

Addus HomeCare Corp  
Form 10-Q  
May 09, 2013  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

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

For the quarterly period ended March 31, 2013

OR

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

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

Commission file number 001-34504

**ADDUS HOMECARE CORPORATION**

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(Exact name of registrant as specified in its charter)

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

**20-5340172**  
(I.R.S. Employer  
Identification No.)

**2401 South Plum Grove Road**

**Palatine, Illinois**  
(Address of principal executive offices)

**60067**  
(Zip code)

**(847) 303-5300**  
(Registrant's telephone number, including area code)

**Not Applicable**

(Former name, former address and former fiscal year, if changed since last report)

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 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 definition 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 .

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

**Common Stock \$0.001 par value**

**Shares outstanding at May 2, 2013: 10,891,438**



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**ADDUS HOMECARE CORPORATION**

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**Table of Contents****PART I FINANCIAL INFORMATION****Item 1. Financial Statements****ADDUS HOMECARE CORPORATION****AND SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS****As of March 31, 2013 and December 31, 2012****(amounts and shares in thousands, except per share data)****(Unaudited)**

	<b>March 31, 2013</b>	<b>December 31, 2012</b>
<b>Assets</b>		
Current assets		
Cash	\$ 17,784	\$ 1,737
Accounts receivable, net of allowances of \$4,361 and \$4,466 at March 31, 2013 and December 31, 2012, respectively	60,640	71,303
Prepaid expenses and other current assets	5,515	7,293
Assets held for sale, net		245
Deferred tax assets	7,258	7,258
Total current assets	91,197	87,836
Property and equipment, net of accumulated depreciation and amortization	2,476	2,489
Other assets		
Goodwill	50,496	50,536
Intangibles, net of accumulated amortization	6,030	6,370
Deferred tax assets		2,328
Investment in joint ventures	900	
Other assets	251	298
Total other assets	57,677	59,532
Total assets	\$ 151,350	\$ 149,857
<b>Liabilities and stockholders equity</b>		
Current liabilities		
Accounts payable	\$ 4,818	\$ 4,117
Accrued expenses	35,635	32,717
Current maturities of long-term debt		208
Deferred revenue	17	2,148
Total current liabilities	40,470	39,190

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Deferred tax liabilities	3,097	
Long-term debt, less current maturities		16,250
<b>Total liabilities</b>	<b>43,567</b>	<b>55,440</b>
Commitments, contingencies and other matters		
Stockholders' equity		
Common stock \$ .001 par value; 40,000 authorized and 10,882 and 10,823 shares issued and outstanding as of March 31, 2013 and December 31, 2012, respectively		
	11	11
Additional paid-in capital	82,883	82,778
Retained earnings	24,889	11,628
<b>Total stockholders' equity</b>	<b>107,783</b>	<b>94,417</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 151,350</b>	<b>\$ 149,857</b>

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

**Table of Contents****ADDUS HOMECARE CORPORATION****AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF INCOME****For the Three Months Ended March 31, 2013 and 2012****(amounts and shares in thousands, except per share data)****(Unaudited)**

	<b>For the Three Months Ended March 31,</b>	
	<b>2013</b>	<b>2012</b>
Net service revenues	\$ 62,998	\$ 58,889
Cost of service revenues	47,200	43,865
<b>Gross profit</b>	<b>15,798</b>	<b>15,024</b>
General and administrative expenses	11,510	11,570
Gain on sale of agency		(495)
Depreciation and amortization	546	631
<b>Total operating expenses</b>	<b>12,056</b>	<b>11,706</b>
Operating income from continuing operations	3,742	3,318
Total interest expense	208	404
Income from continuing operations before income taxes	3,534	2,914
Income tax expense	847	1,168
Net income from continuing operations	2,687	1,746
Discontinued operations:		
Loss from home health business, net of tax	(537)	(1,117)
Gain on sale of home health business, net of tax	11,111	
Earnings (losses) from discontinued operations	10,574	(1,117)
<b>Net income</b>	<b>\$ 13,261</b>	<b>\$ 629</b>
Net income (loss) per common share		
Basic and diluted		
Continuing operations	\$ 0.25	\$ 0.16
Discontinued operations	0.98	(0.10)
Basic and diluted income (loss) per share	\$ 1.23	\$ 0.06
Weighted average number of common shares and potential common shares outstanding:		
Basic	10,778	10,756
Diluted	10,845	10,760

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.





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**ADDUS HOMECARE CORPORATION**

**AND SUBSIDIARIES**

**CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY**

**For the Three Months Ended March 31, 2013**

**(amounts and shares in thousands)**

**(Unaudited)**

	Common Stock		Additional	Retained	Total
	Shares	Amount	Paid-In Capital	Earnings	Stockholders Equity
Balance at December 31, 2012	10,823	\$ 11	\$ 82,778	\$ 11,628	\$ 94,417
Issuance of shares of common stock under restricted stock award agreements	59				
Stock-based compensation			105		105
Net income				13,261	13,261
Balance at March 31, 2013	10,882	\$ 11	\$ 82,883	\$ 24,889	\$ 107,783

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements

**Table of Contents****ADDUS HOMECARE CORPORATION****AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****For the Three Months Ended March 31, 2013 and 2012****(amounts in thousands)****(Unaudited)**

	<b>For the Three Months Ended March 31,</b>	
	<b>2013</b>	<b>2012</b>
Cash flows from operating activities		
Net income	\$ 13,261	\$ 629
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	546	634
Deferred income taxes	5,425	
Stock-based compensation	105	67
Amortization of debt issuance costs	47	57
Provision for doubtful accounts	813	850
Gain on sale of home health business	(18,838)	
Gain on sale of agency		(495)
Changes in operating assets and liabilities:		
Accounts receivable	9,850	(2,318)
Prepaid expenses and other current assets	1,649	631
Accounts payable	701	(1,546)
Accrued expenses	(391)	137
Deferred revenue	(143)	71
<b>Net cash provided by (used in) operating activities</b>	<b>13,025</b>	<b>(1,283)</b>
Cash flows from investing activities		
Net proceeds from sale of home health business	19,659	
Net proceeds from sale of agency		495
Purchases of property and equipment	(179)	(288)
<b>Net cash provided by investing activities</b>	<b>19,480</b>	<b>207</b>
Cash flows from financing activities		
Net payments on term loan	(208)	(625)
Net payments on credit facility	(16,250)	2000
Payments on subordinated dividend notes		(1,000)
<b>Net cash (used in) provided by financing activities</b>	<b>(16,458)</b>	<b>375</b>
Net change in cash	16,047	(701)
Cash, at beginning of period	1,737	2,020
Cash, at end of period	\$ 17,784	\$ 1,319
Supplemental disclosures of cash flow information		

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Cash paid for interest	\$	213	\$	371
Cash paid for income taxes		880		963
Supplemental disclosures of non-cash investing and financing activities				
Tax benefit related to the amortization of tax goodwill in excess of book basis		40		40

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements

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**ADDUS HOMECARE CORPORATION**

**AND SUBSIDIARIES**

**Notes to Condensed Consolidated Financial Statements**

**(amounts and shares in thousands)**

**(Unaudited)**

**1. Summary of Significant Accounting Policies**

The consolidated financial statements include the accounts of Addus HomeCare Corporation ( Holdings ) and its subsidiaries (together with Holdings, the Company or we ). The Company provides home and community based services through a network of locations throughout the United States. These services are primarily performed in the homes of the consumers. The Company s home and community based services include assistance to the elderly, chronically ill and disabled with bathing, grooming, dressing, personal hygiene and medication reminders, and other activities of daily living. Home and community based services are primarily performed under agreements with state and local governmental agencies.

***Discontinued Operations***

On February 7, 2013, subsidiaries of Holdings entered into an Asset Purchase Agreement with LHC Group, Inc. and certain of its subsidiaries (the Home Health Purchase Agreement ). Pursuant to the Home Health Purchase Agreement, effective March 1, 2013, the purchasers agreed to acquire substantially all the assets of the Company s home health business in Arkansas, Nevada and South Carolina and 90% of its home health business in California and Illinois, with the Company retaining 10% ownership in such locations, for cash consideration of \$20,000.

The Company s home health services were operated through licensed and Medicare certified offices that provided physical, occupational and speech therapy, as well as skilled nursing services to pediatric, adult infirm and elderly patients. Home health services were reimbursed from Medicare, Medicaid and Medicaid-waiver programs, commercial insurance and private payors (see note 2).

***Principles of Consolidation***

All intercompany balances and transactions have been eliminated in consolidation. Our investment in entities with less than 20% ownership or in which the Company does not have the ability to influence the operations of the investee are being accounted for using the cost method and are included in investment in joint ventures.

***Revenue Recognition***

The Company generates net service revenues by providing services directly to consumers. The Company receives payments for providing services from federal, state and local governmental agencies, commercial insurers and private individuals. Our continuing operations, which includes the results of operations previously included in our home and community segment and three agencies previously included in our home health segment, are principally provided based on authorized hours, determined by the relevant agency, at an hourly rate specified in agreements or fixed by legislation and recognized as revenues at the time services are rendered. Home and community based service revenues are reimbursed by state, local and other governmental programs which are partially funded by Medicaid or Medicaid waiver programs, with the remainder reimbursed through private duty and insurance programs.

Laws and regulations governing the Medicaid and Medicare programs are complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates may change in the near term. The Company believes that it is in compliance in all material respects with all applicable laws and regulations.

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**ADDUS HOMECARE CORPORATION**

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**Notes to Condensed Consolidated Financial Statements (Continued)**

**(amounts and shares in thousands)**

**(Unaudited)**

***Allowance for Doubtful Accounts***

The Company establishes its allowance for doubtful accounts to the extent it is probable that a portion or all of a particular account will not be collected. The Company estimates its provision for doubtful accounts primarily by aging receivables utilizing eight aging categories, and applying its historical collection rates to each aging category, taking into consideration factors that might impact the use of historical collection rates or payor groups, with certain large payors analyzed separately from other payor groups. In the Company's evaluation of these estimates, it also considers delays in payment trends in individual states due to budget or funding issues, billing conversions related to acquisitions or internal systems, resubmission of bills with required documentation and disputes with specific payors. An allowance for doubtful accounts is maintained at a level management believes is sufficient to cover potential losses. However, actual collections could differ from our estimates.

