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 September 30, 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 October 24, 2023, Addus HomeCare Corporation had 16,214,653 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 September 30, 2023 and December 31, 2022
(Amounts and Shares in Thousands, Except Per Share Data)
(Unaudited)

	September 30, 2023	December 31, 2022
Assets		
Current assets		
Cash	$ 79,750	$ 79,961
Accounts receivable, net of allowances for credit losses	121,112	125,501
Prepaid expenses and other current assets	10,387	17,345
Total current assets	211,249	222,807
Property and equipment, net of accumulated depreciation and amortization	20,516	21,182
Other assets		
Goodwill	662,981	582,837
Intangibles, net of accumulated amortization	93,799	72,188
Operating lease assets, net	47,183	38,980
Total other assets	803,963	694,005
Total assets	$ 1,035,728	$ 937,994
Liabilities and stockholders' equity		
Current liabilities		
Accounts payable	$ 21,375	$ 22,092
Accrued payroll	51,774	44,937
Accrued expenses	34,952	27,507
Operating lease liabilities, current portion	11,434	10,801
Government stimulus advances	7,836	12,912
Accrued workers' compensation insurance	12,268	12,897
Total current liabilities	139,639	131,146
Long-term liabilities		
Long-term debt, net of debt issuance costs	163,917	131,772
Long-term operating lease liabilities	41,632	35,479
Other long-term liabilities	6,206	6,057
Total long-term liabilities	211,755	173,308
Total liabilities	$ 351,394	$ 304,454
Stockholders' equity		
Common stock—$.001 par value; 40,000 authorized and 16,214 and 16,128 shares issued and outstanding as of September 30, 2023 and December 31, 2022, respectively	$ 16	$ 16
Additional paid-in capital	401,064	393,208
Retained earnings	283,254	240,316
Total stockholders' equity	684,334	633,540
Total liabilities and stockholders' equity	$ 1,035,728	$ 937,994

See accompanying Notes to Condensed Consolidated Financial Statements (Unaudited)

**ADDUS HOMECARE CORPORATION
AND SUBSIDIARIES**

**CONDENSED CONSOLIDATED STATEMENTS OF INCOME
For the Three and Nine Months Ended September 30, 2023 and 2022
(Amounts and Shares in Thousands, Except Per Share Data)
(Unaudited)**

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2023	2022	2023	2022
Net service revenues	$ 270,721	$ 240,495	$ 782,300	$ 704,070
Cost of service revenues	183,991	165,310	534,837	483,100
Gross profit	86,730	75,185	247,463	220,970
General and administrative expenses	60,271	54,228	174,028	162,476
Depreciation and amortization	3,620	3,441	10,449	10,571
Total operating expenses	63,891	57,669	184,477	173,047
Operating income	22,839	17,516	62,986	47,923
Interest income	(580)	(83)	(977)	(249)
Interest expense	3,199	2,472	7,991	6,278
Total interest expense, net	2,619	2,389	7,014	6,029
Income before income taxes	20,220	15,127	55,972	41,894
Income tax expense	4,809	3,584	13,034	10,631
Net income	$ 15,411	$ 11,543	$ 42,938	$ 31,263
Net income per common share				
Basic income per share	$ 0.96	$ 0.73	$ 2.69	$ 1.97
Diluted income per share	$ 0.95	$ 0.71	$ 2.63	$ 1.94
Weighted average number of common shares and potential common shares outstanding:				
Basic	16,012	15,872	15,988	15,846
Diluted	16,286	16,184	16,307	16,146

See accompanying Notes to Condensed Consolidated Financial Statements (Unaudited)

ADDUS HOMECARE CORPORATION
AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
For the Three and Nine Months Ended September 30, 2023
(Amounts and Shares in Thousands)
(Unaudited)

	For the Three Months Ended September 30, 2023				
	Common Stock		Additional Paid-in Capital	Retained Earnings	Total Stockholders' Equity
	Shares	Amount			
Balance at July 1, 2023	16,214	$ 16	$ 398,492	$ 267,843	$ 666,351
Issuance of shares of common stock under restricted stock award agreements	—	—	—	—	—
Forfeiture of shares of common stock under restricted stock award agreements	—	—	—	—	—
Stock-based compensation	—	—	2,572	—	2,572
Shares issued for exercise of stock options	—	—	—	—	—
Net income	—	—	—	15,411	15,411
Balance at September 30, 2023	16,214	$ 16	$ 401,064	$ 283,254	$ 684,334

	For the Nine Months Ended September 30, 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	86	—	—	—	—
Forfeiture of shares of common stock under restricted stock award agreements	—	—	—	—	—
Stock-based compensation	—	—	7,831	—	7,831
Shares issued for exercise of stock options	—	—	25	—	25
Net income	—	—	—	42,938	42,938
Balance at September 30, 2023	16,214	$ 16	$ 401,064	$ 283,254	$ 684,334

See accompanying Notes to Condensed Consolidated Financial Statements (Unaudited)

ADDUS HOMECARE CORPORATION
AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
For the Three and Nine Months Ended September 30, 2022
(Amounts and Shares in Thousands)
(Unaudited)

	For the Three Months Ended September 30, 2022				
	Common Stock		Additional Paid-in Capital	Retained Earnings	Total Stockholders' Equity
	Shares	Amount			
Balance at July 1, 2022	16,081	$ 16	$ 385,750	$ 214,011	$ 599,777
Issuance of shares of common stock under restricted stock award agreements	—	—	—	—	—
Forfeiture of shares of common stock under restricted stock award agreements	(1)	—	—	—	—
Stock-based compensation	—	—	2,780	—	2,780
Shares issued for exercise of stock options	10	—	737	—	737
Net income	—	—	—	11,543	11,543
Balance at September 30, 2022	16,090	$ 16	$ 389,267	$ 225,554	$ 614,837

	For the Nine Months Ended September 30, 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	129	—	—	—	—
Forfeiture of shares of common stock under restricted stock award agreements	(4)	—	—	—	
Stock-based compensation	—	—	7,945	—	7,945
Shares issued for exercise of stock options	25	—	1,285	—	1,285
Net income	—	—	—	31,263	31,263
Balance at September 30, 2022	16,090	$ 16	$ 389,267	$ 225,554	$ 614,837

See accompanying Notes to Condensed Consolidated Financial Statements (Unaudited)

ADDUS HOMECARE CORPORATION
AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Nine Months Ended September 30, 2023 and 2022
(Amounts in Thousands)
(Unaudited)

	For the Nine Months Ended September 30,	
	2023	2022
Cash flows from operating activities:		
Net income	$ 42,938	$ 31,263
Adjustments to reconcile net income to net cash provided by operating activities, net of acquisitions:		
Depreciation and amortization	10,449	10,571
Deferred income taxes	246	413
Stock-based compensation	7,831	7,945
Amortization of debt issuance costs under the credit facility	645	645
Provision for credit losses	508	481
Impairment of operating lease assets	8	1,174
Changes in operating assets and liabilities, net of acquisitions:		
Accounts receivable	9,929	18,232
Prepaid expenses and other current assets	6,277	10,568
Government stimulus advances	(5,528)	16,985
Accounts payable	(2,118)	(693)
Accrued payroll	4,464	(10,421)
Accrued expenses and other long-term liabilities	6,549	(6,345)
Net cash provided by operating activities	82,198	80,818
Cash flows from investing activities:		
Acquisitions of businesses, net of cash acquired	(109,800)	(84,490)
Purchases of property and equipment	(4,134)	(2,864)
Net cash used in investing activities	(113,934)	(87,354)
Cash flows from financing activities:		
Payments on revolver loan — credit facility	(78,500)	(105,000)
Proceeds from borrowings on revolver — credit facility	110,000	47,000
Payments on term loan — credit facility	—	—
Cash received from exercise of stock options	25	1,285
Net cash provided by (used in) financing activities	31,525	(56,715)
Net change in cash	(211)	(63,251)
Cash, at beginning of period	79,961	168,895
Cash, at end of period	$ 79,750	$ 105,644
Supplemental disclosures of cash flow information:		
Cash paid for interest	$ 7,364	$ 5,589
Cash paid for income taxes	10,565	629

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 September 30, (Amounts in thousands)		For the Nine Months Ended September 30, (Amounts in thousands)	
	2023	2022	2023	2022
Weighted average number of shares outstanding for basic per share calculation	16,012	15,872	15,988	15,846
Effect of dilutive potential shares:				
Stock options	227	255	239	244
Restricted stock awards	47	57	80	56
Adjusted weighted average shares outstanding for diluted per share calculation	16,286	16,184	16,307	16,146
Anti-dilutive shares:				
Stock options	111	111	61	111
Restricted stock awards	1	36	1	3

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.

