UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2023

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.)**
6303 Cowboys Way, Suite 600 Frisco, TX	**75034**
(Address of principal executive offices)	**(Zip Code)**

(469) 535-8200
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, $0.001 par value	ADUS	The Nasdaq Global Market

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 ☒

As of April 25, 2023, Addus HomeCare Corporation had 16,204,341 shares of Common Stock outstanding.

ADDUS HOMECARE CORPORATION

FORM 10-Q

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

ADDUS HOMECARE CORPORATION
AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS
As of March 31, 2023 and December 31, 2022
(Amounts and Shares in Thousands, Except Per Share Data)
(Unaudited)

	March 31, 2023	December 31, 2022
Assets		
Current assets		
Cash	$ 73,543	$ 79,961
Accounts receivable, net of allowances	125,441	125,501
Prepaid expenses and other current assets	10,226	17,345
Total current assets	209,210	222,807
Property and equipment, net of accumulated depreciation and amortization	20,248	21,182
Other assets		
Goodwill	583,972	582,837
Intangibles, net of accumulated amortization	70,604	72,188
Operating lease assets, net	47,049	38,980
Total other assets	701,625	694,005
Total assets	$ 931,083	$ 937,994
Liabilities and stockholders' equity		
Current liabilities		
Accounts payable	$ 21,758	$ 22,092
Accrued payroll	34,105	44,937
Accrued expenses	34,018	27,507
Operating lease liabilities, current portion	11,099	10,801
Government stimulus advances	10,996	12,912
Accrued workers' compensation insurance	12,683	12,897
Total current liabilities	124,659	131,146
Long-term liabilities		
Long-term debt, less current portion, net of debt issuance costs	108,487	131,772
Long-term operating lease liabilities	42,994	35,479
Other long-term liabilities	6,057	6,057
Total long-term liabilities	157,538	173,308
Total liabilities	$ 282,197	$ 304,454
Stockholders' equity		
Common stock—$.001 par value; 40,000 authorized and 16,204 and 16,128 shares issued and outstanding as of March 31, 2023 and December 31, 2022, respectively	$ 16	$ 16
Additional paid-in capital	395,879	393,208
Retained earnings	252,991	240,316
Total stockholders' equity	648,886	633,540
Total liabilities and stockholders' equity	$ 931,083	$ 937,994

See accompanying Notes to Condensed Consolidated Financial Statements (Unaudited)

ADDUS HOMECARE CORPORATION
AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME
For the Three Months Ended March 31, 2023 and 2022
(Amounts and Shares in Thousands, Except Per Share Data)
(Unaudited)

	For the Three Months Ended March 31, 2023	For the Three Months Ended March 31, 2022
Net service revenues	$ 251,599	$ 226,634
Cost of service revenues	173,184	156,448
Gross profit	78,415	70,186
General and administrative expenses	56,360	53,152
Depreciation and amortization	3,447	3,521
Total operating expenses	59,807	56,673
Operating income	18,608	13,513
Interest income	(106)	(58)
Interest expense	2,461	1,820
Total interest expense, net	2,355	1,762
Income before income taxes	16,253	11,751
Income tax expense	3,578	3,281
Net income	$ 12,675	$ 8,470
Net income per common share		
Basic income per share	$ 0.79	$ 0.54
Diluted income per share	$ 0.78	$ 0.53
Weighted average number of common shares and potential common shares outstanding:		
Basic	15,949	15,811
Diluted	16,297	16,079

See accompanying Notes to Condensed Consolidated Financial Statements (Unaudited)

ADDUS HOMECARE CORPORATION
AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
For the Three Months Ended March 31, 2023 and 2022
(Amounts and Shares in Thousands)
(Unaudited)

	For the Three Months Ended March 31, 2023				
	Common Stock		Additional Paid-in Capital	Retained Earnings	Total Stockholders' Equity
	Shares	Amount			
Balance at January 1, 2023	16,128	$ 16	$ 393,208	$ 240,316	$ 633,540
Issuance of shares of common stock under restricted stock award agreements	76	—	—	—	—
Stock-based compensation	—	—	2,646	—	2,646
Shares issued for exercise of stock options	—	—	25	—	25
Net income	—	—	—	12,675	12,675
Balance at March 31, 2023	16,204	$ 16	$ 395,879	$ 252,991	$ 648,886

	For the Three Months Ended March 31, 2022				
	Common Stock		Additional Paid-in Capital	Retained Earnings	Total Stockholders' Equity
	Shares	Amount			
Balance at January 1, 2022	15,940	$ 16	$ 380,037	$ 194,291	$ 574,344
Issuance of shares of common stock under restricted stock award agreements	115	—	—	—	—
Stock-based compensation	—	—	2,485	—	2,485
Shares issued for exercise of stock options	13	—	479	—	479
Net income	—	—	—	8,470	8,470
Balance at March 31, 2022	16,068	$ 16	$ 383,001	$ 202,761	$ 585,778

See accompanying Notes to Condensed Consolidated Financial Statements (Unaudited)

ADDUS HOMECARE CORPORATION
AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Three Months Ended March 31, 2023 and 2022
(Amounts in Thousands)
(Unaudited)

	For the Three Months Ended March 31,	
	2023	2022
Cash flows from operating activities:		
Net income	$ 12,675	$ 8,470
Adjustments to reconcile net income to net cash provided by (used in) operating activities, net of acquisitions:		
Depreciation and amortization	3,447	3,521
Deferred income taxes	(72)	126
Stock-based compensation	2,646	2,485
Amortization of debt issuance costs under the credit facility	215	215
Provision for credit losses	144	158
Impairment of operating lease assets	—	1,174
Changes in operating assets and liabilities, net of acquisitions:		
Accounts receivable	85	7,121
Prepaid expenses and other current assets	7,030	4,161
Government stimulus advances	(2,345)	—
Accounts payable	(494)	1,386
Accrued payroll	(10,901)	(17,443)
Accrued expenses and other long-term liabilities	6,369	(5,391)
Net cash provided by operating activities	18,799	5,983
Cash flows from investing activities:		
Acquisitions of businesses, net of cash acquired	(965)	(84,490)
Purchases of property and equipment	(777)	(1,104)
Net cash used in investing activities	(1,742)	(85,594)
Cash flows from financing activities:		
Payments on term loan — credit facility	(23,500)	—
Borrowings on revolver — credit facility	—	35,000
Cash received from exercise of stock options	25	479
Net cash (used in) provided by financing activities	(23,475)	35,479
Net change in cash	(6,418)	(44,132)
Cash, at beginning of period	79,961	168,895
Cash, at end of period	$ 73,543	$ 124,763
Supplemental disclosures of cash flow information:		
Cash paid for interest	$ 2,310	$ 1,619

See accompanying Notes to Condensed Consolidated Financial Statements (Unaudited)

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 a multi-state provider of three distinct but related business segments providing in-home services. In its personal care services segment, the Company provides non-medical assistance with activities of daily living, primarily to persons who are at increased risk of hospitalization or institutionalization, such as the elderly, chronically ill or disabled. In its hospice segment, the Company provides physical, emotional and spiritual care for people who are terminally ill as well as related services for their families. In its home health segment, the Company provides services that are primarily medical in nature to individuals who may require assistance during an illness or after hospitalization and include skilled nursing and physical, occupational and speech therapy. The Company's payors include federal, state and local governmental agencies, managed care organizations, commercial insurers and private individuals.

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. The accompanying balance sheet as of December 31, 2022 has been derived from the Company's audited financial statements for the year ended December 31, 2022 previously filed with the SEC. 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, 2022 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.

Principles of Consolidation

These Unaudited Condensed Consolidated Financial Statements include the accounts of Addus HomeCare Corporation, and its subsidiaries. All intercompany balances and transactions have been eliminated in consolidation.

2. Summary of Significant Accounting Policies

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: revenue recognition, goodwill and intangibles in business combinations and when required, the quantitative assessment of goodwill. Actual results could differ from those estimates.

Computation of Weighted Average Shares

The following table sets forth the computation of basic and diluted common shares:

	For the Three Months Ended March 31, (Amounts in thousands)	
	2023	2022
Weighted average number of shares outstanding for basic per share calculation	15,949	15,811
Effect of dilutive potential shares:		
Stock options	251	235
Restricted stock awards	97	33
Adjusted weighted average shares for diluted per share calculation	16,297	16,079
Anti-dilutive shares:		
Stock options	61	92
Restricted stock awards	—	77

Recently Adopted Accounting Pronouncements

In October 2021, the Financial Accounting Standards Board ("FASB") issued ASU No. 2021-08, *Accounting for Contract Assets and Contract Liabilities from Contracts with Customers (Topic 805)*. This ASU requires an acquirer in a business combination to recognize and measure contract assets and contract liabilities (deferred revenue) from acquired contracts using the revenue recognition guidance in Topic 606. At the acquisition date, the acquirer applies the revenue model as if it had originated the acquired contracts. The ASU was adopted prospectively on January 1, 2023. The additional disclosures required did not have a material impact on our consolidated financial statements.

Recently Issued Accounting Pronouncements

In March 2020, the FASB issued ASU 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*. ASU 2020-04 provides optional expedients and exceptions for applying GAAP to contract modifications and hedging relationships, and other transactions subject to meeting certain criteria, that reference LIBOR or another reference rate expected to be discontinued. The ASU provides companies with optional guidance to ease the potential accounting burden associated with transitioning away from reference rates that are expected to be discontinued. Therefore, it was in effect for a limited time through December 31, 2022. The ASU could be adopted no later than December 1, 2022 with early adoption permitted. As discussed further in Note 7 and pursuant to the Second Amendment to Amended and Restated Credit Agreement dated as of July 30, 2021, the Credit Agreement contains hardwired fallback language that contemplates a transition from LIBOR, specifically identifies the secured overnight financing rate ("SOFR") as the replacement reference rate and details the mechanism for transition at LIBOR cessation, which is anticipated to occur on June 30, 2023. The transition to SOFR is not expected to have a material impact on the Company's results of operations or liquidity.

3. Leases

Amounts reported on the Company's Unaudited Condensed Consolidated Balance Sheets for operating leases were as follows:

	March 31, 2023	December 31, 2022
	(Amounts in Thousands)	
Operating lease assets, net	$ 47,049	$ 38,980
Short-term operating lease liabilities (in accrued expenses)	11,099	10,801
Long-term operating lease liabilities	42,994	35,479
Total operating lease liabilities	$ 54,093	$ 46,280

Lease Costs

Components of lease costs were reported in general and administrative expenses in the Company's Unaudited Condensed Consolidated Statements of Income as follows:

	For the Three Months Ended March 31, (Amounts in Thousands)	
	2023	2022
Operating lease costs	$ 3,042	$ 2,801
Short-term lease costs	416	751
Total lease costs	3,458	3,552
Less: sublease income	(700)	(177)
Total lease costs, net	$ 2,758	$ 3,375

Lease Term and Discount Rate

Weighted average remaining lease terms and discount rates were as follows:

	March 31, 2023	December 31, 2022
Operating leases:		
Weighted average remaining lease term	6.68	5.82
Weighted average discount rate	5.04 %	3.98 %

Maturity of Lease Liabilities

Remaining operating lease payments as of March 31, 2023 were as follows:

	Operating Leases (Amounts in Thousands)
Due in the 12-month period ended March 31,	
2024	$ 13,454
2025	11,420
2026	8,226
2027	6,471
2028	5,262
Thereafter	20,218
Total future minimum rental commitments	65,051
Less: Imputed interest	(10,958)
Total lease liabilities	$ 54,093

Supplemental cash flows information

	For the Three Months Ended March 31, (Amounts in Thousands)	
	2023	2022
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	$ 3,374	$ 3,194
Right-of-use assets obtained in exchange for lease obligations:		
Operating leases	$ 10,836	$ 9,199

4. Goodwill and Intangible Assets

A summary of the goodwill and related adjustments is provided below:

	Hospice	Personal Care	Home Health	Total
	(Amounts in Thousands)			
Goodwill as of December 31, 2022	$ 397,728	$ 152,688	$ 32,421	$ 582,837
Additions for acquisition	—	599	—	599
Adjustments to previously recorded goodwill	—	—	536	536
Goodwill as of March 31, 2023	$ 397,728	$ 153,287	$ 32,957	$ 583,972

On January 1, 2023, the Company completed its acquisition of Coastal Nursecare of Florida, Inc. ("CareStaff") for approximately $1.0 million. With the purchase of CareStaff, the Company expanded its personal care services segment in Florida. In connection with the CareStaff acquisition, the Company recognized goodwill in its personal care segment of $0.6 million during the three months ended March 31, 2023.

