

**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, 2020

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  
(State or other jurisdiction of  
incorporation or organization)

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

6303 Cowboys Way, Suite 600  
Frisco, TX  
(Address of principal executive offices)

75034  
(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 30, 2020, Addus HomeCare Corporation had 15,808,708 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 SUBSIDIARIESCONDENSED CONSOLIDATED BALANCE SHEETS  
As of September 30, 2020 and December 31, 2019  
(Amounts and Shares in Thousands, Except Per Share Data)  
(Unaudited)

	September 30, 2020	December 31, 2019
<b>Assets</b>		
Current assets		
Cash	\$ 170,331	\$ 111,714
Accounts receivable, net	118,623	149,680
Prepaid expenses and other current assets	10,426	7,993
Total current assets	299,380	269,387
Property and equipment, net of accumulated depreciation and amortization	19,305	12,156
Other assets		
Goodwill	286,552	275,368
Intangibles, net of accumulated amortization	52,873	57,079
Deferred tax assets, net	1,479	1,647
Operating lease assets, net	35,842	21,111
Total other assets	376,746	355,205
Total assets	\$ 695,431	\$ 636,748
<b>Liabilities and stockholders' equity</b>		
Current liabilities		
Accounts payable	\$ 17,270	\$ 19,641
Accrued payroll	26,315	30,587
Accrued expenses	33,395	22,429
Accrued workers' compensation insurance	14,668	14,143
Current portion of long-term debt	2,095	728
Total current liabilities	93,743	87,528
Long-term liabilities		
Long-term debt, less current portion, net of debt issuance costs	59,561	59,164
Long-term operating lease liabilities	33,977	14,301
Other long-term liabilities	550	163
Total long-term liabilities	94,088	73,628
Total liabilities	\$ 187,831	\$ 161,156
Stockholders' equity		
Common stock—\$.001 par value; 40,000 authorized and 15,801 and 15,617 shares issued and outstanding as of September 30, 2020 and December 31, 2019, respectively	\$ 16	\$ 15
Additional paid-in capital	366,868	359,545
Retained earnings	140,716	116,032
Total stockholders' equity	507,600	475,592
Total liabilities and stockholders' equity	\$ 695,431	\$ 636,748

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, 2020 and 2019  
(Amounts and Shares in Thousands, Except Per Share Data)  
(Unaudited)**

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2020	2019	2020	2019
Net service revenues	\$ 193,987	\$ 168,993	\$ 568,779	\$ 456,415
Cost of service revenues	137,686	123,817	401,646	334,719
Gross profit	56,301	45,176	167,133	121,696
General and administrative expenses	40,733	35,085	125,470	94,109
Depreciation and amortization	3,045	2,756	8,872	7,365
Total operating expenses	43,778	37,841	134,342	101,474
Operating income from continuing operations	12,523	7,335	32,791	20,222
Interest income	(87)	(786)	(576)	(1,096)
Interest expense	680	866	2,309	2,164
Total interest expense, net	593	80	1,733	1,068
Income from continuing operations before income taxes	11,930	7,255	31,058	19,154
Income tax expense	2,811	1,769	6,374	4,080
Net income from continuing operations	9,119	5,486	24,684	15,074
Net loss from discontinued operations	—	(574)	—	(574)
Net income	<u>\$ 9,119</u>	<u>\$ 4,912</u>	<u>\$ 24,684</u>	<u>\$ 14,500</u>
Net income per common share				
Basic income per share				
Continuing operations	\$ 0.58	\$ 0.40	\$ 1.59	\$ 1.14
Discontinued operations	—	(0.04)	—	(0.04)
Basic income per share	<u>\$ 0.58</u>	<u>\$ 0.36</u>	<u>\$ 1.59</u>	<u>\$ 1.10</u>
Diluted income per share				
Continuing operations	\$ 0.57	\$ 0.39	\$ 1.55	\$ 1.10
Discontinued operations	—	(0.04)	—	(0.04)
Diluted income per share	<u>\$ 0.57</u>	<u>\$ 0.35</u>	<u>\$ 1.55</u>	<u>\$ 1.06</u>
Weighted average number of common shares and potential common shares outstanding:				
Basic	15,618	13,766	15,573	13,271
Diluted	15,957	14,203	15,934	13,687