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 the London Inter-Bank Offered Rate ("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 8 and pursuant to the Third Amendment to Amended and Restated Credit Agreement dated as of April 26, 2023, the Company amended its credit facility to replace LIBOR with the secured overnight financing rate as administered by the Federal Reserve Bank of New York ("SOFR") as the benchmark reference rate for loans under its credit facility. The transition to SOFR did not and 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:

	September 30, 2023	December 31, 2022
	(Amounts in Thousands)	
Operating lease assets, net	$ 47,183	$ 38,980
Short-term operating lease liabilities	11,434	10,801
Long-term operating lease liabilities	41,632	35,479
Total operating lease liabilities	$ 53,066	$ 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 September 30, (Amounts in Thousands)		For the Nine Months Ended September 30, (Amounts in Thousands)	
	2023	2022	2023	2022
Operating lease costs	$ 3,344	$ 3,251	$ 9,678	$ 8,888
Short-term lease costs	249	589	949	2,251
Total lease costs	3,593	3,840	10,627	11,139
Less: sublease income	(704)	(176)	(2,104)	(529)
Total lease costs, net	$ 2,889	$ 3,664	$ 8,523	$ 10,610

Lease Term and Discount Rate

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

	September 30, 2023	December 31, 2022
Operating leases:		
Weighted average remaining lease term (years)	6.39	5.82
Weighted average discount rate	5.36 %	3.98 %

Maturity of Lease Liabilities

Remaining operating lease payments as of September 30, 2023 were as follows:

	Operating Leases (Amounts in Thousands)
Due in the 12-month period ended September 30,	
2024	$ 3,678
2025	13,434
2026	10,242
2027	7,943
2028	6,057
Thereafter	22,354
Total future minimum rental commitments	63,708
Less: Imputed interest	(10,642)
Total lease liabilities	$ 53,066

Supplemental cash flows information

	For the Nine Months Ended September 30, (Amounts in Thousands)	
	2023	2022
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	$ 10,702	$ 9,752
Right-of-use assets obtained in exchange for lease obligations:		
Operating leases	$ 15,903	$ 13,130

4. Acquisitions

The Company's acquisitions have been accounted for in accordance with ASC Topic 805, *Business Combinations*, and the resulting goodwill and other intangible assets were accounted for under ASC Topic 350, *Goodwill and Other Intangible Assets*. Under business combination accounting, the assets and liabilities are generally recognized at their fair values, with the difference between the consideration transferred, excluding transaction costs, and the fair values of the assets acquired and liabilities assumed recognized as goodwill. The results of each business acquisition are included on the Unaudited Condensed Consolidated Statements of Income from the date of the acquisition.

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

Tennessee Quality Care

On August 1, 2023, we completed the acquisition of American Home Care, LLC, a Tennessee limited liability company ("AHC"), and its subsidiaries, Homecare, LLC, a Tennessee limited liability company ("Homecare"), Tennessee Valley Home Care, LLC (d/b/a Tennessee Quality Care – Home Health), a Tennessee limited liability company ("TQC – Home Health"), and Tri-County Home Health and Hospice, LLC (d/b/a Tennessee Quality Care - Hospice), a Tennessee limited liability company ("TQC – Hospice", and collectively with AHC, Homecare, and TQC – Home Health "Tennessee Quality Care"). The purchase price was approximately $111.2 million, including the amount of acquired excess cash held by Tennessee Quality Care at the closing of the acquisition (approximately $2.4 million), and is subject to the completion of working capital and related adjustments. The Tennessee Quality Care acquisition was funded with a combination of a $110.0 million draw on the Company's revolving credit facility and available cash. With the purchase of Tennessee Quality Care, the Company expanded its services within its hospice and home health segments in Tennessee. The related acquisition and integration costs were $0.5 million and $2.1 million for the three and nine months ended September 30, 2023, respectively. These costs were included in general and administrative expenses on the Unaudited Condensed Consolidated Statements of Income and were expensed as incurred.

Based upon management's valuations, which are preliminary and subject to the completion of working capital and related adjustments, the fair values of the assets and liabilities acquired are as follows:

	Total (Amounts in Thousands)
Goodwill	$ 79,318
Identifiable intangible assets	26,740
Cash	2,368
Accounts receivable	5,593
Property and equipment	307
Operating lease assets, net	194
Other assets	200
Accrued expenses	(1,115)
Accrued payroll	(2,303)
Long-term operating lease liabilities	(73)
Total purchase price	$ 111,229

Identifiable intangible assets acquired included $7.5 million in a trade name and $19.2 million of indefinite-lived state licenses. The preliminary estimated fair value of identifiable intangible assets was determined with the assistance of a valuation specialist, using Level 3 inputs as defined under ASC Topic 820. The fair value analysis and related valuations reflect the conclusions of management. All estimates, key assumptions, and forecasts were either provided by or reviewed by the Company. The goodwill and intangible assets acquired are deductible for tax purposes.

The Tennessee Quality Care acquisition accounted for $6.9 million of net service revenues and $1.5 million of operating income for each of the three and nine months ended September 30, 2023, respectively.

The following table contains unaudited pro forma condensed consolidated income statement information of the Company for the three and nine months ended September 30, 2023 as if the Tennessee Quality Care acquisition closed on January 1, 2022.

	For the Three Months Ended September 30, (Amounts in Thousands)		For the Nine Months Ended September 30, (Amounts in Thousands)	
	2023	2022	2023	2022
Net service revenues	$ 274,559	$ 249,262	$ 808,408	$ 730,227
Operating income	25,310	18,871	68,951	53,049
Net income	17,512	11,755	46,031	32,695
Net income per common share				
Basic income per share	$ 1.09	$ 0.74	$ 2.88	$ 2.06
Diluted income per share	$ 1.08	$ 0.73	$ 2.82	$ 2.03

The pro forma disclosures in the table above include adjustments for amortization of intangible assets, tax expense and acquisition costs to reflect results that are more representative of the combined results of the transactions as if the operations of Tennessee Quality Care had been acquired effective January 1, 2022. This pro forma information is presented for illustrative purposes only and may not be indicative of the results of operations that would have actually occurred. In addition, future results may vary significantly from the results reflected in the pro forma information. The unaudited pro forma financial information does not reflect the impact of future events that may occur after the acquisition, such as anticipated cost savings from operating synergies.

5. Goodwill and Intangible Assets

A summary of the goodwill 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 acquisitions	23,114	601	56,204	79,919
Adjustments to previously recorded goodwill			225	225
Goodwill as of September 30, 2023	$ 420,842	$ 153,289	$ 88,850	$ 662,981

In connection with the acquisition of Coastal Nursecare of Florida, Inc. (“CareStaff”), the Company recognized goodwill in its personal care segment of $0.6 million during the nine months ended September 30, 2023.

In connection with the Tennessee Quality Care acquisition, the Company recognized goodwill in its hospice and home health segments of $23.1 million and $56.2 million during the nine months ended September 30, 2023, respectively.

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 five 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 September 30, 2023:

	Customer and referral relationships	Trade names and trademarks	Non-competition agreements	State Licenses	Total
			(Amounts in Thousands)		
Intangible assets with indefinite lives	$ —	$ —	$ —	$ 46,328	$ 46,328
Intangible assets subject to amortization:					
Gross carrying amount	44,672	59,567	6,785	12,670	123,694
Accumulated amortization	(39,203)	(23,104)	(5,397)	(8,519)	(76,223)
Intangible assets subject to amortization, net	5,469	36,463	1,388	4,151	47,471
Total intangible assets at September 30, 2023	$ 5,469	$ 36,463	$ 1,388	$ 50,479	$ 93,799

In connection with the Tennessee Quality Care acquisition, the Company recognized a trade name of $2.1 million and indefinite-lived state licenses of $7.6 million in its hospice segment during the nine months ended September 30, 2023. The Company recognized a trade name of $5.4 million and indefinite-lived state licenses of $11.6 million in its home health segment during the nine months ended September 30, 2023. See Note 4 for additional information regarding the acquisition.

