Addus HomeCare Corp
Form 10-Q
November 08, 2018
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 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 September 30, 2018

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

(Exact name of registrant as specified in its charter)

Delaware	**20-5340172**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
6801 Gaylord Parkway, Suite 110 Frisco, TX	**75034**
(Address of principal executive offices)	**(Zip code)**

469-535-8200

(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 every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No .

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

Large accelerated filer	Accelerated filer
Non-accelerated filer	Smaller reporting company
Emerging growth company	

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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 October 31, 2018: 13,098,355

Table of Contents

ADDUS HOMECARE CORPORATION

FORM 10-Q

INDEX

PART I. FINANCIAL INFORMATION	3
Item 1. Financial Statements	3
Condensed Consolidated Balance Sheets as of September 30, 2018 (Unaudited) and December 31, 2017	3
Condensed Consolidated Statements of Income (Unaudited) For the Three and Nine Months Ended September 30, 2018 and 2017	4
Condensed Consolidated Statement of Stockholders Equity (Unaudited) For the Nine Months Ended September 30, 2018	5
Condensed Consolidated Statements of Cash Flows (Unaudited) For the Nine Months Ended September 30, 2018 and 2017	6
Notes to Condensed Consolidated Financial Statements (Unaudited)	7
Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations	28
Item 3. Quantitative and Qualitative Disclosures About Market Risk	44
Item 4. Controls and Procedures	44
PART II. OTHER INFORMATION	45
Item 1. Legal Proceedings	45
Item 1A. Risk Factors	45
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	52
Item 3. Defaults Upon Senior Securities	52
Item 4. Mine Safety Disclosures	52
Item 5. Other Information	52
Item 6. Exhibits	53

Table of Contents

PART I FINANCIAL INFORMATION

Item 1. Financial Statements

ADDUS HOMECARE CORPORATION

AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

As of September 30, 2018 and December 31, 2017

(Amounts and Shares in Thousands, Except Per Share Data)

	(Unaudited) September 30, 2018	(Audited) December 31, 2017
Assets		
Current assets		
Cash	$ 147,477	$ 53,754
Accounts receivable, net	106,653	88,952
Prepaid expenses and other current assets	6,935	8,379
Total current assets	261,065	151,085
Property and equipment, net of accumulated depreciation and amortization	9,453	7,489
Other assets		
Goodwill	134,063	90,339
Intangibles, net of accumulated amortization	26,197	16,596
Deferred tax assets, net		1,601
Total other assets	160,260	108,536
Total assets	$ 430,778	$ 267,110
Liabilities and stockholders equity		
Current liabilities		
Accounts payable	$ 6,737	$ 4,271
Current portion of long-term debt, net of debt issuance costs	2,318	3,099
Contingent earn-out obligation	847	
Accrued expenses	52,436	44,354
Total current liabilities	62,338	51,724
Long-term liabilities		
Long-term debt, less current portion, net of debt issuance costs	98,891	39,860
Deferred tax liabilities, net	1,098	
Other long-term liabilities	641	446
Total long-term liabilities	100,630	40,306

Total liabilities	$	162,968	$	92,030
Stockholders equity				
Common stock $.001 par value; 40,000 authorized and 13,097 and 11,632 shares issued and outstanding as of September 30, 2018 and December 31, 2017, respectively	$	13	$	12
Additional paid-in capital		175,991		95,963
Retained earnings		91,806		79,105
Total stockholders equity		267,810		175,080
Total liabilities and stockholders equity	$	430,778	$	267,110

See accompanying Notes to Condensed Consolidated Financial Statements (Unaudited)

Table of Contents

ADDUS HOMECARE CORPORATION

AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

For the Three and Nine Months Ended September 30, 2018 and 2017

(Amounts and Shares in Thousands, Except Per Share Data)

(Unaudited)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2018	2017	2018	2017
Net service revenues	$ 137,631	$ 108,592	$ 378,315	$ 313,758
Cost of service revenues	100,926	79,539	277,985	228,877
Gross profit	36,705	29,053	100,330	84,881
General and administrative expenses	28,218	19,359	76,084	57,239
Gain on sale of assets				(2,065)
Provision for doubtful accounts	49	2,106	214	6,208
Depreciation and amortization	2,535	1,781	6,676	4,811
Total operating expenses	30,802	23,246	82,974	66,193
Operating income	5,903	5,807	17,356	18,688
Interest income	(113)	(30)	(2,468)	(50)
Interest expense	1,543	870	3,836	3,629
Total interest expense, net	1,430	840	1,368	3,579
Other income		64		165
Income before income taxes	4,473	5,031	15,988	15,274
Income tax expense	927	1,623	3,287	4,908
Net income	$ 3,546	$ 3,408	$ 12,701	$ 10,366
Net income per common share				
Basic income per share	$ 0.29	$ 0.30	$ 1.08	$ 0.90
Diluted income per share	$ 0.28	$ 0.29	$ 1.06	$ 0.89
Weighted average number of common shares and potential common shares outstanding:				
Basic	12,179	11,486	11,740	11,464
Diluted	12,569	11,631	12,037	11,616

See accompanying Notes to Condensed Consolidated Financial Statements (Unaudited)

Table of Contents

ADDUS HOMECARE CORPORATION

AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY

For the Nine Months Ended September 30, 2018

(Amounts and Shares in Thousands)

(Unaudited)

	Common Stock		Additional Paid-in Capital	Retained Earnings	Total Stockholders Equity
	Shares	Amount			
Balance at December 31, 2017	11,632	$ 12	$ 95,963	$ 79,105	$ 175,080
Issuance of shares of common stock under restricted stock award agreements	74				
Forfeiture of shares of common stock under restricted stock award agreements	(16)				
Stock-based compensation			2,961		2,961
Shares issued for exercise of stock options	17		450		450
Shares issued in secondary offering, net of offering costs	1,390	1	76,617		76,618
Net income				12,701	12,701
Balance at September 30, 2018	13,097	$ 13	$ 175,991	$ 91,806	$ 267,810

See accompanying Notes to Condensed Consolidated Financial Statements (Unaudited)

Table of Contents

ADDUS HOMECARE CORPORATION

AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Nine Months Ended September 30, 2018 and 2017

(Amounts in Thousands)

(Unaudited)

	For the Nine Months Ended September 30,	
	2018	2017
Cash flows from operating activities:		
Net income	$ 12,701	$ 10,366
Adjustments to reconcile net income to net cash provided by operating activities, net of acquisitions:		
Depreciation and amortization	6,676	4,811
Deferred income taxes	397	
Non-cash restructuring		383
Stock-based compensation	2,961	1,818
Amortization of debt issuance costs under the terminated credit facility		1,484
Amortization of debt issuance costs under the credit facility	450	235
Provision for doubtful accounts	214	6,208
Gain on sale of assets		(2,065)
Changes in operating assets and liabilities, net of acquisitions:		
Accounts receivable	(5,284)	15,451
Prepaid expenses and other current assets	2,007	(281)
Accounts payable	1,844	418
Accrued expenses and other long-term liabilities	2,713	3,750
Net cash provided by operating activities	24,679	42,578
Cash flows from investing activities:		
Proceeds from the sale of assets		2,400
Acquisitions of businesses, net of cash acquired	(62,347)	(22,419)
Purchases of property and equipment	(3,384)	(3,089)
Net cash used in investing activities	(65,731)	(23,108)
Cash flows from financing activities:		
Borrowings on revolver- credit facility		30,000
Proceeds from issuance of common stock, net of offering costs	76,618	
Borrowings on revolver- terminated credit facility		20,000
Borrowings on term loan- credit facility	60,420	45,000
Payments on revolver- terminated credit facility		(20,000)
Payments on revolver- credit facility		(30,000)
Payments on term loan- credit facility	(1,688)	
Payments on term loan- terminated credit facility		(24,063)
Payments for debt issuance costs under the credit facility	(73)	(2,823)
Payments on capital lease obligations	(952)	(1,067)
Cash received from exercise of stock options	450	1,158

Net cash provided by financing activities	134,775	18,205
Net change in cash	93,723	37,675
Cash, at beginning of period	53,754	8,013
Cash, at end of period	$ 147,477	$ 45,688
Supplemental disclosures of cash flow information:		
Cash paid for interest	$ 3,202	$ 1,538
Cash paid for income taxes	4,234	5,357
Supplemental disclosures of non-cash investing and financing activities:		
Contingent and deferred consideration accrued for acquisition	$ 847	$

See accompanying Notes to Condensed Consolidated Financial Statements (Unaudited)

Table of Contents

ADDUS HOMECARE CORPORATION

AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(Unaudited)

1. Nature of Operations, Consolidation, and Presentation of Financial Statements

Addus HomeCare Corporation (Holdings) and its subsidiaries (together with Holdings, the Company , we , us or our) operate as three segmen a multi-state provider of personal care, hospice and home health services in the home. The Company s personal care segment provides non-medical assistance with activities of daily living, primarily to persons who are at risk of hospitalization or institutionalization, such as the elderly, chronically ill or disabled. The Company s hospice segment provides physical, emotional and spiritual care for people who are terminally ill as well as for their families. The Company s home health segment provides services that are primarily medical in nature to individuals who may require assistance during an illness or after surgery and include skilled nursing and physical, occupational and speech therapy.

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements and related notes have been prepared in accordance with the rules and regulations of the U.S. Securities and Exchange Commission (SEC) for Quarterly Reports on Form 10-Q. Accordingly, these financial statements do not include all of the information and note disclosures required by accounting principles generally accepted in the United States of America (GAAP) for annual financial statements and should be read in conjunction with our consolidated financial statements and notes thereto for the year ended December 31, 2017 included in our Annual Report on Form 10-K, which includes information and disclosures not included herein.

In the opinion of management, these financial statements reflect all adjustments of a normal, recurring nature necessary for the fair statement of our financial position, results of operations, and cash flows for the interim periods presented in conformity with GAAP. Our results for any interim period are not necessarily indicative of results for a full year or any other interim period and have not been audited by our independent auditors.

Principles of Consolidation

These unaudited condensed consolidated financial statements include the accounts of Addus HomeCare Corporation, and its subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

The Company used the cost method to account for its investment in joint ventures in which it owned 10% equity interests. The Company sold such investments on October 1, 2017. See Note 3 Gain on Sale of Assets for additional information.

Reclassification of Prior Period Balances

Certain reclassifications have been made to prior period amounts to conform to the current-year presentation including the reporting of other long-term liabilities as a separate line item on the Unaudited Condensed Consolidated Balance Sheets. These reclassifications have no effect on the reported net income.

Recently Adopted Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standard Update (ASU) 2014-09, *Revenue from Contracts with Customers*, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. ASU 2014-09 replaced most existing revenue recognition guidance in GAAP. The Company adopted the new standard on January 1, 2018, and elected to adopt using the modified retrospective method. See Note 2 for additional information regarding the adoption.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments.* This standard amends and adjusts how cash receipts and cash payments are presented and classified in the statement of cash flows. We adopted the standard on a retrospective basis on January 1, 2018. ASU 2016-15 did not have an impact on our Condensed

Consolidated Statements of Cash Flows.

Recently Issued Accounting Pronouncements

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842),* which replaces existing leasing rules with a comprehensive lease measurement and recognition standard and expanded disclosure requirements. ASU 2016-02 will require lessees to recognize most leases on their balance sheets as liabilities, with corresponding right-of-use assets and is effective for annual reporting periods beginning after December 15, 2018, subject to early adoption. For income statement recognition

purposes, leases will be classified as either a finance or an operating lease. In July 2018, the FASB issued ASU 2018-11, *Leases (Topic 842) Targeted Improvements*, which amends ASU 2016-02 to provide an additional transition method option. Under the new transition method, an entity initially applies the new lease standard at the adoption date, versus at the beginning of the earliest period presented, and recognizes a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. Upon initial evaluation, the Company believes that the new standard will have a material impact on its consolidated balance sheets but it will not affect its liquidity. The Company has secured new software to account for the change in accounting for leases and is currently assessing the impact of adopting this standard.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments Credit Losses (Topic 326)*: *Measurement of Credit Losses on Financial Instruments.* ASU 2016-13 changes the impairment model for most financial assets and certain other instruments. Under the new standard, entities holding financial assets and net investment in leases that are not accounted for at fair value through net income are to be presented at the net amount expected to be collected. An allowance for credit losses will be a valuation account that will be deducted from the amortized cost basis of the financial asset to present the net carrying value at the amount expected to be collected on the financial asset. ASU 2016-13 is effective as of January 1, 2020. Early adoption is permitted. The Company is currently evaluating the impact of ASU 2016-13.