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, 2020  
(Amounts and Shares in Thousands)  
(Unaudited)

	<b>For the Three Months Ended September 30, 2020</b>				
	<b>Common Stock</b>		<b>Additional Paid-in Capital</b>	<b>Retained Earnings</b>	<b>Total Stockholders' Equity</b>
	<b>Shares</b>	<b>Amount</b>			
Balance at July 1, 2020	15,665	\$ 16	\$ 363,248	\$ 131,597	\$ 494,861
Issuance of shares of common stock under restricted stock award agreements	81	—	—	—	—
Stock-based compensation	—	—	1,462	—	1,462
Shares issued for exercise of stock options	55	—	2,158	—	2,158
Net income	—	—	—	9,119	9,119
Balance at September 30, 2020	<u>15,801</u>	<u>\$ 16</u>	<u>\$ 366,868</u>	<u>\$ 140,716</u>	<u>\$ 507,600</u>
	<b>For the Nine Months Ended September 30, 2020</b>				
	<b>Common Stock</b>		<b>Additional Paid-in Capital</b>	<b>Retained Earnings</b>	<b>Total Stockholders' Equity</b>
Balance at January 1, 2020	15,617	\$ 15	\$ 359,545	\$ 116,032	\$ 475,592
Issuance of shares of common stock under restricted stock award agreements	81	—	—	—	—
Forfeiture of shares of common stock under restricted stock award agreements	(6)	—	—	—	—
Stock-based compensation	—	—	3,987	—	3,987
Shares issued for exercise of stock options	109	1	3,336	—	3,337
Net income	—	—	—	24,684	24,684
Balance at September 30, 2020	<u>15,801</u>	<u>\$ 16</u>	<u>\$ 366,868</u>	<u>\$ 140,716</u>	<u>\$ 507,600</u>

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, 2019  
(Amounts and Shares in Thousands)  
(Unaudited)

	For the Three Months Ended September 30, 2019				
	Common Stock		Additional Paid-in Capital	Retained Earnings	Total Stockholders' Equity
Balance at July 1, 2019	13,219	\$ 13	\$ 181,111	\$ 100,383	\$ 281,507
Issuance of shares of common stock under restricted stock award agreements	1	—	—	—	—
Forfeiture of shares of common stock under restricted stock award agreements	(4)	—	—	—	—
Stock-based compensation	—	—	1,470	—	1,470
Shares issued for exercise of stock options	43	—	1,365	—	1,365
Shares issued in Public Offering, net of offering costs	2,300	2	172,943	—	172,945
Net income	—	—	—	4,912	4,912
Balance at September 30, 2019	<u>15,559</u>	<u>\$ 15</u>	<u>\$ 356,889</u>	<u>\$ 105,295</u>	<u>\$ 462,199</u>
	For the Nine Months Ended September 30, 2019				
	Common Stock		Additional Paid-in Capital	Retained Earnings	Total Stockholders' Equity
Balance at January 1, 2019	13,126	\$ 13	\$ 177,683	\$ 90,795	\$ 268,491
Issuance of shares of common stock under restricted stock award agreements	64	—	—	—	—
Forfeiture of shares of common stock under restricted stock award agreements	(4)	—	—	—	—
Stock-based compensation	—	—	4,186	—	4,186
Shares issued for exercise of stock options	73	—	2,077	—	2,077
Shares issued in Public Offering, net of offering costs	2,300	2	172,943	—	172,945
Net income	—	—	—	14,500	14,500
Balance at September 30, 2019	<u>15,559</u>	<u>\$ 15</u>	<u>\$ 356,889</u>	<u>\$ 105,295</u>	<u>\$ 462,199</u>

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, 2020 and 2019  
(Amounts in Thousands)  
(Unaudited)**