Amortization expense related to the intangible assets was $1.8 million and $5.3 million for the three and nine months ended September 30, 2023, respectively, and $1.8 million and $5.4 million for the three and nine months ended September 30, 2022, respectively. The weighted average remaining useful lives of identifiable intangible assets as of September 30, 2023 was 10.3 years.

6. Details of Certain Balance Sheet Accounts

Prepaid expenses and other current assets consisted of the following:

	September 30, 2023	December 31, 2022
	(Amounts in Thousands)	
Prepaid payroll	$ —	$ 7,566
Prepaid workers' compensation and liability insurance	2,549	3,399
Prepaid licensing fees	4,392	3,722
Workers' compensation insurance receivable	587	666
Other	2,859	1,992
Total prepaid expenses and other current assets	$ 10,387	$ 17,345

Accrued expenses consisted of the following:

	September 30, 2023	December 31, 2022
	(Amounts in Thousands)	
Accrued health benefits	$ 8,630	$ 5,152
Payor advances (1)	1,770	4,473
Accrued professional fees	6,015	3,576
Accrued payroll and other taxes	9,169	6,175
Other	9,368	8,131
Total accrued expenses	$ 34,952	$ 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.

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

The acute phase of the coronavirus ("COVID-19") global pandemic has faded, but the future course of COVID-19 remains uncertain. 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 took dramatic actions to provide liquidity to businesses and the banking system in the United States, including relief for healthcare providers in 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"), as well as the American Rescue Plan Act of 2021 ("ARPA").

ARPA Spending Plans

The 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 nine months ended September 30, 2023, the Company received additional state funding provided by the ARPA in an aggregate amount of $2.0 million. The Company recorded revenue of $0.2 million for certain states that met the revenue recognition criteria. The Company deferred the remaining $1.8 million, which was received from states with specific spending plans and reporting requirements. Of the total state funding received by the Company pursuant to the ARPA through September 30, 2023, the Company utilized $2.1 million and $6.9 million during the three and nine months ended September 30, 2023, respectively, primarily for caregivers and adding support to recruiting and retention efforts, and included as a reduction of cost of service revenues in the Company's Unaudited Condensed Consolidated Statements of Income. As of September 30, 2023, the deferred portion of ARPA funding of $7.8 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 the first six months of 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 $1.4 million for the nine months ended September 30, 2022. In the home health segment, Medicare sequester relief resulted in an increase in net service revenues of $0.3 million for the nine months ended September 30, 2022.

8. Long-Term Debt

Long-term debt consisted of the following:

	September 30, 2023	December 31, 2022
	(Amounts in Thousands)	
Revolving loan under the credit facility	$ 166,353	$ 134,853
Less unamortized issuance costs	(2,436)	(3,081)
Long-term debt	$ 163,917	$ 131,772

Amended and Restated Senior Secured Credit Facility

On October 31, 2018, the Company entered into the Amended and Restated Credit Agreement, 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, as further amended by the Second Amendment to Amended and Restated Credit Agreement, dated as of July 30, 2021, and as further amended by the Third Amendment to Amended and Restated Credit Agreement, dated as of April 26, 2023 (as described below, the "Third Amendment") (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. On April 26, 2023, the Company entered into the Third Amendment to replace LIBOR with SOFR as the benchmark reference rate for loans under its credit facility. The Third Amendment did not amend any other terms of the Credit Agreement. 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 Term SOFR (as published by the CME Group Benchmark Administrative Limited) for an interest period of one month for such applicable day plus 0.10% (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 rate per annum equal to the sum of Term SOFR (as published by the CME Group Benchmark Administrative Limited) for the applicable interest period plus 0.10% (not to be less than zero). Swing loans may not be SOFR loans. The transition to SOFR did not and 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 nine months ended September 30, 2023, the Company (i) drew $110.0 million under its credit facility to fund, in part, the Tennessee Quality Care acquisition and (ii) repaid $78.5 million under the revolving credit facility. During the nine months ended September 30, 2022, the Company drew $47.0 million under its credit facility to fund, in part, the acquisition of the operations of JourneyCare Inc. ("JourneyCare") and the acquisition of Apple Home HealthCare, LTD ("Apple Home").

At September 30, 2023, the Company had a total of $166.4 million of revolving loans, with an interest rate of 7.17%, outstanding on its credit facility. After giving effect to the amount drawn on its credit facility, approximately $8.1 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 $450.0 million of capacity and $275.6 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 September 30, 2023, the Company was in compliance with all financial covenants under the Credit Agreement.

9. Income Taxes

The effective income tax rates were 23.8% and 23.7% for the three months ended September 30, 2023 and 2022, respectively. The effective income tax rates were 23.3% and 25.4% for the nine months ended September 30, 2023 and 2022, respectively. The difference between our federal statutory rate of 21% and our effective income tax rates is principally due to the inclusion of state taxes and non-deductible compensation, partially offset by the use of federal employment tax credits.

10. 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 and has been fully reimbursed for the amount of the Request for Repayment 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.

11. Segment Information

Operating segments are defined as components of a company that engage in business activities from which it may earn revenues and incur expenses, and for which separate financial information is available and is regularly reviewed by 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 September 30, 2023 (Amounts in Thousands)			
	Personal Care	Hospice	Home Health	Total
Net service revenues	$ 201,882	$ 53,121	$ 15,718	$ 270,721
Cost of services revenues	145,808	28,155	10,028	183,991
Gross profit	56,074	24,966	5,690	86,730
General and administrative expenses	16,096	13,246	4,131	33,473
Segment operating income	$ 39,978	$ 11,720	$ 1,559	$ 53,257

	For the Three Months Ended September 30, 2022 (Amounts in Thousands)			
	Personal Care	Hospice	Home Health	Total
Net service revenues	$ 179,180	$ 51,359	$ 9,956	$ 240,495
Cost of services revenues	131,968	25,695	7,647	165,310
Gross profit	47,212	25,664	2,309	75,185
General and administrative expenses	15,238	12,550	2,410	30,198
Segment operating income	$ 31,974	$ 13,114	$ (101)	$ 44,987

	For the Three Months Ended September 30,	
	2023	2022
	(Amounts in Thousands)	
Segment reconciliation:		
Total segment operating income	$ 53,257	$ 44,987
Items not allocated at segment level:		
Other general and administrative expenses	26,798	24,030
Depreciation and amortization	3,620	3,441
Interest income	(580)	(83)
Interest expense	3,199	2,472
Income before income taxes	$ 20,220	$ 15,127

	For the Nine Months Ended September 30, 2023 (Amounts in Thousands)			
	Personal Care	Hospice	Home Health	Total
Net service revenues	$ 590,227	$ 152,414	$ 39,659	$ 782,300
Cost of services revenues	428,163	82,028	24,646	534,837
Gross profit	162,064	70,386	15,013	247,463
General and administrative expenses	48,299	39,028	9,653	96,980
Segment operating income	$ 113,765	$ 31,358	$ 5,360	$ 150,483

	For the Nine Months Ended September 30, 2022 (Amounts in Thousands)			
	Personal Care	Hospice	Home Health	Total
Net service revenues	$ 523,142	$ 151,160	$ 29,768	$ 704,070
Cost of services revenues	386,940	74,659	21,501	483,100
Gross profit	136,202	76,501	8,267	220,970
General and administrative expenses	45,688	37,298	7,270	90,256
Segment operating income	$ 90,514	$ 39,203	$ 997	$ 130,714

	For the Nine Months Ended September 30,	
	2023	2022
	(Amounts in Thousands)	
Segment reconciliation:		
Total segment operating income	$ 150,483	$ 130,714
Items not allocated at segment level:		
Other general and administrative expenses	77,048	72,220
Depreciation and amortization	10,449	10,571
Interest income	(977)	(249)
Interest expense	7,991	6,278
Income before income taxes	$ 55,972	$ 41,894