In January 2017, the FASB issued ASU 2017-04, *Intangibles Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment.* The new guidance eliminates the requirement to calculate the implied fair value of goodwill (i.e., Step 2 of the current goodwill impairment test) to measure a goodwill impairment charge. Instead, entities will record an impairment charge based on the excess of a reporting unit s carrying amount over its fair value (i.e., measure the charge based on the current Step 1). ASU 2017-04 is effective for annual and any interim impairment tests for periods beginning after December 15, 2019. Early adoption is permitted. The Company is currently assessing the impact of adopting this standard.

In August 2018, the FASB issued ASU 2018-15, *Intangibles-Goodwill and Other-Internal-Use Software (Subtopic 350-40): Customer s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That is a Service Contract*. ASU 2018-15 requires customers in a hosting arrangement that is a service contract to follow the internal-use software guidance in Accounting Standards Codification (ASC) 350-40 to determine which implementation costs to capitalize as assets or expense as incurred. The ASU is effective for annual periods, including interim periods within those annual periods, beginning after December 15, 2019. Early adoption is permitted. The Company is currently assessing the impact of adopting this standard.

2. Summary of Significant Accounting Policies

Revenue Recognition

On January 1, 2018, the Company adopted ASU 2014-09, *Revenue from Contracts with Customers*, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The Company adopted the standard using the modified retrospective approach and did not record a cumulative catch-up adjustment as the timing and measurement of revenue for the Company s customers is similar to its prior revenue recognition model. However, the majority of what historically was classified as provision for doubtful accounts expense under operating expenses is now treated as an implicit price concession factored into net service revenues.

Personal Care

The majority of the Company s net service revenues are generated from providing personal care services directly to consumers under contracts with state, local and other governmental agencies, managed care organizations, commercial insurers and private consumers. Generally, these contracts, which are negotiated based on current contracting practices as appropriate for the payor, establish the terms of a customer relationship and set the broad range of terms for services to be performed at a stated rate. However, the contracts do not give rise to rights and obligations until an order is placed with the Company. When an order is placed, it creates the performance obligation to provide a defined quantity of service hours, or authorized hours, per consumer. The Company satisfies its performance obligations over time, given that consumers simultaneously receive and consume the benefits provided by the Company as the services are performed. As the Company has a right to consideration from customers commensurate with the value provided to customers from the performance completed over a given invoice period, the Company has elected to use the practical expedient for measuring progress toward satisfaction of performance obligations and recognizes patient service revenue in the amount to which the Company has a right to invoice.

Hospice Revenue

The Company generates net service revenues from providing hospice services to consumers who are terminally ill as well as for their families. Net service revenues are recognized as services are provided and costs for delivery of such services are incurred. The estimated payment rates

are daily rates for each of the levels of care the Company delivers. Hospice companies are subject to two specific payment limit caps under the Medicare program each federal fiscal year, the inpatient cap and the aggregate cap. The inpatient cap limits the number of inpatient care days provided to no more than 20% of the total days of hospice care provided for the year. The aggregate cap limits the amount of Medicare reimbursement a hospice may receive, based on the number of Medicare patients served. For federal fiscal year 2018, which ended September 30, 2018, the Company was below the payment limits and did not record a cap liability.

Table of Contents

Home Health Revenue

The Company also generates net service revenues from providing home healthcare services directly to consumers under contracts with Medicare. Generally, these contracts, which are negotiated based on current contracting practices as appropriate for the payor, establish the terms of a relationship and set the broad range of terms for services to be performed on an episodic basis at a stated rate. Home health Medicare services are paid under the Medicare Home Health Prospective Payment System (HHPPS), which is based on 60 day episodes of care. The HHPPS permits multiple, continuous episodes per patient. Medicare payment rates for episodes under HHPPS vary based on the severity of the patient s condition as determined by the Company s assessment of a patient s Home Health Resource Group score. The Company elects to use the same 60-day length of episode that Medicare recognizes as standard but accelerates revenue upon discharge to align with a patient s episode length if less than the expected 60 days, which depicts the transfer of services and related benefits received by the patient over the term of the contract necessary to satisfy the obligations. The Company recognizes revenue based on the number of days elapsed during an episode of care within the reporting period. The Company satisfies its performance obligations as consumers receive and consume the benefits provided by the Company as the services are performed. As the Company has a right to consideration from Medicare commensurate with the services provided to customers from the performance completed over a given episodic period, the Company has elected to use the practical expedient for measuring progress toward satisfaction of performance obligations. Under this method recognizing revenue ratably over the episode based on beginning and ending dates is a reasonable proxy for the transfer of benefit of the service.

Allowance for Doubtful Accounts

For 2017, the Company established its allowance for doubtful accounts to the extent it was probable that a portion or all of a particular account will not be collected. The Company established its provision for doubtful accounts primarily by reviewing the creditworthiness of significant customers and through evaluations over the collectability of the receivables. An allowance for doubtful accounts was maintained at a level that the Company s management believed was sufficient to cover potential losses.

In 2018, subsequent adjustments that are determined to be the result of an adverse change in the payor s ability to pay are recognized as bad debt expense due to the adoption of ASU 2014-09, *Revenue from Contracts with Customers*. The Company recorded $2.4 million and $6.8 million for the three and nine months ended September 30, 2018 as a reduction to revenue that would have been recorded as bad debt expense under the prior revenue recognition guidance.

Property and Equipment

Property and equipment are recorded at cost and depreciated over the estimated useful lives of the related assets by use of the straight-line method. Maintenance and repairs are charged to expense as incurred. The estimated useful lives of the property and equipment are as follows:

Computer equipment	3 5 years
Furniture and equipment	5 7 years
Transportation equipment	5 years
Computer software	5 10 years
Leasehold improvements	Lesser of useful life or lease term, unless probability of lease renewal is likely

Goodwill

The Company s carrying value of goodwill is the excess of the purchase price over the fair value of the net assets acquired from various acquisitions. In accordance with 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 at the reporting unit level 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. 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 2017, the Company elected to implement Step 0 and was not required to conduct the remaining two-step analysis. The results of the Company s Step 0 assessments indicated that it was more likely than not that the fair value of its reporting unit exceeded its carrying value and therefore the Company concluded that there were no impairments for the year ended December 31, 2017. No impairment charges were recorded for the three and nine months ended September 30, 2018 or 2017.

9

Intangible Assets

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

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. The Company would recognize an impairment loss when the estimated future non-discounted cash flows associated with the intangible asset is less than the carrying value. An impairment charge would then be recorded for the excess of the carrying value over the fair value. No impairment charge was recorded for the three and nine months ended September 30, 2018 and 2017.

The Company uses various valuation techniques to determine fair value of its intangible assets, including relief-from-royalty, income approach, discounted cash flow analysis, and multi-period excess earnings, which use significant unobservable inputs, or Level 3 inputs, as defined by the fair value hierarchy. Under these valuation approaches, we are required to make estimates and assumptions about future market growth and trends, forecasted revenue and costs, expected periods over which 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.

Debt Issuance Costs

The Company amortizes debt issuance costs on a straight-line method over the term of the related debt. This method approximates the effective interest method. The Company has classified the debt issuance costs as current portion of long-term debt or long-term debt, less current portion as of September 30, 2018 and December 31, 2017.

Workers Compensation Program

The Company s workers compensation insurance program has a $0.4 million deductible component. The Company recognizes its 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. The Company monitors its claims quarterly and adjusts its reserves accordingly. These costs are recorded primarily as the cost of services on the Company s Unaudited Condensed Consolidated Statements of Income. As of September 30, 2018 and December 31, 2017, the Company recorded $14.8 million and $12.6 million, respectively, in accrued workers compensation insurance. The accrued workers compensation insurance is included in accrued expenses on the Company s Unaudited Condensed Consolidated Balance Sheets. As of September 30, 2018 and December 31, 2017, the Company recorded $1.4 million and $0.5 million, respectively, in workers compensation insurance recovery receivables. The workers compensation insurance recovery receivable is included in prepaid expenses and other current assets on the Company s Unaudited Condensed Consolidated Balance Sheets.

Interest Income

Illinois law 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. The Company accounted for the interest income in accordance with ASC 606. The interest income was recognized when the State of Illinois approved a prompt payment interest penalty during the nine months ended September 30, 2018, removing the constraint related to the amount and intent to pay the prompt payment interest. For the three months ended September 30, 2018, the Company did not receive any prompt payment interest. For the nine months ended September 30, 2018, the Company received $2.3 million in prompt payment interest and reported it in its Unaudited Condensed Consolidated Statements of Income as interest income. For the three and nine months ended September 30, 2017, the Company did not receive any prompt payment interest. While the Company may be owed additional prompt payment interest in the future, the amount, timing, and intent to provide receipt of such payments remains uncertain, and the Company will continue to recognize prompt payment interest income upon satisfaction of these constraints.

Interest Expense

The Company s interest expense consists of interest and unused credit line fees on its credit facilities, interest on its capital lease obligations, and amortization and write-off of debt issuance costs, which is reported in the statement of income when incurred.

Other Income

Other income consisted of income distributions received from investments in joint ventures. The Company accounted for this income in accordance with ASC Topic 325, *Investments Other.* The Company recognized the net accumulated earnings only to the extent distributed by the joint ventures on the date received. The Company subsequently sold these equity investments on October 1, 2017 (see Note 3).

Income Tax Expense

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 currently has one stock incentive plan, the 2017 Omnibus Incentive Plan (the 2017 Plan), under which new grants of stock-based employee compensation may be made. In addition, the Company has outstanding awards under its 2009 Stock Incentive Plan, as amended and restated. The Company accounts for stock-based compensation in accordance with ASC Topic 718, *Stock Compensation*. Under the 2017 Plan, compensation expense is recognized on a straight-line basis over the vesting period of the equity awards based on the grant date fair value of the options and restricted stock awards. The Company uses the Black-Scholes Option Pricing Model to value the Company s options. The determination of the fair value of stock-based payments utilizing the Black-Scholes Model is affected by the Company s stock price and a number of assumptions, including expected volatility, risk-free interest rate, expected term, and expected dividends yield. Stock-based compensation expense was $1.1 million and $0.7 million for the three months ended September 30, 2018 and 2017, respectively and $3.0 million and $1.8 million for the nine months ended September 30, 2018 and 2017, respectively.

Diluted Net Income Per Common Share

Diluted net income 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 of diluted earnings per share for the three and nine months ended September 30, 2018 were approximately 708,000 stock options outstanding, of which approximately 307,000 and 213,000 respectively, were dilutive. In addition, there were approximately 148,000 restricted stock awards outstanding 83,000 and 83,000 of which were dilutive for the three and nine months ended September 30, 2018, respectively.

Included in the Company s calculation of diluted earnings per share for the three and nine months ended September 30, 2017 were approximately 479,000 stock options outstanding, of which approximately 102,000 and 102,000 respectively, were dilutive. In addition, there were approximately 148,000 restricted stock awards outstanding 43,000 and 50,000 of which were dilutive for the three and nine months ended September 30, 2017, respectively.

Shareholders Equity

On August 20, 2018, the Company, together with Eos Capital Partners III, L.P. (the Selling Stockholder) completed a secondary public offering of an aggregate 2,100,000 shares of common stock, par value $0.001 per share at a purchase price per share to the public of $59.00. Pursuant to the terms and conditions of the Underwriting Agreement, 1,075,267 shares of Common Stock were issued and sold by the Company (the Primary Shares) and 1,024,733 shares of Common Stock were sold by the Selling Stockholder (the Secondary Shares). The Company received net proceeds of approximately $59.1 million from the sale of 1,075,267 Primary Shares. On August 22, 2018, the underwriters exercised their full over-allotment option in connection with the offering and, as a result, the Company issued and sold an additional 315,000 shares of common stock to the underwriters at the Public Offering Price, less the underwriting discount. The over-allotment resulted in additional net proceeds to the Company of approximately $17.5 million. The Company intends to use the net proceeds from the offering for general corporate purposes, including to potentially fund a portion of any future acquisitions that the Company may complete. The Company did not receive any of the

proceeds from the sale of the Secondary Shares. The secondary offering resulted in an increase to additional paid in capital of approximately $76.6 million, net of issuance costs of $5.4 million, on the Company s Unaudited Condensed Consolidated Balance Sheets at September 30, 2018.

Table of Contents

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. The Company s critical accounting estimates include the following areas: the implicit price concessions factored into net service revenues, allowance for doubtful accounts, reserve for self-insurance claims, accounting for stock-based compensation, accounting for income taxes, business combinations and when required, the quantitative assessment of goodwill. Actual results could differ from those estimates.

Fair Value Measurements

The Company s financial instruments consist of cash, accounts receivable, payables and debt. The carrying amounts reported on the Company s Unaudited Condensed Consolidated Balance Sheets for cash, accounts receivable, accounts payable and accrued expenses approximate fair value because of the short-term nature of these instruments. The carrying value of the Company s long-term debt with variable interest rates approximates fair value based on instruments with similar terms using level 2 inputs as defined under ASC Topic 820 *Fair Value Measurement*.