The Company's identifiable intangible assets consist of customer and referral relationships, trade names and 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 one to twenty-five years. Customer and referral relationships are amortized systematically over the periods of expected economic benefit, which range from five to ten years.

The carrying amount and accumulated amortization of each identifiable intangible asset category consisted of the following as of March 31, 2023:

	Customer and referral relationships	Trade names and trademarks	Non-competition agreements	State Licenses	Total
	(Amounts in Thousands)				
Intangible assets with indefinite lives	$ —	$ —	$ —	$ 27,108	$ 27,108
Intangible assets subject to amortization:					
Gross carrying amount	44,672	52,046	6,785	12,671	116,174
Accumulated amortization	(38,471)	(21,712)	(4,989)	(7,506)	(72,678)
Intangible assets subject to amortization, net	6,201	30,334	1,796	5,165	43,496
Total intangible assets at March 31, 2023	$ 6,201	$ 30,334	$ 1,796	$ 32,273	$ 70,604

Amortization expense related to the intangible assets was $1.7 million and $1.8 million for the three months ended March 31, 2023 and 2022, respectively. The weighted average remaining useful lives of identifiable intangible assets as of March 31, 2023 was 9.7 years.

5. Details of Certain Balance Sheet Accounts

Prepaid expenses and other current assets consisted of the following:

	March 31, 2023	December 31, 2022
	(Amounts in Thousands)	
Prepaid payroll	$ —	$ 7,566
Prepaid workers' compensation and liability insurance	2,138	3,399
Prepaid Licensing fees	4,657	3,722
Workers' compensation insurance receivable	606	666
Other	2,825	1,992
Total prepaid expenses and other current assets	$ 10,226	$ 17,345

Accrued expenses consisted of the following:

	March 31, 2023	December 31, 2022
	(Amounts in Thousands)	
Accrued health insurance	8,524	5,152
Payor advances [1]	2,893	4,473
Accrued professional fees	4,253	3,576
Accrued payroll and other taxes	9,893	6,175
Other	8,455	8,131
Total accrued expenses	$ 34,018	$ 27,507

(1) Represents the deferred portion of payments received from payors for COVID-19 reimbursements which will be recognized as we incur specific COVID-19 related expenses (including expenses related to securing and maintaining adequate personnel) or will be returned to the extent such related expenses are not incurred.

6. Government Actions to Mitigate COVID-19's Impact

In March 2020, the World Health Organization declared the novel coronavirus ("COVID-19") outbreak a global pandemic. The COVID-19 pandemic continues to cause disruption in the economy, in terms of increased costs and disruptions in the labor market. Although vaccines and booster shots for the COVID-19 virus have become widely available in the United States, COVID-19 has continued to result in a significant number of hospitalizations, and the future course of the pandemic remains uncertain, particularly due to the spread of COVID-19 variants. We will continue to closely monitor the impact of COVID-19 on all aspects of our business, including the impacts to our employees, patients and suppliers.

In recognition of the significant threat to the liquidity of financial markets posed by the COVID-19 pandemic, the Federal Reserve and Congress have taken dramatic actions to provide liquidity to businesses and the banking system in the United States. One of the primary sources of relief for healthcare providers is the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act"), which was expanded by the Paycheck Protection Program and Health Care Enhancement ("PPPHCE") Act, and the Consolidated Appropriations Act ("CAA"). Another relief package with numerous provisions that affect healthcare providers is the American Rescue Plan Act of 2021 ("ARPA").

ARPA Spending Plans

ARPA provides for $350 billion in relief funding for eligible state, local, territorial, and Tribal governments to mitigate the fiscal effects of the COVID-19 public health emergency. Additionally, the law provides for a 10-percentage point increase in federal matching funds for Medicaid home and community-based services ("HCBS") from April 1, 2021, through March 31, 2022, provided the state satisfied certain conditions. States are permitted to use the state funds equivalent to the additional federal funds through March 31, 2025. States must use the monies attributable to this matching fund increase to supplement, not supplant, their level of state spending for the implementation of activities enhanced under the Medicaid HCBS in effect as of April 1, 2021.

HCBS spending plans for the additional matching funds vary by state, but common initiatives in which the Company is participating include those aimed at strengthening the provider workforce (e.g., efforts to recruit, retain, and train direct service providers). The Company is required to properly and fully document the use of such funds in reports to the state in which the funds originated. Funds may be subject to recoupment if not expended or if they are expended on non-approved uses. During the three months ended March 31, 2023, the Company received state funding provided by the ARPA in an aggregate amount of $0.4 million. The Company did not record revenue and related costs of service revenue during the three months ended March 31, 2023, because revenue recognition criteria were not met. The Company deferred the remaining $11.0 million, which was received from states with specific spending plans and reporting requirements. The Company utilized $2.4 million of these funds during the three months ended March 31, 2023, primarily for caregivers and adding support to recruiting and retention efforts, included as a reduction of cost of service revenues in the Company's Unaudited Condensed Consolidated Statements of Income. As of March 31, 2023, the deferred portion of ARPA funding of $11.0 million is included within Government stimulus advances on the Company's Unaudited Condensed Consolidated Balance Sheets.

Medicare sequester

The CARES Act and related laws temporarily lifted the Medicare sequester which would have otherwise reduced payments to Medicare providers by 2%, as required by the Budget Control Act of 2011, from May 1, 2020, through March 31, 2022. The sequestration payment adjustment was phased back in with a 1% reduction beginning April 1, 2022, and returned to 2% on July 1, 2022. These sequestration cuts have been extended through 2032.

The ARPA increases the federal budget deficit in a manner that triggers an additional statutorily mandated sequestration under the Pay-As-You-Go Act of 2010 (“PAYGO Act”). As a result, an additional Medicare payment reduction of up to 4% was required to take effect in January 2022. However, Congress delayed implementation of this payment reduction until 2025.

In the hospice segment, Medicare sequester relief resulted in an increase in net service revenues of $0.0 million and $0.9 million for the three months ended March 31, 2023 and 2022, respectively. In the home health segment, Medicare sequester relief resulted in an increase in net service revenues of $0.0 million and $0.2 million for the three months ended March 31, 2023 and 2022, respectively.

7. Long-Term Debt

Long-term debt consisted of the following:

	March 31, 2023	December 31, 2022
	(Amounts in Thousands)	
Revolving loan under the credit facility	$ 111,353	$ 134,853
Less unamortized issuance costs	(2,866)	(3,081)
Long-term debt	$ 108,487	$ 131,772

Amended and Restated Senior Secured Credit Facility

On October 31, 2018, the Company entered into the Amended and Restated Credit Agreement, dated as of October 31, 2018, with certain lenders and Capital One, National Association, as a lender and as agent for all lenders, as amended by the First Amendment to Amended and Restated Credit Agreement, dated as of September 12, 2019, and as further amended by the Second Amendment to Amended and Restated Credit Agreement, dated as of July 30, 2021 (as amended, the “Credit Agreement”; as used throughout this Quarterly Report on Form 10-Q, “credit facility” shall mean the credit facility evidenced by the Credit Agreement). The credit facility consists of a $600.0 million revolving credit facility and a $125.0 million incremental loan facility, which incremental loan facility may be for term loans or an increase to the revolving loan commitments. The maturity of this credit facility is July 30, 2026. Interest on the 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 Credit Agreement contains hardwired fallback language that contemplates a transition from LIBOR, specifically identifies the Secured Overnight Financing Rate (“SOFR”) as the replacement reference rate and details the mechanism for transition at LIBOR cessation, which is anticipated to occur on June 30, 2023. The transition to SOFR is not expected to have a material impact on the Company’s results of operations or liquidity.

Addus HealthCare, Inc. (“Addus HealthCare”) is the borrower, and its parent, Holdings, and substantially all of Holdings’ subsidiaries are guarantors under this credit facility, and it is collateralized 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 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 availability of additional draws under this credit facility is conditioned, among other things, upon (after giving effect to such draws) the Total Net Leverage Ratio (as defined in the Credit Agreement) not exceeding 3.75:1.00. In certain circumstances, in connection with a Material Acquisition (as defined in the 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.

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 loan portion of the credit facility.

The 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 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 Credit Agreement), a requirement to stay below a maximum Total Net Leverage Ratio (as defined in the Credit Agreement) and a requirement to stay below a maximum permitted amount of capital expenditures. The Credit Agreement also contains 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) under its credit facility subject to compliance with the Total Net Leverage Ratio (as defined in the Credit Agreement) thresholds, restrictions on mergers, dispositions of assets, and affiliate transactions, and restrictions on fundamental changes and lines of business.

During the three months ended March 31, 2023, the Company did not draw on its credit facility and repaid $23.5 million under the revolving credit facility.

At March 31, 2023, the Company had a total of $111.4 million of revolving loans, with an interest rate of 6.59%, outstanding on its credit facility. After giving effect to the amount drawn on its credit facility, approximately $8.0 million of outstanding letters of credit and borrowing limits based on an advance multiple of adjusted EBITDA (as defined in the Credit Agreement), the Company had $395.1 of capacity and $275.7 million available for borrowing under its credit facility. As of December 31, 2022, the Company had a total of $134.9 million of revolving loans, with an interest rate of 6.13%, outstanding on its credit facility.

As of March 31, 2023, the Company was in compliance with all financial covenants under the Credit Agreement.

8. Income Taxes

The effective income tax rates were 22.0% and 27.9% for the three months ended March 31, 2023 and 2022, respectively.

For the three months ended March 31, 2023, the difference between our federal statutory and effective income tax rates was principally due to the inclusion of state taxes and non-deductible compensation, partially offset by the use of federal employment tax credits and excess tax benefit. For the three months ended March 31, 2023 and 2022, the effective tax rates were inclusive of an excess tax benefit of 1.2% and an excess tax expense of 2.7%, respectively. The excess tax expense or benefit is a discrete item, related to the vesting of equity shares, which requires the Company to recognize the expense or benefit fully in the period. An excess tax expense results if the Company’s cumulative costs of the award recognized exceed the income tax deduction on the Unaudited Condensed Consolidated Statements of Income, whereas an excess tax benefit results if the Company’s cumulative costs of the award recognized are less than the income tax deduction on the Unaudited Condensed Consolidated Statements of Income.

9. Commitments and Contingencies

Legal Proceedings

From time to time, the Company is subject to legal and/or administrative proceedings incidental to its business.

On June 2, 2021, the Company received a $6.5 million Request for Repayment from Palmetto, GBA, LLC (“Palmetto”), a Medicare administrative contractor, regarding Ambercare Hospice Inc. (“Ambercare”), our subsidiary that provides hospice services in New Mexico. In 2018, the Office of Audit Services (“OAS”), under the HHS Office of Inspector General, initiated a clinical review of certain hospice claims billed during a timeframe from January 1, 2016 to December 31, 2017. The OAS review concluded that certain payments to Ambercare for hospice services during the review period were made in error. The Company acquired Ambercare in May 2018 and has a contractual right to full indemnification from any potential losses from the OAS review through the terms of the Ambercare purchase agreement. The Company disputes the results of the OAS review and related asserted billing errors and is in the process of filing administrative appeals. At this stage, the Company cannot predict the ultimate outcome of the appeal process.

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.

10. 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 the Company's chief operating decision makers, to assess the performance of the individual segments and make decisions about resources to be allocated to the segments. The Company operates as a multi-state provider of three distinct but related business segments providing in-home services.

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

The tables below set forth information about the Company's reportable segments, along with the items necessary to reconcile the segment information to the totals reported in the accompanying Unaudited Condensed Consolidated Financial Statements. Segment assets are not reviewed by the Company's chief operating decision maker function and therefore are not disclosed below.