12. Significant Payors

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

Personal Care Segment	For the Three Months Ended September 30,				For the Nine Months Ended September 30,			
	2023		2022		2023		2022	
	Amount (in Thousands)	% of Segment Net Service Revenues	Amount (in Thousands)	% of Segment Net Service Revenues	Amount (in Thousands)	% of Segment Net Service Revenues	Amount (in Thousands)	% of Segment Net Service Revenues
State, local and other governmental programs	$ 101,821	50.4 %	$ 88,448	49.4 %	$ 297,541	50.4 %	$ 257,817	49.4 %
Managed care organizations	93,583	46.4	83,199	46.4	272,758	46.2	241,164	46.1
Private pay	3,990	2.0	4,521	2.6	12,354	2.1	13,758	2.6
Commercial insurance	1,631	0.8	1,870	1.0	4,937	0.8	5,988	1.1
Other	856	0.4	1,142	0.6	2,637	0.5	4,415	0.8
Total personal care segment net service revenues	$ 201,882	100.0 %	$ 179,180	100.0 %	$ 590,227	100.0 %	$ 523,142	100.0 %

Hospice Segment	For the Three Months Ended September 30,				For the Nine Months Ended September 30,			
	2023		2022		2023		2022	
	Amount (in Thousands)	% of Segment Net Service Revenues	Amount (in Thousands)	% of Segment Net Service Revenues	Amount (in Thousands)	% of Segment Net Service Revenues	Amount (in Thousands)	% of Segment Net Service Revenues
Medicare	$ 47,313	89.1 %	$ 46,537	90.6 %	$ 137,432	90.2 %	$ 137,174	90.8 %
Commercial insurance	3,640	6.8	2,772	5.4	8,916	5.8	7,742	5.1
Managed care organizations	1,808	3.4	1,815	3.5	5,022	3.3	5,498	3.6
Other	360	0.7	235	0.5	1,044	0.7	746	0.5
Total hospice segment net service revenues	$ 53,121	100.0 %	$ 51,359	100.0 %	$ 152,414	100.0 %	$ 151,160	100.0 %

Home Health Segment	For the Three Months Ended September 30,				For the Nine Months Ended September 30,			
	2023		2022		2023		2022	
	Amount (in Thousands)	% of Segment Net Service Revenues	Amount (in Thousands)	% of Segment Net Service Revenues	Amount (in Thousands)	% of Segment Net Service Revenues	Amount (in Thousands)	% of Segment Net Service Revenues
Medicare	$ 11,325	72.1 %	$ 7,320	73.5 %	$ 29,306	73.9 %	$ 21,727	73.0 %
Managed care organizations	3,445	21.9	1,998	20.1	8,239	20.8	6,160	20.7
Other	948	6.0	638	6.4	2,114	5.3	1,881	6.3
Total home health segment net service revenues	$ 15,718	100.0 %	$ 9,956	100.0 %	$ 39,659	100.0 %	$ 29,768	100.0 %

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 September 30,				For the Nine Months Ended September 30,			
	2023		2022		2023		2022	
	Amount (in Thousands)	% of Segment Net Service Revenues	Amount (in Thousands)	% of Segment Net Service Revenues	Amount (in Thousands)	% of Segment Net Service Revenues	Amount (in Thousands)	% of Segment Net Service Revenues
Illinois	$ 105,206	52.1 %	$ 92,804	51.8 %	$ 306,711	52.0 %	$ 266,284	50.9 %
New Mexico	28,347	14.0	26,912	15.0	84,969	14.3	78,825	15.1
New York [(1)]	22,989	11.4	20,997	11.7	68,910	11.7	63,510	12.1
All other states	45,340	22.5	38,467	21.5	129,637	22.0	114,523	21.9
Total personal care segment net service revenues	$ 201,882	100.0 %	$ 179,180	100.0 %	$ 590,227	100.0 %	$ 523,142	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, amended the 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 submitted 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, which allowed the Company to continue its CDPAP fiscal intermediary operations. However, the Company decided at that time to suspend materially all of its new fee-for-service patient admissions in the CDPAP program through County Social Service Departments. On June 6, 2023, the New York State Department of Health notified the Company that it had received a contract award. Under this contract, the Company is providing services to all current payors and has resumed new fee-for-service patient admissions through County Social Service Departments in the CDPAP program.

Hospice Segment	For the Three Months Ended September 30,				For the Nine Months Ended September 30,			
	2023		2022		2023		2022	
	Amount (in Thousands)	% of Segment Net Service Revenues	Amount (in Thousands)	% of Segment Net Service Revenues	Amount (in Thousands)	% of Segment Net Service Revenues	Amount (in Thousands)	% of Segment Net Service Revenues
Ohio	$ 18,916	35.6 %	$ 18,139	35.3 %	$ 55,363	36.3 %	$ 51,714	34.2 %
Illinois	12,477	23.5	12,188	23.7	34,750	22.8	35,290	23.3
New Mexico	7,619	14.3	7,789	15.2	23,688	15.5	23,867	15.8
All other states	14,109	26.6	13,243	25.8	38,612	25.4	40,289	26.7
Total hospice segment net service revenues	$ 53,121	100.0 %	$ 51,359	100.0 %	$ 152,414	100.0 %	$ 151,160	100.0 %

Home Health Segment	For the Three Months Ended September 30,				For the Nine Months Ended September 30,			
	2023		2022		2023		2022	
	Amount (in Thousands)	% of Segment Net Service Revenues	Amount (in Thousands)	% of Segment Net Service Revenues	Amount (in Thousands)	% of Segment Net Service Revenues	Amount (in Thousands)	% of Segment Net Service Revenues
New Mexico	$ 8,040	51.2 %	$ 8,375	84.1 %	$ 25,277	63.7 %	$ 24,954	83.8 %
Illinois	2,909	18.5	1,581	15.9	9,539	24.1	4,814	16.2
Tennessee	4,769	30.3	—	—	4,843	12.2	—	—
Total home health segment net service revenues	$ 15,718	100.0 %	$ 9,956	100.0 %	$ 39,659	100.0 %	$ 29,768	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 44.5% and 44.3% of our net service revenues for the three months ended September 30, 2023, and 2022, respectively, and accounted for 44.9% and 43.5% of our net service revenues for the nine months ended September 30, 2023 and 2022, respectively. The Illinois Department on Aging, the largest payor program for the Company's Illinois personal care operations, accounted for 20.5% and 21.0% of the Company's net service revenues for the three months ended September 30, 2023 and 2022, respectively, and accounted for 21.2% and 20.8% of the Company's net service revenues for the nine months ended September 30, 2023 and 2022, respectively.

The related receivables due from the Illinois Department on Aging represented 20.5% and 18.0% of the Company's net accounts receivable at September 30, 2023 and December 31, 2022, respectively.

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, elevated 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 ongoing issues related to the 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 of LIBOR and the transition to SOFR; 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 36.5% and 36.2% of our net service revenues during the three months ended September 30, 2023 and 2022, respectively, and 36.6% and 35.9% of our net service revenues during the nine months ended September 30, 2023 and 2022, respectively.

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2023	2022	2023	2022
Net service revenues by segment:	(Amounts in Thousands)		(Amounts in Thousands)	
Personal care	$ 201,882	$ 179,180	$ 590,227	$ 523,142
Hospice	53,121	51,359	152,414	151,160
Home health	15,718	9,956	39,659	29,768
Total net service revenues	$ 270,721	$ 240,495	$ 782,300	$ 704,070
Net income	$ 15,411	$ 11,543	$ 42,938	$ 31,263

As of September 30, 2023, we provided our services in 22 states through 220 offices. We served approximately 77,000 and 62,000 discrete individuals, respectively, during the nine months ended September 30, 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.

On February 1, 2022, we completed the acquisition of the operations of 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 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.

On August 1, 2023, we completed the acquisition of Tennessee Quality Care for approximately $111.2 million, with funding primarily provided by drawing on the Company’s revolving credit facility. The purchase price is subject to the completion of working capital and related adjustments. With the purchase of Tennessee Quality Care, the Company expanded its services within its hospice and home health segment in Tennessee.

COVID-19 Pandemic Update

Compared to earlier periods, the number of COVID-19 infections and related hospitalizations has significantly declined. 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.