	For the Nine Months Ended September 30,	
	2020	2019
Cash flows from operating activities:		
Net income	\$ 24,684	\$ 14,500
Adjustments to reconcile net income to net cash provided by operating activities, net of acquisitions:		
Depreciation and amortization	8,872	7,365
Deferred income taxes	51	105
Stock-based compensation	3,987	4,186
Amortization of debt issuance costs under the credit facility	554	533
Provision for doubtful accounts	681	168
Loss (gain) of disposal of assets and asset impairment	1,242	(90)
Changes in operating assets and liabilities, net of acquisitions:		
Accounts receivable	30,746	(19,957)
Prepaid expenses and other current assets	(2,592)	2,822
Accounts payable	(2,496)	1,856
Accrued expenses and other long-term liabilities	7,570	(3,404)
Net cash provided by operating activities	<u>73,299</u>	<u>8,084</u>
Cash flows from investing activities:		
Purchases of property and equipment	(5,893)	(3,077)
Acquisitions of businesses, net of cash acquired	(11,869)	(53,224)
Proceeds from disposal of assets	255	—
Net cash used in investing activities	<u>(17,507)</u>	<u>(56,301)</u>
Cash flows from financing activities:		
Proceeds from issuance of common stock, net of offering costs	—	172,945
Borrowings on revolver — credit facility	—	23,458
Borrowings on term loan — credit facility	—	19,600
Payments on term loan — credit facility	(490)	(245)
Payments for debt issuance costs under the credit facility	—	(361)
Payments on financing lease obligations	(22)	(54)
Cash received from exercise of stock options	3,337	2,077
Net cash provided by financing activities	<u>2,825</u>	<u>217,420</u>
Net change in cash	58,617	169,203
Cash, at beginning of period	111,714	70,406
Cash, at end of period	<u>\$ 170,331</u>	<u>\$ 239,609</u>
Supplemental disclosures of cash flow information:		
Cash paid for interest	\$ 1,869	\$ 1,594
Cash paid for income taxes	9,119	5,808
Supplemental disclosures of non-cash investing and financing activities:		
Leasehold improvements acquired through tenant allowances	\$ 4,871	\$ 682

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, 2019 has been derived from the Company’s audited financial statements for the year ended December 31, 2019 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, 2019 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 revenue recognition, accounts receivable and allowances and goodwill and intangible assets. Actual results could differ from those estimates.

***Diluted Net Income Per Common Share***

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

As of September 30, 2020 and 2019, dilutive stock options outstanding were approximately 523,000 and 650,000, respectively, and dilutive restricted stock awards outstanding were approximately 149,000 and 147,000, respectively.

Included in the Company’s calculation of diluted earnings per share for the three and nine months ended September 30, 2020, dilutive stock options outstanding were approximately 301,000 and 303,000, respectively. In addition, dilutive restricted stock awards outstanding were approximately 38,000 and 58,000 for the three and nine months ended September 30, 2020, respectively.

Included in the Company’s calculation of diluted earnings per share for the three and nine months ended September 30, 2019, were approximately 359,000 and 335,000 dilutive stock options outstanding, respectively. In addition, dilutive restricted stock awards outstanding were approximately 78,000 and 81,000 for the three and nine months ended September 30, 2019, respectively.



### **Recently Adopted Accounting Pronouncements**

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. ASU 2016-13 changes the impairment model for most financial assets and certain other instruments. Under the new standard, entities holding financial assets and net investment in leases that are not accounted for at fair value through net income are to be presented at the net amount expected to be collected. An allowance for credit losses will be a valuation account that will be deducted from the amortized cost basis of the financial asset to present the net carrying value at the amount expected to be collected on the financial asset. We have reviewed our provision for doubtful accounts process as required by ASU 2016-13. Management estimates allowances on accounts receivable based upon historical experience and other factors, including an aging of accounts receivable, evaluation of expected adjustments, past adjustments and collection experience in relation to amounts billed, current contract and reimbursement terms, shifts in payors and other current relevant information. The Company recorded a provision for doubtful accounts of \$0.2 million and \$0.7 million for the three and nine months ended September 30, 2020, respectively. Allowance for doubtful accounts was \$0.8 million and \$1.0 million as of September 30, 2020 and December 31, 2019, respectively. Adoption of the new standard did not have a significant impact on our results of operations or liquidity.