Segment operating income consists of revenue 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 March 31, 2023 (Amounts in Thousands)			
	Personal Care	**Hospice**	**Home Health**	**Total**
Net service revenues	$ 190,032	$ 49,082	$ 12,485	$ 251,599
Cost of services revenues	138,383	27,267	7,534	173,184
Gross profit	51,649	21,815	4,951	78,415
General and administrative expenses	15,935	13,015	2,879	31,829
Segment operating income	$ 35,714	$ 8,800	$ 2,072	$ 46,586

	For the Three Months Ended March 31, 2022 (Amounts in Thousands)			
	Personal Care	**Hospice**	**Home Health**	**Total**
Net service revenues	$ 169,632	$ 47,727	$ 9,275	$ 226,634
Cost of services revenues	126,291	23,441	6,716	156,448
Gross profit	43,341	24,286	2,559	70,186
General and administrative expenses	15,004	11,712	2,359	29,075
Segment operating income	$ 28,337	$ 12,574	$ 200	$ 41,111

	For the Three Months Ended March 31, 2023	2022
	(Amounts in Thousands)	
Segment reconciliation:		
Total segment operating income	$ 46,586	$ 41,111
Items not allocated at segment level:		
Other general and administrative expenses	24,531	24,077
Depreciation and amortization	3,447	3,521
Interest income	(106)	(58)
Interest expense	2,461	1,820
Income before income taxes	$ 16,253	$ 11,751

11. Significant Payors

The Company’s revenue by payor type was as follows:

Personal Care Segment

	For the Three Months Ended March 31, 2023		2022	
	Amount (in Thousands)	% of Segment Net Service Revenues	Amount (in Thousands)	% of Segment Net Service Revenues
State, local and other governmental programs	$95,320	50.1 %	$83,908	49.5 %
Managed care organizations	87,901	46.3	77,390	45.6
Private pay	4,226	2.2	4,626	2.7
Commercial insurance	1,669	0.9	2,024	1.2
Other	916	0.5	1,684	1.0
Total personal care segment net service revenues	$190,032	100.0 %	$169,632	100.0 %

Hospice Segment

	For the Three Months Ended March 31, 2023		2022	
	Amount (in Thousands)	% of Segment Net Service Revenues	Amount (in Thousands)	% of Segment Net Service Revenues
Medicare	$44,556	90.7 %	$43,485	91.1 %
Commercial insurance	2,547	5.2	2,244	4.7
Managed care organizations	1,647	3.4	1,715	3.6
Other	332	0.7	283	0.6
Total hospice segment net service revenues	$49,082	100.0 %	$47,727	100.0 %

Home Health Segment

	For the Three Months Ended March 31, 2023		2022	
	Amount (in Thousands)	% of Segment Net Service Revenues	Amount (in Thousands)	% of Segment Net Service Revenues
Medicare	$9,270	74.2 %	$6,812	73.5 %
Managed care organizations	2,539	20.3	1,904	20.5
Other	676	5.5	559	6.0
Total home health segment net service revenues	$12,485	100.0 %	$9,275	100.0 %

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The Company derives a significant amount of its revenue from its operations in Illinois, New Mexico and New York. The percentages of segment revenue for each of these significant states were as follows:

Personal Care Segment

	For the Three Months Ended March 31,			
	2023		2022	
	Amount (in Thousands)	% of Segment Net Service Revenues	Amount (in Thousands)	% of Segment Net Service Revenues
Illinois	$98,414	51.8 %	$84,693	49.9 %
New Mexico	28,474	15.0	25,440	15.0
New York [1]	21,885	11.5	21,385	12.6
All other states	41,259	21.7	38,114	22.5
Total personal care segment net service revenues	$190,032	100.0 %	$169,632	100.0 %

(1) In 2019, New York initiated a new Request For Offer ("RFO") process to competitively procure CDPAP fiscal intermediaries. The Company was not selected in the initial RFO process. We submitted a formal protest in response to the selection process, which was filed and accepted in March 2021. The New York fiscal year 2023 state budget, passed in April 2022, amends the current Fiscal Intermediary RFO process to authorize all fiscal intermediaries that submitted an RFO application and served at least 200 clients in New York City or 50 clients in other counties between January 1, 2020 and March 31, 2020 to contract with the New York State Department of Health and continue to operate in all counties contained in their application, if the fiscal intermediary submits an attestation and supporting information to the New York State Department of Health no later than November 29, 2022. The Company submitted an attestation on November 22, 2022. Under this provision, the Company is allowed to continue to contract with all of its current payors for CDPAP services, as of the contract award date, which was anticipated to be April 1, 2023. However, the New York State Department of Health has not yet awarded these contracts. The Company continues to assess the future of its participation in this program. Given the current profitability of the program, the Company has suspended materially all of its new fee-for-service patient admissions through County Social Service Departments in the CDPAP program.

Hospice Segment

	For the Three Months Ended March 31,			
	2023		2022	
	Amount (in Thousands)	% of Segment Net Service Revenues	Amount (in Thousands)	% of Segment Net Service Revenues
Ohio	$18,451	37.6 %	$16,328	34.2 %
Illinois	11,480	23.4	9,541	20.0
New Mexico	6,486	13.2	8,233	17.3
All other states	12,665	25.8	13,625	28.5
Total hospice segment net service revenues	$49,082	100.0 %	$47,727	100.0 %

Home Health Segment

	For the Three Months Ended March 31,			
	2023		2022	
	Amount (in Thousands)	% of Segment Net Service Revenues	Amount (in Thousands)	% of Segment Net Service Revenues
New Mexico	$9,116	73.0 %	$7,509	81.0 %
Illinois	3,369	27.0	1,766	19
Total home health segment net service revenues	$12,485	100.0 %	$9,275	100.0 %

A substantial portion of the Company’s revenue and accounts receivable are derived from services performed for federal, state and local governmental agencies. We derive a significant amount of our net service revenues in Illinois, which represented 39.1% and 37.4% of our net service revenues for the three months ended March 31, 2023 and 2022, respectively. The Illinois Department on Aging, the largest payor program for the Company’s Illinois personal care operations, accounted for 21.5% and 20.7% of the Company’s net service revenues for the three months ended March 31, 2023 and 2022, respectively.

The related receivables due from the Illinois Department on Aging represented 20.7% and 18.0% of the Company’s net accounts receivable at March 31, 2023 and December 31, 2022, respectively.

12. Subsequent Events

On April 26, 2023, the Company entered into a Third Amendment to Amended and Restated Credit Agreement (the “Third Amendment”), by and among Addus HealthCare, Inc., as the borrower, the Company, certain subsidiaries of the Company party thereto, the lenders party thereto and Capital One, National Association, as a lender and as administrative agent for all lenders, which amended the Company’s existing Credit Agreement. The Third Amendment (i) replaces LIBOR with a forward-looking term SOFR-based rate as the applicable benchmark reference rate for loans under the credit facility and (ii) adds a 10-basis point credit spread adjustment for loans bearing interest based on SOFR. The Third Amendment does not change the interest rate margins applicable to the credit facility.

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 statements are based on the beliefs and assumptions of our management based on information currently available to management. Such forward-looking statements are subject to risks, uncertainties and other important factors that could cause actual results and the timing of certain events to differ materially from future results expressed or implied by such forward-looking statements. These risks and uncertainties include, but are not limited to: the impact of macroeconomic conditions, rising global inflation and interest rates, legislative developments, trade disruptions and supply chain disruptions on our business and our customers' businesses; financial market instability and disruptions to the banking system due to bank failures, particularly in light of the closures of Silicon Valley Bank and Signature Bank in March 2023; business disruptions due to natural disasters, acts of terrorism, pandemics (including the ongoing COVID-19 pandemic), riots, civil insurrection or social unrest, looting, protests, strikes or street demonstrations; changes in operational and reimbursement processes and payment structures at the state or federal levels; changes in Medicaid, Medicare, other government program and managed care organizations policies and payment rates, and the timeliness of reimbursements received under government programs; changes in, or our failure to comply with, existing, federal and state laws or regulations, or our failure to comply with new government laws or regulations on a timely basis; competition in the healthcare industry; the geographical concentration of our operations; changes in the case mix of consumers and payment methodologies; operational changes resulting from the assumption by managed care organizations of responsibility for managing and paying for our services to consumers; the nature and success of future financial and/or delivery system reforms; changes in estimates and judgments associated with critical accounting policies; our ability to maintain or establish new referral sources; our ability to renew significant agreements or groups of agreements; our ability to attract and retain qualified personnel; federal, state and city minimum wage pressure, including any failure of any governmental entity to enact a minimum wage offset and/or the timing of any such enactment; changes in payments and covered services due to the overall economic conditions and deficit reduction measures by federal and state governments, and our expectations regarding these changes; cost containment initiatives undertaken by federal and state governmental and other third-party payors; our ability to access financing through the capital and credit markets; our ability to meet debt service requirements and comply with covenants in debt agreements; our ability to integrate and manage our information systems; any security breaches, cyber-attacks, loss of data, or cybersecurity threats or incidents, and any actual or perceived failures to comply with legal requirements related to the privacy of confidential consumer data and other sensitive information; the size and growth of the markets for our services, including our expectations regarding the markets for our services; the acceptance of privatized social services; eligibility standards and limits on services imposed by state governmental agencies; the potential for litigation, audits and investigations; discretionary determinations by government officials; our ability to successfully implement our business model to grow our business; our ability to continue identifying, pursuing, consummating and integrating acquisition opportunities and expand into new geographic markets; the impact of acquisitions and dispositions on our business, including the potential inability to realize the benefits of potential acquisitions; the potential impact of the discontinuation or modification of LIBOR; the effectiveness, quality and cost of our services; our ability to successfully execute our growth strategy; changes in tax rates; the impact of inclement weather or natural disasters; and various other matters, many of which are beyond our control. In addition, these forward-looking statements are subject to the risk factors set forth in Part I, Item 1A of our Annual Report on Form 10-K for the period ended December 31, 2022, filed with the SEC on February 28, 2023. You should carefully review all of these factors. Moreover, our business may be materially adversely affected by factors that are not currently known to us, by factors that we currently consider immaterial or by factors that are not specific to us, such as general economic conditions. These forward-looking statements were based on information, plans and estimates at the date of this report, and we assume no obligation to update any forward-looking statements to reflect changes in underlying assumptions or factors, new information, future events or other changes, except as may be required by law.

Overview

We are a home care services provider operating three segments: personal care, hospice and home health. Our services are principally provided in-home under agreements with federal, state and local government agencies, managed care organizations, commercial insurers and private individuals. Our consumers are predominantly "dual eligible," meaning they are eligible to receive both Medicare and Medicaid benefits. Managed care revenues accounted for 36.6% and 35.7% of our net service revenues during the three months ended March 31, 2023 and 2022, respectively.

A summary of certain consolidated financial results is provided in the table below.

	For the Three Months Ended March 31,			
	2023		2022	
Net service revenues by segment:	(Amounts in Thousands)			
Personal care	$	190,032	$	169,632
Hospice		49,082		47,727
Home health		12,485		9,275
Total net service revenue	$	251,599	$	226,634
Net income	$	12,675	$	8,470

As of March 31, 2023, we provided our services in 22 states through 203 offices. We served approximately 55,000 and 53,000 discrete individuals, respectively, during the three months ended March 31, 2023 and 2022. Our personal care segment also includes staffing services, with clients including assisted living facilities, nursing homes and hospice facilities.

Acquisitions

In addition to our organic growth, we have grown through acquisitions that have expanded our presence in current markets, with the goal of having all three levels of in-home care in our markets or facilitating our entry into new markets where in-home care has been moving to managed care organizations or that present other strategic opportunities.

On February 1, 2022, we completed the acquisition of the operations of JourneyCare Inc. ("JourneyCare"). The purchase price was approximately $86.6 million, including the amount of acquired excess cash held by JourneyCare at the closing of the acquisition (approximately $0.4 million). The JourneyCare acquisition was funded with a combination of a $35.0 million draw on the Company's revolving credit facility and available cash. With the JourneyCare acquisition, the Company expanded its hospice services in Illinois.

On October 1, 2022, we completed the acquisition of Apple Home HealthCare, LTD ("Apple Home") for $12.7 million, with funding provided by drawing on the Company's revolving credit facility. With the purchase of Apple Home, the Company expanded clinical services for its home health segment in Illinois.

On January 1, 2023, we completed the acquisition of CareStaff for approximately $1.0 million, with funding provided by available cash. With the purchase of CareStaff, the Company expanded its personal care services in Florida.