***Goodwill***

The Company's carrying value of goodwill is the residual of the purchase price over the fair value of the net assets acquired from various acquisitions including the acquisition of Addus HealthCare, Inc. (Addus HealthCare). In accordance with Accounting Standards Codification (ASC) Topic 350, *Goodwill and Other Intangible Assets*, goodwill and intangible assets with indefinite useful lives are not amortized. The Company tests goodwill for impairment on an annual basis, as of October 1, or whenever potential impairment triggers occur, such as a significant change in business climate or regulatory changes that would indicate that an impairment may have occurred. Goodwill and indefinite lived intangible assets are required to be tested for impairment at least annually. The Company may use a qualitative test, known as Step 0 or a two-step quantitative method to determine whether impairment has occurred. In Step 0, the Company can elect to perform an optional qualitative analysis and based on the results skip the two step analysis. In 2012, the Company elected to implement Step 0 and was not required to conduct the remaining two step analysis.

***Intangible Assets***

The Company's identifiable intangible assets consist of customer and referral relationships, trade names, trademarks, state licenses and non-compete agreements. Amortization is computed using straight-line and accelerated methods based upon the estimated useful lives of the respective assets, which range from two to 25 years.

ASC Topic 350 requires that the fair value of intangible assets with indefinite lives be estimated and compared to the carrying value. The Company estimates the fair value of these intangible assets using the income approach. Intangible assets with finite lives are amortized using the estimated economic benefit method over the useful life and assessed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable based on estimated undiscounted cash flows. The Company recognizes an impairment loss when the estimated fair value of the intangible asset is less than the carrying value. No impairment charge was recorded for the three months ended March 31, 2013 or 2012.

The income approach, which the Company uses to estimate the fair value of its intangible assets, is dependent on a number of factors including estimates of future market growth and trends, forecasted revenue and costs, expected periods the assets will be utilized, appropriate discount rates and other variables. The Company bases its fair value estimates on assumptions the Company believes to be reasonable but which are unpredictable and inherently uncertain. Actual future results may differ from those estimates. In addition, the Company makes certain judgments about the selection of comparable companies used in the market approach in determining valuation.

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**ADDUS HOMECARE CORPORATION**

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**Notes to Condensed Consolidated Financial Statements (Continued)**

**(amounts and shares in thousands)**

**(Unaudited)**

***Long-Lived Assets***

The Company reviews its long-lived assets and definite lived intangibles (except goodwill and finite lived intangible assets, as described above) for impairment whenever changes in circumstances indicate that the carrying amount of an asset may not be recoverable. To determine if impairment exists, the Company compares the estimated future undiscounted cash flows from the related long-lived assets to the net carrying amount of such assets. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized for the amount by which the carrying amount of the asset exceeds the estimated fair value of the asset, generally determined by discounting the estimated future cash flows. No impairment charge was recorded for the three months ended March 31, 2013 or 2012.

***Income Taxes***

The Company accounts for income taxes under the provisions of ASC Topic 740, *Income Taxes*. The objective of accounting for income taxes is to recognize the amount of taxes payable or refundable for the current year and deferred tax liabilities and assets for the future tax consequences of events that have been recognized in its financial statements or tax returns. Deferred taxes, resulting from differences between the financial and tax basis of the Company's assets and liabilities, are also adjusted for changes in tax rates and tax laws when changes are enacted. ASC Topic 740 also requires that deferred tax assets be reduced by a valuation allowance if it is more likely than not that some portion or all of the deferred tax asset will not be realized. ASC Topic 740, also prescribes a recognition threshold and measurement process for recording in the financial statements uncertain tax positions taken or expected to be taken in a tax return. In addition, ASC Topic 740 provides guidance on derecognition, classification, accounting in interim periods and disclosure requirements for uncertain tax positions.

***Stock-based Compensation***

The Company has two stock incentive plans, the 2006 Stock Incentive Plan (the 2006 Plan) and the 2009 Stock Incentive Plan (the 2009 Plan) that provide for stock-based employee compensation. The Company accounts for stock-based compensation in accordance with ASC Topic 718, *Stock Compensation*. Compensation expense is recognized on a graded method under the 2006 Plan and on a straight-line basis under the 2009 Plan over the vesting period of the awards based on the fair value of the options and restricted stock awards. Under the 2006 Plan, the Company historically used the Black-Scholes option pricing model to estimate the fair value of its stock based payment awards, but beginning October 28, 2009 under its 2009 Plan it began using an enhanced Hull-White Trinomial model. The determination of the fair value of stock-based payments utilizing the Black-Scholes model and the Enhanced Hull-White Trinomial model is affected by Holdings' stock price and a number of assumptions, including expected volatility, risk-free interest rate, expected term, expected dividends yield, expected forfeiture rate, expected turn-over rate, and the expected exercise multiple.

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**ADDUS HOMECARE CORPORATION**

**AND SUBSIDIARIES**

**Notes to Condensed Consolidated Financial Statements (Continued)**

**(amounts and shares in thousands)**

**(Unaudited)**

***Net Income Per Common Share***

Net income (loss) per common share, calculated on the treasury stock method, is based on the weighted average number of shares outstanding during the period. The Company's outstanding securities that may potentially dilute the common stock are stock options and restricted stock awards.

Included in the Company's calculation for the three months ended March 31, 2013 were 715 stock options of which 517 were out-of-the money and therefore anti-dilutive and 95 restricted stock awards with 18 included in the weighted diluted shares outstanding.

For the three months ended March 31, 2012 the Company had 775 stock options, all of which were out-of-the money and therefore anti-dilutive and 19 restricted stock awards with 4 included in the weighted diluted shares outstanding.

***Estimates***

The financial statements are prepared by management in conformity with GAAP and include estimated amounts and certain disclosures based on assumptions about future events. Accordingly, actual results could differ from those estimates.

***Recent Accounting Pronouncements***

The Company does not believe any recently issued, but not yet effective, accounting standards will have a material effect on the Company's consolidated financial position, results of operations, or cash flows.

**2. Discontinued Operations**

During December 2012, in anticipation of the sale of substantially all of the assets used in its home health business (the Home Health Business), the Company reported the operating results of the Home Health Business as discontinued operations in accordance with ASC 360-10-45

*Impairment or Disposal of Long-Lived Assets.* On February 7, 2013, the Company entered into the Home Health Purchase Agreement, pursuant to which subsidiaries of LHC Group, Inc. agreed to acquire substantially all the assets of the Home Health Business in Arkansas, Nevada and South Carolina and 90% of the Home Health Business in California and Illinois, with the Company retaining 10% ownership in such locations, for cash consideration of \$20,000. The transaction was consummated effective March 1, 2013. In addition, the results of discontinued operations include one home health agency being held for sale and one home health agency that closed in January of 2013.

The Company has included the financial results of the Home Health Business in discontinued operations for all periods presented. Assets sold to the purchasers are presented as assets held for sale, net, on the accompanying consolidated balance sheet as of December 31, 2012. In connection with the discontinued operations presentation, certain financial statement footnotes have also been updated to reflect the impact of discontinued operations.

The following table presents the net service revenues and earnings attributable to discontinued operations, which include the financial results for the three months ended March 31, 2013 and 2012:

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	For the Three Months ended March 31,	
	2013	2012
Net service revenues	\$ 6,476	\$ 9,035
Loss before income taxes	(911)	(1,847)
Income tax benefit	(374)	(730)
Net loss from discontinued operations	\$ (537)	\$ (1,117)



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**ADDUS HOMECARE CORPORATION**

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**Notes to Condensed Consolidated Financial Statements (Continued)**

**(amounts and shares in thousands)**

**(Unaudited)**

The following table presents the net gain on the sale of the Home Health Business, which was recorded March 1, 2013.

Gain before income taxes	\$ 18,838
Income tax expenses	7,727
Net income (loss) from discontinued operations	\$ 11,111

The only class of assets for discontinued operations reflected as assets held for sale, net, as of December 31, 2012 was as follows:

	<b>December 31, 2012</b>
Property and equipment, net of accumulated depreciation and amortization	\$ 245

Pursuant to the Home Health Purchase Agreement, the Company retained \$4,115 and \$7,123 of accounts receivable, net as of March 31, 2013 and December 31, 2012. In addition, the Company retained the related accrued expenses and accounts payable associated with the Home Health Business as of December 31, 2012.

**3. Sale of Agency**

During February 2012, the Company completed its sale of a home health agency located in Portland, OR for approximately \$525 with net proceeds of approximately \$495 after the payment of closing related expenses. The Company recorded a \$495 pre-tax gain on the sale of the agency.

**4. Goodwill and Intangible Assets**

The Company's carrying value of goodwill is the residual of the purchase price over the fair value of the net assets acquired from various acquisitions including the acquisition of Addus HealthCare. In accordance with Accounting Standards Codification (ASC) Topic 350, Goodwill and Other Intangible Assets, goodwill and intangible assets with indefinite useful lives are not amortized. The Company tests goodwill for impairment on an annual basis, as of October 1, or whenever potential impairment triggers occur, such as a significant change in business climate or regulatory changes that would indicate that impairment may have occurred.

Goodwill is required to be tested for impairment at least annually. The Company can elect to perform Step-0 an optional qualitative analysis and based on the results skip the remaining two steps. In 2012, the Company elected to implement Step 0 and was not required to conduct the remaining two step analysis.

In performing its goodwill assessment for 2012, the Company evaluated the following factors that affect future business performance: macroeconomic conditions, industry and market considerations, cost factors, overall financial performance, entity-specific events and company stock price. As a result of the assessment of these qualitative factors, the Company has concluded that it is more likely than not that the fair value

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of the Company as of December 31, 2012 exceeded its carrying value. Accordingly, the first and second steps of the goodwill impairment test as described in FASB ASC 350-20-35, which includes estimating the fair value of the Company, are not considered necessary for the Company.