In January 2017, the FASB issued ASU 2017-04, *Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*. The new guidance eliminates the requirement to calculate the implied fair value of goodwill (i.e., Step 2 of the current goodwill impairment test) to measure a goodwill impairment charge. Instead, entities will record an impairment charge based on the excess of a reporting unit’s carrying amount over its fair value (i.e., measure the charge based on the current Step 1). Adoption of the new standard did not have a significant impact on our results of operations or liquidity.

In August 2018, the FASB issued ASU 2018-15, *Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That is a Service Contract*. ASU 2018-15 requires customers in a hosting arrangement that is a service contract to follow the internal-use software guidance in Accounting Standards Codification (“ASC”) 350-40 to determine which implementation costs to capitalize as assets or expense as incurred. Adoption of the new standard did not have a significant impact on our results of operations or liquidity.

### **Recently Issued Accounting Pronouncements**

In December 2019, the FASB issued ASU 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes*. ASU 2019-12 intends to simplify various aspects related to accounting for income taxes and removes certain exceptions to the general guidance in ASC 740. In addition, the ASU clarifies and amends existing guidance to improve consistent application of its requirements. The ASU is effective for fiscal years, including interim periods within those fiscal years, beginning after December 15, 2020. Early adoption is permitted. Adoption of the new standard is not expected to have an impact on our results of operations or liquidity.

In March 2020, the FASB issued ASU 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*. ASU 2020-04 provides optional expedients and exceptions for applying GAAP to contract modifications and hedging relationships, and other transactions subject to meeting certain criteria, that reference LIBOR or another reference rate expected to be discontinued. The ASU provides companies with optional guidance to ease the potential accounting burden associated with transitioning away from reference rates that are expected to be discontinued. Therefore, it will be in effect for a limited time through December 31, 2022. The ASU can be adopted no later than December 1, 2022 with early adoption permitted. The Company is evaluating the effect of adopting this new accounting guidance.

### **3. Revision of Previously Issued Financial Statements**

In connection with management finalizing their financial reporting close process for the year ended December 31, 2019, management identified certain immaterial errors impacting the current period and previous periods dating back to periods prior to 2017, including interim periods within those years. Specifically, management determined there were certain errors in the information utilized to accurately estimate the implicit price concessions necessary to reduce net service revenues to the amount expected to be collected. Accordingly, management determined that our accounts receivable allowance was understated. The correction reflects the impact on the Company’s income tax provision and related accounts as a result of correcting for the error as discussed above. Additionally, the Company identified and corrected other immaterial unrelated income tax items impacting deferred tax assets and other immaterial items.

Management evaluated the impact of the errors on all previously issued financial statements and concluded such previously issued financial statements were not materially misstated; however, to reflect such corrections in the quarter ended December 31, 2019 financial statements would materially misstate the 2019 fiscal year. Accordingly, management revised previously issued financial statements to correct for the impact of the errors. The Company’s consolidated financial statements have been revised from the amounts previously reported to correct these immaterial errors as shown in the tables below and are reflected throughout the financial statements and related notes, as applicable.

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The Consolidated Statements of Income has been revised to reflect the correction for the three and nine months ended September 30, 2019 as follows (amounts in thousands, except per share data):

	For the Three Months Ended September 30,			For the Nine Months Ended September 30,		
	2019			2019		
	As Previously Reported	Revision	As Revised	As Previously Reported	Revision	As Revised
Net service revenues	\$ 169,803	\$ (810)	\$ 168,993	\$ 458,749	\$ (2,334)	\$ 456,415
Gross profit	45,986	(810)	45,176	124,030	(2,334)	121,696
General and administrative expenses	35,950	(865)	35,085	95,429	(1,320)	94,109
Total operating expenses	38,706	(865)	37,841	102,794	(1,320)	101,474
Operating income from continuing operations	7,280	55	7,335	21,236	(1,014)	20,222
Income from continuing operations before income taxes	7,200	55	7,255	20,168	(1,014)	19,154
Income tax expense	1,759	10	1,769	4,347	(267)	4,080
Net income from continuing operations	5,441	45	5,486	15,821	(747)	15,074
Net income	\$ 4,867	\$ 45	\$ 4,912	\$ 15,247	\$ (747)	\$ 14,500
Basic income per share	\$ 0.36	\$ —	\$ 0.36	\$ 1.15	\$ (0.05)	\$ 1.10
Diluted income per share	\$ 0.34	\$ 0.01	\$ 0.35	\$ 1.12	\$ (0.06)	\$ 1.06