COVID-19 Pandemic Update

Compared to earlier periods, the United States has generally experienced a moderation of COVID-19 infections and related hospitalizations. However, given the longer-term uncertainties associated with the COVID-19 pandemic, it is difficult to predict the effect and ultimate impact of the COVID-19 pandemic on the Company as conditions related to the COVID-19 pandemic continue to evolve.

For the three months ended March 31, 2023 and 2022, COVID-19-related expenses in our personal care segment were approximately $0.7 million and $1.7 million, respectively, and are included in cost of service revenues on the Consolidated Statements of Income. Additionally, we recognized revenue of $0.9 million and $1.4 million attributable to temporary rate increases from certain payors in our personal care segment for the three months ended March 31, 2023 and 2022, respectively.

As of March 31, 2023, the Company deferred the recognition of $2.9 million of payments received from payors for COVID-19 reimbursement, included within accrued expenses, which will be recognized as we incur specific expenses related to the pandemic, such as expenses related to acquiring additional PPE and COVID-19 related paid time off, or will be returned to the extent COVID-19-related expenses are not incurred. We are not able to reasonably predict the total costs we will incur related to the COVID-19 pandemic, and such costs could be substantial.

As the COVID-19 public health situation continues to evolve, federal and state governments have shifted to reducing or terminating certain temporary measures that were implemented to ease delivery of care earlier in the COVID-19 public health emergency. In addition, the current federal public health emergency declaration expires May 11, 2023, and the Biden administration has indicated it will not be extended. We will continue to assess the impact and consequences of the COVID-19 pandemic and government responses to the pandemic, including the implementation of the CARES Act, the PPPHCE Act, the CAA, the ARPA, other stimulus and relief legislation, the President's National COVID-19 Preparedness Plan, and existing and potential additional federal, state and local vaccine mandates, on our business, results of operations, financial condition and cash flows. Given the dynamic nature of these circumstances, we cannot currently predict with certainty the extent to which our business, results of operations, financial condition or liquidity will ultimately be impacted by the pandemic but is not expected to have a material adverse impact. See Part I, Item 1A—Risk Factors — "*The COVID-19 pandemic could negatively affect our operations, business and financial condition, and our liquidity could also be negatively impacted, particularly if the U.S. economic and/or public health conditions deteriorate in connection with the pandemic*" of our Annual Report on Form 10-K for the year ended December 31, 2022, filed with the SEC on February 28, 2023.

See "Liquidity and Capital Resources" below for additional information regarding funds received related to COVID-19 pandemic relief.

Recruiting

As the labor market has tightened and unemployment has declined in comparison to earlier levels, the competition for new caregivers, including skilled healthcare staff, and support staff has increased. In addition, the United States economy continues to experience significant inflationary pressures and a competitive labor market. To the extent that we continue to experience a shortage of caregivers, it may hinder our ability to fully meet the continuing demand for both our non-clinical and clinical services.

Revenue by Payor and Significant States

Our payors are principally federal, state and local governmental agencies and managed care organizations. The federal, state and local programs under which the agencies operate are subject to legislative and budgetary changes and other risks that can influence reimbursement rates. We are experiencing a transition of business from government payors to managed care organizations, which we believe aligns with our emphasis on coordinated care and the reduction of the need for acute care.

Our revenue by payor and significant states by segment were as follows:

Personal Care Segment

	For the Three Months Ended March 31,			
	2023		2022	
	Amount (in Thousands)	% of Segment Net Service Revenues	Amount (in Thousands)	% of Segment Net Service Revenues
State, local and other governmental programs	$95,320	50.1 %	$83,908	49.5 %
Managed care organizations	87,901	46.3	77,390	45.6
Private pay	4,226	2.2	4,626	2.7
Commercial insurance	1,669	0.9	2,024	1.2
Other	916	0.5	1,684	1.0
Total personal care segment net service revenues	$190,032	100.0 %	$169,632	100.0 %
Illinois	$98,414	51.8 %	$84,693	49.9 %
New Mexico	28,474	15.0	25,440	15.0
New York [1]	21,885	11.5	21,385	12.6
All other states	41,259	21.7	38,114	22.5
Total personal care segment net service revenues	$190,032	100.0 %	$169,632	100.0 %

(1) The Company has suspended materially all of its new patient admissions under the New York CDPAP program as discussed below.

Hospice Segment

	For the Three Months Ended March 31,			
	2023		2022	
	Amount (in Thousands)	% of Segment Net Service Revenues	Amount (in Thousands)	% of Segment Net Service Revenues
Medicare	$44,556	90.8 %	$43,485	91.1 %
Commercial insurance	2,547	5.2	2,244	4.7
Managed care organizations	1,647	3.4	1,715	3.6
Other	332	0.6	283	0.6
Total hospice segment net service revenues	$49,082	100.0 %	$47,727	100.0 %
Ohio	$18,451	37.6 %	$16,328	34.2 %
Illinois	11,480	23.4	9,541	20.0
New Mexico	6,486	13.2	8,233	17.3
All other states	12,665	25.8	13,625	28.5
Total hospice segment net service revenues	$49,082	100.0 %	$47,727	100.0 %

Home Health Segment	For the Three Months Ended March 31,			
	2023		2022	
	Amount (in Thousands)	% of Segment Net Service Revenues	Amount (in Thousands)	% of Segment Net Service Revenues
Medicare	$9,270	74.2 %	$6,812	73.4 %
Managed care organizations	2,539	20.3	1,904	20.5
Other	676	5.5	559	6.1
Total home health segment net service revenues	$12,485	100.0 %	$9,275	100.0 %
New Mexico	$9,116	73.0 %	$7,509	81.0 %
Illinois	3,369	27.0	1,766	19.0
Total home health segment net service revenues	$12,485	100.0 %	$9,275	100.0 %

We derive a significant amount of our net service revenues in Illinois, which represented 39.1% and 37.4% of our net service revenues for the three months ended March 31, 2023 and 2022, respectively.

A significant amount of our net service revenues are derived from one payor, the Illinois Department on Aging, the largest payor program for our Illinois personal care operations, which accounted for 21.5% and 20.7% of our net service revenues for the three months ended March 31, 2023 and 2022, respectively.

Changes in Reimbursement Rates

Illinois

On November 26, 2019, the City of Chicago voted to approve additional increases in the Chicago minimum wage to $14 per hour beginning July 1, 2020 and to $15 per hour beginning July 1, 2021. In each subsequent year, the City is required to raise the wage based on increases in the Consumer Price Index (“CPI”) subject to a cap and other requirements. On July 1, 2022, the rate was adjusted to $15.40 based on the increase in the CPI.

The Illinois fiscal year 2022 budget included an increase of hourly rates for in-home care services to $24.96, to be effective January 1, 2022. On July 12, 2021, in connection with the temporary increase in federal funding for Medicaid home and community-based services authorized by the ARPA, the State of Illinois submitted its Initial Spending Plan and Narrative to CMS for approval. That plan included the acceleration by two months of the rate increase to $24.96 from January 1, 2022, to November 1, 2021. The Company recognized $3.6 million related to the rate increase for the year ended December 31, 2021.

The Illinois fiscal year 2023 budget included an increase of hourly rates for in-home care services to $25.66, to be effective January 1, 2023. This increase offsets the $0.40 increase in Chicago minimum wage that occurred on July 1, 2022. In March 2023, the Illinois Department of Healthcare and Family Services submitted a waiver amendment proposal to CMS to further increase in-home care rates to $26.92, effective as of April 1,2023, which CMS approved.

Our business will benefit from the rate increases noted above as planned for 2023, but there is no assurance that there will be additional offsetting rate increases in Illinois for fiscal years beyond fiscal year 2023, and our financial performance will be adversely impacted for any periods in which an additional offsetting reimbursement rate increase is not in effect.

Impact of Changes in Medicare and Medicaid Reimbursement

Home Health

Home health services provided to Medicare beneficiaries are paid under the Medicare Home Health Prospective Payment System ("HHPPS"), which uses national, standardized 30-day period payment rates for periods of care that meet a certain threshold of home health visits (periods of care that do not meet the visit threshold are paid a per-visit payment rate for providing care). Although payment is made for each 30-day period, the HHPPS permits continuous 60-day certification periods through which beneficiaries are verified as eligible for the home health benefit. The daily home health payment rate is adjusted for case-mix and area wage levels. CMS uses the Patient-Driven Groupings Model ("PDGM") as the case-mix classification model to place periods of care into payment categories, classifying patients based on clinical characteristics and their resource needs. An outlier adjustment may be paid for periods of care where costs exceed a specific threshold amount.

CMS updates the HHPPS payment rates each calendar year. For calendar year 2023, CMS estimates that Medicare payments to home health agencies will increase by 0.7%. This is based on a home health payment update percentage of 4.0, which reflects a 4.1% market basket update reduced by a productivity adjustment of negative 0.1 percentage points, and an estimated 3.5% decrease associated with the transition to the PDGM that is intended to help achieve budget-neutrality on a prospective basis, among other changes. Home health providers that do not comply with quality data reporting requirements are subject to a 2-percentage point reduction to their market basket update. In addition, beginning January 1, 2022, Medicare requires home health agencies to submit a one-time Notice of Admission ("NOA") for each patient that establishes that the beneficiary is under a Medicare home health period of care. Failure to submit the NOA within five calendar days from the start of care will result in a reduction to the 30-day period payment amount for each day from the start of care date until the date the NOA is submitted.

CMS began implementing a nationwide expansion of the Home Health Value-Based Purchasing ("HHVBP") Model in January 2022. Under the model, home health agencies will receive increases or decreases to their Medicare fee-for-service payments of up to 5%, based on performance against specific quality measures relative to the performance of other home health providers. Data collected in each performance year will impact Medicare payments two years later. Calendar year 2023 is the first performance year under the expanded HHVBP Model, which will affect payments in calendar year 2025.

In certain states, payment of claims may be impacted by the Review Choice Demonstration for Home Health Services, a program intended to identify and prevent fraud, reduce the number of Medicare appeals and improve provider compliance with Medicare program requirements. The program applies to home health agencies in Illinois, Ohio, North Carolina, Florida and Texas and may expand, in the future, into additional states. Providers in states subject to the Review Choice Demonstration may initially select from the following claims review and approval processes: pre-claim review, post-payment review or a minimal post-payment review with a 25% payment reduction. Home health agencies that maintain high compliance levels will be eligible for additional options that may be less burdensome. We are currently unable to predict what impact, if any, this program may have on our result of operations or financial position.

The IMPACT Act requires HHS, together with the Medicare Payment Advisory Commission, to work toward a unified payment system for post-acute care services provided by home health agencies, inpatient rehabilitation facilities, skilled nursing facilities, and long-term care hospitals. A unified post-acute care payment system would pay post-acute care providers under a single framework according to a patient's characteristics, rather than based on the post-acute care setting where the patient receives treatment. As required under the statute, CMS and the HHS Office of the Assistant Secretary for Planning and Evaluation issued a report presenting a prototype for a unified post-acute care payment model in July 2022. CMS noted in its report the need for additional analyses and acknowledged that the universal implementation of a unified post-acute care payment system would require congressional action. The Medicare Payment Advisory Commission is required to submit a report to Congress by June 2023.

Hospice

Hospice services provided to Medicare beneficiaries are paid under the Medicare Hospice Prospective Payment System, under which CMS sets a daily rate for each day a patient is enrolled in the hospice benefit. CMS updates these rates each federal fiscal year. Effective October 1, 2022, CMS increased hospice payment rates by 3.8%. This reflects a 4.1% market basket increase and a negative 0.3 percentage point productivity adjustment. Hospices that do not satisfy quality reporting requirements are subject to a 2-percentage point reduction to the market basket update. Beginning in 2024, the reduction to the market basket update for failure to report quality data will increase to 4 percentage points.

Overall payments made by Medicare to each hospice provider number are subject to an inpatient cap and an aggregate cap, which is set each federal fiscal year. The inpatient cap limits the number of days of inpatient care to no more than 20% of total patient care days. The aggregate cap, which limits the total Medicare reimbursement that a hospice may receive based on an annual per-beneficiary cap amount and the number of Medicare patients served, was updated to $32,486.92 for federal fiscal year 2023. If a hospice's Medicare payments exceed its inpatient or aggregate caps, it must repay Medicare the excess amount.