The Company applies fair value techniques on a non-recurring basis associated with valuing potential impairment losses related to goodwill, if required, and indefinite-lived intangible assets and also when determining the fair value of contingent consideration, if applicable. To determine the fair value in these situations, the Company uses Level 3 inputs, under ASC Topic 820 and defined as unobservable inputs in which little or no market data exists; therefore requiring an entity to develop its own assumptions, such as discounted cash flows, or if available, what a market participant would pay on the measurement date.

The Company uses various valuation techniques to determine fair value of its intangible assets, including relief-from-royalty, income approach, discounted cash flow analysis, and multi-period excess earnings, which use significant unobservable inputs, or Level 3 inputs, as defined by the fair value hierarchy. Under these valuation approaches, we are required to make estimates and assumptions about future market growth and trends, forecasted revenue and costs, expected periods over which the assets will be utilized, appropriate discount rates and other variables.

Going Concern

In connection with the preparation of the financial statements for the three and nine months ended September 30, 2018 and 2017, the Company conducted an evaluation as to whether there were conditions and events, considered in the aggregate, which raised substantial doubt as to the entity s ability to continue as a going concern within one year after the date of the issuance, or the date of availability, of the financial statements to be issued. The evaluation concluded that there did not appear to be evidence of substantial doubt of the entity s ability to continue as a going concern.

3. Gain on Sale of Assets

Given the Company s focus on providing services to consumers in their homes, effective March 1, 2017, the Company ceased the adult day services business and completed its sale of substantially all of the assets used in three adult day services centers in Illinois. The Company received proceeds of approximately $2.4 million and recorded a pre-tax gain of $2.1 million on the sale of the three adult day services centers.

On October 1, 2017, the Company sold its 10% membership interests in two joint ventures with LHC Group, Inc., which were previously reported as Investments in joint ventures on the Company s Unaudited Condensed Consolidated Balance Sheets at September 30, 2017. The Company received proceeds of approximately $1.3 million and recorded a pre-tax gain of $0.4 million on the sale of its membership interests.

4. Acquisitions

On May 1, 2018, the Company completed its acquisition of all the outstanding securities of Ambercare Corporation (Ambercare). The purchase price was approximately $39.6 million plus the amount of excess cash held by Ambercare at closing (approximately $12.0 million). The purchase of Ambercare was funded by a delayed draw term loan under the Company s credit facility. With the purchase of Ambercare, the Company expanded its personal care operations and acquired hospice and home health operations in the State of New Mexico. Following this acquisition the Company operates a hospice segment and home health segment. The related acquisition costs, included in general and administrative expenses on the Company s Unaudited Condensed Consolidated Statements of Income, were $0.8 million and $1.4 million, for the three and nine months ending September 30, 2018, respectively, and were expensed as incurred. The results of Ambercare are included on the Company s Unaudited Condensed Consolidated Statements of Income from the date of the acquisition.

The Company s acquisition of Ambercare has been accounted for in accordance with ASC Topic 805, *Business Combinations*, and the resulting goodwill and other intangible assets was accounted for under ASC Topic 350, *Goodwill and Other Intangible Assets*. The acquisition was recorded at its fair value as of May 1, 2018. Under business combination accounting, the Ambercare purchase price was $51.6 million and was allocated to Ambercare s net tangible and identifiable

intangible assets based on their estimated fair values. Based upon management s valuation, which is preliminary and subject to completion of working capital adjustments, the total purchase price has been allocated as follows:

	(Amounts in Thousands)
Goodwill	$ 28,082
Cash	12,008
Identifiable intangible assets	10,413
Accounts receivable	6,638
Other assets	440
Property and equipment	171
Accrued liabilities	(3,732)
Deferred tax liability	(2,302)
Capital lease	(93)
Accounts payable	(3)
Total purchase price allocation	$ 51,622

Management s assessment of qualitative factors affecting goodwill for Ambercare includes estimates of market share at the date of purchase, ability to grow in the market, synergy with existing Company operations, and the payor profile in the market.

The Company acquired the outstanding stock of Ambercare. Identifiable intangible assets acquired consist of trade names, customer relationships and state licenses (see Note 2 for estimated useful lives of the Company s identifiable intangible assets). The preliminary estimated fair value of identifiable intangible assets was determined, using Level 3 inputs as defined under ASC Topic 820, with the assistance of a valuation specialist. The goodwill and intangible assets acquired are non-deductible for tax purposes.

The Ambercare acquisition accounted for $13.4 million and $22.6 million of net service revenues and $2.0 million and $3.8 million of net income prior to corporate allocation for the three and nine months ended September 30, 2018, respectively.

On April 1, 2018, the Company acquired certain assets of Arcadia Home Care & Staffing (Arcadia), expanding its personal care services. The total consideration for the transaction was $18.9 million and was funded by a delayed draw term loan under the Company s credit facility. The related acquisition costs, included in general and administrative expenses on the Company s Unaudited Condensed Consolidated Statements of Income, were $0.8 million and $1.4 million for the three and nine months ending September 30, 2018, respectively, and were expensed as incurred. The results of operations from this acquired entity are included in the Company s Unaudited Condensed Consolidated Statements of Income from the date of the acquisition.

The Company s acquisition of Arcadia has been accounted for in accordance with ASC Topic 805 and the resulting goodwill and other intangible assets was accounted for under ASC Topic 350. The acquisition was recorded at its fair value as of April 1, 2018. Under business combination accounting, the Arcadia purchase price was $18.9 million and was allocated to Arcadia s net tangible and identifiable intangible assets based on their estimated fair values. Based upon management s valuation, which is preliminary and subject to completion of working capital and other adjustments, the total purchase price has been allocated as follows:

	(Amounts in Thousands)
Goodwill	$ 12,389
Accounts receivable	5,317
Identifiable intangible assets	2,947
Property and equipment	155
Other assets	92
Accrued liabilities	(1,540)
Accounts payable	(508)

Total purchase price allocation	$	18,852

Management s assessment of qualitative factors affecting goodwill for Arcadia includes estimates of market share at the date of purchase, ability to grow in the market, synergy with existing Company operations, and the payor profile in the market.

Table of Contents

Identifiable intangible assets acquired consist of trade name, customer relationships and state licenses (see Note 2 for estimated useful lives of the Company s identifiable intangible assets). The preliminary estimated fair value of identifiable intangible assets was determined, using Level 3 inputs as defined under ASC Topic 820, with the assistance of a valuation specialist. The goodwill and intangible assets acquired are deductible for tax purposes.

The Arcadia acquisition accounted for $10.9 million and $21.7 million of net service revenues and $1.6 million and $3.2 million of net income prior to corporate allocation for the three and nine months ended September 30, 2018, respectively.

In September 2018, the Company acquired certain assets of affiliate branches of Arcadia for $0.6 million using cash on hand, the Company recorded goodwill of $0.6 million on the Company s Unaudited Condensed Consolidated Balance Sheets. Goodwill generated from the acquisition is primarily attributable to expected synergies with existing Company operations and the goodwill and intangible assets acquired are deductible for tax purposes. Pro forma results of the operations related to the acquisition are not included in the pro forma presentation as they are not material to the Company s Unaudited Condensed Consolidated Statements of Income.

Effective January 1, 2018, the Company acquired certain assets of LifeStyle Options, Inc. (LifeStyle) in order to expand private pay services in Illinois. The total consideration for the transaction was $4.1 million, comprised of $3.3 million in cash and $0.8 million, representing the preliminary estimated fair value of contingent consideration, subject to the achievement of certain performance targets set forth in an earn-out agreement. The related acquisition costs, included in general and administrative expenses on the Company s Unaudited Condensed Consolidated Statements of Income, were $48,000 and were expensed as incurred. The results of operations from this acquired entity are included in the Company s Unaudited Condensed Consolidated Statements of Income from the date of the acquisition.

The Company s acquisition of LifeStyle has been accounted for in accordance with ASC Topic 805 and the resulting goodwill and other intangible assets was accounted for under ASC Topic 350. The acquisition was recorded at its fair value as of January 1, 2018. Under business combination accounting, the LifeStyle purchase price was $4.1 million and was allocated to LifeStyle s net tangible and identifiable intangible assets based on their estimated fair values. Based upon management s valuation, the total purchase price has been allocated as follows:

	Total (Amounts in Thousands)
Goodwill	$ 2,751
Identifiable intangible assets	1,152
Accounts receivable	573
Other assets	32
Property and equipment	18
Accrued liabilities	(291)
Accounts payable	(105)
Total purchase price allocation	$ 4,130

Management s assessment of qualitative factors affecting goodwill for LifeStyle includes estimates of market share at the date of purchase, ability to grow in the market, synergy with existing Company operations, and the payor profile in the market.

Identifiable intangible assets acquired consist of trade name and customer relationships (see Note 2 for estimated useful lives of the Company s identifiable intangible assets). The estimated fair value of identifiable intangible assets was determined, using Level 3 inputs as defined under ASC Topic 820, with the assistance of a valuation specialist. The goodwill and intangible assets acquired are deductible for tax purposes.

The LifeStyle acquisition accounted for $1.5 million and $4.5 million of net service revenues and $0.1 million and $0.4 million of net income prior to corporate allocation for the three and nine months ended September 30, 2018, respectively.

Effective October 1, 2017, the Company acquired certain assets of Community Partnered Resources, Inc. d/b/a Sun Cities Caregivers and d/b/a Sun Cities Homecare (Sun Cities), in the State of Arizona, to enhance operations in a target market. The total consideration for the transaction was comprised of $2.3 million in cash. The related acquisition costs, included in general and administrative expenses on the Company s Unaudited Condensed Consolidated Statements of Income, were $0.2 million and were expensed as incurred. The results of operations from this acquired entity are included in the Company s Unaudited Condensed Consolidated Statements of Income from the date of the acquisition.

Table of Contents

The Company s acquisition of Sun Cities has been accounted for in accordance with ASC Topic 805 and the resulting goodwill and other intangible assets was accounted for under ASC Topic 350. The acquisition was recorded at its fair value as of October 1, 2017. Under business combination accounting, the Sun Cities purchase price was $2.3 million and was allocated to net tangible and identifiable intangible assets of Sun Cities based on their estimated fair values. Based upon management s valuation, the total purchase price has been allocated as follows:

	Total (Amounts in Thousands)
Goodwill	$ 1,089
Identifiable intangible assets	682
Accounts receivable	254
Cash	321
Other assets	10
Accrued liabilities	(86)
Accounts payable	(14)
Total purchase price allocation	$ 2,256

Management s assessment of qualitative factors affecting goodwill for Sun Cities includes estimates of market share at the date of purchase, ability to grow in the market, synergy with existing Company operations, and the payor profile in the market.

Identifiable intangible assets acquired consist of trade name and customer relationships (see Note 2 for estimated useful lives of the Company s identifiable intangible assets). The estimated fair value of identifiable intangible assets was determined, using Level 3 inputs as defined under ASC Topic 820, with the assistance of a valuation specialist. The goodwill and intangible assets acquired are deductible for tax purposes.

The Sun Cities acquisition accounted for $0.7 million and $1.8 million of net service revenues and $0.1 million of net income prior to corporate allocation for both the three and nine months ended September 30, 2018, respectively.

On April 24, 2017, the Company entered into a definitive securities purchase agreement with HB Management Group, Inc. to purchase Options Services, Inc. d/b/a Options Home Care (Options Home Care). On August 1, 2017, the Company completed its acquisition of all the outstanding securities of Options Home Care for a total purchase price of $22.6 million. Options Home Care was a provider of personal care services in more than 20 counties in New Mexico and the acquisition expanded the footprint of the Company s existing operations in the state. The related acquisition costs, included in general and administrative expenses on the Company s Unaudited Condensed Consolidated Statements of Income, were $0.8 million and were expensed as incurred. The results of Options Home Care are included on the Company s Unaudited Condensed Consolidated Statements of Income from the date of the acquisition.

The Company s acquisition of Options Home Care has been accounted for in accordance with ASC Topic 805 and the resulting goodwill and other intangible assets was accounted for under ASC Topic 350. The acquisition was recorded at its fair value as of August 1, 2017. Under business combination accounting, the Options purchase price was $22.6 million and was allocated to Options Home Care s net tangible and identifiable intangible assets based on their estimated fair values. Based upon management s valuation, the total purchase price has been allocated as follows:

	Total (Amounts in Thousands)
Goodwill	$ 16,671
Identifiable intangible assets	5,324
Accounts receivable	1,084
Cash	205
Other assets	41
Accrued liabilities	(701)

Total purchase price allocation	$	22,624

Management s assessment of qualitative factors affecting goodwill for Options Home Care includes estimates of market share at the date of purchase, ability to grow in the market, synergy with existing Company operations, and, the payor profile in the market.

Identifiable intangible assets acquired consist of trade names and customer relationships (see Note 2 for estimated useful lives of the Company s identifiable intangible assets). The estimated fair value of identifiable intangible assets was determined with the assistance of a valuation specialist. The goodwill and intangible assets acquired are deductible for tax purposes.