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The Company did not record any impairment charges for the three months ended March 31, 2013 or 2012. The Company will perform its annual impairment test for fiscal 2013 during the fourth quarter of 2013.

The following is a summary of the goodwill activity for the three months ended March 31, 2013:

Goodwill, at December 31, 2012	\$ 50,536
Adjustments to previously recorded goodwill	(40)
<b>Goodwill, at March 31, 2013</b>	<b>\$ 50,496</b>

The Company's identifiable intangible assets consist of customer and referral relationships, trade names, trademarks, state licenses and non-compete agreements. Amortization is computed using straight-line and accelerated methods based upon the estimated useful lives of the respective assets, which range from two to 25 years.

The Company also has indefinite-lived assets that are not subject to amortization expense such as certificates of need and licenses to conduct specific operations within geographic markets. The Company has concluded that certificates of need and licenses have indefinite lives, as management has determined that there are no legal, regulatory, contractual, economic or other factors that would limit the useful life of these intangible assets and the Company intends to renew and operate the certificates of need and licenses indefinitely. The certificates of need and licenses are tested annually for impairment using the cost approach. Under this method assumptions are made about the cost to replace the certificates of need. No impairment charges were recorded in the three months ended March 31, 2013 and 2012.

The Company will perform its annual impairment test for fiscal 2013 during the fourth quarter of 2013.

The following is a summary of the intangible assets and indefinite-lived asset activity as of March 31, 2013:

	<b>Gross Carrying Amount</b>	<b>Accumulated Amortization</b>	<b>Net Carrying Amount</b>
Customer and referral relationships	\$ 24,908	\$ 20,318	\$ 4,590
Trade names and trademarks	4,081	2,833	1,248
State licenses	150		150
Non-competition agreements	408	366	42
	<b>\$ 29,547</b>	<b>\$ 23,517</b>	<b>\$ 6,030</b>



**Table of Contents****ADDUS HOMECARE CORPORATION****AND SUBSIDIARIES****Notes to Condensed Consolidated Financial Statements (Continued)**

(amounts and shares in thousands)

(Unaudited)

**5. Details of Certain Balance Sheet Accounts**

Prepaid expenses and other current assets consisted of the following:

	<b>March 31, 2013</b>	<b>December 31, 2012</b>
Prepaid health insurance	\$ 2,110	\$ 4,062
Prepaid workers compensation and liability insurance	515	1,056
Prepaid rent	186	181
Workers compensation insurance receivable	1,531	953
Other	1,173	1,041
	<b>\$ 5,515</b>	<b>\$ 7,293</b>

Accrued expenses consisted of the following:

	<b>March 31, 2013</b>	<b>December 31, 2012</b>
Accrued payroll	\$ 9,591	\$ 11,539
Accrued workers compensation insurance	13,527	12,452
Accrued payroll taxes	2,418	1,481
Accrued health insurance	2,167	3,469
Accrued amounts to purchaser	1,988	
Accrued taxes	3,078	1,223
Accrued interest		51
Current portion of contingent earn-out obligation (1)	689	689
Other	2,177	1,813
	<b>\$ 35,635</b>	<b>\$ 32,717</b>

- (1) The Company acquired certain assets of Advantage Health Systems, Inc. ( Advantage ) in July 2010. The purchase agreement for the acquisition of Advantage contained a provision for earn-out payments contingent upon the achievement of certain performance targets. The sellers of Advantage disagree with the Company's calculation of the earn-out payment and the parties have agreed to have an arbitrator determine the amount of the second earn-out payment. The final earn-out payment is expected to be made during the second quarter of 2013.



**Table of Contents****ADDUS HOMECARE CORPORATION****AND SUBSIDIARIES****Notes to Condensed Consolidated Financial Statements (Continued)****(amounts and shares in thousands)****(Unaudited)****6. Long-Term Debt**

Long-term debt consisted of the following:

	<b>March 31, 2013</b>	<b>December 31, 2012</b>
Revolving credit loan	\$	\$ 16,250
Term loan		208
<b>Total</b>		<b>16,458</b>
Less current maturities		(208)
<b>Long-term debt</b>	<b>\$</b>	<b>\$ 16,250</b>

**Senior Secured Credit Facility**

The Company's credit facility provides a \$55.0 million revolving line of credit expiring November 2, 2014, includes a \$15.0 million sublimit for the issuance of letters of credit and included a \$5.0 million term loan that matured and was paid on January 5, 2013. Substantially all of the subsidiaries of Holdings are co-borrowers, and Holdings has guaranteed the borrowers' obligations under the credit facility. The credit facility is secured by a first priority security interest in all of Holdings' and the borrowers' current and future tangible and intangible assets, including the shares of stock of the borrowers.

On July 26, 2010, the Company entered into an amendment to its credit facility, which provided for a new term loan component of the credit facility in the aggregate principal amount of \$5,000 with a maturity date of January 5, 2013. The term loan was repaid when due on January 5, 2013.

On July 26, 2011, the Company entered into another amendment to its credit facility, which modified the Company's maximum senior leverage ratio from 3.00 to 1.00 to 3.25 to 1.00 for each twelve month period ending on the last day of each fiscal quarter beginning with the twelve month period ended June 30, 2011 and increased the advance multiple used to determine the amount of the borrowing base from 3.0 to 1.0 to 3.25 to 1.0.

During the fourth quarter of 2011, the lenders under the Company's credit facility permitted the Company to add back approximately \$1,800 to adjusted EBITDA for the purpose of determining availability under the credit facility. The effect of the add back was to increase availability by approximately \$5,800 until March 1, 2012. On March 1, 2012, the add back allowance was reduced by \$200 and was reduced by \$200 on the first day of each month thereafter until the add back was eliminated, which resulted in a reduction in availability of \$650 on the first day of each month thereafter until the add back was eliminated. The add-back was eliminated on December 1, 2012. During the second quarter of 2012, the lenders under the Company's credit facility agreed to a modified interpretation of the credit facility as it relates to the calculation of the fixed charge ratio, which provides the Company with increased flexibility in meeting this covenant. The credit facility contains customary affirmative, negative and financial covenants with which the Company was in compliance at March 31, 2013.





**Table of Contents****ADDUS HOMECARE CORPORATION****AND SUBSIDIARIES****Notes to Condensed Consolidated Financial Statements (Continued)****(amounts and shares in thousands)****(Unaudited)**

The availability of funds under the revolving credit portion of the credit facility, as amended, is based on the lesser of (i) the product of adjusted EBITDA, as defined in the credit facility agreement, for the most recent 12-month period for which financial statements have been delivered under the credit facility agreement multiplied by the specified advance multiple, up to 3.25, less the outstanding senior indebtedness and letters of credit, and (ii) \$55,000 less the outstanding revolving loans and letters of credit. Interest on the amounts outstanding under the revolving credit portion of the credit facility is payable either at a floating rate equal to the 30-day LIBOR, plus an applicable margin of 4.6% or the LIBOR rate for term periods of one, two, three or six months plus a margin of 4.6%. Interest will be paid monthly or at the end of the relevant interest period, as determined in accordance with the credit facility agreement. The borrowers will pay a fee equal to 0.5% per annum of the unused portion of the revolving portion of the credit facility. Issued stand-by letters of credit will be charged at a rate of 2.0% per annum payable monthly. On March 31, 2013 the interest rate on the revolving credit loan facility was 4.8% (30 day LIBOR rate was 0.2%). The total availability under the revolving credit loan facility was \$47,590 at March 31, 2013 compared to \$27,137 at December 31, 2012.

**7. Income Taxes**

A reconciliation of the continuing operations statutory federal tax rate of 35% and 34% for the three months ended March 31, 2013 and 2012 is summarized as follows:

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2013</b>	<b>2012</b>
Federal income tax a statutory rate	35.0%	34.0%
State and local taxes, net of federal benefit	6.1	5.9
Jobs tax credits, net (1)	(18.9)	
Non deductible meals and entertainment, other	1.8	0.2
<b>Long-term debt</b>	<b>24.0%</b>	<b>40.1%</b>

- (1) Included in the jobs tax credit for the three months ended March 31, 2013 was a one time benefit of 14.7% reduction in our statutory tax rate for the jobs tax credits earned in 2012 but not recorded until 2013. The Federal employment opportunity tax credits were reinstated in 2013 and were not an allowable deduction in 2012.

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**ADDUS HOMECARE CORPORATION**

**AND SUBSIDIARIES**

**Notes to Condensed Consolidated Financial Statements (Continued)**

**(amounts and shares in thousands)**

**(Unaudited)**

**8. Segment Data**

The Company has historically segregated its results into two distinct reporting segments: the home & community segment and the home health segment. As a result of the sale of the Home Health Business, the Company has reported the operating results for the Home Health Business in discontinued operations. Therefore, all of the Company's operations are reported as one operating segment.

**9. Commitments and Contingencies**

*Legal Proceedings*

The Company is a party to legal and/or administrative proceedings arising in the ordinary course of its business. It is the opinion of management that the outcome of such proceedings will not have a material effect on the Company's financial position and results of operations.

*Indemnification Obligations*

Pursuant to the Home Health Purchase Agreement, the Company is obligated to indemnify the purchasers for, among other things, (i) penalties, fines, judgments and settlement amounts arising from a violation of certain specified statutes, including the False Claims Act, the 19 Civil Monetary Penalties Law, the federal Anti-Kickback Statute, the Ethics in Patient Referral Act or any state law equivalent in connection with the operation of the Home Health Business prior to the closing, and (ii) any liability related to the failure of any reimbursement claim submitted to certain government programs for services rendered by the Home Health Business prior to the closing to meet the requirements of such government programs, or any violation prior to the closing of any health care laws. Such liabilities include amounts to be recouped by, or repaid to, such government programs as a result of improperly submitted claims for reimbursement or those discovered as a result of audits by investigative agencies. All services that the Company has provided that have been or may be reimbursed by Medicare are subject to retroactive adjustments and/or total denial of payments received from Medicare under various review and audit provisions included in the program regulations. The review period is generally described as six years from the date the services are provided but could be expanded to ten years under certain circumstances if fraud is found to have existed at the time of original billing. In the event that there are adjustments relating to the period prior to the closing, the Company may be required to reimburse the purchasers or the government for the amount of such adjustments, which could adversely affect the Company's business and financial condition. The Company has not established a liability reserve for these obligations and at this time cannot determine the probability of requiring the reserve nor the estimated value of such reserve.