New York Consumer Directed Personal Assistance Program ("CDPAP")

The CDPAP is a self-directed care alternative program that allows eligible individuals who need help with activities of daily living or skilled nursing services to choose their caregivers. We provide support services as a CDPAP fiscal intermediary.

In April 2022, the New York legislature passed the fiscal year 2023 state budget, which amended the Fiscal Intermediary Request For Offer ("RFO") process to authorize all fiscal intermediaries that submitted an RFO application and served at least 200 clients in New York City or 50 clients in other counties between January 1, 2020, and March 31, 2020, but that were not initially awarded a contract, to contract with the New York State Department of Health. These fiscal intermediaries are permitted to continue operating in all counties contained in their RFO application, provided they submitted an attestation and supporting information to the NYSDOH no later than November 29, 2022. The Company submitted an attestation on November 22, 2022. For the fiscal intermediaries whose attestation and supporting information meet all requirements, the NYSDOH will issue award letters on the contract award date, which was anticipated to be April 1, 2023. However, the New York State Department of Health has not yet awarded these contracts. Any fiscal intermediary that does not receive an award letter must cease fiscal intermediary operations. The Company continues to assess the future of its participation in this program. Given the current profitability of the program, the Company has suspended materially all of its new fee-for-service patient admissions through County Social Service Departments in the CDPAP program.

HHS Proposed Rule: "Assuring Access to Medicaid Services"

On April 27, 2023, HHS introduced a proposed rule titled "Assuring Access to Medicaid Services." The proposed rule has a stated goal of improving access to services for Medicaid beneficiaries. As part of this proposed rule, HHS is proposing that state Medicaid agencies provide assurances that a minimum of 80% of Medicaid payments for personal care and similar services be spent on compensation to direct care workers. The proposed rule would allow states four years to implement changes required by a final rule, with extended time specified for managed care delivery systems. The proposed rule is subject to comment and specifically requests comments on the 80% threshold, related definitions and the implementation period. The ultimate impact of any final rule, which could be adverse for periods after implementation, but could also benefit our business by improving access to services, depends on the requirements set forth in any final rule.

Components of our Statements of Income

Net Service Revenues

We generate net service revenues by providing our services directly to consumers and primarily on an hourly basis in our personal care segment, on a daily basis in our hospice segment and on an episodic basis in our home health segment. We receive payment for providing such services from our private consumers and payors, including federal, state and local governmental agencies, managed care organizations and commercial insurers.

In our personal care segment, net service revenues are principally provided based on authorized hours, determined by the relevant agency, at an hourly rate, which is either contractual or fixed by legislation, and are recognized at the time services are rendered. In our hospice segment, net service revenues are provided based on daily rates for each of the levels of care and are recognized as services are provided. In our home health segment, net service revenues are based on an episodic basis at a stated rate and recognized based on the number of days elapsed during a period of care within the reporting period. We also record estimated implicit price concessions (based primarily on historical collection experience) related to uninsured accounts to record revenues.

Cost of Service Revenues

We incur direct care wages, payroll taxes and benefit-related costs in connection with providing our services. We also provide workers' compensation and general liability coverage for our employees. Employees are also reimbursed for their travel time and related travel costs in certain instances.

General and Administrative Expenses

Our general and administrative expenses include our costs for operating our network of local agencies and our administrative offices. Our agency expenses consist of costs for supervisory personnel, our community care supervisors and office administrative costs. Personnel costs include wages, payroll taxes and employee benefits. Facility costs include rents, utilities, and postage, telephone and office expenses. Our corporate and support center expenses include costs for accounting, information systems, human resources, billing and collections, contracting, marketing and executive leadership. These expenses consist of compensation, including stock-based compensation, payroll taxes, employee benefits, legal, accounting and other professional fees, travel, general insurance, rents, provision for doubtful accounts and related facility costs. Expenses related to streamlining our operations such as costs related to terminated employees, termination of professional services relationships, other contract termination costs and asset write-offs are also included in general and administrative expenses.

Depreciation and Amortization Expenses

Depreciable assets consist principally of furniture and equipment, network administration and telephone equipment and operating system software. Depreciable and leasehold assets are depreciated or amortized on a straight-line method over their useful lives or, if less and if applicable, their lease terms. We amortize our intangible assets with finite lives, consisting of customer and referral relationships, trade names, trademarks and non-competition agreements, using straight line or accelerated methods based upon their estimated useful lives.

Interest Expense

Interest expense is reported when incurred and principally consists of interest and unused credit line fees on the credit facility.

Income Tax Expense

All of our income is from domestic sources. We incur state and local taxes in states in which we operate. The effective income tax rate was 22.0% and 27.9% for the three months ended March 31, 2023 and 2022, respectively, compared to our federal statutory rate of 21%. The difference between our federal statutory and effective income tax rates was principally due to the inclusion of state taxes, non-deductible compensation, excess tax expense/benefit and the use of federal employment tax credits.

Results of Operations — Consolidated

Three Months Ended March 31, 2023 Compared to Three Months Ended March 31, 2022

The following table sets forth our unaudited condensed consolidated results of operations.

	For the Three Months Ended March 31,				Change	
	2023		2022			
	Amount	% Of Net Service Revenues	Amount	% Of Net Service Revenues	Amount	%
	(Amounts in Thousands, Except Percentages)					
Net service revenues	$ 251,599	100.0 %	$ 226,634	100.0 %	$ 24,965	11.0 %
Cost of service revenues	173,184	68.8	156,448	69.0	16,736	10.7
Gross profit	78,415	31.2	70,186	31.0	8,229	11.7
General and administrative expenses	56,360	22.4	53,152	23.5	3,208	6.0
Depreciation and amortization	3,447	1.4	3,521	1.5	(74)	(2.1)
Total operating expenses	59,807	23.8	56,673	25.0	3,134	5.5
Operating income	18,608	7.4	13,513	6.0	5,095	37.7
Interest income	(106)	—	(58)	—	(48)	82.8
Interest expense	2,461	1.0	1,820	0.8	641	35.2
Total interest expense, net	2,355	0.9	1,762	0.8	593	33.7
Income before income taxes	16,253	6.5	11,751	5.2	4,502	38.3
Income tax expense	3,578	1.4	3,281	1.5	297	9.1
Net income	$ 12,675	5.0 %	$ 8,470	3.7 %	$ 4,205	49.6 %

Net service revenues increased by 11.0% to $251.6 million for the three months ended March 31, 2023 compared to $226.6 million for the three months ended March 31, 2022. Revenue increased by $1.4 million in our hospice segment and by $3.2 million in our home health segment during the three months ended March 31, 2023, compared to the same period in 2022. The increase in our hospice segment revenue was due to organic growth and the acquisition of the operations of JourneyCare on February 1, 2022.

Gross profit, expressed as a percentage of net service revenues, increased to 31.2% for the three months ended March 31, 2023, compared to 31.0% for the same period in 2022 due to growth in our higher margin hospice segment.

General and administrative expenses increased to $56.4 million for the three months ended March 31, 2023, as compared to $53.2 million for the three months ended March 31, 2022. The increase in general and administrative expenses was primarily due to an increase in administrative employee wage, bonus, tax and benefit costs of $4.4 million, offset by a decrease in acquisition related expense of $1.5 million. General and administrative expenses, expressed as a percentage of net service revenues decreased to 22.4% for the three months ended March 31, 2023, from 23.5% for the three months ended March 31, 2022.

Interest expense increased to $2.5 million for the three months ended March 31, 2023 from $1.8 million for the three months ended March 31, 2022. The increase in interest expense was primarily due to increased interest rates under our credit facility for the three months ended March 31, 2023 compared to the three months ended March 31, 2022. The weighted average interest rate was 6.28% and 2.15% for the three months ended March 31, 2023 and 2022, respectively.

All of our income is from domestic sources. We incur state and local taxes in states in which we operate. The effective income tax rate was 22.0% and 27.9% for the three months ended March 31, 2023 and 2022, respectively. The difference between the federal statutory and our effective income tax rates was principally due to the inclusion of state taxes, non-deductible compensation, excess tax expense/benefit and the use of federal employment tax credits.

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 March 31,					
	2023		2022		Change	
	Amount	% of Segment Net Service Revenues	Amount	% of Segment Net Service Revenues	Amount	%
	(Amounts in Thousands, Except Percentages)					
Operating Results						
Net service revenues	$190,032	100.0%	$169,632	100.0%	$20,400	12.0%
Cost of services revenues	138,383	72.8	126,291	74.4	12,092	9.6
Gross profit	51,649	27.2	43,341	25.6	8,308	19.2
General and administrative expenses	15,935	8.4	15,004	8.9	931	6.2
Segment operating income	$35,714	18.8%	$28,337	16.7%	$7,377	26.0%
Business Metrics (Actual Numbers, Except Billable Hours in Thousands)						
Locations at period end	157		162			
Average billable census * (1)	38,363		36,582		1,781	4.9%
Billable hours * (2)	7,592		7,101		491	6.9
Average billable hours per census per month * (2)	65.8		64.4		1.4	2.2
Billable hours per business day * (2)	116,805		110,951		5,854	5.3
Revenues per billable hour * (2)	$24.98		$23.64		$1.34	5.7%
Same store growth revenue % * (3)	11.4%		0.9%			

(1) Average billable census is the number of unique clients receiving a billable service during the year and is the total census divided by months in operation during the period.

(2) Billable hours is the total number of hours served to clients during the period. Average billable hours per census per month is billable hours divided by average billable census. Billable hours per day is total billable hours divided by the number of business days in the period. Revenues per billable hour is revenue, attributed to billable bonus hours, divided by billable hours.

(3) Same store growth reflects the change in year-over-year revenue for the same store base. We define the same store base to include those stores open for at least 52 full weeks. This measure highlights the performance of existing stores, while excluding the impact of acquisitions, new store openings and closures, the New York CDPAP program and ARPA associated revenue from this calculation.

* Management deems these metrics to be key performance indicators. Management uses these metrics to monitor our performance, both in our existing operations and acquisitions. Many of these metrics serve as the basis of reported revenues and assessment of these provide direct correlation to the results of operations from period to period and facilitate comparison with the results of our peers. Historical trends established in these metrics can be used to evaluate

current operating results, identify trends affecting our business, determine the allocation of resources and assess the quality and potential variability of our cash flows and earnings. We believe they are useful to investors in evaluating and understanding our business but should not be used solely in assessing the Company's performance. These key performance indicators should not be considered superior to, as a substitute for or as an alternative to, and should be considered in conjunction with, the GAAP financial measures presented herein to fully evaluate and understand the business as a whole. These measures may not be comparable to similarly titled performance indicators used by other companies.

The personal care segment derives a significant amount of its net service revenues from operations in Illinois, which represented 39.1% and 37.4% of our net service revenues for the three months ended March 31, 2023 and 2022, respectively. One payor, the Illinois Department on Aging, accounted for 21.5% and 20.7% of net service revenues for the three months ended March 31, 2023 and 2022, respectively.

Net service revenues from state, local and other governmental programs accounted for 50.1% and 49.5% of net service revenues for the three months ended March 31, 2023 and 2022, respectively. Managed care organizations accounted for 46.3% and 45.6% of net service revenues for the three months ended March 31, 2023 and 2022, respectively, with commercial insurance, private pay and other payors accounting for the remainder of net service revenues.

Net service revenues increased by 12.0% for the three months ended March 31, 2023 compared to the three months ended March 31, 2022. Net service revenues included a 5.7% increase in revenues per billable hour for the three months ended March 31, 2023, mainly attributed to rate increases discussed above, as compared to the three months ended March 31, 2022. The Company experienced an increase in New York net service revenues of $0.5 million for the three months ended March 31, 2023, primarily driven by an increase in participation in the New York CDPAP program as discussed above, compared to 2022. Gross profit, expressed as a percentage of net service revenues, increased to 27.2% for the three months ended March 31, 2023 from 25.6% for the three months ended March 31, 2022. This increase was primarily due to decreases in direct payroll and benefits expenses as a percentage of net service revenues of 1.0% for the three months ended March 31, 2023.