For the three and nine months ended September 30, 2023, COVID-19 related expenses in our personal care segment were approximately $0.6 million and $1.3 million, respectively. For the three and nine months ended September 30, 2022, COVID-19 related expenses in our personal care segment were approximately $0.9 million and $3.7 million, respectively. COVID-19 related expenses are included in cost of service revenue on the Consolidated Statements of Income. Additionally, we recognized revenue of $1.8 million and $4.3 million attributable to temporary rate increases from certain payors in our personal care segment for the nine months ended September 30, 2023 and 2022, respectively.

As of September 30, 2023, the Company deferred the recognition of $1.8 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 COVID-19, such as expenses related to acquiring additional personal protective equipment (“PPE”) and COVID-19 related paid time off, or will be returned to the extent COVID-19-related expenses are not incurred.

The federal public health emergency declared by HHS expired May 11, 2023. 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, and the President's National COVID-19 Preparedness Plan, 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 it is not expected to have a material adverse impact. See Part I, Item 1A—Risk Factors—Risks Related to Economic Conditions and the COVID-19 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

The United States economy continues to experience significant inflationary pressures and a competitive labor market, and the U.S. unemployment rate remains at historically low levels. While we have seen recent improvement, the competition for new caregivers, including skilled healthcare staff, and support staff continues to be significant. If 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. These ongoing staffing challenges resulted in increased labor costs to satisfy our staffing requirements during the three and nine months ended September 30, 2023, compared to 2022 in our non-clinical and clinical operations.

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 September 30,				For the Nine Months Ended September 30,			
	2023		2022		2023		2022	
	Amount (in Thousands)	% of Segment Net Service Revenues	Amount (in Thousands)	% of Segment Net Service Revenues	Amount (in Thousands)	% of Segment Net Service Revenues	Amount (in Thousands)	% of Segment Net Service Revenues
State, local and other governmental programs	$ 101,821	50.4 %	$ 88,448	49.4 %	$ 297,541	50.4 %	$ 257,817	49.4 %
Managed care organizations	93,583	46.4	83,199	46.4	272,758	46.2	241,164	46.1
Private pay	3,990	2.0	4,521	2.6	12,354	2.1	13,758	2.6
Commercial insurance	1,631	0.8	1,870	1.0	4,937	0.8	5,988	1.1
Other	856	0.4	1,142	0.6	2,637	0.5	4,415	0.8
Total personal care segment net service revenues	$ 201,882	100.0 %	$ 179,180	100.0 %	$ 590,227	100.0 %	$ 523,142	100.0 %
Illinois	$ 105,206	52.1 %	$ 92,804	51.8 %	$ 306,711	52.0 %	$ 266,284	50.9 %
New Mexico	28,347	14.0	26,912	15.0	84,969	14.3	78,825	15.1
New York [(1)]	22,989	11.4	20,997	11.7	68,910	11.7	63,510	12.1
All other states	45,340	22.5	38,467	21.5	129,637	22.0	114,523	21.9
Total personal care segment net service revenues	$ 201,882	100.0 %	$ 179,180	100.0 %	$ 590,227	100.0 %	$ 523,142	100.0 %

(1) Prior to June 6, 2023, when the New York State Department of Health notified the Company that it had received a contract award, the Company had suspended materially all of its new patient admissions under the New York CDPAP program. The Company has resumed new patient admissions under the New York CDPAP program as discussed below.

Hospice Segment	For the Three Months Ended September 30,				For the Nine Months Ended September 30,			
	2023		2022		2023		2022	
	Amount (in Thousands)	% of Segment Net Service Revenues	Amount (in Thousands)	% of Segment Net Service Revenues	Amount (in Thousands)	% of Segment Net Service Revenues	Amount (in Thousands)	% of Segment Net Service Revenues
Medicare	$ 47,313	89.1 %	$ 46,537	90.6 %	$ 137,432	90.2 %	$ 137,174	90.8 %
Commercial insurance	3,640	6.8	2,772	5.4	8,916	5.8	7,742	5.1
Managed care organizations	1,808	3.4	1,815	3.5	5,022	3.3	5,498	3.6
Other	360	0.7	235	0.5	1,044	0.7	746	0.5
Total hospice segment net service revenues	$ 53,121	100.0 %	$ 51,359	100.0 %	$ 152,414	100.0 %	$ 151,160	100.0 %
Ohio	$ 18,916	35.6 %	$ 18,139	35.3 %	$ 55,363	36.3 %	$ 51,714	34.2 %
Illinois	12,477	23.5	12,188	23.7	34,750	22.8	35,290	23.3
New Mexico	7,619	14.3	7,789	15.2	23,688	15.5	23,867	15.8
All other states	14,109	26.6	13,243	25.8	38,612	25.4	40,289	26.7
Total hospice segment net service revenues	$ 53,121	100.0 %	$ 51,359	100.0 %	$ 152,414	100.0 %	$ 151,160	100.0 %

Home Health Segment	For the Three Months Ended September 30,				For the Nine Months Ended September 30,			
	2023		2022		2023		2022	
	Amount (in Thousands)	% of Segment Net Service Revenues	Amount (in Thousands)	% of Segment Net Service Revenues	Amount (in Thousands)	% of Segment Net Service Revenues	Amount (in Thousands)	% of Segment Net Service Revenues
Medicare	$ 11,325	72.1 %	$ 7,320	73.5 %	$ 29,306	73.9 %	$ 21,727	73.0 %
Managed care organizations	3,445	21.9	1,998	20.1	8,239	20.8	6,160	20.7
Other	948	6.0	638	6.4	2,114	5.3	1,881	6.3
Total home health segment net service revenues	$ 15,718	100.0 %	$ 9,956	100.0 %	$ 39,659	100.0 %	$ 29,768	100.0 %
New Mexico	$ 8,040	51.2 %	$ 8,375	84.1 %	$ 25,277	63.7 %	$ 24,954	83.8 %
Illinois	2,909	18.5	1,581	15.9	9,539	24.1	4,814	16.2
Tennessee	4,769	30.3	—	—	4,843	12.2	—	—
Total home health segment net service revenues	$ 15,718	100.0 %	$ 9,956	100.0 %	$ 39,659	100.0 %	$ 29,768	100.0 %

We derive a significant amount of our net service revenues in Illinois, which represented 44.5% and 44.3% of our net service revenues for the three months ended September 30, 2023 and 2022, respectively, and accounted for 44.9% and 43.5% of our net service revenues for the nine months ended September 30, 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 20.5% and 21.0% of our net service revenues for the three months ended September 30, 2023 and 2022, respectively, and accounted for 21.2% and 20.8% of the Company’s net service revenues for the nine months ended September 30, 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, 2023, the rate was adjusted to $15.80 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 addition, CMS approved a waiver amendment proposal submitted by the Illinois Department of Healthcare and Family Services with regard to its Persons who are Elderly program, further increasing in-home care rates to $26.92, effective April 1, 2023.

The Illinois fiscal year 2024 budget includes an increase in hourly rates for in-home care services to $28.07, to take effect January 1, 2024, subject to federal approval. In order to implement this rate increase, the Illinois Department of Healthcare and Family Services submitted a waiver amendment proposal to CMS in August 2023 under its Persons who are Elderly program.

Our business will benefit from the rate increase noted above as planned for 2024, but there is no assurance that there will be additional offsetting rate increases in Illinois for fiscal years beyond fiscal year 2024, 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, will expand to Oklahoma effective December 1, 2023, 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 (“MedPAC”) submitted a report to Congress in June 2023, concluding that designing a unified payment system is feasible, but cautioning that implementation of related policies would be complex. As Congress and other policymakers evaluate next steps, MedPAC suggested that CMS consider smaller-scale site-neutral policies to address some of the overlap in patients treated in different settings.

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, 2023, CMS increased hospice payment rates by 3.1%. This reflects a 3.3% market basket increase and a negative 0.2 percentage point productivity adjustment. Hospices that do not satisfy quality reporting requirements will be subject to a 4-percentage point reduction to the market basket update.

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 $33,494.01 for federal fiscal year 2024. 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 were permitted to continue operating in all counties contained in their RFO application, provided they submitted 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, which allowed the Company to continue its CDPAP fiscal intermediary operations. However, the Company decided at that time to suspend materially all of its new fee-for-service patient admissions through County Social Service Departments in the CDPAP program.On June 6, 2023, the New York State Department of Health notified the Company that it had received a contract award. Under this contract, the Company is providing services to all current payors and has resumed new fee-for-service patient admissions through County Social Service Departments in the CDPAP program.

