36,000	66,904
Other long-term obligations	8,297	4,671
Total liabilities	376,777	276,362
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; 33,278,397, and 31,876,508 shares issued; and 32,409,474 and 31,086,619 shares outstanding	33	32
Additional paid-in capital	462,962	450,792

Treasury Stock at cost 868,923, and 789,889 shares of common stock	(18,080)	(17,116)
Accumulated other comprehensive income	15	15
Retained earnings	(67,932)	18,617
Total Amedisys, Inc. stockholders equity	376,998	452,340
Noncontrolling interests	794	1,893
Total equity	377,792	454,233
Total liabilities and equity	$ 754,569	$ 730,595

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

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AMEDISYS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Amounts in thousands, except per share data)

(Unaudited)

	For the Three-Month Periods Ended September 30, 2013	For the Three-Month Periods Ended September 30, 2012	For the Nine-Month Periods Ended September 30, 2013	For the Nine-Month Periods Ended September 30, 2012
Net service revenue	$ 301,639	$ 364,343	$ 947,165	$ 1,090,673
Cost of service, excluding depreciation and amortization	175,483	206,970	539,582	612,929
General and administrative expenses:				
Salaries and benefits	73,993	78,711	229,123	246,155
Non-cash compensation	1,653	1,284	4,933	6,065
Other	40,360	46,760	123,734	135,564
Provision for doubtful accounts	3,971	5,487	12,531	15,788
Depreciation and amortization	10,471	9,771	32,152	29,375
U.S. Department of Justice settlement	150,000		150,000	
Operating expenses	455,931	348,983	1,092,055	1,045,876
Operating (loss) income	(154,292)	15,360	(144,890)	44,797
Other income (expense):				
Interest income	18	10	40	52
Interest expense	(687)	(1,982)	(2,523)	(6,058)
Equity in earnings from equity investments	354	390	1,054	1,091
Gain on sale of care centers	1,451		1,808	
Miscellaneous, net	5,102	(9)	5,296	298
Total other income (expense), net	6,238	(1,591)	5,675	(4,617)
(Loss) income before income taxes	(148,054)	13,769	(139,215)	40,180
Income tax benefit (expense)	56,962	(3,332)	53,454	(14,296)
(Loss) income from continuing operations	(91,092)	10,437	(85,761)	25,884
Discontinued operations, net of tax	(686)	(442)	(2,036)	(2,460)
Net (loss) income	(91,778)	9,995	(87,797)	23,424
Net loss (income) attributable to noncontrolling interests	709	(73)	1,248	(200)
Net (loss) income attributable to Amedisys, Inc.	$ (91,069)	$ 9,922	$ (86,549)	$ 23,224
Basic earnings per common share:				
(Loss) income from continuing operations attributable to Amedisys, Inc. common stockholders	$ (2.87)	$ 0.34	$ (2.72)	$ 0.86
Discontinued operations, net of tax	(0.02)	(0.01)	(0.06)	(0.08)
Net (loss) income attributable to Amedisys, Inc. common stockholders	$ (2.89)	$ 0.33	$ (2.78)	$ 0.78
Weighted average shares outstanding	31,505	30,055	31,102	29,741

Diluted earnings per common share:								
(Loss) income from continuing operations attributable to Amedisys, Inc. common stockholders	$	(2.87)	$	0.34	$	(2.72)	$	0.85
Discontinued operations, net of tax		(0.02)		(0.01)		(0.06)		(0.08)
Net (loss) income attributable to Amedisys, Inc. common stockholders	$	(2.89)	$	0.33	$	(2.78)	$	0.77
Weighted average shares outstanding		31,505		30,423		31,102		30,068
Amounts attributable to Amedisys, Inc. common stockholders:								
(Loss) income from continuing operations	$	(90,383)	$	10,364	$	(84,513)	$	25,684
Discontinued operations, net of tax		(686)		(442)		(2,036)		(2,460)
Net (loss) income	$	(91,069)	$	9,922	$	(86,549)	$	23,224

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

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AMEDISYS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME

(Amounts in thousands)

(Unaudited)

	For the Three-Month Periods Ended September 30, 2013	For the Three-Month Periods Ended September 30, 2012	For the Nine-Month Periods Ended September 30, 2013	For the Nine-Month Periods Ended September 30, 2012
Net (loss) income	$ (91,778)	$ 9,995	$ (87,797)	$ 23,424
Other comprehensive income				
Unrealized gain on deferred compensation plan assets				2
Comprehensive (loss) income	(91,778)	9,995	(87,797)	23,426
Comprehensive loss (income) attributable to non-controlling interests	709	(73)	1,248	(200)
Comprehensive (loss) income attributable to Amedisys, Inc.	$ (91,069)	$ 9,922	$ (86,549)	$ 23,226

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

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AMEDISYS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in thousands)

(Unaudited)