*Employment Agreements*

The Company has entered into employment agreements with certain members of senior management. The terms of these agreements are up to four years and include non-compete and nondisclosure provisions, as well as provide for defined severance payments in the event of termination.

**10. Significant Payors**

A substantial portion of the Company's net service revenues and accounts receivables are derived from services performed for federal, state and local governmental agencies. One state governmental agency accounted for 59.5% and 55.1% of the Company's net service revenues for the three months ended March 31, 2013 and 2012, respectively.

The related receivables due from Medicare and the state agency represented 5% and 68%, respectively, of the Company's accounts receivable at March 31, 2013, and 7% and 69%, respectively, of the Company's accounts receivable at December 31, 2012.



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

*You should read the following discussion together with our unaudited condensed consolidated financial statements and the related notes. This discussion contains forward-looking statements about our business and operations. Our actual results may differ materially from those we currently anticipate.*

**Overview**

We are a comprehensive provider of home and community based services, which are primarily social in nature and are provided in the home, focused on the dual eligible population. Our services include personal care and assistance with activities of daily living, and adult day care. Our consumers are individuals with special needs who are at risk of hospitalization or institutionalization, such as the elderly, chronically ill and disabled. Our payor clients include federal, state and local governmental agencies, commercial insurers and private individuals. We provide home and community based services through over 96 locations across 19 states to over 25,000 consumers.

Effective March 1, 2013, we sold substantially all of the assets used in our home health business (the Home Health Business) in Arkansas, Nevada and South Carolina, and 90% of the Home Health Business in California and Illinois, to subsidiaries of LHC Group, Inc. (the Purchasers) for a cash purchase price of approximately \$20 million. We retained a 10% ownership interest in the Home Health Business in California and Illinois. The assets sold included 19 home health agencies and two hospice agencies in five states. Through these home health agencies, we previously provided physical, occupational and speech therapy, as well as skilled nursing services, to pediatric, adult infirm and elderly patients. We are also holding as an asset for sale an agency located in Pennsylvania and we closed an agency in Idaho in January 2013. The results of the Home Health Business sold or held for sale are reflected as discontinued operations for all periods presented herein. Continuing operations include the results of operations previously included in our home & community segment and three agencies previously included in our home health segment. Following the sale of the Home Health Business, we manage and internally report our business in one segment.

We believe the sale of the Home Health Business substantially positions us for future growth. The sale allows us to focus both management and financial resources to address changes in the home and community based services industry and to address the needs of managed care organizations as they become responsible for state sponsored programs. We have improved our financial performance by lowering our administrative costs and concentrating our efforts on the business that is growing and providing all of our profitability and disposing of the business that was unprofitable. We have improved our overall financial position by eliminating our debt and adding substantial amounts in cash reserves to our balance sheet. A summary of our results for the three months ended March 31, 2013 and 2012 are provided in the table below:

	<b>For the Three Months Ended March 31,</b>		
	<b>2013</b>	<b>2012</b>	<b>Percent Change</b>
Net service revenues continuing operations	\$ 62,998	\$ 58,889	7.0%
Net service revenues discontinued operations	6,476	9,035	(28.3)%
Net income from continuing operations	2,687	1,746	53.9%
Gain on sale of Home Health Business	11,111		N/A
Loss from discontinued operations	(537)	(1,117)	(51.9)
Net income	\$ 13,261	\$ 629	N/A

The home and community based services we provide are primarily social in nature and include assistance with bathing, grooming, dressing, personal hygiene and medication reminders, and other activities of daily living. We provide these services on a long-term, continuous basis, with an average duration of approximately 17 months per consumer. Our adult day centers provide a comprehensive program of skilled and support services and designated medical services for adults in a community-based group setting. Services provided by our adult day centers include social activities, transportation services to and from the centers, the provision of meals and snacks, personal care and therapeutic activities such as exercise and cognitive interaction.

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We utilize a coordinated care model that is designed to enhance consumer outcomes and satisfaction as well as lower the cost of acute care treatment and reduce service duplication. Through our coordinated care model, we utilize our home care aides to observe and report changes in the condition of our consumers for the purpose of early intervention in the disease process, thereby preventing or reducing the cost of medical services by avoiding emergency room visits, and/or reducing the need of hospitalization. These changes in condition are evaluated by appropriately trained managers and referred to appropriate medical personnel including the primary care physicians and managed care plans for treatment and follow-up. We will coordinate the services provided by our team with those of selected health care agencies. We believe this approach to the provision of care to our consumers and the integration of our services into the broader healthcare industry is particularly attractive to managed care providers and others who are ultimately responsible for the healthcare needs of our consumers and over time will increase our business with them.

Our ability to grow our net service revenues is closely correlated with the number of consumers to whom we provide our services. Our continued growth depends on our ability to maintain our existing payor client relationships, establish relationships with new payors, enter into new contracts and increase our referral sources. Our continued growth is also dependent upon the authorization by state agencies of new consumers to receive our services. We believe there are several market opportunities for growth. The U.S. population of persons aged 65 and older is growing, and the U.S. Census Bureau estimates that this population will more than double by 2050. Additionally, we believe the overwhelming majority of individuals in need of care generally prefer to receive care in their homes or community-based settings. Finally, we believe the provision of home and community based services is more cost-effective than the provision of similar services in an institutional setting for long-term care.

We have historically grown our business primarily through organic growth, complemented with selective acquisitions. Our acquisitions have historically been focused on facilitating entry into new states.

On July 26, 2010, we entered into an Asset Purchase Agreement (the *Purchase Agreement*), pursuant to which we acquired the operations and certain assets of Advantage Health Systems, Inc., a South Carolina corporation (*Advantage*). Advantage is a provider of home and community based services in South Carolina and Georgia, which expanded our services across 19 states. The total consideration payable pursuant to the Purchase Agreement was \$8.3 million, comprised of \$5.1 million in cash, common stock consideration with a deemed value of \$1.2 million resulting in the issuance of 248,000 common shares, a maximum of \$2.0 million in future cash consideration subject to the achievement of certain performance targets set forth in an earn-out agreement and the assumption of certain specified liabilities. In April 2011, we paid the first earn-out payment of \$0.5 million to the sellers of Advantage. During the fourth quarter of 2011 we completed a revaluation of the remaining contingent earn-out obligation and recorded a reduction of approximately \$0.5 million with a remaining obligation of \$0.7 million as of December 31, 2012. The sellers of Advantage disagree with our calculation of the second earn-out payment. The dispute has been submitted to an arbitrator and the final payment is expected to be made during the second quarter of 2013.

**Business**

The results of the Home Health Business sold are reflected as discontinued operations for all periods presented herein. Continuing operations include the results of operations previously included in our home & community segment and three agencies previously included in our home health segment. Following the sale of the Home Health Business, we manage and internally report our business in one segment.

We provided our home and community based services through over 96 locations across 19 states as of March 31, 2013 and December 31, 2012.

Our payor clients are principally federal, state and local governmental agencies. The federal, state and local programs under which they operate are subject to legislative, budgetary and other risks that can influence reimbursement rates. Our commercial insurance carrier payor clients are typically for profit companies and are continuously seeking opportunities to control costs. We are seeking to grow our private duty business.

For the three months ended March 31, 2013 and 2012 our payor revenue mix for continuing operations was:

	For the Three Months ended	
	March 31,	
	2013	2012
State, local and other governmental programs	95.0%	95.3%
Commercial	1.1	0.9
Private duty	3.9	3.8



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We derive a significant amount of our net service revenues from our continuing operations in Illinois, which represented 65.5% and 61.9% of our total net service revenues from continuing operations for the three months ended March 31, 2013 and 2012, respectively.

A significant amount of our net service revenues from continuing operations are derived from one payor client, the Illinois Department on Aging, which accounted for 59.5% and 55.1% of our total net service revenues from continuing operations for the three months ended March 31, 2013 and 2012, respectively.

We also measure the performance of our business using a number of different metrics. We consider billable hours, billable hours per business day, revenues per billable hour and the number of consumers, or census.

On April 2, 2013, the Centers for Medicare and Medicaid Services published final regulations for implementation of the increased Federal Medical Assistance Percentage ( FMAP ) payments for the Medicaid program under the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2012 (collectively, both laws are referred to herein as the Health Reform Act ). Under the Health Reform Act, the FMAP to states to cover individuals who are newly eligible is 100% for calendar years 2014-2016 and gradually decreases by 2020 to 90%. States that already covered individuals who otherwise became eligible for Medicaid under the Health Reform Act ( Expansion States ) will receive a much lower 2.2% FMAP increase. Expansion States will receive the enhanced FMAP payment for those individuals who previously did not qualify for Medicaid. The final rule, among other things, establishes methodologies for states to determine who is newly eligible. Thus, we expect that not all states in which we do business will receive enhanced FMAP payments or substantial enhanced FMAP payments.

### *Components of our Statements of Operations*

#### ***Net Service Revenues***

We generate net service revenues from continuing operations by providing our services directly to individuals. We receive payment for providing such services from our payor clients, including federal, state and local governmental agencies, commercial insurers and private individuals.

Net service revenues from continuing operations are typically generated based on services rendered and reimbursed on an hourly basis. Our net service revenues from continuing operations were generated principally through reimbursements by state, local and other governmental programs which are partially funded by Medicaid programs, and to a lesser extent from private duty and insurance programs. Net service revenues from continuing operations are principally provided based on authorized hours, determined by the relevant agency, at an hourly rate, which is either contractual or fixed by legislation, and recognized as net service revenues at the time services are rendered.

#### ***Cost of Service Revenues***

We incur direct care wages, payroll taxes and benefit-related costs from continuing operations in connection with providing our services. We also provide workers' compensation and general liability coverage for these employees.