CMS Proposed Rule: "Ensuring Access to Medicaid Services"

In May 2023, CMS published a proposed rule, intended to improve access to services for Medicaid beneficiaries, that includes provisions related to HCBS payments. Specifically, in an effort to address workforce shortages, the proposed rule would (if finalized in its proposed form) require that a minimum of 80% of Medicaid payments in a state for home health aide, personal care services and some similar services be spent on compensation to direct care workers, in addition to related payment transparency requirements. CMS has proposed allowing states four years to implement changes required by a final rule. The ultimate impact of the 80% requirement, if finalized, could be adverse for periods after implementation, but other aspects of the rule could also benefit our business by improving access to services, depending on the policies ultimately set forth in any final rule. The comment period for the proposed rule ended July 1, 2023. The Company filed a comment letter on the proposed rule before this deadline, as did many other organizations, states and stakeholders.

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 the states in which we operate. The difference between our federal statutory rate of 21% and our effective income tax rates is principally due to the inclusion of state taxes and non-deductible compensation, partially offset by the use of federal employment tax credits.

Results of Operations — Consolidated

Three Months Ended September 30, 2023 Compared to Three Months Ended September 30, 2022

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

	For the Three Months Ended September 30,				Change	
	2023		2022			
	Amount	% Of Net Service Revenues	Amount	% Of Net Service Revenues	Amount	%
	(Amounts in Thousands, Except Percentages)					
Net service revenues	$ 270,721	100.0 %	$ 240,495	100.0 %	$ 30,226	12.6 %
Cost of service revenues	183,991	68.0	165,310	68.7	18,681	11.3
Gross profit	86,730	32.0	75,185	31.3	11,545	15.4
General and administrative expenses	60,271	22.3	54,228	22.5	6,043	11.1
Depreciation and amortization	3,620	1.3	3,441	1.4	179	5.2
Total operating expenses	63,891	23.6	57,669	24.0	6,222	10.8
Operating income	22,839	8.4	17,516	7.3	5,323	30.4
Interest income	(580)	(0.2)	(83)	—	(497)	599.2
Interest expense	3,199	1.2	2,472	1.0	727	29.4
Total interest expense, net	2,619	1.0	2,389	1.0	230	9.6
Income before income taxes	20,220	7.5	15,127	6.3	5,093	33.7
Income tax expense	4,809	1.8	3,584	1.5	1,225	34.2
Net income	$ 15,411	5.7 %	$ 11,543	4.8 %	$ 3,868	33.5 %

Net service revenues increased by 12.6% to $270.7 million for the three months ended September 30, 2023 compared to $240.5 million for the three months ended September 30, 2022. Revenue increased by $22.7 million, $5.8 million and $1.8 million in our personal care, home health and hospice segments, respectively, during the three months ended September 30, 2023, compared to the same period in 2022. The increase in our personal care segment was mainly due to an increase in revenues per billable hour for the three months ended September 30, 2023.

Gross profit, expressed as a percentage of net service revenues, increased to 32.0% for the three months ended September 30, 2023, compared to 31.3% for the same period in 2022 due to growth in our higher margin home health segment, combined with an increase in gross margin in our personal care segment due to an increase in revenues per billable hour.

General and administrative expenses increased to $60.3 million for the three months ended September 30, 2023, as compared to $54.2 million for the three months ended September 30, 2022. The increase in general and administrative expenses was primarily due to acquisitions that resulted in an increase in administrative employee wages, taxes and benefit costs of $4.8 million. General and administrative expenses, expressed as a percentage of net service revenues decreased to 22.3% for the three months ended September 30, 2023, from 22.5% for the three months ended September 30, 2022.

Interest expense increased to $3.2 million for the three months ended September 30, 2022 from $2.5 million for the three months ended September 30, 2022. The increase in interest expense was primarily due to higher average outstanding borrowings due to additional borrowings used to fund acquisitions and increased interest rates under our credit facility for the three months ended September 30, 2023, compared to the three months ended September 30, 2022.

The effective income tax rate was 23.8% and 23.7% for the three months ended September 30, 2023 and 2022, respectively.

Nine Months Ended September 30, 2023 Compared to Nine Months Ended September 30, 2022

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

	For the Nine Months Ended September 30,				Change	
	2023		2022			
	Amount	% Of Net Service Revenues	Amount	% Of Net Service Revenues	Amount	%
	(Amounts in Thousands, Except Percentages)					
Net service revenues	$ 782,300	100.0 %	$ 704,070	100.0 %	$ 78,230	11.1 %
Cost of service revenues	534,837	68.4	483,100	68.6	51,737	10.7
Gross profit	247,463	31.6	220,970	31.4	26,493	12.0
General and administrative expenses	174,028	22.2	162,476	23.1	11,552	7.1
Depreciation and amortization	10,449	1.3	10,571	1.5	(122)	(1.1)
Total operating expenses	184,477	23.6	173,047	24.6	11,430	6.6
Operating income	62,986	8.0	47,923	6.7	15,063	31.4
Interest income	(977)	(0.1)	(249)	—	(728)	292.4
Interest expense	7,991	1.0	6,278	0.9	1,713	27.3
Total interest expense, net	7,014	0.9	6,029	0.9	985	16.3
Income before income taxes	55,972	7.2	41,894	6.0	14,078	33.6
Income tax expense	13,034	1.7	10,631	1.5	2,403	22.6
Net income	$ 42,938	5.5 %	$ 31,263	4.4 %	$ 11,675	37.3 %

Net service revenues increased by 11.1% to $782.3 million for the nine months ended September 30, 2023 compared to $704.1 million for the nine months ended September 30, 2022. Net service revenue increased by $67.1 million in our personal care segment, by $1.3 million in our hospice segment and by $9.9 million in our home health segment during the nine months ended September 30, 2023, compared to the same period in 2022. During the nine months ended September 30, 2023, the increase in our home health segment revenue was primarily due to an increase in revenue per patient day, attributable to the acquisitions of the operations of Apple Home on October 1, 2022 and Tennessee Quality Care on August 1, 2023, compared to the same period in 2022. Net service revenue increased by $67.1 million in our personal care segment due to an increase in revenues per billable hour for the nine months ended September 30, 2023 compared to 2022.

Gross profit, expressed as a percentage of net service revenues, slightly increased to 31.6% for the nine months ended September 30, 2023, compared to 31.4% for the same period in 2022.

General and administrative expenses increased to $174.0 million for the nine months ended September 30, 2023 as compared to $162.5 million for the nine months ended September 30, 2022. The increase in general and administrative expenses was primarily due to acquisitions and wage increases that resulted in an increase in administrative employee wages, taxes and benefit costs of $9.0 million. General and administrative expenses, expressed as a percentage of net service revenues increased to 22.2% for the nine months ended September 30, 2023, from 23.1% for the nine months ended September 30, 2022.

Interest expense increased to $8.0 million for the nine months ended September 30, 2023, as compared to $6.3 million for the nine months ended September 30, 2022. The increase in interest expense was primarily due to higher average outstanding borrowings and increased interest rates under our credit facility for the nine months ended September 30, 2023, compared to the nine months ended September 30, 2022.

The effective income tax rate was 23.3% and 25.4% for the nine months ended September 30, 2023 and 2022, respectively.