Table of Contents

The Options Home Care acquisition accounted for $4.5 million and $3.3 million of net service revenues and $0.9 million and $0.2 million of net income prior to corporate allocation for the three months ended September 30, 2018 and 2017, respectively and accounted for $13.4 million and $3.3 million of net service revenues and $2.4 million and $0.2 million of net income prior to corporate allocation for the nine months ended September 30, 2018 and 2017.

The following table contains unaudited pro forma condensed consolidated income statement information of the Company had the acquisitions of Ambercare, Arcadia, LifeStyle, Sun Cities and Options Home Care closed on January 1, 2017.

	For the Three Months Ended September 30, (Amounts in Thousands)	
	2018	2017
Net service revenues	$ 137,631	$ 135,440
Operating income	7,758	8,418
Net income	$ 5,332	$ 3,317
Net income per common share		
Basic income per share	$ 0.44	$ 0.29
Diluted income per share	$ 0.42	$ 0.29

	For the Nine Months Ended September 30, (Amounts in Thousands)	
	2018	2017
Net service revenues	$ 410,552	$ 398,948
Operating income	28,833	25,336
Net income	$ 18,415	$ 9,118
Net income per common share		
Basic income per share	$ 1.57	$ 0.80
Diluted income per share	$ 1.53	$ 0.78

The pro forma disclosures in the table above include adjustments for amortization of intangible assets, tax expense and acquisition costs to reflect results that are more representative of the combined results of the transactions as if Ambercare, Arcadia, LifeStyle, Sun Cities and Options Home Care had been acquired effective January 1, 2017. This pro forma information is presented for illustrative purposes only and may not be indicative of the results of operations that would have actually occurred. In addition, future results may vary significantly from the results reflected in the pro forma information. The unaudited pro forma financial information does not reflect the impact of future events that may occur after the acquisition, such as anticipated cost savings from operating synergies.

5. Goodwill and Intangible Assets

A summary of the goodwill activity for the nine months ended September 30, 2018 is provided below:

	Goodwill			
	Personal Care	Hospice	Home Health	Total
	(Amounts in Thousands)			
Goodwill as of December 31, 2017	$ 90,339	$	$	$ 90,339
Additions for acquisitions	22,185	19,040	2,499	43,724

Goodwill as of September 30, 2018	$ 112,524	$ 19,040	$ 2,499	$ 134,063

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

Table of Contents

The carrying amount and accumulated amortization of each identifiable intangible asset category consisted of the following as of September 30, 2018 and December 31, 2017:

	Customer and referral relationships	Trade names and trademarks	Non-competition agreements	State Licenses	Total
			(Amounts in Thousands)		
Gross balance at December 31, 2017	$ 39,017	$ 14,641	$ 2,155	$	$ 55,813
Accumulated amortization	(29,147)	(8,198)	(1,872)		(39,217)
Net balance at December 31, 2017	9,870	6,443	283		16,596
Gross balance at January 1, 2018	39,017	14,641	2,155		55,813
Additions for acquisitions	5,209	6,927		2,376	14,512
Accumulated amortization	(32,131)	(9,942)	(1,954)	(101)	(44,128)
Net balance at September 30, 2018	$ 12,095	$ 11,626	$ 201	$ 2,275	$ 26,197

Amortization expense related to the identifiable intangible assets amounted to $1.9 million and $4.9 million for the three and nine months ended September 30, 2018, respectively, and $1.2 million and $3.3 million for the three and nine months ended September 30, 2017, respectively. Goodwill is not amortized pursuant to ASC Topic 350.

6. Details of Certain Balance Sheet Accounts

Prepaid expenses and other current assets consisted of the following:

	September 30, 2018	December 31, 2017
	(Amounts in Thousands)	
Prepaid health insurance	$ 1,457	$ 2,901
Workers compensation insurance receivable	1,375	543
Prepaid rent	1,208	555
Prepaid workers compensation and liability insurance	1,251	1,332
Other	1,644	3,048
	$ 6,935	$ 8,379

Accrued expenses consisted of the following:

	September 30, 2018	December 31, 2017
	(Amounts in Thousands)	
Accrued payroll	$ 27,236	$ 19,783
Accrued workers compensation insurance	14,846	12,574
Accrued health insurance (1)	4,165	6,471
Accrued professional fees	1,242	1,312
Accrued payroll taxes	1,540	1,065
Other	3,407	3,149
	$ 52,436	$ 44,354

(1) The Company provides health insurance coverage to qualified union employees providing personal care services in Illinois through a Taft-Hartley multi-employer health and welfare plan under Section 302(c)(5) of the Labor Management Relations Act of 1947. The Company s insurance contributions equal the amount reimbursed by the State of Illinois. Contributions are due within five business days from the date the funds are received from the State of Illinois. Amounts due of $1.2 million and $2.3 million for health insurance reimbursements and contributions were reflected in prepaid insurance and accrued insurance as of September 30, 2018 and December 31, 2017, respectively.

Table of Contents

7. Long-Term Debt

Long-term debt consisted of the following:

	September 30, 2018	December 31, 2017
	(Amounts in Thousands)	
Term loan under the credit facility	$ 103,170	$ 44,438
Capital leases	142	1,002
Less unamortized issuance costs	(2,103)	(2,481)
Total	$ 101,209	$ 42,959
Less current maturities	(2,318)	(3,099)
Long-term debt	$ 98,891	$ 39,860

Capital Leases

On May 1, 2018, with the acquisition of Ambercare, the Company acquired the remainder of a capital lease with Ford Motor Credit Company LLC. The 48-month capital lease was originally entered into on June 27, 2016. The underlying assets are included in Property and equipment, net of accumulated depreciation and amortization in the accompanying Unaudited Condensed Consolidated Balance Sheets. This capital lease obligation requires monthly payments through August 2020 and has an implicit interest rate of 6.88%.

On July 12, 2014, September 11, 2014 and April 13, 2015, the Company executed three 48-month capital lease agreements for $2.7 million, $1.4 million and $0.4 million, respectively, with First American Commercial Bancorp, Inc. The capital leases were entered into to finance property and equipment at the Company s support center in Downers Grove, IL. The underlying assets are included in Property and equipment, net of accumulated depreciation and amortization in the accompanying Unaudited Condensed Consolidated Balance Sheets. These capital lease obligations require monthly payments through September 2019 and have implicit interest rates that range from 3.0% to 3.6%. At the end of the term, the Company has the option to purchase the assets for $1 per lease agreement.

Effective October 1, 2016, the Company entered into a 25-month capital lease agreement for $0.6 million with Meridian Leasing Corporation. The capital lease was entered into to finance property and equipment for the Company s telephone system. The underlying assets are included in Property and equipment, net of accumulated depreciation and amortization in the accompanying Unaudited Condensed Consolidated Balance Sheets. This capital lease obligation requires monthly payments through October 2018 and has an implicit interest rate of 11.1%. At the end of the term, the Company has the option to purchase the assets for $1 per lease agreement.

An analysis of the leased property under capital leases by major classes is as follows.

Classes of Property	Asset Balances at September 30, 2018 (Amounts in Thousands)
Leasehold improvements	$ 1,484
Furniture and equipment	868
Computer equipment	635
Computer software	303
Transportation equipment	107
Total	3,397
Less: accumulated depreciation and amortization	(1,772)
	$ 1,625

Table of Contents

The future minimum payments for capital leases as of September 30, 2018 are as follows:

	Capital Lease (Amounts In Thousands)
2018	$ 65
2019	67
2020	20
Total minimum lease payments	152
Less: amount representing estimated executory costs (such as taxes, maintenance and insurance), including profit thereon, included in total minimum lease payments	(5)
Net minimum lease payments	147
Less: amount representing interest (1)	(5)
Present value of net minimum lease payments (2)	$ 142

(1) Amount necessary to reduce net minimum lease payments to present value calculated at the Company s incremental borrowing rate at lease inception.

(2) Included in the balance sheet as $114,000 of the current portion of long-term debt and $28,000 of the long-term debt, less current portion.

Amended and Restated Senior Secured Credit Facility

On October 31, 2018, the Company amended and restated its existing Credit Agreement (the New Credit Agreement) with certain lenders and Capital One, National Association as a lender and swing line lender and as agent for all lenders. This amended and restated credit facility totals $269.6 million, inclusive of a $250.0 million revolving loan and a $19.6 million delayed draw term loan, and amends and restates the Company s previous senior secured credit facility totaling $250.0 million. The maturity of this amended and restated credit facility is May 8, 2023, with borrowing under the delayed draw term loan available until January 31, 2019. Interest on the Company s amended and restated credit facility may be payable at (x) the sum of (i) an applicable margin ranging from 0.75% to 1.50% based on the applicable senior net leverage ratio plus (ii) a base rate equal to the greatest of (a) the rate of interest last quoted by The Wall Street Journal as the prime rate, (b) the sum of the federal funds rate plus a margin of 0.50% and (c) the sum of the adjusted LIBOR that would be applicable to a loan with an interest period of one month advanced on the applicable day (not to be less than 0.00%) plus a margin of 1.00% or (y) the sum of (i) an applicable margin ranging from 1.75% to 2.50% based on the applicable senior net leverage ratio plus (ii) the offered rate per annum for similar dollar deposits for the applicable interest period that appears on Reuters Screen LIBOR01 Page (not to be less than zero). Swing loans may not be LIBOR loans. The availability of additional draws under this amended and restated credit facility is conditioned, among other things, upon (after giving effect to such draws) the Total Net Leverage Ratio (as defined in the New Credit Agreement) not exceeding 3.75:1.00. In certain circumstances, in connection with a Material Acquisition (as defined in the New Credit Agreement), the Company can elect to increase its Total Net Leverage Ratio compliance covenant to 4.25:1.00 for the then current fiscal quarter and the three succeeding fiscal quarters. In connection with this amended and restated credit facility, the Company incurred approximately $1.1 million of debt issuance costs.

Addus HealthCare, Inc. (Addus HealthCare) is the borrower, and its parent, Holdings, and substantially all of Holdings subsidiaries are guarantors under this amended and restated credit facility, and it is secured by a first priority security interest in all of the Company s and the other credit parties current and future tangible and intangible assets, including the shares of stock of the borrower and subsidiaries. The New Credit Agreement contains affirmative and negative covenants customary for credit facilities of this type, including limitations on the Company with respect to liens, indebtedness, guaranties, investments, distributions, mergers and acquisitions and dispositions of assets.

The Company pays a fee ranging from 0.20% to 0.35% based on the applicable senior net leverage ratio times the unused portion of the revolving portion of the amended and restated credit facility.

The New Credit Agreement 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 New Credit Agreement also contains

certain customary financial covenants and negative covenants that, among other things, include a requirement to maintain a minimum Interest Coverage Ratio (as defined in the New Credit Agreement), a requirement to stay below a maximum Total Net Leverage Ratio (as defined in the New Credit Agreement) and a requirement to stay below a maximum permitted amount of capital expenditures, as well as restrictions on guarantees, indebtedness, liens, investments and loans, subject to customary carve outs, a restriction on dividends (provided that Addus HealthCare may make distributions to the Company in an amount that does not exceed $7.5 million in any year absent of an event of default, plus limited exceptions for tax and administrative distributions), a restriction on the ability to consummate acquisitions (without the consent of the lenders) subject to compliance with the Total Net Leverage Ratio (as defined in the New Credit Agreement), restrictions on mergers, dispositions of assets, and affiliate transactions, and restrictions on fundamental changes and lines of business.

Table of Contents

Senior Secured Credit Facility

Prior to October 31, 2018, the Company was party to a credit agreement (the Credit Agreement) with certain lenders and Capital One, N.A., as a lender and swing lender and as agent for all lenders. This credit facility totaled $250.0 million, replaced the Company s previous senior secured credit facility totaling $125.0 million (Terminated Senior Secured Credit Facility , see description below for more details), and terminated the Second Amended and Restated Credit and Guaranty Agreement, dated as of November 10, 2015, as modified by the May 24, 2016 amendment (as amended, the Terminated Senior Secured Credit Agreement), between the Company, certain lenders and Fifth Third Bank, as agent, which evidenced the Terminated Senior Secured Credit Facility. The credit facility included a $125.0 million revolving loan, a $45.0 million term loan and an $80.0 million delayed draw term loan. The credit facility was to mature on May 8, 2022. Addus HealthCare was the borrower, with its parent, Holdings, and substantially all of Holdings subsidiaries being guarantors under the credit facility. The credit facility was secured by a first priority security interest in all of the Company s and the other credit parties current and future tangible and intangible assets, including the shares of stock of the borrower and subsidiaries. The availability of additional draws under the revolving credit portion of the Company s credit facility was conditioned, among other things, upon (after giving effect to such draws) the ratio of Consolidated Total Indebtedness (as defined in the Credit Agreement), less subordinated indebtedness, to Consolidated Adjusted EBITDA (as defined in the Credit Agreement) not exceeding 4.25:1.00. In connection with the credit facility, the Company incurred $2.9 million of debt issuance costs.