The personal care segment's general and administrative expenses primarily consist of administrative employee wages, taxes and benefit costs, rent, information technology and office expenses. General and administrative expenses, expressed as a percentage of net service revenues, was 8.4% and 8.9% for the three months ended March 31, 2023 and 2022, respectively.

Hospice Segment

	For the Three Months Ended March 31,					
	2023		2022		Change	
	Amount	% of Segment Net Service Revenues	Amount	% of Segment Net Service Revenues	Amount	%
	(Amounts in Thousands, Except Percentages)					
Operating Results						
Net service revenues	$49,082	100.0 %	$47,727	100.0 %	$1,355	2.8 %
Cost of services revenues	27,267	55.6	23,441	49.1	3,826	16.3
Gross profit	21,815	44.4	24,286	50.9	(2,471)	(10.2)
General and administrative expenses	13,015	26.5	11,712	24.6	1,303	11.1
Segment operating income	$8,800	17.9 %	$12,574	26.3 %	$(3,774)	(30.0) %
Business Metrics (Actual Numbers)						
Locations at period end	33		33			
Admissions * (1)	3,324		3,315		9	0.3 %
Average daily census * (2)	3,195		3,320		(125)	(3.8)
Average discharge length of stay * (3)	88		84		4	4.8
Patient days * (4)	287,551		275,488		12,063	4.4
Revenue per patient day * (5)	$176.22		$173.24		$2.98	1.7 %
Organic growth						
- Revenue * (6)	2.6 %		4.4 %			
- Average daily census * (6)	1.5 %		7.0 %			

(1) Represents referral process and new patients on service during the period.

(2) Average daily census is total patient days divided by the number of days in the period.

(3) Average length of stay is the average number of days a patient is on service, calculated upon discharge, and is total patient days divided by total discharges in the period.

(4) Patient days is days of service for all patients in the period.

(5) Revenue per patient day is hospice revenue divided by the number of patient days in the period.

(6) Revenue organic growth and average daily census organic growth reflect the change in year-over-year revenue and average daily census for the same store base. We define the same store base to include those stores open for at least 52 full weeks. These measures highlight the performance of existing stores, while excluding the impact of acquisitions, new store openings and closures.

* Management deems these metrics to be key performance indicators. Management uses these metrics to monitor our performance, both in our existing operations and acquisitions. Many of these metrics serve as the basis of reported revenues and assessment of these provide direct correlation to the results of operations from period to period and facilitate comparison with the results of our peers. Historical trends established in these metrics can be used to evaluate current operating results, identify trends affecting our business, determine the allocation of resources and assess the quality and potential variability of our cash flows and earnings. We believe they are useful to investors in evaluating and understanding our business but should not be used solely in assessing the Company's performance. These key performance indicators should not be considered superior to, as a substitute for or as an alternative to, and should be considered in conjunction with, the GAAP financial measures presented herein to fully evaluate and understand the business as a whole. These measures may not be comparable to similarly titled performance indicators used by other companies.

The hospice segment generates net service revenues by providing care to patients with a life expectancy of six months or less, as well as related services for their families. Hospice offers four levels of care, as defined by Medicare, to meet the varying needs of patients and their families. The four levels of hospice include routine home care, continuous home care, general inpatient care and respite care. Our hospice segment principally provides routine home care and continuous home care services, and with the JourneyCare acquisition, expanded into providing general inpatient care services. In our hospice segment, net service revenues from Medicare accounted for 90.7% and 91.1% for the three months ended March 31, 2023 and 2022, respectively. Net service revenues from managed care organizations accounted for 3.4% and 3.6% for the three months ended March 31, 2023 and 2022, respectively.

Net service revenues increased by $1.4 million for the three months ended March 31, 2023 compared to the three months ended March 31, 2022, primarily attributed to organic growth and the acquisition of the operations of JourneyCare on February 1, 2022.

Gross profit, expressed as a percentage of net service revenues was 44.4% and 50.9% for the three months ended March 31, 2023 and 2022, respectively. For the three months ended March 31, 2023, the decrease was mainly attributed to increases in direct employee wage, tax and benefit costs.

The hospice segment's general and administrative expenses primarily consist of administrative employee wage, tax and benefit costs, rent, information technology and office expenses. General and administrative expenses, expressed as a percentage of net service revenues was 26.5% and 24.6% for the three months ended March 31, 2023 and 2022, respectively. The increase in general and administrative expenses was primarily due to a $1.2 million increase in administrative employee wage, tax and benefit costs for the three months ended March 31, 2023.

Home Health Segment

	For the Three Months Ended March 31,					
	2023		2022		Change	
	Amount	% of Segment Net Service Revenues	Amount	% of Segment Net Service Revenues	Amount	%
	(Amounts in Thousands, Except Percentages)					
Operating Results						
Net service revenues	$12,485	100.0 %	$9,275	100.0 %	$3,210	34.6 %
Cost of services revenues	7,534	60.3	6,716	72.4	818	12.2
Gross profit	4,951	39.7	2,559	27.6	2,392	93.5
General and administrative expenses	2,879	23.1	2,359	25.4	520	22.1
Segment operating income	$2,072	16.6 %	$200	2.2 %	$1,872	936.0 %
Business Metrics (Actual Numbers)						
Locations at period end	13		12			
New admissions * (1)	3,893		3,336		557	16.7 %
Recertifications * (2)	1,549		1,316		233	17.7
Total volume * (3)	5,442		4,652		790	17.0
Visits * (4)	77,828		65,213		12,615	19.3 %
Organic growth						
- Revenue * (5)	13.8 %		(0.5) %			
- Admissions * (5)	(3.6) %		2.4 %			

(1) Represents new patients during the period.

(2) A home health certification period is an episode of care that begins with a start of care visit and continues for 60 days. If at the end of the initial episode of care, the patient continues to require home health services, a recertification is required. This represents the number of recertifications during the period.

(3) Total volume is total admissions and total recertifications in the period.

(4) Represents number of services to patients in the period.

(5) Revenue organic growth and admissions organic growth reflect the change in year-over-year revenue and admissions for the same store base. We define the same store base to include those stores open for at least 52 full weeks. These measures highlight the performance of existing stores, while excluding the impact of acquisitions, new store openings and closures.

* Management deems these metrics to be key performance indicators. Management uses these metrics to monitor our performance, both in our existing operations and acquisitions. Many of these metrics serve as the basis of reported revenues and assessment of these provide direct correlation to the results of operations from period to period and facilitate comparison with the results of our peers. Historical trends established in these metrics can be used to evaluate current operating results, identify trends affecting our business, determine the allocation of resources and assess the quality and potential variability of our cash flows and earnings. We believe they are useful to investors in evaluating and understanding our business but should not be used solely in assessing the Company’s performance. These key performance indicators should not be considered superior to, as a substitute for or as an alternative to, and should be considered in conjunction with, the GAAP financial measures presented herein to fully evaluate and understand the business as a whole. These measures may not be comparable to similarly titled performance indicators used by other companies.

The home health segment generates net service revenues by providing home health services on a short-term, intermittent or episodic basis to individuals, generally to treat an illness or injury. Net service revenues from Medicare accounted for 74.2% and 73.4%, managed care organizations accounted for 20.3% and 20.5% and other accounted for 5.5% and 6.1% for the three months ended March 31, 2023 and 2022, respectively. Home health services provided to Medicare beneficiaries are paid under the Medicare Home Health Prospective Payment System, which uses national, standardized 30-day period payment rates for periods of care. CMS uses the PDGM as the case-mix classification model to place periods of care into payment categories, classifying patients based on clinical characteristics. An outlier adjustment may be paid for periods of care in which costs exceed a specific threshold amount.

Net service revenues increased by $3.2 million for the three months ended March 31, 2023, compared to the three months ended March 31, 2022. Total visits increased for the three months ended March 31, 2023, mainly attributed to the acquisition of Apple Home HealthCare on October 1, 2022.

Gross profit, expressed as a percentage of net service revenues was 39.7% and 27.6% for the three months ended March 31, 2023 and 2022, respectively. For the three months ended March 31, 2023, the increase was primarily due to an increase in net service revenues compared to the three months ended March 31, 2022. Cost of services revenues for the three months ended March 31, 2023 increased compared to the corresponding period in 2022, due to an increase in direct employee wage, tax and benefit costs.

The home health segment’s general and administrative expenses primarily consist of administrative employee wage, tax and benefit costs, rent, information technology and office expenses. General and administrative expenses, expressed as a percentage of net service revenues was 23.1% and 25.4% for the three months ended March 31, 2023 and 2022, respectively. General and administrative expenses for the three months ended March 31, 2023 increased compared to the corresponding period in 2022, primarily due to an increase in administrative employee wage, tax and benefit costs of $ 0.4 million for the three months ended March 31, 2023.

Liquidity and Capital Resources

Overview

Our primary sources of liquidity are cash on hand and cash from operations and borrowings under our credit facility. At March 31, 2023 and December 31, 2022, we had cash balances of $73.5 million and $80.0 million, respectively. At March 31, 2023, we had a $600.0 million revolving credit facility and a $125.0 million incremental loan facility, which may be for term loans or an increase to the revolving loan commitments. The maturity of this credit facility is July 30, 2026.

During the three months ended March 31, 2023, we used approximately $1.0 million in cash to fund the CareStaff acquisition and repaid $23.5 million under our revolving credit facility. As of March 31, 2023, we had a total of $111.4 million in revolving loans, with an interest rate of 6.59% outstanding on our credit facility and after giving effect to the amount drawn on our credit facility, approximately $8.0 million of outstanding letters of credit and borrowing limits based on an advance multiple of adjusted EBITDA (as defined in the Credit Agreement), we had $395.1 million of capacity and $275.7 million available for borrowing under our credit facility. At December 31, 2022, we had a total of $134.9 million revolving credit loans, with an interest rate of 6.13%, outstanding on our credit facility.

Our credit facility requires us to maintain a total net leverage ratio not exceeding 3.75:1.00. At March 31, 2023, we were in compliance with our financial covenants under the Credit Agreement. Although we believe our liquidity position remains strong, we can provide no assurance that we will remain in compliance with the covenants in our Credit Agreement, and in the future, it may prove necessary to seek an amendment with the bank lending group under our credit facility. Additionally, there can be no assurance that we will be able to raise additional funds on terms acceptable to us, if at all.

See Note 7 to the Notes to Condensed Consolidated Financial Statements, *Long-Term Debt*, for additional details of our long-term debt.

COVID-19 Pandemic

As a result of the COVID-19 pandemic, federal and state governments have passed legislation, promulgated regulations, and taken other administrative actions intended to assist healthcare providers in providing care to COVID-19 patients and other patients during the public health emergency. These temporary measures include relief from Medicare conditions of participation requirements for healthcare providers, relaxation of licensure requirements for healthcare professionals, relaxation of privacy restrictions for telehealth remote communications, promoting use of telehealth by expanding the scope of services for which Medicare reimbursement is available, and limited waivers of fraud and abuse laws for activities related to COVID-19 during the emergency period. The current federal public health emergency declaration expires May 11, 2023, and the Biden administration has indicated that it will not be extended.

ARPA Spending Plans

The ARPA, which became law on March 11, 2021, provided for $350 billion in relief funding for eligible state, local, territorial and tribal governments to mitigate the fiscal effects of the COVID-19 public health emergency. Additionally, the law provided for a 10 percentage point increase in federal matching funds for Medicaid HCBS from April 1, 2021, through March 31, 2022, provided the state satisfied certain conditions. States are permitted to use the state funds equivalent to the additional federal funds through March 31, 2025. States must use the monies attributable to this matching fund increase to supplement, not supplant, their level of state spending for the implementation of activities enhanced under the Medicaid HCBS in effect as of April 1, 2021.

HCBS spending plans for the additional matching funds vary by state, but common initiatives in which the Company is participating include those aimed at strengthening the provider workforce (e.g., efforts to recruit, retain, and train direct service providers). The Company is required to properly and fully document the use of such funds in reports to the state in which the funds originated. Funds may be subject to recoupment if not expended or if they are expended on non-approved uses. During the three months ended March 31, 2023, the Company received state funding provided by the ARPA in an aggregate amount of $0.4 million. The Company did not record revenue and related costs of service revenue during the three months ended March 31, 2023, because revenue recognition criteria were not met. The Company deferred the remaining $11.0 million, which was received from states with specific spending plans and reporting requirements. The Company utilized $2.4 million of these funds during the three months ended March 31, 2023, primarily for caregivers and adding support to recruiting and retention efforts, included as a reduction of cost of service revenues in the Company’s Consolidated Statements of Income. As of March 31, 2023, the deferred portion of ARPA funding of $11.0 million is included within Government stimulus advances on the Company’s Unaudited Condensed Consolidated Balance Sheets.