Additionally, the Consolidated Statement of Cash Flows has been revised to reflect the correction for the nine months ended September 30, 2019 as follows:

	For the Nine Months Ended September 30, (Amounts in Thousands)		
	2019		
	As Previously Reported	Revision	As Revised
Net income	\$ 15,247	\$ (747)	\$ 14,500
Deferred income taxes	372	(267)	105
Accounts receivable	(22,291)	2,334	(19,957)
Accrued expenses and other long-term liabilities	(2,084)	(1,320)	(3,404)
Net cash provided by operating activities	\$ 8,084	\$ —	\$ 8,084

#### 4. Leases

We have historically entered into operating leases for local branches, our corporate headquarters and certain equipment. The Company's current leases have expiration dates through 2031. Certain of our arrangements have free rent periods and/or escalating rent payment provisions. We recognize rent expense on a straight-line basis over the lease term. Certain of the Company's leases include termination options and renewal options for periods ranging from one to five years. Because we are not reasonably certain to exercise these renewal options, the options generally are not considered in determining the lease term, and payments associated with the option years are excluded from lease payments.

When available, we use the rate implicit in the lease to discount lease payments to present value; however, most of our leases do not provide a readily determinable implicit rate. Therefore, we must estimate our incremental borrowing rate to discount the lease payments based on information available at lease commencement.

Amounts reported in the Company's Unaudited Condensed Consolidated Balance Sheets as of September 30, 2020 and Audited Consolidated Balance Sheets as of December 31, 2019 for our operating leases were as follows:

	September 30, 2020	December 31, 2019
	(Amounts in Thousands)	
Operating lease assets, net	\$ 35,842	\$ 21,111
Short-term operating lease liabilities (in accrued expenses)	8,057	7,234
Long-term operating lease liabilities	33,977	14,301
Total operating lease liabilities	\$ 42,034	\$ 21,535

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The Company signed an eleven-year lease agreement to expand its Frisco corporate headquarters from 31,000 square feet to approximately 75,000 square feet which resulted in an increase in the operating lease asset, net, and operating lease liability by approximately \$17.3 million and \$22.2 million, respectively, during the three and nine months ended September 30, 2020.

### **Lease Costs**

Components of lease cost 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)	
	2020	2019	2020	2019
	Operating lease costs	\$ 2,285	\$ 1,897	\$ 6,524
Short-term lease costs	147	222	575	382
Total lease cost	<u>\$ 2,432</u>	<u>\$ 2,119</u>	<u>\$ 7,099</u>	<u>\$ 5,483</u>

### **Lease Term and Discount Rate**

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

	September 30, 2020	December 31, 2019
Operating leases:		
Weighted average remaining lease term	7.24	3.42
Weighted average discount rate	4.33%	5.14%

### **Maturity of Lease Liabilities**

A summary of our remaining operating lease payments as of September 30, 2020 were as follows:

	Operating Leases (Amounts in Thousands)	
Due in the 12-month period ended September 30,		
2021	\$	9,176
2022		8,704
2023		6,366
2024		4,704
2025		3,549
Thereafter		16,783
Total future minimum rental commitments		<u>49,282</u>
Less: Imputed interest		<u>(7,248)</u>
Total lease liabilities	\$	<u>42,034</u>

### **Supplemental cash flows information**

	For the Nine Months Ended September 30, (Amounts in Thousands)	
	2020	2019
<b>Supplemental Cash Flows Information</b>		
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	\$ 6,472	\$ 5,393
Right-of-use assets, net obtained in exchange for lease obligations:		
Operating leases	21,399	5,536

## **5. 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 and the difference between the consideration transferred, excluding transaction costs, and the fair values of the assets and liabilities is 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.