Interest on the Company s credit facility was payable at (x) the sum of (i) an applicable margin ranging from 1.50% to 2.25% based on the applicable senior leverage ratio plus (ii) a base rate equal to the greatest of (a) the rate of interest last quoted by The Wall Street Journal as the prime rate, (b) the sum of the federal funds rate plus a margin of 0.50% and (c) the sum of the adjusted LIBOR that would be applicable to a loan with an interest period of one month advanced on the applicable day (not to be less than 0.00%) plus a margin of 1.00% or (y) the sum of (i) an applicable margin ranging from 2.50% to 3.25% based on the applicable leverage ratio plus (ii) the offered rate per annum for the applicable interest period that appears on Reuters Screen LIBOR01 Page. Swing loans may not be LIBOR loans.

The Company paid a fee ranging from 0.25% to 0.50% based on the applicable leverage ratio times the unused portion of the revolving portion of the credit facility.

During the nine months ended September 30, 2018, the Company drew a total of approximately $60.4 million on its delayed draw term loan under the credit facility to fund the acquisitions of Ambercare and Arcadia. The Company did not draw on the term loan during the three months ended September 30, 2018.

As of September 30, 2018, the Company had a total of $103.2 million of term loans outstanding with an interest rate of 4.60% on the credit facility and the total availability under the revolving credit loan facility was $88.6 million.

As of December 31, 2017, the Company had a total of $44.4 million of term loans outstanding with an interest rate of 3.86% on the credit facility and the total availability under the revolving credit loan facility was $105.1 million.

Terminated Senior Secured Credit Facility

Prior to May 8, 2017, the Company was a party to the Terminated Senior Secured Credit Agreement with certain lenders and Fifth Third Bank, as agent and letters of credit issuer. The Terminated Senior Secured Credit Facility provided a $100.0 million revolving line of credit, a delayed draw term loan facility of up to $25.0 million and an uncommitted incremental term loan facility of up to $50.0 million, which was to expire on November 10, 2020 and included a $35.0 million sublimit for the issuance of letters of credit. Substantially all of the subsidiaries of Holdings were co-borrowers, and Holdings had guaranteed the borrowers obligations under the Terminated Senior Secured Credit Facility. The Terminated Senior Secured Credit Facility was 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.

8. Income Taxes

A reconciliation of the statutory federal tax rate of 21.0% for the three and nine months ended September 30, 2018 and 35.0% for the three and nine months ended September 30, 2017 is summarized as follows:

	Three Months Ended September 30,	
	2018	2017
Federal income tax at statutory rate	21.0%	35.0%
State and local taxes, net of federal benefit	5.3	4.4
Jobs tax credits, net	(10.0)	(7.7)
Nondeductible permanent items	2.0	0.5
Other	2.4	
Effective income tax rate	20.7%	32.2%

	Nine Months Ended September 30,	
	2018	2017
Federal income tax at statutory rate	21.0%	35.0%
State and local taxes, net of federal benefit	6.5	4.9
Jobs tax credits, net	(9.3)	(7.5)
Nondeductible permanent items	1.5	0.5
Other	0.9	(0.8)
Effective income tax rate	20.6%	32.1%

On December 22, 2017, the President of the United States signed into law the Tax Cuts and Jobs Act (Tax Reform Act). The legislation significantly changes U.S. tax law by, among other things, lowering corporate income tax rates. The Tax Reform Act permanently reduces the U.S. corporate income tax rate from a maximum of 35.0% to a flat 21.0% rate, effective January 1, 2018. The effective income tax rate was 20.7% and 32.2% for the three months ended September 30, 2018 and 2017, respectively. The difference between our federal statutory and effective income tax rates are principally due to the inclusion of state taxes and the use of federal employment tax credits. A provisional valuation allowance increased $0.2 million and $0.4 million in the three and nine months ended September 30, 2018, respectively, as a result of the elimination of a performance based equity exception in calculating the $1.0 million limitation for 162(m) under the Tax Reform Act.

In December 2017, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 118, *Income Tax Accounting Implications of the Tax Cuts and Job Act*, (SAB 118) to address the application of GAAP in situations when a registrant does not have the necessary information available, prepared, or analyzed (including computations) in reasonable detail to complete the accounting for certain income tax effects of the Tax Reform Act. Additional work is necessary for a more detailed analysis of our deferred tax assets and liabilities as well as potential correlative adjustments. During the measurement period, impacts of the law are expected to be recorded at the time a reasonable estimate for all or a portion of the effects can be made and provisional amounts can be recognized and adjusted as information becomes available, prepared or analyzed. No additional estimated amounts were finalized during the quarter ending September 30, 2018.

9. Commitments and Contingencies

Legal Proceedings

From time to time, the Company is subject to legal and/or administrative proceedings incidental to its business. It is the opinion of management that the outcome of pending legal and/or administrative proceedings will not have a material effect on the Company s Unaudited Condensed Consolidated Balance Sheets and Unaudited Condensed Consolidated Statements of Income.

On January 20, 2016, the Company was served with a lawsuit filed in the United States District Court for the Northern District of Illinois against the Company and Cigna Corporation by Stop Illinois Marketing Fraud, LLC, a qui tam relator formed for the purpose of bringing this action. In the action, the plaintiff alleges, inter alia, violations of the federal False Claims Act relating primarily to allegations of violations of the federal Anti-Kickback Statute and allegedly, improper referrals of patients from the Company s home care division to the Company s home health

business, substantially all of which was sold in 2013. The plaintiff seeks to recover damages, fees and costs under the federal False Claims Act including treble damages, civil penalties and its attorneys fees. The U.S. government has declined to intervene at this time. Plaintiff amended

its complaint on April 4, 2016 to include additional allegations in support of its False Claims Act claims, including alleged violations of the federal Anti-Kickback Statute. The Company and Cigna Corporation filed a motion to dismiss the amended complaint on June 6, 2016. On February 3, 2017, the Court granted Cigna Corporation s motion to dismiss in full, and granted the Company s motion to dismiss in part, allowing Plaintiff another chance to amend its complaint. Plaintiff timely filed a second amended complaint on March 10, 2017, withdrawing its conspiracy claim under the Federal False Claims Act and adding an explicit claim under the Illinois False Claims Act for the same underlying kickback allegations. On April 7, 2017, the Company filed a partial motion to dismiss the Second Amended Complaint. On May 24, 2017, the State of Illinois filed notice that it was declining to intervene in the plaintiff s claim under the Illinois False Claims Act. On March 21, 2018, the Court granted the Company s motion to dismiss the Second Amended Complaint in part and narrowed the lawsuit to whether the federal False Claims Act was violated with respect to home health services provided at three senior living facilities in Illinois. The Company intends to defend the litigation vigorously and believes the case will not have a material adverse effect on its business, financial condition or results of operations.

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 with the potential to auto-renew and include non-competition and nondisclosure provisions, as well as provide for defined severance payments in the event of termination.

A substantial percentage of the Company s workforce is represented by the Service Employees International Union (SEIU). The Company has a national agreement with the SEIU. Wages and benefits are negotiated at the local level at various times throughout the year. These negotiations are often initiated when the Company receives increases in hourly rates from various state agencies. Upon expiration of these collective bargaining agreements, the Company may not be able to negotiate labor agreements on satisfactory terms with these labor unions.

10. Severance and Restructuring

In 2016, the Company initiated steps to streamline its operations. The Company incurred total expenses related to these initiatives of approximately $0.3 million and $0.6 million for the three months ended September 30, 2018 and 2017, respectively, and $1.4 million and $1.5 million for the nine months ended September 30, 2018 and 2017, respectively. These costs are included in general and administrative expenses on the Company s Unaudited Condensed Consolidated Statements of Income. The expenses recorded for the three and nine months ended September 30, 2018 included costs related to terminated employees and other professional fees. The expenses recorded for the three and nine months ended September 30, 2017 included costs related to terminated employees and fees related to the termination of professional service relationships. The Company expects some additional restructuring and other costs to occur, however, the amount and timing cannot be determined at this time.

The following provides the components of and changes in our severance and restructuring accruals:

	Employee Termination Costs	Restructuring and Other
	(Amounts in Thousands)	
Balance at December 31, 2017	$ 562	$ 1,077
Provision	610	285
Utilization	(856)	(755)
Balance at September 30, 2018	$ 316	$ 607

Employee termination costs represent accrued severance payable to terminated employees with employment and/or separation agreements with the Company.

Restructuring and other costs consists of the accrual related to lease commitments and write-offs of leasehold improvements and unused office space and property and equipment resulting from the closure of three adult day services centers in Illinois.

The aforementioned accruals are included in Accrued Expenses on the Unaudited Condensed Consolidated Balance Sheets and the aforementioned expenses are included in General and Administrative Expenses on the Unaudited Condensed Consolidated Statements of Income.

22

Table of Contents

11. Segment Information

Operating segments are defined as components of a company that engage in business activities from which it may earn revenues and incur expenses, and for which separate financial information is available and is regularly reviewed by our chief operating decision makers, to assess the performance of the individual segments and make decisions about resources to be allocated to the segments. Our operations involve servicing patients through our three reportable business segments: personal care, hospice and home health. As a result of the acquisition of Ambercare on May 1, 2018, we began reporting the hospice and home health segments.

Our personal care segment provides non-medical assistance with activities of daily living, primarily to persons who are at risk of hospitalization or institutionalization, such as the elderly, chronically ill or disabled. Our hospice segment provides physical, emotional and spiritual care for people who are terminally ill as well as for their families. Our home health segment provides services that are primarily medical in nature to individuals who may require assistance during an illness or after surgery, and include skilled nursing and physical, occupational and speech therapy.

The tables below set forth information about our reportable segments for the three and nine months ended September 30, 2018 and 2017 along with the items necessary to reconcile the segment information to the totals reported in the accompanying consolidated financial statements. Segment assets are not reviewed by the company s chief decision makers and therefore are not disclosed below.

Segment operating income consists of the net service revenues generated by a segment, less the direct costs of service revenues and general and administrative expenses that are incurred directly by the segment. Unallocated general and administrative costs are those costs for functions performed in a centralized manner and therefore not attributable to a particular segment. These costs include accounting, finance, human resources, legal, information technology, corporate office support and facility costs and overall corporate management.

	For the Three Months Ended September 30, 2018 (Amounts in Thousands)			
	Personal Care	Hospice	Home Health	Total
Net service revenues	$ 128,094	$ 7,116	$ 2,421	$ 137,631
Cost of services revenues	95,428	3,777	1,721	100,926
Gross profit	32,666	3,339	700	36,705
Provision for doubtful accounts	48	1		49
General and administrative expenses	10,446	1,474	604	12,524
Segment operating income	$ 22,172	$ 1,864	$ 96	$ 24,132

	For the Nine Months Ended September 30, 2018 (Amounts in Thousands)			
	Personal Care	Hospice	Home Health	Total
Net service revenues	$ 362,606	$ 11,765	$ 3,944	$ 378,315
Cost of services revenues	268,815	6,351	2,819	277,985
Gross profit	93,791	5,414	1,125	100,330
Provision for doubtful accounts	210	3	1	214
General and administrative expenses	29,073	2,326	946	32,345
Segment operating income	$ 64,508	$ 3,085	$ 178	$ 67,771

Segment Reconciliation:	For the Three Months Ended September 30, 2018	For the Nine Months Ended September 30, 2018

	(Amounts in Thousands)	
Total segment operating income	$ 24,132	$ 67,771
Items not allocated at segment level:		
Other general and administrative expenses	15,694	43,739
Depreciation and amortization	2,535	6,676
Interest income	(113)	(2,468)
Interest expense	1,543	3,836
Income before income taxes	$ 4,473	$ 15,988

Table of Contents

	For the Three Months Ended September 30, 2017 (Amounts in thousands)			
	Personal Care	Hospice	Home Health	Total
Net service revenues	$ 108,592	$	$	$ 108,592
Cost of services revenues	79,539			79,539
Gross profit	29,053			29,053
Provision for doubtful accounts	2,106			2,106
General and administrative expenses	7,957			7,957
Segment operating income	$ 18,990	$	$	$ 18,990

	For the Nine Months Ended September 30, 2017 (Amounts in thousands)			
	Personal Care	Hospice	Home Health	Total
Net service revenues	$ 313,758	$	$	$ 313,758
Cost of services revenues	228,877			228,877
Gross profit	84,881			84,881
Provision for doubtful accounts	6,208			6,208
General and administrative expenses	24,129			24,129
Segment operating income	$ 54,544	$	$	$ 54,544