Employees are also reimbursed for their travel time and related travel costs.

#### ***General and Administrative Expenses***

Our general and administrative expenses from continuing operations consist of expenses incurred in connection with our activities and as part of our central administrative functions.

Our general and administrative expenses from continuing operations consist principally of supervisory personnel, care coordination and office administration costs. These expenses include wages, payroll taxes and benefit-related costs; facility rent; operating costs such as utilities, postage, telephone and office expenses; and bad debt expense. We have initiated efforts to centralize administrative tasks currently conducted at the branch locations. The costs related to these initiatives are included in the general and administrative expenses from continuing operations. Other centralized expenses from continuing operations include administrative departments of accounting, information systems, human resources, billing and collections and contract administration, as well as national program coordination efforts for marketing and private duty. These expenses primarily consist of compensation, including stock-based compensation, payroll taxes, and related benefits; legal, accounting and other professional fees; rents and related facility costs; and other operating costs such as software application costs, software implementation costs, travel, general insurance and bank account maintenance fees.

*Depreciation and Amortization Expenses*

We amortize our intangible assets with finite lives, consisting of customer and referral relationships, trade names, trademarks and non-compete agreements, principally on accelerated methods based upon their estimated useful lives. Depreciable assets consist



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principally of furniture and equipment, network administration and telephone equipment, and operating system software. Depreciable and leasehold assets are depreciated or amortized on a straight-line method over their useful lives or, if less and if applicable, their lease terms.

***Interest Income***

Legislation enacted in Illinois entitles designated service program providers to receive a prompt payment interest penalty based on qualifying services approved for payment that remain unpaid after a designated period of time. As the amount and timing of the receipt of these payments are not certain, the interest income is recognized when received and reported in the income statement caption, interest income. While we may be owed additional prompt payment interest, the amount and timing of receipt of such payments remains uncertain and we have determined that we will continue to recognize prompt payment interest income when received. The state amended its prompt payment interest terms, effective July 1, 2011, which changed the measurement period for outstanding invoices from a 60-day to a 90-day outstanding period. We believe this change in terms will reduce future amounts paid for prompt payment interest.

***Interest Expense***

Interest expense from continuing operations consists of interest costs on our credit facility and other debt instruments.

***Income Tax Expense***

All of our income from continuing operations is from domestic sources. We incur state and local taxes in states in which we operate. The differences from the federal statutory rate of 35% are principally due to state taxes and the use of federal employment tax credits.

***Gain on Sale of the Home Health Business, Net of Tax***

Gain on sale of the home health business, net of tax consists of the results of the gain, net of tax we recorded for selling our Home Health Business effective March 1, 2013.

***Discontinued Operations***

Discontinued operations consists of the results of operations, net of tax for our Home Health Business that was sold effective March 1, 2013 and the results of operations of assets held for sale.

**Table of Contents****Results of Operations**

Three Months Ended March 31, 2013 Compared to Three Months Ended March 31, 2012

The following table sets forth, for the periods indicated, our consolidated results of operations.

	For the Three Months Ended March 31, 2013		2012		Change	
	Amount	% of Net Service Revenues	Amount	% of Net Service Revenues	Amount	%
	(in thousands, except percentages)					
Net service revenues	\$ 62,998	100.0%	\$ 58,889	100.0%	\$ 4,109	7.0%
Cost of service revenues	47,200	74.9	43,865	74.5	3,335	7.6
Gross profit	15,798	25.1	15,024	25.5	774	5.2
General and administrative expenses	11,510	18.3	11,570	19.6	(60)	(0.5)
Gain on sale of agency			(495)	(0.8)	495	(100.0)
Depreciation and amortization	546	0.9	631	1.1	(85)	(13.5)
Total operating expenses	12,056	19.1	11,706	19.9	350	3.0
Operating income from continuing operations	3,742	5.9	3,318	5.6	424	12.8
Total interest expense	208	0.3	404	0.7	(196)	(48.5)
Income from continuing operations before income taxes	3,534	5.6	2,914	4.9	620	21.3
Income tax expense	847	1.3	1,168	2.0	(321)	(27.5)
Net income from continuing operations	2,687	4.3	1,746	3.0	941	53.9
Discontinued operations:						
Loss from home health business, net of tax	(537)	(0.9)	(1,117)	(1.9)	580	(51.9)
Gain on sale of the home health business, net of tax	11,111	17.6			11,111	*
Net income from discontinued operations	10,574	16.8	(1,117)	(1.9)	11,691	*
Net income	\$ 13,261	21.0%	\$ 629	1.1%	\$ 12,632	*%
Business Metrics						
Average billable census	25,817		24,525		1,292	5.3%
Billable hours (in thousands)	3,714		3,470		244	7.0
Average Billable hours per census per month	48		47		1	2.1
Billable hours per business day	58,031		53,354		4,677	8.8
Revenues per billable hour	\$ 16.96		\$ 16.97		\$ (0.01)	(0.1)%

\* Percentage information not meaningful

Net service revenues from state, local and other governmental programs accounted for 95.0% and 95.3% of net service revenues for the three months ended March 31, 2013 and 2012, respectively. Private duty and, to a lesser extent, commercial payors accounted for the remainder of net service revenues.

Net service revenues increased \$4.1 million, or 7.0%, to \$63.0 million for the three months ended March 31, 2013 compared to \$58.9 million for the same period in 2012. The increase was primarily due to a 5.3% increase in average census increase and a related 7.0% increase in billable

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hours.

Gross profit, expressed as a percentage of net service revenues, decreased to 25.1% for the three months ended March 31, 2013, from 25.5% in 2012. This decrease as a percent of revenue of 0.4% is primarily due to an increase in auto claim expenses, partially offset by an increase in the average billed hours per census per month while leveraging the fixed wage cost for field staff.

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General and administrative expenses, expressed as a percentage of net service revenues decreased to 19.1% for the three months ended March 31, 2013, from 19.9% for the three months ended March 31, 2012. General and administrative expenses decreased to \$11.5 million as compared to \$11.6 million for the three months ended March 31, 2013 and 2012, respectively. The decrease in general and administrative expenses was due to a decrease in our bad debt expense for the three months ended 2013 as compared to 2012.

Depreciation and amortization, expressed as a percentage of net service revenues, decreased to 0.9% from 1.1% for the three months ended March 31, 2013 and 2012, respectively. Amortization of intangibles, which are principally amortized using accelerated methods, totaled \$0.3 million and \$0.4 million for the three months ended March 31, 2013 and 2012, respectively.

***Interest Income***

Legislation enacted in Illinois entitles designated service program providers to receive a prompt payment interest penalty based on qualifying services approved for payment that remain unpaid after a designated period of time. As the amount and timing of the receipt of these payments are not certain, the interest income is recognized when received and reported in the income statement caption, interest income. While we may be owed additional prompt payment interest, the amount and timing of receipt of such payments remains uncertain and we have determined that we will continue to recognize prompt payment interest income when received. The state amended its prompt payment interest terms, effective July 1, 2011, which changed the measurement period for outstanding invoices from a 60-day to a 90-day outstanding period. We believe this change in terms will reduce future amounts paid for prompt payment interest. We did not receive any prompt payment interest income for the three months ended March 31, 2013 or 2012.

***Interest Expense***

Interest expense was \$0.2 million and \$0.4 million for the three months ended March 31, 2013 and 2012, respectively. Interest expense decreased \$0.2 million primarily due to a reduction in outstanding debt.

***Income Tax Expense (Benefit)***

Our effective tax rates from continuing operations for the three months ended March 31, 2013 and 2012 were 24.0% and 40.1%, respectively. The principal difference between the Federal and State statutory rates and our effective tax rate is Federal employment opportunity tax credits. The Federal employment opportunity tax credits were reinstated in 2013 and were not an allowable deduction in 2012.

**Table of Contents*****Discontinued Operations***

During the fourth quarter of fiscal year 2012, we announced that we were pursuing strategic alternatives for our Home Health Business, and in February 2013, we entered into the Home Health Purchase Agreement. Following the sale, we have segregated the Home Health Business operating results and presented them separately as discontinued operations for all periods presented (see note 2 Discontinued Operations of the Notes to the Consolidated Financial Statements included herein).

The table below depicts the results of discontinued operations.

	For the Three Months Ended March 31, 2013		2012		Change	
	Amount	% of Net Service Revenues	Amount	% of Net Service Revenues	Amount	%
	(in thousands, except percentages)					
Net service revenues	\$ 6,476	100.0%	\$ 9,035	100.0%	\$ (2,559)	(28.3)%
Cost of service revenues	3,713	57.3	5,418	60.0	(1,705)	(31.5)
Gross profit	2,763	42.7	3,617	40.0	(854)	(23.6)
General and administrative expenses	3,674	56.7	5,461	60.4	(1,787)	(32.7)
Depreciation and amortization			3	0.0	(3)	(100.0)
Operating income (loss) from discontinued operations	(911)	(14.1)	(1,847)	(20.4)	936	(50.7)
Income tax (benefit)	(374)	(5.8)	(730)	(8.1)	356	(48.8)
Loss from home health business, net of tax	\$ (537)	(8.3)%	\$ (1,117)	(12.4)%	\$ 580	(51.9)%

The losses were primarily due to reduced sales, higher costs to treat consumers and our inability to reduce fixed general and administrative costs at a rate consistent with revenue declines.

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### ***Liquidity and Capital Resources***

#### *Overview*

Our primary sources of liquidity are cash from operations and borrowings under our credit facility. At March 31, 2013 and December 31, 2012, we had cash balances of \$17.8 million and \$1.7 million, respectively. The increase in cash balance between December 31, 2012 and March 31, 2013 is primarily attributable to the cash received from the purchasers for our Home Health Business and increased collections on outstanding accounts receivable which were offset by payments on our line of credit and term loan.

Cash flows from operating activities represent the inflow of cash from our payor clients and the outflow of cash for payroll and payroll taxes, operating expenses, interest and taxes. Due to its revenue deficiencies and financing issues, the State of Illinois has reimbursed us on a delayed basis with respect to our various agreements including with our largest payor, the Illinois Department on Aging. The open receivable balance from the State of Illinois decreased by \$8.0 million, to \$45.2 million as of March 31, 2013 from \$53.2 million as of December 31, 2012.