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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.

### *A Plus Health Care*

On July 1, 2020, we completed the acquisition of A Plus Health Care, Inc. ("A Plus"). The purchase price was approximately \$12.2 million plus the amount of excess cash held by A Plus at closing (approximately \$2.8 million). The purchase of A Plus was funded with the Company's available cash. With the purchase of A Plus, the Company expanded its personal care services in the state of Montana. The related acquisition costs were \$0.3 million for the three and nine months ended September 30, 2020. 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 completion of working capital adjustments, the fair values of the assets and liabilities are as follows:

	<b>Total (Amounts in Thousands)</b>
Goodwill	\$ 11,252
Identifiable intangible assets	1,523
Cash	2,819
Accounts receivable	1,075
Operating lease assets, net	180
Other assets	23
Accounts payable	(18)
Accrued expenses	(202)
Accrued payroll	(303)
Current portion of long-term debt	(577)
Long-term debt	(1,145)
Long-term operating lease liabilities	(100)
Total purchase price	<u>\$ 14,527</u>

Identifiable intangible assets acquired included \$1.4 million in trade names with an estimated useful life of fifteen years. 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 A Plus acquisition accounted for \$2.6 million of net service revenues and \$0.5 million of operating income for the three and nine months ended September 30, 2020, respectively.

### *Hospice Partners*

On October 1, 2019, the Company completed the acquisition of the assets of Hospice Partners of America, LLC ("Hospice Partners"). The purchase price was approximately \$135.6 million. The purchase of Hospice Partners was funded through a portion of the net proceeds of our public offering of an aggregate 2,300,000 shares of common stock, par value \$0.001 per share, including 300,000 shares of common stock sold pursuant to the exercise in full by the underwriters of their option to purchase additional shares at a public offering price of \$79.50 per share, which the Company completed on September 9, 2019 (the "Public Offering"). With the purchase of Hospice Partners, we expanded our hospice operations through 21 locations in Idaho, Kansas, Missouri, Oregon, Texas and Virginia. The related integration costs were \$1.5 million for the nine months ended September 30, 2020. 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 final valuations, the fair values of the assets and liabilities are as follows:

	<b>Total (Amounts in Thousands)</b>
Goodwill	\$ 111,674
Identifiable intangible assets	18,090
Cash	5,489
Property and equipment	164
Accounts receivable	6,411
Operating lease assets, net	2,425
Other assets	702
Accounts payable	(1,737)
Accrued expenses	(3,503)
Accrued payroll	(1,110)
Deferred tax liability	(1,422)
Long-term operating lease liabilities	(1,615)
<b>Total purchase price</b>	<b>\$ 135,568</b>

Identifiable intangible assets acquired consist of \$9.5 million in trade names with estimated useful lives of fifteen years, \$2.5 million in non-competition agreements with estimated useful lives of three to five years and \$6.1 million of indefinite lived state licenses. The 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 Hospice Partners acquisition accounted for \$13.0 million and \$40.3 million of net service revenues and \$3.5 million and \$9.5 million of operating income for the three and nine months ended September 30, 2020, respectively.

#### *Alliance Home Health Care*

On August 1, 2019, the Company completed the acquisition of all of the assets of Alliance Home Health Care ("Alliance"). The purchase price was approximately \$23.5 million. The purchase of Alliance was funded through the Company's revolving credit facility and available cash. With the purchase of Alliance, the Company expanded its personal care, home health and hospice operations in the state of New Mexico. The related acquisition costs were \$0.3 million for the three and nine months ended September 30, 2019. The related integration costs were \$0.2 million for the nine months ended September 30, 2020. 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 final valuations, the fair values of the assets and liabilities are as follows:

	<b>Total (Amounts in Thousands)</b>
Goodwill	\$ 17,062
Identifiable intangible assets	5,422
Cash	177
Accounts receivable	1,754
Accounts payable	(316)
Other liabilities	(641)
<b>Total purchase price</b>	<b>\$ 23,458</b>