Segment Reconciliation:	For the Three Months Ended September 30, 2017	For the Nine Months Ended September 30, 2017
	(Amounts in thousands)	
Total segment operating income	$ 18,990	$ 54,544
Items not allocated at segment level:		
Other general and administrative expenses	11,402	33,110
Gain on sale of assets		(2,065)
Depreciation and amortization	1,781	4,811
Interest income	(30)	(50)
Interest expense	870	3,629
Other income	(64)	(165)
Income before income taxes	$ 5,031	$ 15,274

12. Significant Payors

For the three and nine months ended September 30, 2018 and 2017 the Company s revenue by payor type was as follows:

	Personal Care							
	For the Three Months Ended September 30,				For the Nine Months Ended September 30,			
	2018		2017		2018		2017	
	Amount (in Thousands)	% of Segment Net Service Revenues	Amount (in Thousands)	% of Segment Net Service Revenues	Amount (in Thousands)	% of Segment Net Service Revenues	Amount (in Thousands)	% of Segment Net Service Revenues
State, local and other governmental programs	$ 73,606	57.5%	$ 69,073	63.6%	$ 213,011	58.7%	$ 203,409	64.8%
Managed care organizations	45,271	35.3	36,866	34.0	126,809	35.0	102,055	32.5
Private pay	5,549	4.3	1,959	1.8	14,861	4.1	6,230	2.0
Commercial insurance	1,869	1.5	694	0.6	4,271	1.2	2,064	0.7
Other	1,799	1.4			3,654	1.0		
Total personal care segment net service revenues	$ 128,094	100.0%	$ 108,592	100.0%	$ 362,606	100.0%	$ 313,758	100.0%

	Hospice			
	For the Three Months Ended September 30, 2018		For the Nine Months Ended September 30, 2018	
	Amount (in Thousands)	% of Segment Net Service Revenues	Amount (in Thousands)	% of Segment Net Service Revenues
Medicare	$ 6,677	93.8%	$ 11,030	93.8%
Managed care organizations	426	6.0	721	6.1
Other	13	0.2	14	0.1
Total hospice segment net service revenues	$ 7,116	100.0%	$ 11,765	100.0%

	Home Health			
	For the Three Months Ended September 30, 2018		For the Nine Months Ended September 30, 2018	
	Amount (in Thousands)	% of Segment Net Service Revenues	Amount (in Thousands)	% of Segment Net Service Revenues
Medicare	$ 2,184	90.2%	$ 3,588	91.0%
Managed care organizations	221	9.1	329	8.3
Other	16	0.7	27	0.7
Total home health segment net service revenues	$ 2,421	100.0%	$ 3,944	100.0%

Table of Contents

The percentages of segment revenue for each of the Company s significant states for the three and nine months ended September 30, 2018 and 2017 were as follows:

	Personal Care							
	For the Three Months Ended September 30,				For the Nine Months Ended September 30,			
	2018		2017		2018		2017	
	Amount (in Thousands)	% of Segment Net Service Revenues	Amount (in Thousands)	% of Segment Net Service Revenues	Amount (in Thousands)	% of Segment Net Service Revenues	Amount (in Thousands)	% of Segment Net Service Revenues
Illinois	$ 58,863	46.0%	$ 56,813	52.3%	$ 174,457	48.2%	$ 165,370	52.7%
New York	16,814	13.1	14,904	13.7	47,999	13.2	43,562	13.9
New Mexico	16,013	12.5	10,645	9.8	42,594	11.7	24,854	7.9
All other states	36,404	28.4	26,230	24.2	97,556	26.9	79,972	25.5
Total personal care segment net service revenues	$ 128,094	100.0%	$ 108,592	100.0%	$ 362,606	100.0%	$ 313,758	100.0%

	Hospice			
	For the Three Months Ended September 30, 2018		For the Nine Months Ended September 30, 2018	
	Amount (in Thousands)	% of Segment Net Service Revenues	Amount (in Thousands)	% of Segment Net Service Revenues
New Mexico	$ 7,116	100.0%	$ 11,765	100.0%
Total hospice segment net service revenues	$ 7,116	100.0%	$ 11,765	100.0%

	Home Health			
	For the Three Months Ended September 30, 2018		For the Nine Months Ended September 30, 2018	
	Amount (in Thousands)	% of Segment Net Service Revenues	Amount (in Thousands)	% of Segment Net Service Revenues
New Mexico	$ 2,421	100.0%	$ 3,944	100.0%
Total home health segment net service revenues	$ 2,421	100.0%	$ 3,944	100.0%

A substantial portion of the Company s net service revenues and accounts receivable are derived from services performed for state and local governmental agencies. The Illinois Department on Aging, the largest payor program for our Illinois personal care operations, accounted for 29.5% and 36.6% of the Company s net service revenues for the three months ended September 30, 2018 and 2017, respectively and accounted for 31.8% and 36.6% of the Company s net service revenues for the nine months ended September 30, 2018 and 2017, respectively.

The related receivables due from the Illinois Department on Aging represented 27.4% and 37.5% of the Company s net accounts receivable at September 30, 2018 and December 31, 2017, respectively.

13. Concentration of Cash

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist principally of cash. The Company maintains cash with financial institutions which, at times, may exceed federally insured limits. The Company believes it is not exposed to any

significant credit risk on cash.

14. Subsequent Events

On October 31, 2018, the Company amended and restated its existing Credit Agreement with certain lenders and Capital One, N.A as a lender and swing line lender and as agent for all lenders. See Note 7, Amended and Restated Senior Secured Credit Facility for additional information.

Effective October 31, 2018, the Company entered into a definitive agreement to acquire the assets of VIP Health Care Services for approximately $28.0 million. The Company expects to complete this transaction in the first or second quarter of 2019, contingent on the timing of certain regulatory approvals. The Company expects to fund this acquisition through the delayed draw term loan portion of its new credit facility and available cash on hand.

On November 5, 2018 we amended and restated the employment agreements of each of our named executive officers in order to: (i) increase the amount of severance that would be payable on certain terminations of employment in connection with a change in control (as defined in the employment agreements), from two times annual compensation to three times annual compensation (as defined in the employment agreements) in the case of our chief executive officer, and from one times annual compensation to two times annual compensation (as defined in the employment agreements) in the case of our other named executive officers; (ii) provide that the enhanced severance for terminations of employment in connection with a change in control would be payable if the named executive officers self-terminated for good reason (as defined in the employment agreements); (iii) stipulate that severance for terminations of employment in connection with a change in control would include any unpaid bonus for a performance period completed prior to termination (the chief executive officer already had this right); and (iv) adjust the duration of non-competition and non-solicitation periods to match the number of years of annual compensation that the named executive officer would receive in severance. Copies of these employment agreements are attached to this Quarterly Report on 10-Q as Exhibits 10.3 through 10.8, and are incorporated herein by reference.

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 included elsewhere in this quarterly report on Form 10-Q. This discussion contains forward-looking statements about our business and operations. Statements that are predictive in nature, that depend upon or refer to future events or conditions or that include words like believes, belief, expects, plans, anticipates, intends, projects, estimates, may, might, would, should and similar expressions are intended to be forward-looking statements as defined by the Private Securities Litigation Reform Act of 1995. These forward-looking statements involve a variety of risks and uncertainties that could cause actual results to differ materially from those described therein. These risks and uncertainties include, but are not limited to, the risks set forth in our filings with the Securities and Exchange Commission from time to time, including the risk factors set forth in Part I, Item 1A of our Annual Report on Form 10-K for the period ended December 31, 2017, filed on March 14, 2018 and in Part II, Item 1A of this Form 10-Q. Because forward-looking statements are inherently subject to risks and uncertainties, some of which cannot be predicted or quantified, you should not rely on any forward-looking statement as a prediction of future events. We expressly disclaim any obligation or undertaking and we do not intend to release publicly any updates or changes in our expectations concerning the forward-looking statements or any changes in events, conditions or circumstances upon which any forward-looking statement may be based, except as required by law.

Overview

With the acquisition of Ambercare completed during the second quarter of 2018, we began to report our business with two additional segments, hospice and home health. Prior to the Ambercare acquisition, we operated one business segment as a provider of personal care services. Our personal care segment provides non-medical assistance with activities of daily living, primarily to persons who are at risk of hospitalization or institutionalization, such as the elderly, chronically ill or disabled. Our hospice segment provides physical, emotional and spiritual care for people who are terminally ill as well as for their families. Our home health segment provides services that are primarily medical in nature to individuals who may require assistance during an illness or after surgery, and include skilled nursing and physical, occupational and speech therapy.

As of September 30, 2018, we provided our services in 24 states through 156 offices. Our payor clients include federal, state and local governmental agencies, managed care organizations, commercial insurers and private individuals. For the nine months ended September 30, 2018 and 2017, we served approximately 55,000 and 49,000 discrete individuals, respectively. Our personal care segment also includes staffing services provided to approximately 150 businesses for the nine months ended September 30, 2018, with clients for staffing services including assisted living facilities, nursing homes and hospice facilities.

Our services are principally provided in the home under agreements with federal, state and local government agencies. Our consumers are predominately dual eligible, meaning they are eligible to receive both Medicare and Medicaid benefits. The federal government permits states to initiate dual eligible demonstration programs and other managed Medicaid initiatives designed to coordinate the services provided through Medicare and Medicaid, with the overall objective of improving care quality and reducing costs. Managed care revenues accounted for 35.3% and 34.0% of our revenue during the three months ended September 30, 2018 and 2017, respectively and 35.0% and 32.5% of our revenue during the nine months ended September 30, 2018 and 2017, respectively.

The personal care services we provide include assistance with bathing, grooming, oral care, assistance with feeding and dressing, medication reminders, meal planning and preparation, housekeeping and transportation services. We provide these non-medical services on a long-term, continuous basis, with an average duration of approximately 26 months per consumer.

The hospice services we provide include palliative nursing care, social work, spiritual counseling, homemaker services and bereavement counseling. Generally, patients receiving hospice services have a life expectancy of six months or less.

The home health services we provide are primarily medical in nature to individuals who may require assistance during an illness or after surgery, and include skilled nursing and physical, occupational and speech therapy. We generally provide home health services on a short-term, intermittent or episodic basis to individuals, typically to assist patients recovering from an illness or injury.

Our services and operating model address a number of crucial needs across the healthcare continuum. Care provided in the home generally costs less than facility-based care and is typically preferred by consumers and their families. By providing services in the home to the elderly and others who require long-term care and support with the activities of daily living, we lower the cost of chronic and acute care treatment by delaying or eliminating the need for care in more expensive settings. In addition, our home care aides observe and report changes in the condition of our consumers for the purpose of facilitating early intervention in the disease process, which often reduces the cost of medical services by preventing unnecessary

28

emergency room visits and/or hospital admissions and re-admissions. We coordinate the services provided by our team with those of other healthcare providers and payors as appropriate. Changes in a consumer s conditions are evaluated by appropriately trained managers and may result in a report to the consumer s case manager at a managed care organization or other payor. By providing care in the preferred setting of the home and by providing opportunities to improve the consumer s conditions and allow early intervention as indicated, our model also is designed to improve consumer outcomes and satisfaction.

We believe our model provides significant value to managed care organizations. States are increasingly implementing managed care programs for Medicaid enrollees, and as a result managed care organizations are increasingly responsible for the healthcare needs and the related healthcare costs of our consumers. Managed care organizations have an economic incentive to better manage the healthcare expenditures of their members, lower costs and improve outcomes. We believe that our model is well positioned to assist in meeting those goals while also improving consumer satisfaction, and, as a result, we expect increased referrals from managed care organizations.

In April of 2018, the Centers for Medicare and Medicaid Services (CMS) issued a final rule change, which will go into effect on January 1, 2019, that will allow Medicare Advantage insurers to offer beneficiaries more options and new benefits. Through this new rule, CMS has redefined health-related supplemental benefits to include services that increase health and improve quality of life, including coverage of non-skilled in-homecare. This policy change, emphasizing improving quality and reducing costs, aligns with our overall approach to care, and we believe the increased demand for personal care from the Medicare Advantage population represents a significant upside opportunity over the next three to five years.

We utilize Interactive Voice Response (IVR) systems and smart phone applications to communicate with the majority of our aides. Through these technologies, our aides and other providers are able to report changes in health conditions to an appropriate manager for triage and evaluation. In addition, we use these technologies to record basic information about each visit, record start and end times for a scheduled shift, track mileage reimbursement, send text messages to the aide and communicate basic payroll information.

Acquisitions

In addition to our organic growth, we have been growing through acquisitions that have expanded our presence in current markets or facilitated our entry into new markets where in-home care has been moving to managed care organizations.

On January 1, 2018, we acquired certain assets of LifeStyle in order to expand private pay services in Illinois. The total consideration for the transaction was $4.1 million, comprised of $3.3 million in cash and $0.8 million, representing the estimated fair value of contingent consideration, subject to the achievement of certain performance targets set forth in an earn-out agreement.