The State of Illinois continues to reimburse us on a delayed basis. These payment delays have adversely impacted, and may further adversely impact, our liquidity, and may result in the need to increase borrowings under our credit facility. Delayed reimbursements from our other state payors have also contributed to the increase in our receivable balances.

Our credit facility provides a \$55.0 million revolving line of credit expiring November 2, 2014, includes a \$15.0 million sublimit for the issuance of letters of credit and previously included a \$5.0 million term loan that matured and was paid on January 5, 2013. Substantially all of the subsidiaries of Holdings are co-borrowers, and Holdings has guaranteed the borrowers' obligations under the credit facility. The credit facility is secured by a first priority security interest in all of Holdings' and the borrowers' current and future tangible and intangible assets, including the shares of stock of the borrowers.

Our credit facility provides (i) maximum aggregate amount of revolving loans available to us of \$55.0 million, (ii) maximum senior debt leverage ratio of 3.00 to 1.0 for the twelve (12) month period ending March 31, 2010 and each twelve (12) month period ending on the last day of each fiscal quarter thereafter and (iii) advance multiple of 3.25 used to determine the amount of the borrowing base.

On July 26, 2010, we entered into an amendment to our credit facility, which provided for a new term loan component of the credit facility in the aggregate principal amount of \$5,000 with a maturity date of January 5, 2013. The term loan was repaid when due on January 5, 2013.

On July 26, 2011, we entered into another amendment to our credit facility, which modified our maximum senior leverage ratio from 3.00 to 1.00 to 3.25 to 1.00 for each twelve month period ending on the last day of each fiscal quarter beginning with the twelve month period ended June 30, 2011 and increased the advance multiple used to determine the amount of the borrowing base from 3.0 to 1.0 to 3.25 to 1.0.

During the fourth quarter of 2011, the lenders under our credit facility permitted us to add back approximately \$1.8 million to adjusted EBITDA for the purpose of determining availability under the credit facility. The effect of the add back was to increase availability by approximately \$5.8 million until March 1, 2012. On March 1, 2012, the add back allowance was reduced by \$0.2 million and was reduced by \$0.2 million on the first day of each month thereafter until the add back was eliminated, which resulted in a reduction in availability of \$0.65 million on the first day of each month thereafter until the add back was eliminated. The add-back was eliminated on December 1, 2012.

During the second quarter of 2012, the lenders under our credit facility agreed to a modified interpretation of the credit facility as it relates to the calculation of the fixed charge ratio, which provides us with increased flexibility in meeting this covenant. The credit facility contains customary affirmative, negative and financial covenants with which we were in compliance at March 31, 2013.

As of March 31, 2013 we had no outstanding amount on our revolving credit facility other than letters of credit. After giving effect to the amount drawn on our credit facility, approximately \$7.4 million of outstanding letters of credit, borrowing limits based on an advanced multiple of adjusted EBITDA and the Fourth Amendment, we had \$47.6 million available for borrowing under the credit facility as of March 31, 2013. In order to obtain consent from our lender for the sale of the Home Health Business we agreed to work in good faith to negotiate and enter into an amendment to the credit facility to amend certain provisions including a reduction in the maximum revolving loan limit and revolving loan commitment.

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We believe the available borrowings under our credit facility which, when taken together with existing cash reserves and cash from operations, will be sufficient to cover our working capital needs for at least the next 12 months and provide resources, subject to any necessary lender consent, to enter into and complete select acquisitions. While our growth plan is not dependent on the completion of acquisitions, if we do not have sufficient cash resources or availability under our credit facility, or we are otherwise prohibited from making acquisitions, our growth could be limited unless we obtain additional equity or debt financing or unless we obtain the necessary consents from our lenders.

**Table of Contents***Cash Flows*

The following table summarizes our cash flows for the three months ended March 31, 2013 and 2012:

	<b>Three Months Ended March 31,</b>	
	<b>2013</b>	<b>2012</b>
Net cash provided by (used in) operating activities	\$ 13,025	\$ (1,283)
Net cash provided by investing activities	19,480	207
Net cash (used in) provided by financing activities	(16,458)	375

Three Months Ended March 31, 2013 Compared to Three Months Ended March 31, 2012

Net cash provided by operating activities was \$13.0 million for the three months ended March 31, 2013, compared to cash used in operations of \$(1.3) million for the same period in 2012. This increase in cash provided by operations was primarily due to an increase in cash from changes in net working capital and an increase in operating income before depreciation and amortization generated for the three months ended March 31, 2013 as compared to the same period in 2012.

Net cash provided by investing activities was \$19.5 million for the three months ended March 31, 2013. Our investing activities for the three months ended March 31, 2013 were \$19.7 million in net proceeds received from the sale of the Home Health Business and the purchase of \$0.2 million of property and equipment. Our investing activities for the three months ended March 31, 2012 were \$0.5 million in net proceeds received for the sale of an agency and \$0.3 million in capital expenditures.

Net cash used in financing activities was \$16.5 million for the three months ended March 31, 2013 as compared to net cash provided by financing activities \$0.4 million for the three months ended March 31, 2012. Our financing activities for the three months ended March 31, 2013 were primarily driven by net payments of \$16.2 million on the revolving credit portion of our credit facility, and \$0.2 million in payments on our term loan. Our financing activities for the three months ended March 31, 2012 were primarily driven by \$2.0 million in borrowings on the revolving credit portion of our credit facility, offset by \$1.0 million in payments on subordinated dividend notes, and \$0.6 million in payments on our term loan.

*Outstanding Accounts Receivable*

Outstanding accounts receivable, net of the allowance for doubtful accounts, decreased by \$10.7 million as of March 31, 2013 as compared to December 31, 2012. The decrease in accounts receivable is primarily attributable to the consistent payments we received from the State of Illinois during the first quarter of 2013 and to a lesser extent the winding down of our Home Health Business.

We establish our allowance for doubtful accounts to the extent it is probable that a portion or all of a particular account will not be collected. Our provision for doubtful accounts is estimated and recorded primarily by aging receivables utilizing eight aging categories and applying our historical collection rates to each aging category, taking into consideration factors that might impact the use of historical collection rates or payor groups, with certain large payors analyzed separately from other payor groups. In our evaluation of these estimates, we also consider other factors including: delays in payment trends in individual states due to budget or funding issues, billing conversions related to acquisitions or internal systems, regulatory requirements for submitting Medicare billing including face-to-face and physical therapy documentation, resubmission of bills with required documentation and disputes with specific payors.

Our collection procedures include review of account agings and direct contact with our payors. We have historically not used collection agencies. An uncollectible amount, not governed by amount or aging, is written off to the allowance account only after reasonable collection efforts have been exhausted.



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The following tables detail our accounts receivable before reserves by payor category, showing Illinois governmental payors separately, and segment and the related allowance amount at March 31, 2013 and December 31, 2012:

	March 31, 2013				Total
	0-90 Days	91-180 Days	181-365 Days	Over 365 Days	
(in thousands, except percentages)					
<b>Continuing operations</b>					
Illinois governmental based programs	\$ 39,098	\$ 3,484	\$ 1,341	\$ 911	\$ 44,834
Other state, local and other governmental programs	10,541	888	543	231	12,203
Private duty and commercial	1,874	449	214	335	2,872
	51,513	4,821	2,098	1,477	59,909
Aging % continuing operations	86.0%	8.0%	3.5%	2.5%	
<b>Discontinued operations</b>					
Medicare	2,309	1,050	164		3,523
Other state, local and other governmental programs	303	41	25	4	373
Private duty and commercial	521	192	135	14	862
Illinois governmental based programs	125	121	38	50	334
	3,258	1,404	362	68	5,092
<b>Total</b>	<b>\$ 54,771</b>	<b>\$ 6,225</b>	<b>\$ 2,460</b>	<b>\$ 1,545</b>	<b>\$ 65,001</b>
Aging % of total	84.2%	9.6%	3.8%	2.4%	
Allowance for doubtful accounts					\$ 4,361
Reserve as % of gross accounts receivable					6.7%

	December 31, 2012				Total
	0-90 Days	91-180 Days	181-365 Days	Over 365 Days	
(in thousands, except percentages)					
<b>Continuing operations</b>					
Illinois governmental based programs	\$ 38,339	\$ 13,374	\$ 1,076	\$ 126	\$ 52,915
Other state, local and other governmental programs	10,248	845	610	329	12,032
Private duty and commercial	1,936	360	127	401	2,824
	50,523	14,579	1,813	856	67,771
Aging % continuing operations	74.5%	21.5%	2.7%	1.3%	
<b>Discontinued operations</b>					
Medicare	4,751	955	188		5,894
Other state, local and other governmental programs	340	109	58		507
Private duty and commercial	965	211	164	30	1,370
Illinois governmental based programs	128	19	35	45	227
	6,184	1,294	445	75	7,998
<b>Total</b>	<b>\$ 56,707</b>	<b>\$ 15,873</b>	<b>\$ 2,258</b>	<b>\$ 931</b>	<b>\$ 75,769</b>
Aging % of total	74.9%	20.9%	3.0%	1.2%	
Allowance for doubtful accounts					\$ 4,466
Reserve as % of gross accounts receivable					5.9%



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We calculate our continuing operations days sales outstanding ( DSO ) by taking the accounts receivable outstanding net of the allowance for doubtful accounts divided by the total net service revenues for the last quarter, multiplied by the number of days in that quarter. Our DSOs from continuing operations were 81 days and 92 days at March 31, 2013 and December 31, 2012, respectively. The DSOs for our largest payor, the Illinois Department on Aging, at March 31, 2013 and December 31, 2012 were 99 days and 122 days, respectively.

Indebtedness

### ***Credit Facility***

Our credit facility provides a \$55.0 million revolving line of credit expiring November 2, 2014, and includes a \$15.0 million sublimit for the issuance of letters of credit and previously included a \$5.0 million term loan that matured and was paid on January 5, 2013. Substantially all of the subsidiaries of Holdings are co-borrowers, and Holdings has guaranteed the borrowers' obligations under the credit facility. The credit facility is secured by a first priority security interest in all of Holdings' and the borrowers' current and future tangible and intangible assets, including the shares of stock of the borrowers.