Identifiable intangible assets acquired consist of \$1.1 million in state licenses, subject to amortization, with an estimated useful life of ten years and \$4.3 million of indefinite lived state licenses. The 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 Alliance acquisition accounted for \$3.3 million and \$3.4 million of net service revenues for the three months ended September 30, 2020 and 2019, respectively, and \$12.0 million and \$3.4 million for the nine months ended September 30, 2020 and 2019, respectively. Operating income accounted for \$0.7 million and \$0.8 million for the three months ended September 30, 2020 and 2019, respectively, and \$2.7 million and \$0.8 million for the nine months ended September 30, 2020 and 2019, respectively.

### VIP Health Care Services

On June 1, 2019, the Company completed the acquisition of all of the assets of VIP Health Care Services (“VIP”). The purchase price was approximately \$29.9 million. The purchase of VIP was funded through a combination of the Company’s delayed draw term loan portion of its credit facility and available cash. With the purchase of VIP, the Company expanded its personal care operations in the state of New York and into the New York City metropolitan area. The related acquisition costs were \$0.3 million for the nine months ended September 30, 2019. The related integration costs were \$0.2 million for the nine months ended September 30, 2020, and \$0.2 million and \$0.3 million for the three and nine months ended September 30, 2019, 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, the fair values of the assets and liabilities are as follows:

	Total (Amounts in Thousands)
Goodwill	\$ 11,936
Identifiable intangible assets	15,370
Cash	130
Accounts receivable	4,730
Operating lease assets, net	2,278
Other assets	30
Property and equipment	27
Accounts payable	(540)
Accrued expenses	(770)
Accrued payroll	(1,742)
Long-term operating lease liabilities	(1,531)
Total purchase price	<u>\$ 29,918</u>

Identifiable intangible assets acquired consist of \$10.7 million in state licenses, subject to amortization, and \$4.7 million in customer relationships, with estimated useful lives of six and eight years, respectively. The 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 VIP acquisition accounted for \$9.7 million and \$13.2 million of net service revenues for the three months ended September 30, 2020 and 2019, respectively, and \$30.5 million and \$17.6 million for the nine months ended September 30, 2020 and 2019, respectively, and \$0.4 million of operating loss for each of the three months ended September 30, 2020 and 2019, and \$1.1 million and \$0.1 million of operating loss for the nine months ended September 30, 2020 and 2019, 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, 2020 and 2019 as if each of the acquisitions of Hospice Partners, Alliance, VIP and A Plus closed on January 1, 2019.

	For the Three Months Ended September 30, (Amounts in Thousands)		For the Nine Months Ended September 30, (Amounts in Thousands)	
	2020	2019	2020	2019
Net service revenues	\$ 193,987	\$ 187,846	\$ 573,917	\$ 541,646
Operating income from continuing operations	12,269	9,291	32,136	26,328
Net income from continuing operations	<u>9,458</u>	<u>6,922</u>	<u>25,663</u>	<u>20,518</u>
Net income per common share from continuing operations				
Basic income per share	<u>\$ 0.61</u>	<u>\$ 0.50</u>	<u>\$ 1.65</u>	<u>\$ 1.55</u>

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 Hospice Partners, Alliance, VIP and A Plus had been acquired effective January 1, 2019. 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.

## 6. Goodwill and Intangible Assets

A summary of the goodwill activity for the nine months ended September 30, 2020 is provided below:

	Goodwill			
	Personal Care	Hospice	Home Health	Total
	(Amounts in Thousands)			
Goodwill as of December 31, 2019	\$ 126,577	\$ 146,983	\$ 1,808	\$ 275,368
Additions for acquisition	11,252	—	—	11,252
Divestiture	—	(1,167)	—	(1,167)
Adjustments to previously recorded goodwill	1,438	(322)	(17)	1,099
Goodwill as of September 30, 2020	<u>\$ 139,267</u>	<u>\$ 145,494</u>	<u>\$ 1,791</u>	<u>\$ 286,552</u>

The Company's identifiable intangible assets consist of customer and referral relationships, trade names, trademarks and non-competition agreements. Amortization is computed using straight-line and accelerated methods based upon the estimated useful lives of the respective assets, which range from three 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. Goodwill and certain state licenses are not amortized pursuant to ASC Topic 350.