	For the Nine-Month Periods Ended September 30, 2013	2012
Cash Flows from Operating Activities:		
Net (loss) income	$ (87,797)	$ 23,424
Adjustments to reconcile net income to net cash provided by operating activities:		
U.S. Department of Justice settlement	150,000	
Depreciation and amortization	28,730	30,046
Provision for doubtful accounts	12,853	16,286
Non-cash compensation	4,933	6,065
401(k) employer match	6,200	7,575
Loss on disposal of property and equipment	1,239	1,066
Gain on sale of care centers	(1,808)	
Deferred income taxes	(53,611)	8,599
Write off of intangible assets	3,828	
Equity in earnings of equity investments	(1,054)	(1,091)
Amortization of deferred debt issuance costs	548	1,182
Return on equity investment	975	1,050
Changes in operating assets and liabilities, net of impact of acquisitions:		
Patient accounts receivable	45,170	(31,686)
Other current assets	1,409	2,875
Other assets	(2,069)	(483)
Accounts payable	(8,111)	194
Accrued expenses	(11,198)	(10,815)
Other long-term obligations	3,625	(421)
Net cash provided by operating activities	93,862	53,866
Cash Flows from Investing Activities:		
Proceeds from sale of deferred compensation plan assets	128	239
Proceeds from the sale of property and equipment	126	609
Purchases of deferred compensation plan assets	(93)	(155)
Purchases of property and equipment	(28,983)	(32,198)
Purchase of investments	(9,732)	
Acquisitions of businesses, net of cash acquired	(627)	(8,744)
Proceeds from dispositions of care centers	3,725	
Net cash used in investing activities	(35,456)	(40,249)
Cash Flows from Financing Activities:		
Proceeds from issuance of stock upon exercise of stock options and warrants	258	145
Proceeds from issuance of stock to employee stock purchase plan	2,436	2,934
Non-controlling interest distribution	(163)	(105)
Proceeds from revolving line of credit	25,500	
Repayments of revolving line of credit	(25,500)	
Principal payments of long-term obligations	(31,856)	(25,489)

Net cash used in financing activities	(29,325)	(22,515)
Net increase (decrease) in cash and cash equivalents	29,081	(8,898)
Cash and cash equivalents at beginning of period	14,545	48,004
Cash and cash equivalents at end of period	$ 43,626	$ 39,106
Supplemental Disclosures of Cash Flow Information:		
Cash paid for interest	$ 2,384	$ 6,896
Cash paid for income taxes, net of refunds received	$ 3,235	$ 1,620
Supplemental Disclosures of Non-Cash Financing and Investing Activities:		
Notes payable issued for software licenses	$	$ 2,214
Acquired non-controlling interests	$ 312	$

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

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AMEDISYS, INC. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

Amedisys, Inc., a Delaware corporation, and its consolidated subsidiaries (Amedisys, we, us, or our) are a multi-state provider of home heal and hospice services with approximately 84% of our revenue derived from Medicare for the three and nine-month periods ended September 30, 2013 and approximately 82% for the three and nine-month periods ended September 30, 2012. As of September 30, 2013, we owned and operated 405 Medicare-certified home health care centers, including 28 care centers held for sale, 94 Medicare-certified hospice care centers and one hospice inpatient unit in 37 states within the United States, the District of Columbia and Puerto Rico.

Basis of Presentation

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

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

Use of Estimates

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

Reclassifications and Comparability

Certain reclassifications have been made to prior period s financial statements in order to conform to the current period s presentation. We exited three home health care centers during 2012, and have committed to a plan to divest approximately 28 care centers. In accordance with applicable accounting guidance, the results of operations for these care centers are presented in discontinued operations in our condensed consolidated financial statements. See Note 3 for additional information regarding our discontinued operations. In addition during 2013, we have consolidated 32 care centers with care centers servicing the same markets, which may affect the comparability of our operating results.

Principles of Consolidation

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

Investments

We consolidate investments when the entity is a variable interest entity and we are the primary beneficiary or if we have controlling interests in the entity, which is generally ownership in excess of 50%. During the three-month period ended September 30, 2013, we recorded a $1.3 million goodwill impairment charge related to an investment we currently consolidate. Third party equity interests in our consolidated joint ventures are reflected as noncontrolling interests in our condensed consolidated financial statements.

During the three-month period ended September 30, 2013, we sold a 30% interest in three of our care centers while maintaining controlling interests in the newly formed joint venture. We are accounting for this investment as a consolidated joint venture. The total cash consideration was $1.6 million resulting in a gain of $1.4 million.

We account for investments in entities in which we have the ability to exercise significant influence under the equity method if we hold 50% or less of the voting stock and the entity is not a variable interest entity in which we are the primary beneficiary. The book value of investments that we accounted for under the equity method of accounting was $8.8 million as of September 30, 2013 and $4.8 million as of December 31, 2012. We account for investments in entities in which we have less than a 20% ownership interest under the cost method of accounting if we do not have the ability to exercise significant influence over the investee. The aggregate carrying amount of our cost method investment, which was acquired during the three-month period ended March 31, 2013, was $5.0 million as of September 30, 2013.