The availability of funds under the revolving credit portion of the credit facility, as amended, is based on the lesser of (i) the product of adjusted EBITDA, as defined, for the most recent 12-month period for which financial statements have been delivered under the credit facility agreement multiplied by the specified advance multiple, up to 3.25, less the outstanding senior indebtedness and letters of credit, and (ii) \$55.0 million less the outstanding revolving loans and letters of credit. Interest on the revolving line of credit and term loan amounts outstanding under the credit facility is payable either at a floating rate equal to the 30-day LIBOR, plus an applicable margin of 4.6% or the LIBOR rate for term periods of one, two, three or six months plus a margin of 4.6%. Interest on the credit facility will be paid monthly on or at the end of the relevant interest period, as determined in accordance with the credit facility agreement. The borrowers will pay a fee equal to 0.5% per annum of the unused portion of the revolving portion of the credit facility. Issued stand-by letters of credit will be charged at a rate of 2.0% per annum payable monthly. We did not have any amounts outstanding on our credit facility as of March 31, 2013 and the total availability under the revolving credit loan facility was \$47.6 million.

The credit facility contains customary affirmative covenants regarding, among other things, the maintenance of records, compliance with laws, maintenance of permits, maintenance of insurance and property and payment of taxes. The credit facility also contains certain customary financial covenants and negative covenants that, among other things, include a requirement to maintain a minimum fixed charge coverage ratio, a requirement to stay below a maximum senior leverage ratio and a requirement to stay below a maximum permitted amount of capital expenditures, as well as restrictions on guarantees, indebtedness, liens, dividends, distributions, investments and loans, subject to customary carve outs, restrictions on Holdings' and the borrowers' ability to enter into transactions other than in the ordinary course of business, a restriction on the ability to consummate more than three acquisitions in any calendar year, or for the purchase price of any one acquisition to exceed \$0.5 million, in each case without the consent of the lenders, restrictions on mergers, transfers of assets, acquisitions, equipment, subsidiaries and affiliate transactions, subject to customary carve outs, and restrictions on fundamental changes and lines of business. We were in compliance with all of our credit facility covenants at March 31, 2013.

During the second quarter of 2012, the lenders under our credit facility agreed to a modified interpretation of the credit facility as it relates to the calculation of the fixed charge ratio, which provides us with increased flexibility in meeting this covenant. In order to obtain consent from our lender for the sale of the Home Health Business we agreed to work in good faith to negotiate and enter into an amendment to the credit facility to amend certain provisions including a reduction in the maximum revolving loan limit and revolving loan commitment.

### ***Dividend Notes***

Prior to the completion of our IPO, we had 37,750 shares of series A preferred stock issued and outstanding, all of which were converted into shares of our common stock on November 2, 2009. Shares of our series A preferred stock accumulated dividends each quarter at a rate of 10%, compounded annually. We accrued these undeclared dividends because the holders had the option to convert their shares of series A preferred stock into common stock at any time with the accumulated dividends payable in cash or a note payable. Our series A preferred stock was converted into 4,077,000 shares of common stock in connection with the completion of our IPO on November 2, 2009. We paid \$0.2 million of the \$13.1 million outstanding accumulated dividends as of November 2, 2009 with the remaining \$12.9 million being converted into 10% junior subordinated promissory notes, which we refer to as the dividend notes. The dividend notes were subordinated and junior to all obligations under our credit facility. Our dividend notes were repaid in full during the fourth quarter of 2012.

### ***Off-Balance Sheet Arrangements***

As of March 31, 2013, we did not have any off-balance sheet guarantees or arrangements with unconsolidated entities.



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### ***Critical Accounting Policies and Estimates***

The discussion and analysis of our financial condition and results of operations are based on our consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States. The preparation of the financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities, revenues and expense and related disclosures. We base our estimates and judgments on historical experience and other sources and factors that we believe to be reasonable under the circumstances; however, actual results may differ from these estimates. We consider the items discussed below to be critical because of their impact on operations and their application requires our judgment and estimates.

### **Revenue Recognition**

The majority of our revenues for the three months ended March 31, 2013 and 2012 from continuing operations are derived from Medicaid and Medicaid waiver programs under agreements with various state and local authorities. These agreements provide for a service term from one year to an indefinite term. Services are provided based on authorized hours, determined by the relevant state or local agency, at an hourly rate specified in the agreement or fixed by legislation. Services to other payors, such as private or commercial clients, are provided at negotiated hourly rates and recognized in net service revenues as services are provided. We provide for appropriate allowances for uncollectible amounts at the time the services are rendered.

The Illinois Department on Aging initiated technical changes to the method for reimbursing providers effective May 1, 2013. We estimate that first quarter net service revenues would have been reduced by approximately \$0.6 million with no corresponding reduction in the cost of service revenues, if such changes had been in effect beginning January 1, 2013.

### **Accounts Receivable and Allowance for Doubtful Accounts**

We are paid for our services primarily by state and local agencies under Medicaid or Medicaid waiver programs, Medicare, commercial insurance companies and private individuals. While our accounts receivable are uncollateralized, our credit risk is somewhat limited due to the significance of governmental payors to our results of operations. Laws and regulations governing the governmental programs in which we participate are complex and subject to interpretation. Amounts collected may be different than amounts billed due to client eligibility issues, insufficient or incomplete documentation, services at levels other than authorized and other reasons unrelated to credit risk.

Legislation enacted in Illinois entitles designated service program providers to receive a prompt payment interest penalty based on qualifying services approved for payment that remain unpaid after a designated period of time. As the amount and timing of the receipt of these payments are not certain, the interest income is recognized when received and reported in the income statement caption, interest income. We did not receive any prompt payment interest in the three months ended March 31, 2013 and 2012, respectively. While we may be owed additional prompt payment interest, the amount and timing of receipt of such payments remains uncertain and we have determined that we will continue to recognize prompt payment interest income when received.

We establish our allowance for doubtful accounts to the extent it is probable that a portion or all of a particular account will not be collected. Our allowance for doubtful accounts is estimated and recorded primarily by aging receivables utilizing eight aging categories and applying our historical collection rates to each aging category, taking into consideration factors that might impact the use of historical collection rates or payor groups, with certain large payors analyzed separately from other payor groups. In our evaluation of these estimates, we also consider delays in payment trends in individual states due to budget or funding issues, billing conversions related to acquisitions or internal systems, resubmission of bills with required documentation and disputes with specific payors. Historically, we have not experienced any write-off of accounts as a result of a state operating with budget deficits. While we regularly monitor state budget and funding developments for the states in which we operate, we consider losses due to state credit risk on outstanding balances as remote. We believe that our recorded allowance for doubtful accounts is sufficient to cover potential losses; however, actual collections in subsequent periods may require changes to our estimates.

### **Goodwill and Other Intangible Assets**

Our carrying value of goodwill is the residual of the purchase price over the fair value of the net assets acquired from various acquisitions, including the acquisition of Addus HealthCare, Inc. ( Addus HealthCare ). In accordance with ASC Topic 350, Goodwill and Other Intangible Assets, goodwill and intangible assets with indefinite useful lives are not amortized. Goodwill and indefinite lived intangible assets are required to be tested for impairment at least annually. We test goodwill for impairment on an annual basis, as of October 1, or whenever potential impairment triggers occur, such as a significant change in business climate or regulatory changes that would indicate that an impairment may have occurred. We may use a qualitative test, known as Step 0 or a two-step quantitative method to determine whether impairment has occurred. We can elect to perform Step-0 an optional qualitative analysis and based on the results skip the remaining two steps. In 2012, we elected to

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implement Step 0 and were not required to conduct the remaining two step analysis.

We did not record any impairment charges for the three months ended March 31, 2013 and 2012.

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### **Long-Lived Assets**

We review our long-lived assets and indefinite lived intangibles for impairment whenever changes in circumstances indicate that the carrying amount of an asset may not be recoverable. To determine if impairment exists, we compare the estimated future undiscounted cash flows from the related long-lived assets to the net carrying amount of such assets. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized for the amount by which the carrying amount of the asset exceeds the estimated fair value of the asset, generally determined by discounting the estimated future cash flows. No impairments were recorded for the three months ended March 31, 2013 and 2012.

### **Workers Compensation Program**

Our workers compensation insurance program has a \$0.35 million deductible component. We recognize our obligations associated with this program in the period the claim is incurred. The cost of both the claims reported and claims incurred but not reported, up to the deductible, have been accrued based on historical claims experience, industry statistics and an actuarial analysis performed by an independent third party. We monitor our claims quarterly and adjust our reserves accordingly. These costs are recorded primarily in the cost of services caption in the consolidated statement of income. Under the agreement pursuant to which we acquired Addus HealthCare, claims under our workers compensation insurance program that relate to December 31, 2005 or earlier are the responsibility of the selling shareholders in the acquisition, subject to certain limitations. In August 2010, the FASB issued Accounting Standards Update No 2010-24, Health Care Entities (Topic 954),

*Presentation of Insurance Claims and Related Insurance Recoveries* ( ASU 2010-24 ), which clarifies that companies should not net insurance recoveries against a related claim liability. Additionally, the amount of the claim liability should be determined without consideration of insurance recoveries. As of March 31, 2013 and December 31, 2012, we recorded \$1.5 and \$1.0 million in workers compensation insurance recovery receivables and a corresponding increase in its workers compensation liability. The workers compensation insurance recovery receivable is included in our prepaid expenses and other current assets on the balance sheet.

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### **Income Taxes**

We account for income taxes under the provisions of ASC Topic 740, *Accounting for Income Taxes*. The objective of accounting for income taxes is to recognize the amount of taxes payable or refundable for the current year and deferred tax liabilities and assets for the future tax consequences of events that have been recognized in our financial statements or tax returns. Deferred taxes, resulting from differences between the financial and tax basis of our assets and liabilities, are also adjusted for changes in tax rates and tax laws when changes are enacted. ASC 740 also requires that deferred tax assets be reduced by a valuation allowance if it is more likely than not that some portion or all of the deferred tax asset will not be realized.