Medicare sequester

The CARES Act and related legislation temporarily lifted the Medicare sequester that would have otherwise reduced payments to Medicare providers by 2% as required by the Budget Control Act of 2011, from May 1, 2020 through March 31, 2022. The sequestration payment adjustment was phased back in, returning to a 2% reduction on July 1, 2022. These sequestration cuts have been extended through the first six months of 2032.

In our hospice segment, Medicare sequester relief resulted in an increase in net service revenues of $0.0 million and $0.9 million for the three months ended March 31, 2023 and 2022, respectively. In our home health segment, Medicare sequester relief resulted in an increase in net service revenues of $0.0 million and $0.2 million for the three months ended March 31, 2023 and 2022, respectively.

The ARPA increases the federal budget deficit in a manner that triggers an additional statutorily mandated sequestration under the PAYGO Act. As a result, an additional Medicare payment reduction of up to 4% was required to take effect in January 2022. However, Congress has delayed implementation of this payment reduction until 2025. We cannot currently determine if, or to what extent, our business, results of operations, financial condition or liquidity will ultimately be impacted by mandated sequestration triggers under the PAYGO Act, or if or when the mandated sequestration will occur.

See Note 6 to the Notes to Condensed Consolidated Financial Statements, *COVID-19 Pandemic*, for additional details of the COVID-19 pandemic.

Cash Flows

The following table summarizes changes in our cash flows:

	For the Three Months Ended March 31,	
	2023	2022
	(Amounts in Thousands)	
Net cash provided by operating activities	$ 18,799	$ 5,983
Net cash used in investing activities	(1,742)	(85,594)
Net cash (used in) provided by financing activities	(23,475)	35,479

Three Months Ended March 31, 2023 Compared to Three Months Ended March 31, 2022

Cash flows from operating activities represent the inflow of cash from our payors and the outflow of cash for payroll and payroll taxes, operating expenses, interest and taxes. Net cash provided by operating activities was $18.8 million for the three months ended March 31, 2023, compared to net cash used in operating activities of $5.9 million for the same period in 2022. The increase in cash provided by operations was primarily due to the timing of receipts on accounts receivable and the timing of government stimulus funds. The changes in accounts receivable were primarily related to the growth in revenue offset by a decrease in days sales outstanding ("DSO") during the three months ended March 31, 2023 as compared to the three months ended March 31, 2022. The related receivables due from the Illinois Department on Aging represented 21.5% and 16.1% of the Company's net accounts receivable at March 31, 2023 and March 31, 2022, respectively.

Net cash used in investing activities for the three months ended March 31, 2023, primarily consisted of $1.0 million of net cash used for the Carestaff acquisition and $0.7 million of cash used for property and equipment purchases, primarily related to our ongoing investments in technology infrastructure fixed assets. Net cash used in investing activities for the three months ended March 31, 2022 primarily consisted of $84.5 million of net cash used for the JourneyCare acquisition and $1.1 million of cash used for property and equipment purchases.

Net cash used in financing activities for the three months ended March 31, 2023, primarily consisted of a $23.5 million payment on the revolver portion of our credit facility. Net cash provided by financing activities for the three months ended March 31, 2022 primarily consisted of $35.0 million of borrowings under our credit facility to partially fund the JourneyCare acquisition.

Outstanding Accounts Receivable

Gross accounts receivable as of March 31, 2023 and December 31, 2022 were approximately $126.7 million and $127.1 million, respectively. Outstanding accounts receivable, net of allowance for credit losses, decreased by $0.1 million as of March 31, 2023 as compared to December 31, 2022. Accounts receivable for the Illinois Department on Aging increased approximately $0.1 million during the quarter ended March 31, 2023. Our collection procedures include review of account aging and direct contact with our payors. We have historically not used collection agencies. An uncollectible amount is written off to the allowance account after reasonable collection efforts have been exhausted.

We calculate our DSO by taking the trade accounts receivable outstanding, net of allowance for credit losses for doubtful accounts, divided by the net service revenues for the last quarter, multiplied by the number of days in that quarter. Our DSOs were 44 days and 45 days at March 31, 2023 and December 31, 2022, respectively. The DSOs for our largest payor, the Illinois Department on Aging, were 44 days and 42 days at March 31, 2023 and December 31, 2022, respectively.

Off-Balance Sheet Arrangements

As of March 31, 2023, we did not have any off-balance sheet guarantees or arrangements with unconsolidated entities.

Critical Accounting Policies and Estimates

There have been no material changes to our critical accounting policies and estimates previously disclosed under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations — Critical Accounting Policies and Estimates" set forth in Part II, Item 7 of our Annual Report on Form 10-K for the period ended December 31, 2022, filed on February 28, 2023.

Recently Issued Accounting Pronouncements

Refer to Note 2 to the Notes to Condensed Consolidated Financial Statements (Unaudited) for further discussion.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to market risk associated with changes in interest rates on our variable rate long-term debt. As of March 31, 2023, we had available borrowing capacity of approximately $275.7 million on our credit facility, all of such borrowings were subject to variable interest rates.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and our Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of March 31, 2023. The term “disclosure controls and procedures,” as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”) means controls and other procedures of an issuer that are designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Exchange Act, is recorded, processed, summarized, and reported within the time periods specified in the Securities and Exchange Commission’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Exchange Act is accumulated and communicated to the issuer’s management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

Based on the evaluation of our disclosure controls and procedures, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of March 31, 2023.

Changes in Internal Controls Over Financial Reporting

There were no changes in our internal control over financial reporting identified in connection with the evaluation required by Rule 13a-15(d) and 15d-15(d) of the Exchange Act that occurred during the fiscal quarter ended March 31, 2023 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings

Legal Proceedings

From time to time, we are subject to legal and/or administrative proceedings incidental to our business. It is the opinion of management that the outcome of pending legal and/or administrative proceedings will not have a material effect on our financial position and results of operations.

Item 1A. Risk Factors

Investing in our common stock involves a high degree of risk. You should carefully consider the risk factors discussed under the caption "Risk Factors" set forth in Part I, Item 1A, of our Annual Report on Form 10-K for the year ended December 31, 2022, filed on February 28, 2022. There have been no material changes to the risk factors previously disclosed under the caption "Risk Factors" in our Annual Report on Form 10-K. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition or operating results.

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

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

None.

Item 5. Other Information

On April 26, 2023, the Company entered into a Third Amendment to Amended and Restated Credit Agreement (the "Third Amendment"), by and among Addus HealthCare, Inc., as the borrower, the Company, certain subsidiaries of the Company party thereto, the lenders party thereto and Capital One, National Association, as a lender and as administrative agent for all lenders, which amended the Company's existing Credit Agreement. The Third Amendment (i) replaces LIBOR with a forward-looking term SOFR-based rate as the applicable benchmark reference rate for loans under the credit facility and (ii) adds a 10-basis point credit spread adjustment for loans bearing interest based on SOFR. The Third Amendment does not change the interest rate margins applicable to the credit facility. The foregoing summary of the Third Amendment does not purport to be complete and is subject to, and qualified in its entirety by, the full text of the Third Amendment, which is filed as Exhibit 10.1 to this Form 10-Q, and, in its entirety, is incorporated by reference herein.

Item 6. Exhibits

EXHIBIT INDEX

		Incorporated by Reference			
Exhibit Number	**Description of Document**	**Form**	**File No.**	**Date Filing**	**Exhibit Number**
3.1	Amended and Restated Certificate of Incorporation of the Company dated as of October 27, 2009.	10-Q	001-34504	11/20/2009	3.1
3.2	Amended and Restated Bylaws of the Company, as amended by the First Amendment to the Amended and Restated Bylaws.	10-Q	001-34504	05/9/2013	3.2
4.1	Form of Common Stock Certificate.	S-1	333-160634	10/2/2009	4.1
10.1	Third Amendment to Amended and Restated Credit Agreement, dated as of April 26, 2023, by and among Addus HealthCare, Inc., as the Borrower, Addus HomeCare Corporation, the other Credit Parties party thereto, Capital One, National Association, as administrative agent and as a Lender, and the other Lenders party thereto.				
31.1	Certification of Chief Executive Officer Pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934 as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.				
31.2	Certification of Chief Financial Officer Pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934 as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.				
32.1	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.				
32.2	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.				
101.INS	Inline XBRL Instance Document (the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document).				
101.SCH	Inline XBRL Taxonomy Extension Schema Document.				
101.CAL	Inline XBRL Taxonomy Calculation Linkbase Document.				
101.LAB	Inline XBRL Taxonomy Label Linkbase Document.				
101.PRE	Inline XBRL Presentation Linkbase Document.				
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document.				
104	Cover Page Interactive Data File (embedded within the Inline XBRL document and contained in Exhibit 101).				

* Management compensatory plan or arrangement

SIGNATURES

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

		ADDUS HOMECARE CORPORATION
Date: May 2, 2023	By:	/s/ R. DIRK ALLISON
		R. Dirk Allison **Chairman and Chief Executive Officer** **(As Principal Executive Officer)**
Date: May 2, 2023	By:	/s/ BRIAN POFF
		Brian Poff **Chief Financial Officer** **(As Principal Financial Officer)**

THIRD AMENDMENT TO AMENDED AND RESTATED CREDIT AGREEMENT

THIS THIRD AMENDMENT TO AMENDED AND RESTATED CREDIT AGREEMENT (this "***Amendment***") is entered into as of April 26, 2023 (the "***Effective Date***"), by and among Addus HealthCare, Inc., an Illinois corporation (the "***Borrower***"), Addus HomeCare Corporation, a Delaware corporation ("***Holdings***"), the other Persons party hereto that are designated as a "Credit Party" on the signature pages hereof, Capital One, National Association, as Agent (the "***Agent***") and as a Lender, and the other Lenders signatory hereto.

W I T N E S S E T H:

WHEREAS, Borrower, Holdings, the other Credit Parties, Agent and the other Lenders from time to time party thereto are parties to that certain Amended and Restated Credit Agreement dated as of October 31, 2018 (as amended by that certain First Amendment to Amended and Restated Credit Agreement dated as of September 12, 2019, as amended by that certain Second Amendment to Amended and Restated Credit Agreement dated as of July 30, 2021, and as further amended, restated, supplemented or modified from time to time prior to the date hereof, the "***Existing Credit Agreement***"; unless otherwise defined herein, capitalized terms used herein that are not otherwise defined herein shall have the respective meanings assigned to such terms in the Existing Credit Agreement as amended hereby (the "***Credit Agreement***")); and

WHEREAS, the Credit Parties have requested that the Agent and Lenders amend certain provisions of the Existing Credit Agreement, and, subject to the satisfaction of the conditions set forth herein, Agent and the Lenders signatory hereto are willing to do so, on the terms set forth herein.

NOW, THEREFORE, in consideration of the mutual agreements, provisions and covenants contained herein, the parties agree as follows:

A. NOTICE OF BENCHMARK REPLACEMENT.

In order to facilitate this Amendment, the parties hereto acknowledge and agree that:

1. Certain loans or other extensions of credit under the Existing Credit Agreement bear or are permitted to bear interest, or incur or are permitted to incur fees, commissions or other amounts, based on LIBOR in accordance with the terms of the Existing Credit Agreement.

2. In accordance with the benchmark replacement provisions set forth in Section 11.9 of the Existing Credit Agreement, effective as of the date hereof, LIBOR will be replaced with Adjusted Term SOFR as the alternative benchmark rate for purposes of the Credit Agreement and the other Loan Documents.

3. To the extent that the Agent or any other party to the Credit Agreement is required to provide notice of the replacement of LIBOR with Adjusted Term SOFR as the alternative benchmark rate for purposes of the Credit Agreement and the other Loan Documents, the parties hereto acknowledge and agree that such notice requirements have been satisfied.