On April 1, 2018, we completed an acquisition of certain assets of Arcadia for approximately $18.9 million. Arcadia provides home care services to approximately 2,300 consumers through 26 offices in 10 states. We funded this acquisition through the delayed draw term loan portion of our credit facility. In September 2018, we acquired certain affiliate branches of Arcadia for $0.6 million using cash on hand.

On May 1, 2018, we completed the acquisition of all of the issued and outstanding stock of Ambercare for approximately $39.6 million plus the amount of excess cash held by Ambercare at closing (approximately $12.0 million). With the purchase of Ambercare, we expanded our personal care operations and acquired hospice and home health operations in the State of New Mexico. We funded this acquisition through the delayed draw term loan portion of our credit facility.

Effective October 31, 2018, we entered into a definitive agreement to acquire the assets of VIP Health Care Services for approximately $28.0 million. With the purchase of VIP Health Care Services, we will expand our personal care operations in the State of New York and into the New York City metropolitan area. We expect to complete this transaction in the first or second quarter of 2019, contingent on the timing of certain regulatory approvals. We expect to fund this acquisition through the delayed draw term loan portion of our new credit facility and available cash on hand.

Through the Ambercare acquisition, completed in the second quarter of 2018, we have acquired the businesses that comprise our hospice and home health segments.

Business

As of September 30, 2018, we provided our services in 24 states through 156 offices. Our payor clients include federal, state and local governmental agencies, managed care organizations, commercial insurers and private individuals. For the nine months ended September 30, 2018 and 2017, we served approximately 55,000 and 49,000 discrete individuals, respectively.

29

Table of Contents

For the three and nine months ended September 30, 2018 and 2017 our revenue by payor type was as follows:

	Personal Care							
	For the Three Months Ended September 30,				For the Nine Months Ended September 30,			
	2018		2017		2018		2017	
	Amount (in Thousands)	% of Segment Net Service Revenues	Amount (in Thousands)	% of Segment Net Service Revenues	Amount (in Thousands)	% of Segment Net Service Revenues	Amount (in Thousands)	% of Segment Net Service Revenues
State, local and other governmental programs	$ 73,606	57.5%	$ 69,073	63.6%	$ 213,011	58.7%	$ 203,409	64.8%
Managed care organizations	45,271	35.3	36,866	34.0	126,809	35.0	102,055	32.5
Private pay	5,549	4.3	1,959	1.8	14,861	4.1	6,230	2.0
Commercial insurance	1,869	1.5	694	0.6	4,271	1.2	2,064	0.7
Other	1,799	1.4			3,654	1.0		
Total personal care segment net service revenues	$ 128,094	100.0%	$ 108,592	100.0%	$ 362,606	100.0%	$ 313,758	100.0%

	Hospice			
	For the Three Months Ended September 30, 2018		For the Nine Months Ended September 30, 2018	
	Amount (in Thousands)	% of Segment Net Service Revenues	Amount (in Thousands)	% of Segment Net Service Revenues
Medicare	$ 6,677	93.8%	$ 11,030	93.8%
Managed care organizations	426	6.0	721	6.1
Other	13	0.2	14	0.1
Total hospice segment net service revenues	$ 7,116	100.0%	$ 11,765	100.0%

	Home Health			
	For the Three Months Ended September 30, 2018		For the Nine Months Ended September 30, 2018	
	Amount (in Thousands)	% of Segment Net Service Revenues	Amount (in Thousands)	% of Segment Net Service Revenues
Medicare	$ 2,184	90.2%	$ 3,588	91.0%
Managed care organizations	221	9.1	329	8.3
Other	16	0.7	27	0.7
Total home health segment net service revenues	$ 2,421	100.0%	$ 3,944	100.0%

Table of Contents

The percentages of segment revenue for each of our significant states for the three and nine months ended September 30, 2018 and 2017 were as follows:

	Personal Care							
	For the Three Months Ended September 30,				For the Nine Months Ended September 30,			
	2018		2017		2018		2017	
	Amount (in Thousands)	% of Segment Net Service Revenues	Amount (in Thousands)	% of Segment Net Service Revenues	Amount (in Thousands)	% of Segment Net Service Revenues	Amount (in Thousands)	% of Segment Net Service Revenues
Illinois	$ 58,863	46.0%	$ 56,813	52.3%	$ 174,457	48.2%	$ 165,370	52.7%
New York	16,814	13.1	14,904	13.7	47,999	13.2	43,562	13.9
New Mexico	16,013	12.5	10,645	9.8	42,594	11.7	24,854	7.9
All other states	36,404	28.4	26,230	24.2	97,556	26.9	79,972	25.5
Total personal care segment net service revenues	$ 128,094	100.0%	$ 108,592	100.0%	$ 362,606	100.0%	$ 313,758	100.0%

	Hospice			
	For the Three Months Ended September 30, 2018		For the Nine Months Ended September 30, 2018	
	Amount (in Thousands)	% of Segment Net Service Revenues	Amount (in Thousands)	% of Segment Net Service Revenues
New Mexico	$ 7,116	100.0%	$ 11,765	100.0%
Total hospice segment net service revenues	$ 7,116	100.0%	$ 11,765	100.0%

	Home Health			
	For the Three Months Ended September 30, 2018		For the Nine Months Ended September 30, 2018	
	Amount (in Thousands)	% of Segment Net Service Revenues	Amount (in Thousands)	% of Segment Net Service Revenues
New Mexico	$ 2,421	100.0%	$ 3,944	100.0%
Total home health segment net service revenues	$ 2,421	100.0%	$ 3,944	100.0%

A significant amount of our net service revenues are derived from one payor client, the Illinois Department on Aging which accounted for 29.5% and 36.6% of our total net service revenues for the three months ended September 30, 2018 and 2017, respectively, and accounted for 31.8% and 36.6% of our total net service revenues for the nine months ended September 30, 2018 and 2017, respectively. The Illinois Department on Aging s payments for non-Medicaid consumers have been delayed in the past and may continue to be delayed in the future due to budget disputes. The State of Illinois did not adopt comprehensive budgets for fiscal years 2016 or 2017, ending June 30, 2016 and June 30, 2017, respectively. On July 6, 2017, the State of Illinois passed a budget for state fiscal year 2018, which began on July 1, 2017, authorizing the Illinois Department on Aging to pay for our services rendered to non-Medicaid consumers provided in prior fiscal years. As of September 30, 2018, we have received all such payments. On June 4, 2018, the State of Illinois passed a budget for state fiscal year 2019, which began on July 1, 2018.

In December 2014, the Chicago City Council passed an ordinance that will raise the minimum wage for Chicago workers to $13 per hour by 2019, with increases up to $1 per hour effective on July 1 of each year. The rate is $12 per hour effective July 1, 2018. The wage increase in

2016 did not have a material impact on us because of our existing wage scale. The 2017 wage increase was offset by a reimbursement rate increase. In the budget process for the 2019 fiscal year, a similar provision was proposed but was not included in the final budget. We believe that there is legislative support for an increase and anticipate that a pass-through increase to offset the wage increase could be passed in a November 2018 session or, more likely, in the first half of 2019. In quarters for which a reimbursement rate increase is not in effect, this could have an adverse effect on our financial performance.

We measure the performance of our segments using a number of different metrics. For the personal care segment these include billable hours, billable hours per business day, revenues per billable hour and the number of consumers, or census. For the hospice segment these include admissions, average daily census, average length of stay and revenue per patient day. For the home health segment these include admissions, recertifications, total volume, number of visits, completed episodes and average revenue per completed episode.

Results of Operations- Consolidated

Three Months Ended September 30, 2018 Compared to Three Months Ended September 30, 2017

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

	For the Three Months Ended September 30,					
	2018		2017		Change	
	Amount	% Of Net Service Revenues	Amount	% Of Net Service Revenues	Amount	%
	(Amounts in Thousands, Except Percentages)					
Net service revenues	$ 137,631	100.0%	$ 108,592	100.0%	$ 29,039	26.7%
Cost of service revenues	100,926	73.3	79,539	73.2	21,387	26.9
Gross profit	36,705	26.7	29,053	26.8	7,652	26.3
General and administrative expenses	28,218	20.5	19,359	17.8	8,859	45.8
Provision for doubtful accounts	49		2,106	1.9	(2,057)	(97.7)
Depreciation and amortization	2,535	1.8	1,781	1.7	754	42.3
Total operating expenses	30,802	22.4	23,246	21.4	7,556	32.5
Operating income	5,903	4.3	5,807	5.4	96	1.7
Interest income	(113)	(0.1)	(30)		(83)	
Interest expense	1,543	1.1	870	0.8	673	
Total interest expense, net	1,430	1.0	840	0.8	590	70.2
Other income			64		(64)	(100.0)
Income before income taxes	4,473	3.3	5,031	4.6	(558)	(11.1)
Income tax expense	927	0.7	1,623	1.5	(696)	(42.9)
Net income	$ 3,546	2.6%	$ 3,408	3.1%	$ 138	4.0%

Net service revenues increased by 26.7% to $137.6 million for the three months ended September 30, 2018 compared to $108.6 million for the same period in 2017. Net service revenues increased primarily due to the acquisitions of Arcadia and Ambercare during the second quarter of 2018 and an increase in same store sales of 3.7% for the three months ended September 30, 2018 as compared to the three months ended September 30, 2017. This increase in net service revenues was offset by a $2.4 million decrease in net service revenues as a result of our adoption of ASC 606. Under ASC 606 the majority of what historically was classified as provision for doubtful accounts under operating expenses is now treated as an implicit price concession factored into net service revenues. See Note 2 to the Notes to Condensed Consolidated Financial Statements (Unaudited) Summary of Significant Accounting Policies for additional information.

Gross profit, expressed as a percentage of net service revenues, decreased to 26.7% for the three months ended September 30, 2018, compared to 26.8% for the same period in 2017. The decrease was primarily due to our adoption of ASC 606, as described above, which resulted in a $2.4 million decrease in net service revenues. This decrease was offset by the acquisition of the relatively higher margin Ambercare business in the second quarter of 2018.

General and administrative expenses increased to $28.2 million as compared to $19.4 million for the three months ended September 30, 2018 and 2017, respectively. The increase in general and administrative expenses was primarily due to acquisitions that resulted in an increase in administrative employee wages, rent, data processing, taxes and benefit costs of $4.9 million, in addition, acquisition related costs increased approximately $1.4 million. General and administrative expenses, expressed as a percentage of net service revenues increased to 20.5% for the three months ended September 30, 2018, from 17.8% for the three months ended September 30, 2017. The increase was primarily due to our adoption of ASC 606, as described above, which resulted in a $2.4 million decrease in net service revenues.

Provision for doubtful accounts decreased by approximately $2.1 million to $49,000 for the three months ended September 30, 2018 compared to $2.1 million for the same period in 2017. The decrease was primarily due to our adoption of ASC 606 which resulted in a $2.4 million decrease in the provision for doubtful accounts as the majority of what historically was classified as provision for doubtful accounts under operating expenses is now treated as an implicit price concession factored into net service revenues.

Table of Contents

Depreciation and amortization expense increased to $2.5 million from $1.8 million for the three months ended September 30, 2018 and 2017, respectively, primarily due to the increase of intangible assets related to the fiscal year 2018 acquisitions.

Nine Months Ended September 30, 2018 Compared to Nine Months Ended September 30, 2017

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

	For the Nine Months Ended September 30,					
	2018		2017		Change	
	Amount	% Of Net Service Revenues	Amount	% Of Net Service Revenues	Amount	%
	(Amounts in Thousands, Except Percentages)					
Net service revenues	$ 378,315	100.0%	$ 313,758	100.0%	$ 64,557	20.6%
Cost of service revenues	277,985	73.5	228,877	72.9	49,108	21.5
Gross profit	100,330	26.5	84,881	27.1	15,449	18.2
General and administrative expenses	76,084	20.1	57,239	18.2	18,845	32.9
Gain on sale of adult day services center			(2,065)	(0.6)	2,065	(100.0)
Provision for doubtful accounts	214		6,208	2.0	(5,994)	(96.6)
Depreciation and amortization	6,676	1.8	4,811	1.5	1,865	38.8
Total operating expenses	82,974	21.9	66,193	21.1	16,781	25.4
Operating income	17,356	4.6	18,688	6.0	(1,332)	(7.1)
Interest income	(2,468)	(0.7)	(50)		(2,418)	
Interest expense	3,836	1.0	3,629	1.2	207	
Total interest expense, net	1,368	0.4	3,579	1.2	(2,211)	(61.8)
Other income			165	0.1	(165)	(100.0)
Income before income taxes	15,988	4.2	15,274	4.9	714	4.7
Income tax expense	3,287	0.9	4,908	1.6	(1,621)	(33.0)
Net income	$ 12,701	3.4%	$ 10,366	3.3%	$ 2,335	22.5%

Net service revenues increased by 20.6% to $378.3 million for the nine months ended September 30, 2018 compared to $313.8 million for the same period in 2017. Net service revenues increased primarily due to the acquisitions of Arcadia and Ambercare during the second quarter of 2018 and an increase in same store sales of 4.0% in the nine months ended September 30, 2018 as compared to the nine months ended September 30, 2017. This increase in net service revenues was offset by a $6.8 million decrease in net service revenues as a result of our adoption of ASC 606. Under ASC 606 the majority of what historically was classified as provision for doubtful accounts under operating expenses is now treated as an implicit price concession factored into net service revenues. See Note 2 to the Notes to Condensed Consolidated Financial Statements (Unaudited) Summary of Significant Accounting Policies for additional information.