### **ITEM 4. CONTROLS AND PROCEDURES**

#### ***Evaluation of Disclosure Controls and Procedures***

Our management, with the participation of our Chief Executive Officer and our Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of March 31, 2013. The term "disclosure controls and procedures," as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on the evaluation of our disclosure controls and procedures as of March 31, 2013, our Chief Executive Officer and Chief Financial Officer concluded that, as of such date, our disclosure controls and procedures were effective.

#### ***Changes in Internal Control over Financial Reporting***

There was no change in our internal control over financial reporting identified in connection with the evaluation required by Rule 13a-15(d) and 15d-15(d) of the Exchange Act that occurred during the period covered by this report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Given the recent increase in our share price, it is likely that we will be required to comply with Section 404 of the Sarbanes-Oxley Act during 2013.



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**PART II OTHER INFORMATION**

**Item 1. Legal Proceedings**

***Legal Proceedings***

The Company is a party to legal and/or administrative proceedings arising in the ordinary course of its business. It is the opinion of management that the outcome of such proceedings will not have a material effect on the Company's financial position and results of operations.

**Item 1A. Risk Factors**

Investing in our common stock involves a high degree of risk. In addition to the other information set forth in this quarterly report on Form 10-Q, you should carefully consider the risk factors discussed under the caption "Risk Factors" set forth in Part I, Item 1A, of our Annual Report on Form 10-K for the year ended December 31, 2012. Except as set forth below, there have been no material changes to the risk factors previously disclosed under the caption "Risk Factors" in our Annual Report on Form 10-K. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition or operating results.

***Changes to Medicaid, Medicaid waiver or other state and local medical and social programs could adversely affect our net service revenues and profitability.***

For the year ended December 31, 2012, we derived approximately 95% of our net service revenues from continuing operations from agreements that are directly or indirectly paid for by state and local governmental agencies, such as Medicaid funded programs and Medicaid waiver programs. Governmental agencies generally condition their agreements with us upon a sufficient budgetary appropriation. If a governmental agency does not receive an appropriation sufficient to cover its contractual obligations with us, it may terminate an agreement or defer or reduce the amount of the reimbursement we receive. Almost all the states in which we operate are facing budgetary shortfalls due to the current economic downturn and the rising costs of health care, and as a result, have made, are considering or may consider making changes in their Medicaid, Medicaid waiver or other state and local medical and social programs. The Deficit Reduction Act of 2005 permits states to make benefit cuts to their Medicaid programs, which could affect the services for which states contract with us. Changes that states have made or may consider making to address their budget deficits include:

limiting increases in, or decreasing, reimbursement rates;

redefining eligibility standards or coverage criteria for social and medical programs or the receipt of home and community based services under those programs;

increasing the consumer's share of costs or co-payment requirements;

decreasing the number of authorized hours for recipients;

slowing payments to providers;

increasing utilization of self-directed care alternatives or "all inclusive" programs; or

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shifting beneficiaries to managed care programs.

Certain of these measures have been implemented by, or are proposed in, states in which we operate. For example, California has considered a number of proposals, including potential changes in eligibility standards or hours utilization and Illinois has delayed payments to providers. In 2012, we derived approximately 64% of our total net service revenues from continuing operations from services provided in Illinois, 7% of our total net service revenues from continuing operations from services provided in California and 7% of our total net service revenues from continuing operations from services provided in Washington. Because a substantial portion of our business is concentrated in these states, any significant reduction in expenditures that pay for our services in these states and other states in which we do business may have a disproportionately negative impact on our future operating results. Provisions in the Health Reform Act increase eligibility for Medicaid, which may cause a reallocation of Medicaid funding. It is difficult to predict at this time what the effect of these changes would be on our business. If changes in Medicaid policy result in a reduction in available funds for the services we offer, our net service revenues could be negatively impacted.

Further, in an effort to control escalating Medicaid costs, states are increasingly requiring Medicaid beneficiaries to enroll in managed care plans. Under a health reform bill signed into law in January 2012, Illinois set a goal to increase the percentage of Medicaid beneficiaries in Medicaid managed care plans from the current 8% to 50% by 2015. The difficulty of getting healthcare providers to agree to sign up for the plans, however, has proved to be a stumbling block to managed care enrollment. States are also increasingly requiring Medicaid beneficiaries to work with case managers.

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On April 2, 2013, the Centers for Medicare and Medicaid Services published final regulations for implementation of the increased FMAP payments for the Medicaid program under the Health Reform Act. Under the Health Reform Act, the FMAP to states to cover individuals who are newly eligible is 100% for calendar years 2014-2016 and gradually decreases by 2020 to 90%. Expansion States will receive a much lower 2.2% FMAP increase. Expansion States will receive the enhanced FMAP payment for those individuals who previously did not qualify for Medicaid. The final rule, among other things, establishes methodologies for states to determine who is newly eligible. Thus, we expect that not all states in which we do business will receive enhanced FMAP payments or substantial enhanced FMAP payments. We are not able at this time to determine the impact these changes will have on our business.

The Governor of Illinois has reported that state revenue is not sufficient to keep up with pension and Medicaid obligations. On February 22, 2012, the Governor of Illinois released his proposed budget for fiscal year 2013. He called for a \$2.7 billion cut to the state's \$14 billion Medicaid program. Options to reach that goal include rate reduction and reform, eliminating some services, implementing utilization controls, and restricting Medicaid eligibility so that fewer people can qualify. On March 7, 2013 the Illinois Department on Aging released a letter to all providers notifying them that it was projecting it would run out of appropriations for home and community based services by March 15, 2013. We were notified shortly thereafter that substantially all billings for our services beginning on March 1, 2013 would be held for approval pending additional appropriations. While there are bills drafted to provide supplemental appropriation to the Illinois Department on Aging, those bills have not been introduced. The Governor's budget for fiscal year 2014 was introduced on March 6, 2013 and included funding for the Illinois Department on Aging. It is not clear whether fiscal year 2013 bills will be payable with fiscal year 2014 appropriations. Absent passage of the supplemental appropriation or approval of the fiscal year 2014 budget by the General Assembly, we are at risk of not being reimbursed for services provided from March 1, 2013 through June 30, 2013. Because a substantial portion of our business is concentrated in these programs, any significant reduction in expenditures that pay for our services would have a disproportionately negative impact on our future operating results.

In February 2012, CMS agreed to allow Illinois to move forward on at least one of two efforts to combat Medicaid fraud. In January 2013, Illinois began a program to verify annually the income and residency of Medicaid beneficiaries. If Illinois identifies non-resident Medicaid beneficiaries and removes them from the Medicaid rolls or prevents non-resident individuals from becoming Medicaid beneficiaries, or if Illinois identifies Medicaid applicants or Medicaid beneficiaries who do not meet income requirements and prevents them from becoming Medicaid beneficiaries or removes beneficiaries from the Medicaid rolls, the number of consumers we serve in Illinois could be reduced, which could negatively affect our business and results of operations.

The federal government implemented in March 2013 certain budgetary reductions commonly known as sequestration. Reimbursement or authorizations for services under our programs with federal and state contracts may be reduced as a result of these actions, which could negatively impact our business and the results of operations.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

None

**Item 5. Other Information**

None

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**Item 6. Exhibits**

- 3.1 Amended and Restated Certificate of Incorporation of the Company dated as of November 2, 2009 (filed on November 20, 2009 as Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q and incorporated by reference herein)
- 3.2 Amended and Restated Bylaws of the Company, as amended by the First Amendment to the Amended and Restated Bylaws\*
- 4.1 Form of Common Stock Certificate (filed on October 2, 2009 as Exhibit 4.1 to Amendment No. 4 to the Company's Registration Statement on Form S-1 and incorporated by reference herein)
- 10.1 Asset Purchase Agreement, dated as of February 7, 2013, by and among Addus HealthCare, Inc., its subsidiaries identified therein, LHC Group, Inc. and its subsidiaries identified therein (filed on March 6, 2013 as Exhibit 99.1 to the Company's Current Report on Form 8-K)
- 31.1 Certification of Chief Executive Officer Pursuant to Rule 13-14(a) of the Securities Exchange Act of 1934 as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002\*
- 31.2 Certification of Chief Financial Officer Pursuant to Rule 13-14(a) of the Securities Exchange Act of 1934 as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002\*
- 32.1 Certification of 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 of 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 Financial statements from the quarterly report on Form 10-Q of Addus HomeCare Corporation for the quarter ended September 30, 2012, filed on November 1, 2012, formatted in XBRL: (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Income, (iii) Consolidated Statements of Stockholders' Equity, (iv) Consolidated Statements of Cash Flows, and (v) the Notes to Condensed Consolidated Financial Statements, tagged as blocks of text.

\* Filed herewith

\*\* Furnished herewith

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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.

***ADDUS HOMECARE CORPORATION***

Date: May 9, 2013

By:

/s/ MARK S. HEANEY

**Mark S. Heaney**

**President and Chief Executive Officer**

**(As Principal Executive Officer)**

Date: May 9, 2013

By:

/s/ DENNIS B. MEULEMANS

**Dennis B. Meulemans**

**Chief Financial Officer**

**(As Principal Financial Officer)**

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- 31.1 Certification of Chief Executive Officer Pursuant to Rule 13-14(a) of the Securities Exchange Act of 1934 as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002\*
- 31.2 Certification of Chief Financial Officer Pursuant to Rule 13-14(a) of the Securities Exchange Act of 1934 as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002\*
- 32.1 Certification of 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 of 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 Financial statements from the quarterly report on Form 10-Q of Addus HomeCare Corporation for the quarter ended September 30, 2012, filed on November 1, 2012, formatted in XBRL: (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Income, (iii) Consolidated Statements of Stockholders' Equity, (iv) Consolidated Statements of Cash Flows, and (v) the Notes to Condensed Consolidated Financial Statements, tagged as blocks of text.

\* Filed herewith

\*\* Furnished herewith