4. Subject to the terms and conditions set forth herein, and notwithstanding anything to the contrary contained in the Credit Agreement (including for the avoidance of doubt, the definition of "Interest Period" set forth therein), each LIBOR Rate Loan outstanding immediately prior to the Effective Date shall be permitted to continue to accrue interest at a rate per annum equal to the sum of (a) LIBOR determined for such day plus (b) the Applicable Margin for LIBOR Rate Loans (in each

case as defined in the Existing Credit Agreement as in effect immediately prior to the Effective Date) through and until the last day of the Interest Period for such LIBOR Rate Loans as in effect immediately prior to the Effective Date, and, thereafter, all existing LIBOR Rate Loans shall, immediately following the last day of the current Interest Period for such LIBOR Rate Loans, respectively, be converted to SOFR Loans with an Interest Period of one-month's duration. Any obligation of the Borrower to (x) provide prior notice to the Lenders or the Agent to convert such LIBOR Rate Loans and (y) indemnify any Lender for any loss, cost and expense pursuant to Section 11.4 of the Credit Agreement as a result of such conversion is hereby waived by the Lenders and the Agent.

B. **AMENDMENTS TO EXISTING CREDIT AGREEMENT**.

From and after the date on which all of the conditions precedent set forth in Section C hereof have been satisfied, and in reliance on the representations and warranties made herein, effective as of the date hereof:

1. the Existing Credit Agreement (excluding all schedules, exhibits and annexes thereto except as expressly set forth in Sections B.2 and B.3 below) is amended pursuant to this Amendment to delete the stricken text (indicated textually in the same manner as the following example: ~~stricken text~~) and to add the double-underlined text (indicated textually in the same manner as the following example: double-underlined text) as set forth in the Credit Agreement attached as Annex A to this Amendment;

2. Exhibits 1.1(b), 2.6 and 5.2(a) of the Existing Credit Agreement are hereby amended and restated in their entirety as set forth on Annexes B, C and D to this Amendment, respectively; and

3. the Exhibits (other than Exhibits 1.1(b), 2.6 and 5.2(a)) to the Existing Credit Agreement are hereby amended to replace each reference therein to "LIBOR Rate Loans" with "SOFR Loans".

C. **CONDITIONS PRECEDENT**.

This Amendment shall be effective as of the Effective Date, subject to the satisfaction of the following conditions precedent:

5. the execution and delivery of this Amendment by each Credit Party, the Agent and Lenders; and

6. all expenses (including without limitation, legal fees and expenses) and other transaction costs incurred in connection with this Amendment required to be paid to the Agent and the Lenders pursuant to the terms of the Credit Agreement shall have been paid.

D. **REPRESENTATIONS AND WARRANTIES.**

Each Credit Party hereby represents and warrants to Agent and each Lender that:

7. The execution, delivery and performance by the Credit Parties of this Amendment and by each Credit Party of any other Loan Document to which such Person is party, have been duly authorized by all necessary action, and do not and will not (a) contravene the terms of any of that Person's Organization Documents; (b) conflict with or result in any material breach or contravention of, or result in the creation of any Lien (other than Liens in favor of Agent created under the Loan Documents) under, any document evidencing any material Contractual Obligation to which such Person is a party or any order, injunction, writ or decree of any Governmental Authority to which such Person or its Property is subject, (c) affect any Credit Party's or any Restricted Subsidiary of a Credit Party's right to receive, or reduce the amount of, payments and reimbursements from Third Party Payors, or materially adversely affect any Regulatory Permit; or (d) violate any material Requirement of Law in any material respect;

8. such Credit Party has the power and authority to execute, deliver and perform its obligations under this Amendment and the Credit Agreement;

9. this Amendment constitutes the legal, valid and binding obligations of each such Person which is a party hereto enforceable against such Person in accordance with its terms, except as enforceability may be limited by applicable bankruptcy, insolvency or similar laws affecting the enforcement of creditors' rights generally or by equitable principles relating to enforceability;

10. after giving effect to this Amendment and the transactions contemplated hereby, each of the representations and warranties contained in the Credit Agreement and the other Loan Documents is true and correct in all material respects (without duplication of any materiality qualifier contained therein) as of such date, except to the extent that such representation or warranty expressly relates to an earlier date (in which event such representations and warranties were true and correct in all material respects (without duplication of any materiality qualifier contained therein) as of such earlier date); and

11. no Default or Event of Default exists or would result from the transactions contemplated by this Amendment.

E. **ADDITIONAL AGREEMENTS**

12. No Modification. Except as expressly set forth herein, nothing contained herein shall be deemed to constitute a waiver of compliance with any term or condition contained in the Credit Agreement or any of the other Loan Documents or constitute a course of conduct or dealing among the parties. Except as expressly stated herein, the Agent and Lenders reserve all rights, privileges and remedies under the Loan Documents. Except as amended or consented to hereby, the Credit Agreement and other Loan Documents remain unmodified and in full force and effect. All references in the Loan Documents to the Credit Agreement shall be deemed to be references to the Credit Agreement as modified hereby. This Amendment shall constitute a Loan Document.

13. Costs and Expenses; Indemnity. Sections 10.5 and 10.6 of the Credit Agreement are hereby incorporated by reference, *mutatis mutandis*, as if such Sections were set forth in full herein. Borrower agrees to pay on demand all reasonable and documented costs and out-of-pocket expenses of Agent in connection with the preparation, execution and delivery of this Amendment, including, without limitation, the reasonable fees and out-of-pocket expenses of outside counsel for Agent with respect thereto.

14. Counterparts. This Amendment may be executed in any number of counterparts and by different parties in separate counterparts, each of which when so executed shall be deemed to be an original and all of which taken together shall constitute one and the same agreement. Signature pages may be detached from multiple separate counterparts and attached to a single counterpart. Delivery of an executed signature page of this Amendment by facsimile transmission or Electronic Transmission shall be as effective as delivery of a manually executed counterpart hereof.

15. Successors and Assigns. The provisions of this Amendment shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns; provided that any assignment by any Lender shall be subject to the provisions of Section 10.9 of the Credit Agreement, and provided further that Borrower may not assign or transfer any of its rights or obligations under this Amendment or the Credit Agreement without the prior written consent of Agent and each Lender.

16. Governing Law. The laws of the State of New York shall govern all matters arising out of, in connection with or relating to this Amendment, including its validity, interpretation, construction, performance and enforcement (including any claims sounding in contract or tort law arising out of

the subject matter hereof and any determinations with respect to post-judgment interest).

17. Severability. The illegality or unenforceability of any provision of this Amendment or any instrument or agreement required hereunder shall not in any way affect or impair the legality or enforceability of the remaining provisions of this Amendment or any instrument or agreement required hereunder. The parties hereto acknowledge that this Amendment may use several different limitations, tests or measurements to regulate the same or similar matters, and that such limitations, tests and measurements are cumulative and must each be performed, except as expressly stated to the contrary in this Amendment.

18. Captions. The captions and headings of this Amendment are for convenience of reference only and shall not affect the interpretation of this Amendment.

19. Entire Understanding. This Amendment sets forth the entire understanding of the parties with respect to the matters set forth herein, and shall supersede any prior negotiations or agreements, whether written or oral, with respect thereto.

[*Remainder of Page Intentionally Left Blank; Signature Pages Follow*]

IN WITNESS WHEREOF, each of the undersigned has executed this Agreement as of the date set forth above.

BORROWER:

ADDUS HEALTHCARE, INC.

By: /s/ Brian Poff
Name: Brian Poff
Title: Chief Financial Officer, Executive Vice President, Secretary and Treasurer

OTHER CREDIT PARTIES:

ADDUS HOMECARE CORPORATION

By: /s/ Brian Poff
Name: Brian Poff
Title: Chief Financial Officer, Executive Vice President, Secretary and Treasurer

ADDUS HEALTHCARE (DELAWARE), INC.
ADDUS HEALTHCARE (IDAHO), INC.
ADDUS HEALTHCARE (NEVADA), INC.
ADDUS HEALTHCARE (SOUTH CAROLINA), INC.
PRIORITY HOME HEALTH CARE, INC.
SOUTH SHORE HOME HEALTH SERVICE INC.
OPTIONS SERVICES, INC.
ADDUS NURSE CARE INC.
PRAC HOLDINGS, INC.
CURA PARTNERS, LLC
AMBERCARE CORPORATION
AMBERCARE HOME HEALTH CARE CORPORATION
AMBERCARE HOSPICE, INC.
ALLIANCE HOME HEALTH CARE, LLC
QUEEN CITY HOSPICE, LLC
MIRACLE CITY HOSPICE, LLC
COUNTY HOMEMAKERS INCORPORATED
A PLUS HEALTHCARE, INC.
NEW CAPITAL PARTNERS II – HS, INC.
HOSPICE PARTNERS OF AMERICA, LLC
HPA MANAGEMENT COMPANY, LLC
HOSPICE PARTNERS OF AMERICA HOLDING, LLC
HPA MEDICAL MANAGEMENT, LLC
HPA IDAHO, LLC
HOSPICE PARTNERS OF TEXAS, LLC
H&PC OF AMERICA, LLC
TR&B LLC
ALAMO AREA HOME HOSPICE, LP
SERENITY PALLIATIVE CARE AND HOSPICE, LLC
ARMADA SKILLED HOMECARE OF NEW MEXICO LLC
ARMADA HOSPICE OF NEW MEXICO LLC
ARMADA HOSPICE OF SANTA FE, LLC
ADDUS HOSPICE OF ILLINOIS, LLC
APPLE HOME HEALTHCARE, LTD.

By: /s/ Brian Poff
Name: Brian Poff
Title: Secretary

AGENT AND LENDERS:

CAPITAL ONE, NATIONAL ASSOCIATION,
as Agent, Swing Lender and as a Lender

By: /s/ Brian Pender
Name: Brian Pender
Title: Its Duly Authorized Signatory

JPMORGAN CHASE BANK, N.A., as a Lender

By: /s/ Erik Barragan
Name: Erik Barragan
Title: Authorized Officer

Citizens Bank, N.A., as a Lender

By: /s/ Benjamin Sileo
Name: Benjamin Sileo
Title: VP

BMO Harris Bank, N.A., as a Lender

By: /s/ Joe Arnold
Name: Joe Arnold
Title: Director

HANCOCK WHITNEY BANK, as a Lender

By: /s/ Michael Woodnorth
Name: Michael Woodnorth
Title: Vice President

FIFTH THIRD BANK, NATIONAL ASSOCATION, as a Lender

By: /s/ Thomas Avery
Name: Thomas Avery
Title: Managing Director

Wells Fargo Bank, National Association, as a Lender

By: /s/ William Mims
Name: William Mims
Title: Vice President

WOODFOREST NATIONAL BANK, as a Lender

By: /s/ Robert Swift
Name: Robert Swift
Title: Vice President

Huntington National Bank, as a Lender

By: /s/ K. Andrew Tiberi-Warner
Name: K. Andrew Tiberi-Warner
Title: Vice President

BANK OF AMERICA, N.A., as a Lender

By: /s/ Alexander L. Rody
Name: Alexander L. Rody
Title: Senior Vice President

PNC Bank, N.A., as a Lender

By: /s/ Amira Nagati
Name: Amira Nagati
Title: Senior Vice President

Exhibit 31.1

CERTIFICATIONS OF CHIEF EXECUTIVE OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, R. Dirk Allison, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Addus HomeCare Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 2, 2023	By: /s/ R. Dirk Allison
	R. Dirk Allison
	Chairman and Chief Executive Officer

Exhibit 31.2

CERTIFICATIONS OF CHIEF FINANCIAL OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Brian Poff, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Addus HomeCare Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: May 2, 2023

By: /s/ Brian Poff
Brian Poff
Chief Financial Officer

Exhibit 32.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350
(AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002)

In connection with the Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2023 of Addus HomeCare Corporation (the "Company") as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, R. Dirk Allison, Chairman and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 2, 2023	By:	/s/ R. Dirk Allison
		R. Dirk Allison
		Chairman and Chief Executive Officer

Exhibit 32.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350
(AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002)

In connection with the Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2023 of Addus HomeCare Corporation (the “Company”) as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Brian Poff, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 2, 2023	By: /s/ Brian Poff
	Brian Poff
	Chief Financial Officer