AMEDISYS, INC. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Revenue Recognition

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

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

Home Health Revenue Recognition

Medicare Revenue

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

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

In addition to revenue recognized on completed episodes, we also recognize a portion of revenue associated with episodes in progress. Episodes in progress are 60-day episodes of care that begin during the reporting period, but were not completed as of the end of the period. We estimate this revenue on a monthly basis based upon historical trends. The primary factors underlying this estimate are the number of episodes in progress at the end of the reporting period, expected Medicare revenue per episode and our estimate of the average percentage complete based on visits performed. As of September 30, 2013 and 2012, the difference between the cash received from Medicare for a request for anticipated payment (RAP) on episodes in progress and the associated estimated revenue was immaterial and, therefore, the resulting credits were recorded as a reduction to our outstanding patient accounts receivable in our condensed consolidated balance sheets for such periods.

Non-Medicare Revenue

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

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

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AMEDISYS, INC. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Hospice Revenue Recognition

Hospice Medicare Revenue

Gross revenue is recorded on an accrual basis based upon the date of service at amounts equal to the estimated payment rates. The estimated payment rates are daily or hourly rates for each of the four levels of care we deliver. The four levels of care are routine care, general inpatient care, continuous home care and respite care. Routine care accounts for 100% and 99% of our total net Medicare hospice service revenue for the three and nine-month periods ended September 30, 2013, respectively, as compared to 100% and 98% for the three and nine-month periods ended September 30, 2012, respectively. We make adjustments to Medicare revenue for an inability to obtain appropriate billing documentation, acceptable authorizations or face to face documentation and other reasons unrelated to credit risk. We estimate the impact of these adjustments based on our historical experience, which primarily includes our historical collection rate on Medicare claims, and record it during the period services are rendered as an estimated revenue adjustment and as a reduction to our outstanding patient accounts receivable.

Additionally, as Medicare hospice revenue is subject to an inpatient cap limit and an overall payment cap for each provider number, we monitor these caps and estimate amounts due back to Medicare if a cap has been exceeded. We record these adjustments as a reduction to revenue and an increase in other accrued liabilities. We have settled our Medicare hospice reimbursements for all fiscal years through October 31, 2011. For the Federal cap years ended October 31, 2012 and October 31, 2013, we have $3.0 million and $4.8 million recorded for estimated amounts due back to Medicare in other accrued liabilities as of September 30, 2013 and December 31, 2012, respectively. As a result of our adjustments, we believe our revenue and patients accounts receivable are recorded at amounts that will be ultimately realized.

Hospice Non-Medicare Revenue

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

Patient Accounts Receivable

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

We believe the credit risk associated with our Medicare accounts, which represent 70% and 68% of our net patient accounts receivable at September 30, 2013 and December 31, 2012, respectively, is limited due to our historical collection rate of over 99% from Medicare and the fact that Medicare is a U.S. government payor. Accordingly, we do not record an allowance for doubtful accounts for our Medicare patient accounts receivable, which are recorded at their net realizable value after recording estimated revenue adjustments as discussed above. During the three and nine-month periods ended September 30, 2013, we recorded $2.5 million and $9.1 million, respectively, in estimated revenue adjustments to Medicare as compared to $2.7 million and $7.4 million during the three and nine-month periods ended September 30, 2012, respectively.

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

Medicare Home Health

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

Medicare Hospice

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

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AMEDISYS, INC. AND SUBSIDIARIES

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(Unaudited)

Non-Medicare Home Health and Hospice

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

Fair Value of Financial Instruments

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

		Fair Value at Reporting Date Using		
Financial Instrument	**As of September 30, 2013**	**Quoted Prices in Active Markets for Identical Items (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Long-term obligations	$ 70.9	$	$ 70.3	$

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

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

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

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

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

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

Income Taxes

We use the asset and liability approach for measuring deferred tax assets and liabilities based on temporary differences existing at each balance sheet date using currently enacted tax rates. Our deferred tax calculation requires us to make certain estimates about future operations. Deferred tax assets are reduced by a valuation allowance when we believe it is more likely than not that some portion or all of the deferred tax assets will not be realized.

During our annual review of our tax filing we determined the statutory rate applied to deferred tax balances should be increased from 39.0% to 39.5% based on changes in the company s geographic footprint. This increase in the statutory rate created a discrete income statement benefit of $1.5 million during the three-month period ended September 30, 2013. In addition, during the quarter we increased our current deferred tax asset by $59.2 million and increased its reserve for uncertain tax positions by $3.1 million related to the agreement in principle regarding the U.S. Department of Justice investigation and the Stark Law Self-Referral matter. See Note 6 for additional information on the agreement in principle.

Weighted-Average Shares Outstanding

Net (loss) 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 (loss) income attributable to Amedisys, Inc. common stockholders (amounts in thousands):

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	For the Three-Month Periods Ended September 30,		For the Nine-Month Periods Ended September 30,	
	2013	2012	2013	2012
Weighted average number of shares outstanding basic	31,505	30,055	31,102	29,741
Effect of dilutive securities:				
Stock options		20		16
Non-vested stock and stock units		348		311
Weighted average number of shares outstanding diluted	31,505	30,423	31,102	30,068