Gross profit, expressed as a percentage of net service revenues, decreased to 26.5% for the nine months ended September 30, 2018, compared to 27.1% for the same period in 2017. The decrease was primarily due to our adoption of ASC 606, as described above, which resulted in a $6.8 million decrease in net service revenues. This decrease was offset by the acquisition of the relatively higher margin Ambercare business in the second quarter of 2018.

General and administrative expenses increased to $76.1 million as compared to $57.2 million for the nine months ended September 30, 2018 and 2017, respectively. The increase in general and administrative expenses was primarily due to acquisitions that resulted in an increase in administrative employee wages, taxes and benefit costs of $11.4 million and an increase in acquisition expenses of $1.9 million. General and administrative expenses, expressed as a percentage of net service revenues, increased to 20.1% for the nine months ended September 30, 2018,

from 18.2% for the nine months ended September 30, 2017. The increase was primarily due to our adoption of ASC 606, as described above, which resulted in a $6.8 million decrease in net service revenues.

Provision for doubtful accounts decreased by approximately $6.0 million to $0.2 million for the nine months ended September 30, 2018 compared to $6.2 million for the same period in 2017. The decrease was primarily due to our adoption of ASC 606 which resulted in a $6.8 million decrease in the provision for doubtful accounts as the majority of what historically was classified as provision for doubtful accounts under operating expenses is now treated as an implicit price concession factored into net service revenues.

Depreciation and amortization expense increased to $6.7 million from $4.8 million for the nine months ended September 30, 2018 and 2017, respectively, primarily due to the increase of intangible assets related to the fiscal year 2018 acquisitions.

Interest Income

Illinois law 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. We accounted for the interest income in accordance with ASC 606. The interest income was recognized when the State of Illinois approved a prompt payment interest penalty during the nine months ended September 30, 2018, removing the constraint related to the amount and intent to pay the prompt payment interest. For the three months ended September 30, 2018, we did not receive any prompt payment interest. For the nine months ended September 30, 2018, we received $2.3 million in prompt payment interest and reported it in our Unaudited Condensed Consolidated Statements of Income as interest income. For the three and nine months ended September 30, 2017, we did not receive any prompt payment interest. While we may be owed additional prompt payment interest, the amount, timing, and intent to provide such payments remains uncertain, and we will continue to recognize prompt payment interest income upon satisfaction of these constraints.

Interest Expense

For the three months ended September 30, 2018 as compared to September 30, 2017, interest expense increased to $1.5 million from $0.9 million. For the nine months ended September 30, 2018 as compared to September 30, 2017, interest expense increased to $3.8 million from $3.6 million. The increases in interest expenses are primarily due to higher outstanding term loan balance under our credit facility during the three and nine months ending September 30, 2018 compared to September 30, 2017, offset by a write-off of the unamortized debt issuance costs in the amount of $1.3 million upon the termination of our Terminated Senior Secured Credit Facility on May 8, 2017. See Note 7 to the Notes to Condensed Consolidated Financial Statements (Unaudited) Long-Term Debt for additional information.

Other Income

For the three and nine months ended September 30, 2017, other income of $64,000 and $0.2 million, respectively, consisted of income distributions received from the cost method investments in joint ventures, which were sold on October 1, 2017. We accounted for this income in accordance with ASC Topic 325, *Investments Other.* and recognized the net accumulated earnings only to the extent distributed by the joint ventures on the date received.

Income Tax Expense

All of our income is from domestic sources. We incur state and local taxes in states in which we operate. Our federal statutory rate was 21.0% and 35.0% for the three and nine months ended September 30, 2018 and 2017, respectively. The effective income tax rate was 20.7% and 32.2% for the three months ended September 30, 2018 and 2017, respectively and 20.6% and 32.1% for the nine months ended September 30, 2018 and 2017, respectively. The difference between our federal statutory and effective income tax rates are principally due to the inclusion of state taxes and the use of federal employment tax credits. A provisional valuation allowance increased $0.2 million and $0.4 million in the three and nine months ended September 30, 2018, respectively, as a result of the elimination of a performance based equity exception in calculating the $1.0 million limitation for 162(m) under the Tax Reform Act.

Table of Contents

Results of Operations Segments

The following tables and related analysis summarize our operating results and business metrics by segment:

Personal Care Segment

	For the Three Months Ended September 30,						For the Nine Months Ended September 30,					
	2018		2017		Change		2018		2017		Change	
Personal Care Segment	**Amount**	**% of Segment Net Service Revenues**	**Amount**	**% of Segment Net Service Revenues**	**Amount**	**%**	**Amount**	**% of Segment Net Service Revenues**	**Amount**	**% of Segment Net Service Revenues**	**Amount**	**%**
Operating Results												
Net service revenues	$ 128,094	100.0%	$ 108,592	100.0%	$ 19,502	18.0%	$ 362,606	100.0%	$ 313,758	100.0%	$ 48,848	15.6%
Cost of services revenues	95,428	74.5	79,539	73.2	15,889	20.0	268,815	74.1	228,877	72.9	39,938	17.4
Gross profit	32,666	25.5	29,053	26.8	3,613	12.4	93,791	25.9	84,881	27.1	8,910	10.5
Provision for doubtful accounts	48		2,106	1.9	(2,058)	(97.7)	210	0.1	6,208	2.0	(5,998)	(96.6)
General and administrative expenses	10,446	8.2	7,957	7.3	2,489	31.3	29,073	8.0	24,129	7.7	4,944	20.5
Segment operating income	$ 22,172	17.3%	$ 18,990	17.5%	$ 3,182	16.8%	$ 64,508	17.8%	$ 54,544	17.4%	$ 9,964	18.3%
Business Metrics (Actual Numbers, Except Billable Hours in Thousands)												
Average billable census	37,670		34,935		2,735	7.8%	37,704		35,176		2,528	7.2%
Billable hours	7,007		6,049		958	15.8	19,865		17,685		2,180	12.3
Average billable hours per census per month	61.5		57.7		3.8	6.6	58.2		55.9		2.3	4.1
Billable hours per business day	107,793		93,054		14,739	15.8	101,351		90,692		10,659	11.8
Revenues per billable hour	$ 18.31		$ 17.95		$ 0.36	2.0%	$ 18.27		$ 17.74		$ 0.53	3.0%

Net service revenues from state, local and other governmental programs accounted for 57.5% and 63.6% of net service revenues for the three months ended September 30, 2018 and 2017, respectively and 58.7% and 64.8% of net service revenues for the nine months ended September 30, 2018 and 2017, respectively. Managed care organizations accounted for 35.3% and 34.0% of net service revenues for the three months ended September 30, 2018 and 2017, respectively and 35.0% and 32.5% of net service revenues for the nine months ended September 30, 2018 and 2017, respectively, with commercial insurance, private pay and other payors accounting for the remainder of net service revenues. A significant amount of our net service revenues were derived from one payor client, the Illinois Department on Aging, which accounted for 29.5% and 36.6% of net service revenues for the three months ended September 30, 2018 and 2017, respectively and 31.8% and 36.6% of net service revenues for the nine months ended September 30, 2018 and 2017, respectively.

Net service revenues increased by 18.0% for the three months ended September 30, 2018 compared to the three months ended September 30, 2017. Net service revenues increased primarily as a result of a 15.8% increase in billable hours in the three months September 30, 2018 as compared to the three months ended September 30, 2017. Net service revenues increased by 15.6% for the nine months ended September 30, 2018 compared to the nine months ended September 30, 2017. The increases are primarily due to the acquisitions of Arcadia and Ambercare during the second quarter of 2018. In addition net service revenues increased as a result of a 12.3% increase in billable hours and a 3.0% increase in revenues per billable hour in the nine months September 30, 2018 as compared to the nine months ended September 30, 2017. These increases in net service revenues were offset by a $2.4 million and $6.8 million decrease in net service revenues for the three and nine months ended September 30, 2018, respectively, as a result of our adoption of ASC 606. Under ASC 606 the majority of what historically was classified

as provision for doubtful accounts under operating expenses is now treated as an implicit price concession factored into net service revenues. See Note 2 to the Notes to Condensed Consolidated Financial Statements (Unaudited) Summary of Significant Accounting Policies for additional information.

Gross profit, expressed as a percentage of net service revenues, decreased from 26.8% for the three months ended September 30, 2017 to 25.5% for the three months ended September 30, 2018 and from 27.1% for the nine months ended September 30, 2017 to 25.9% for the nine months ended September 30, 2018. The decrease was primarily due to our adoption of ASC 606, as described above, which resulted in a $2.4 million and $6.8 million decrease in net service revenues for the three and nine months ended September 30, 2018, respectively.

Table of Contents

Provision for doubtful accounts decreased by approximately $2.1 million to $48,000 for the three months ended September 30, 2018 compared to $2.1 million for the same period in 2017. Provision for doubtful accounts decreased by approximately $6.0 million to $210,000 for the nine months ended September 30, 2018 compared to $6.2 million for the same period in 2017. The decrease was primarily due to our adoption of ASC 606 which resulted in a $2.4 million and $6.8 million decrease in the provision for doubtful accounts for the three and nine months ended September 30, 2017, respectively, as the majority of what historically was classified as provision for doubtful accounts under operating expenses is now treated as an implicit price concession factored into net service revenues.

General and administrative expenses increased by approximately $2.5 million and $4.9 million for the three and nine months ended September 30, 2018, respectively. The increase in general and administrative expenses was primarily due to acquisitions that resulted in a $1.4 million and $3.0 million increase in administrative employee wages, taxes and benefit costs, a $0.5 million and $1.0 million increase in commissions, and a $0.3 million and $0.5 million increase in rent expenses for the three and nine months ended September 30, 2018, respectively.

Hospice Segment

Hospice Segment (Amounts in thousands, except percentages)	For the Three Months Ended September 30, 2018		For the Nine Months Ended September 30, 2018	
	Amount	% of Segment Net Service Revenues	Amount	% of Segment Net Service Revenues %
Net service revenues	$ 7,116	100.0%	$ 11,765	100.0%
Cost of services revenues	3,777	53.1	6,351	54.0
Gross profit	3,339	46.9	5,414	46.0
Provision for doubtful accounts	1		3	
General and administrative expenses	1,474	20.7	2,326	19.8
Segment operating income	$ 1,864	26.2%	$ 3,085	26.2%
Business Metrics (Actual Numbers)				
Admissions	393		643	
Average daily census	520		528	
Average length of stay	145.4		146.1	
Patient days	47,679		80,279	
Revenue per patient day	$ 149.25		$ 146.55	

On May 1, 2018, with the completion of the acquisition of Ambercare, we began operating a hospice segment. Hospice generates net service revenues by providing care to patients with a life expectancy of six months or less and their families. Net service revenues from Medicare accounted for 93.8% for the three and nine months ended September 30, 2018. Net service revenues from managed care organizations accounted for 6.0% and 6.1% for the three and nine months ended September 30, 2018, respectively.

Gross profit, expressed as a percentage of net service revenues was 46.9% and 46.0% for the three and nine months ended September 30, 2018, respectively. General and administrative expenses, expressed as a percentage of net service revenues was 20.7% and 19.8% for the three and nine months ended September 30, 2018, respectively. The hospice segment s general and administrative expenses primarily consist of administrative employee wages, taxes and benefit costs, rent, information technology and office expenses. The hospice segment s operating income was $1.9 million and $3.1 million for the three and nine months ended September 30, 2018, respectively.

Table of Contents

Home Health Segment

Home Health Segment (Amounts in thousands, except percentages)	For the Three Months Ended September 30, 2018		For the Nine Months Ended September 30, 2018	
	Amount	% of Segment Net Service Revenues	Amount	% of Segment Net Service Revenues %
Net service revenues	$ 2,421	100.0%	$ 3,944	100.0%
Cost of services revenues	1,721	71.1	2,819	71.5
Gross profit	700	28.9	1,125	28.5
Provision for doubtful accounts			1	
General and administrative expenses	604	24.9	946	24.0
Segment operating income	$ 96	4.0%	$ 178	4.5%
Business Metrics (Actual Numbers)				
New admissions	653		1,041	
Recertifications				