Results of Operations – Segments

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

Personal Care Segment

	For the Three Months Ended September 30,						For the Nine Months Ended September 30,					
	2023		2022		Change		2023		2022		Change	
	Amount	% of Segment Net Service Revenues	Amount	% of Segment Net Service Revenues	Amount	%	Amount	% of Segment Net Service Revenues	Amount	% of Segment Net Service Revenues	Amount	%
	(Amounts in Thousands, Except Percentages)						(Amounts in Thousands, Except Percentages)					
Operating Results												
Net service revenues	$ 201,882	100.0 %	$ 179,180	100.0 %	$ 22,702	12.7 %	$ 590,227	100.0 %	$ 523,142	100.0 %	$ 67,085	12.8 %
Cost of services revenues	145,808	72.2	131,968	73.7	13,840	10.5	428,163	72.5	386,940	74.0	41,223	10.7
Gross profit	56,074	27.8	47,212	26.3	8,862	18.8	162,064	27.5	136,202	26.0	25,862	19.0
General and administrative expenses	16,096	8.0	15,238	8.5	858	5.6	48,299	8.2	45,688	8.7	2,611	5.7
Segment operating income	$ 39,978	19.8 %	$ 31,974	17.8 %	$ 8,004	25.0 %	$ 113,765	19.3 %	$ 90,514	17.3 %	$ 23,251	25.7 %
Business Metrics (Actual Numbers, Except Billable Hours in Thousands)												
Locations at period end							156		161			
Average billable census * [(1)]	38,590		37,677		913	2.4 %	38,668		37,253		1,415	3.8 %
Billable hours * [(2)]	7,690		7,473		217	2.9	22,964		21,947		1,017	4.6
Average billable hours per census per month * [(2)]	66.3		65.9		0.4	0.6	65.8		65.2		0.6	0.9
Billable hours per business day * [(2)]	118,314		113,229		5,085	4.5	117,765		112,547		5,218	4.6
Revenues per billable hour * [(2)]	$ 26.18		$ 23.92		$ 2.26	9.4 %	$ 25.58		$ 23.71		$ 1.87	7.9 %
Same store growth revenue % * [(3)]	13.9 %		7.0 %				12.5 %		3.5 %			

(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, 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 44.5% and 44.3% of our net service revenues for the three months ended September 30, 2023 and 2022, respectively, and accounted for 44.9% and 43.5% of our net service revenues for the nine months ended September 30, 2023 and 2022, respectively. One payor, the Illinois Department on Aging, accounted for 20.5% and 21.0% of net service revenues for the three months ended September 30, 2023 and 2022, respectively, and accounted for 21.2% and 20.8% of net service revenues for the nine months ended September 30, 2023 and 2022, respectively.

Net service revenues from state, local and other governmental programs accounted for 50.4% and 49.4% of personal care segment net service revenues for the three months ended September 30, 2023 and 2022, respectively. Managed care organizations accounted for 46.4% and 46.4% of personal care segment net service revenues for the three months ended September 30, 2023 and 2022, respectively, with commercial insurance, private pay and other payors accounting for the remainder of personal care segment net service revenues. Net service revenues from state, local and other governmental programs accounted for 50.4% and 49.4% of net service revenues for the nine months ended September 30, 2023 and 2022, respectively. Managed care organizations accounted for 46.2% and 46.1% of personal care segment net service revenues for the nine months ended September 30, 2023 and 2022, respectively with commercial insurance, private pay and other payors accounting for the remainder of net service revenues.

Personal care segment net service revenues increased by 12.7% and 12.8% for the three and nine months ended September 30, 2023, respectively, compared to the three and nine months ended September 30, 2022. Net service revenues included a 9.4% and 7.8% increase in revenues per billable hour for the three and nine months ended September 30, 2023, respectively, mainly attributed to rate increases discussed above, as compared to the three and nine months ended September 30, 2022. Gross profit, expressed as a percentage of net service revenues, increased to 27.8% for the three months ended September 30, 2023 from 26.3% for the three months ended September 30, 2022 . This increase was primarily due to decreases in direct payroll and benefits as a percentage of net service revenues of 1.3% for the three months ended September 30, 2023. Gross profit expressed as a percentage of net service revenues, increased to 27.5% for the nine months ended September 30, 2023 from 26.0% for the nine months ended September 30, 2022.This increase was primarily due to a decrease of 1.4% in direct payroll as a percentage of net service revenues for the nine months ended September 30, 2023 as compared to the nine months ended September 30, 2022.

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.The personal care segment's general and administrative expenses, expressed as a percentage of net service revenues, was 8.0% and 8.5% for the three months ended September 30, 2023 and 2022, respectively, and 8.2% and 8.7% for the nine months ended September 30, 2023 and 2022, respectively.

Hospice Segment

	For the Three Months Ended September 30,						For the Nine Months Ended September 30,					
	2023		2022		Change		2023		2022		Change	
	Amount	% of Segment Net Service Revenues	Amount	% of Segment Net Service Revenues	Amount	%	Amount	% of Segment Net Service Revenues	Amount	% of Segment Net Service Revenues	Amount	%
	(Amounts in Thousands, Except Percentages)						(Amounts in Thousands, Except Percentages)					
Operating Results												
Net service revenues	$ 53,121	100.0 %	$ 51,359	100.0 %	$ 1,762	3.4 %	$ 152,414	100.0 %	$ 151,160	100.0 %	$ 1,254	0.8 %
Cost of services revenues	28,155	53.0	25,695	50.0	2,460	9.6	82,028	53.8	74,659	49.4	7,369	9.9
Gross profit	24,966	47.0	25,664	50.0	(698)	-2.7	70,386	46.2	76,501	50.6	(6,115)	-8.0
General and administrative expenses	13,246	24.9	12,550	24.4	696	5.5	39,028	25.6	37,298	24.7	1,730	4.6
Segment operating income	$ 11,720	22.1 %	$ 13,114	25.5 %	$ (1,394)	-10.6 %	$ 31,357	20.6 %	$ 39,203	25.9 %	$ (7,846)	-20.0 %
Business Metrics (Actual Numbers)												
Locations at period end							40		33			
Admissions * (1)	3,176		3,182		(6)	-0.2 %	9,576		9,778		(202)	-2.1 %
Average daily census * (2)	3,453		3,280		173	5.3	3,426		3,304		122	3.7
Average discharge length of stay * (3)	97		93		4	4.3	93		87		6	6.9
Patient days * (4)	311,454		301,797		9,657	3.2	892,507		880,574		11,933	1.4
Revenue per patient day * (5)	$ 175.19		$ 170.18		$ 5.01	2.9 %	$ 175.23		$ 171.66		$ 3.57	2.1 %
Organic growth												
- Revenue * (6)	3.1 %		0.1 %				1.5 %		1.6 %			
- Average daily census * (6)	5.3 %		2.2 %				0.8 %		5.0 %			

(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 89.1% and 90.6% of total hospice segment net service revenues for the three months ended September 30, 2023 and 2022, respectively, and 90.2% and 90.8% for the nine months ended September 30, 2023 and 2022, respectively. Net service revenues from managed care organizations accounted for 3.4% and 3.5% of total hospice segment net service revenues for the three months ended September 30, 2023 and 2022, respectively, and 3.3% and 3.6% for the nine months ended September 30, 2023 and 2022, respectively.

Hospice net service revenues increased by $1.8 million and $1.3 million for the three and nine months ended September 30, 2023, respectively, compared to the three and nine months ended September 30, 2022, primarily attributed to the acquisitions of Tennessee Quality Care on August 1, 2023 and Apple Home on October 1, 2022.

Gross profit, expressed as a percentage of net service revenues, was 47.0% and 50.0% for the three months ended September 30, 2023 and 2022, respectively, and 46.2% and 50.6%, for the nine months ended September 30, 2023 and 2022, respectively. For the three months ended September 30, 2023, the decrease was mainly attributed to increases in direct employee wages, taxes and benefit costs of $0.7 million. For the nine months ended September 30, 2023, the decrease was mainly attributed to the increase in direct employee wages, taxes and benefit costs of $6.0 million.

The hospice 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 24.9% and 24.4% for the three months ended September 30, 2023 and 2022, respectively, and 25.6% and 24.7% for the nine months ended September 30, 2023 and 2022, respectively. The increase in general and administrative expenses as a percentage of net service revenues for the three and nine months ended September 30, 2023 was mainly attributed to increases in administrative employee wages, taxes and benefit costs.

Home Health Segment

	For the Three Months Ended September 30,						For the Nine Months Ended September 30,					
	2023		2022		Change		2023		2022		Change	
	Amount	% of Segment Net Service Revenues	Amount	% of Segment Net Service Revenues	Amount	%	Amount	% of Segment Net Service Revenues	Amount	% of Segment Net Service Revenues	Amount	%
	(Amounts in Thousands, Except Percentages)						(Amounts in Thousands, Except Percentages)					
Operating Results												
Net service revenues	$ 15,718	100.0 %	$ 9,956	100.0 %	$ 5,762	57.9 %	$ 39,659	100.0 %	$ 29,768	100.0 %	$ 9,891	33.2 %
Cost of services revenues	10,028	63.8	7,647	76.8	2,381	31.1	24,646	62.1	21,501	72.2	3,145	14.6
Gross profit	5,690	36.2	2,309	23.2	3,381	146.4	15,013	37.9	8,267	27.8	6,746	81.6
General and administrative expenses	4,131	26.3	2,410	24.2	1,721	71.4	9,653	24.3	7,270	24.4	2,383	32.8
Segment operating income	$ 1,559	9.9 %	$ (101)	(1.0) %	$ 1,660	-1,643.3 %	$ 5,360	13.5 %	$ 997	3.3 %	$ 4,363	437.7 %
Business Metrics (Actual Numbers)												
Locations at period end							24		12			
New admissions * (1)	4,265		3,684		581	15.8 %	11,597		10,371		1,226	11.8 %
Recertifications * (2)	2,672		1,482		1,190	80.3	5,816		4,207		1,609	38.2
Total volume * (3)	6,937		5,166		1,771	34.3	17,413		14,578		2,835	19.4
Visits * (4)	94,637		71,670		22,967	32.0 %	240,758		205,335		35,423	17.3 %
Organic growth												
- Revenue * (5)	(8.8) %		0.2 %				(2.5) %		(1.2) %			
- Admissions * (5)	(18.9) %		18.6 %				(13.5) %		15.7 %			

(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 72.1% and 73.5%,of total home health segment net service revenues, managed care organizations accounted for 21.9% and 20.1%, and other accounted for 6.0% and 6.4% for the three months ended September 30, 2023 and 2022, respectively. Net service revenues from Medicare accounted for 73.9% and 73.0% of total home health segment net service revenues, managed care organizations accounted for 20.8% and 20.7%, and other accounted for 5.3% and 6.3%, for the nine months ended September 30, 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.

Home Health net service revenues increased by $5.8 million and $9.9 million for the three and nine months ended September 30, 2023, respectively, compared to the three and nine months ended September 30, 2022, and total visits increased for the three months and nine months ended September 30, 2023, mainly attributed to the acquisition of Tennessee Quality Care on August 1, 2023 and Apple Home on October 1, 2022, partially offset by a same store decline.

Gross profit, expressed as a percentage of net service revenues, was 36.2% and 23.2% for the three months ended September 30, 2023 and 2022, respectively, and 37.9% and 27.8% for the nine months ended September 30, 2023 and 2022, respectively. For the three and nine months ended September 30, 2023, the increase was primarily due to an increase in net service revenues compared to the three and nine months ended September 30, 2022.

The home health 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 26.3% and 24.2% for the three months ended September 30, 2023 and 2022, respectively, and 24.3% and 24.4% for the nine months ended September 30, 2023 and 2022, respectively. The increase in general and administrative expenses as a percentage of net service revenues was primarily due to acquisitions that resulted in a $1.3 million increase in administrative employee wages, taxes and benefit costs for the three and nine months ended September 30, 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 September 30, 2023 and December 31, 2022, we had cash balances of $79.8 million and $80.0 million, respectively. At September 30, 2022, 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 nine months ended September 30, 2023, we (i) drew $110.0 million under our revolving credit facility to fund, in part, the purchase price paid in connection with the Tennessee Quality Care acquisition as described above, and (ii) repaid $78.5 million under our revolving credit facility. As of September 30, 2023, we had a total of $166.4 million in revolving loans, with an interest rate of 5.11% outstanding on its credit facility and after giving effect to the amount drawn on our credit facility, approximately $8.1 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 $450.0 million of capacity and $275.6 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 September 30, 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 8 to the Notes to Condensed Consolidated Financial Statements, *Long-Term Debt*, for additional details of our long-term debt.

COVID-19 Pandemic

The federal public health emergency declared by HHS as a result of the COVID-19 pandemic expired May 11, 2023, reflecting the evolution of the COVID-19 public health situation from its acute emergency phase. Earlier in the pandemic, federal and state governments passed legislation, promulgated regulations, and took 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, most of which have been reduced or terminated, included 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.

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 nine months ended September 30, 2023, the Company received state funding provided by the ARPA in an aggregate amount of $2.0 million. The Company recorded revenue of $0.2 million for certain states that met the revenue recognition criteria. The Company deferred the remaining $1.8 million, which was received from states with specific spending plans and reporting requirements. Of the total state funding received by the Company pursuant to the ARPA through September 30, 2023, the Company utilized $2.1 million and $6.9 million of these funds during the three and nine months ended September 30, 2023, primarily for caregivers and adding support to recruiting and retention efforts, and included as a reduction of cost of service revenues in the Company's Consolidated Statements of Income. As of September 30, 2023, the deferred portion of ARPA funding of $7.8 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 $1.4 million for the nine months ended September 30, 2022. In the home health segment, Medicare sequester relief resulted in an increase in net service revenues of $0.3 million for the nine months ended September 30, 2022.

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 7 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 Nine Months Ended September 30, 2023	2022
	(Amounts in Thousands)	
Net cash provided by operating activities	$ 82,198	$ 80,818
Net cash used in investing activities	(113,934)	(87,354)
Net cash provided by (used in) financing activities	31,525	(56,715)

Nine Months Ended September 30, 2023 Compared to Nine Months Ended September 30, 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 $82.2 million for the nine months ended September 30, 2023, compared to net cash provided by operating activities of $80.8 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 during the nine months ended September 30, 2023 compared to 2022, as described below. The related receivables due from the Illinois Department on Aging represented 20.5% and 18.0% of the Company's net accounts receivable at September 30, 2023 and December 31, 2022, respectively, as discussed below.

Net cash used in investing activities for the nine months ended September 30, 2023 primarily consisted of $112.2 million of net cash used for the Tennessee Quality Care acquisition. For the nine months ended September 30, 2023 and 2022, property and equipment purchases, primarily related to our ongoing investments in our technology infrastructure, were $1.7 million and $2.9 million, respectively.

Net cash provided by financing activities for the nine months ended September 30, 2023 primarily related to borrowings of $110.0 million on the revolver portion of our credit facility to fund, in part, the Tennessee Quality Care acquisition, partially offset by a $78.5 million payment on the revolver portion of our credit facility.

Outstanding Accounts Receivable

Gross accounts receivable as of September 30, 2023 and December 31, 2022 were approximately $123.0 million and $127.1 million, respectively. Outstanding accounts receivable, net of allowance for credit losses, decreased by $4.4 million as of September 30, 2023 as compared to December 31, 2022. Accounts receivable for the Illinois Department on Aging increased approximately $2.7 million during the nine months ended September 30, 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 42 days and 45 days at September 30, 2023 and December 31, 2022, respectively. The DSOs for our largest payor, the Illinois Department on Aging, were 42 days and 43 days at September 30, 2023 and December 31, 2022, respectively.

Off-Balance Sheet Arrangements

As of September 30, 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.

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 September 30, 2023, we had outstanding borrowings of approximately $166.4 million on our credit facility, all of such borrowings were subject to variable interest rates. If the variable rates on this debt were 100 basis points higher than the rate applicable to the borrowing during the three and nine month periods ended September 30, 2023, our net income would have decreased by $0.3 million, or $0.02 per diluted share, and $0.7 million, or $0.05 per diluted share, respectively. We do not currently have any derivative or hedging arrangements, or other known exposures, to changes in 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 September 30, 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 September 30, 2023.

Changes in Internal Control 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 September 30, 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.

Further information with respect to this Item may be found in Note 10 to the Condensed Consolidated Financial Statements in Part I, Item 1—"Financial Statements (Unaudited)," which is incorporated herein by reference.

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, 2023. 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

Not applicable. Without limiting the generality of the foregoing, during the quarter ended September 30, 2023, no director or Section 16 officer adopted or terminated any Rule 10b5-1 trading arrangements or non-Rule 10b5-1 trading arrangements, as such terms are defined in Item 408(a) of Regulation S-K.

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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
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: October 31, 2023	By:	/s/ R. DIRK ALLISON
		R. Dirk Allison **Chairman and Chief Executive Officer** **(As Principal Executive Officer)**
Date: October 31, 2023	By:	/s/ BRIAN POFF
		Brian Poff **Chief Financial Officer** **(As Principal Financial Officer)**

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: October 31, 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: October 31, 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 September 30, 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: October 31, 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 September 30, 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: October 31, 2023

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