The Company recognized goodwill in the personal care segment of \$11.3 million related to the acquisition of A Plus during the nine months ended September 30, 2020. For the three and nine months ended September 30, 2020, adjustments to previously recorded goodwill are primarily adjustments to accounts receivable based on the final valuations for the acquisitions of Hospice Partners, Alliance and VIP. During the nine months ended September 30, 2020, the Company divested certain branches and their related net assets including \$1.2 million of related goodwill. The Company recognized \$0.3 million loss on the disposition, reflected as a reduction in general and administrative expense for the nine months ended September 30, 2020.

The carrying amount and accumulated amortization of each identifiable intangible asset category consisted of the following as of September 30, 2020:

	Customer and referral relationships	Trade names and trademarks	Non-competition agreements	State Licenses	Total
		(Amounts in Thousands)			
Intangible assets with indefinite lives	—	—	—	13,296	13,296
Intangible assets subject to amortization:					
Gross carrying amount	48,028	31,946	4,655	12,164	96,793
Accumulated amortization	(37,263)	(14,671)	(2,716)	(2,566)	(57,216)
Intangible assets subject to amortization, net	10,765	17,275	1,939	9,598	39,577
Total intangible assets at September 30, 2020	<u>\$ 10,765</u>	<u>\$ 17,275</u>	<u>\$ 1,939</u>	<u>\$ 22,894</u>	<u>\$ 52,873</u>

During the nine months ended September 30, 2020, the Company acquired a trade name of \$1.4 million related to the acquisition of A Plus. Amortization expense related to identifiable intangible assets amounted to \$1.7 million and \$5.3 million for the three and nine months ended September 30, 2020, respectively, and \$1.8 million and \$4.4 million for the three and nine months ended September 30, 2019, respectively. The weighted average remaining lives of identifiable intangible assets as of September 30, 2020 is 8.7 years.

## 7. Details of Certain Balance Sheet Accounts

Prepaid expenses and other current assets consisted of the following:

	September 30, 2020	December 31, 2019
		(Amounts in Thousands)
Income tax receivable	\$ 2,533	\$ —
Workers' compensation insurance receivable	2,186	1,989
Prepaid workers' compensation and liability insurance	1,792	2,040
Health insurance receivable	426	1,567
Other	3,489	2,397
Total prepaid expenses and other current assets	<u>\$ 10,426</u>	<u>\$ 7,993</u>

Accrued expenses consisted of the following:

	September 30, 2020	December 31, 2019
	(Amounts in Thousands)	
Accrued payroll taxes (1)	\$ 8,448	\$ 1,843
Current portion of operating lease liabilities	8,057	7,234
Accrued health insurance	4,413	4,140
Accrued professional fees	3,135	2,517
Other	9,342	6,695
Total accrued expenses	<u>\$ 33,395</u>	<u>\$ 22,429</u>

(1) The Company deferred \$7.1 million of payroll taxes in connection to a provision included in the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act"), see Note 10 to the Notes to Consolidated Financial Statements for additional information.

## 8. Long-Term Debt

Long-term debt consisted of the following:

	September 30, 2020	December 31, 2019
	(Amounts in Thousands)	
Revolving loan under the credit facility	\$ 43,458	\$ 43,458
Term loan under the credit facility	18,375	18,865
Other debt	1,722	—
Financing leases	—	21
Less unamortized issuance costs	(1,899)	(2,452)
Total	<u>\$ 61,656</u>	<u>\$ 59,892</u>
Less current maturities	(2,095)	(728)
Long-term debt	<u>\$ 59,561</u>	<u>\$ 59,164</u>

### *Amended and Restated Senior Secured Credit Facility*

On October 31, 2018, the Company entered into the Amended and Restated Credit Agreement, dated as of October 31, 2018, with certain lenders and Capital One, National Association, as a lender and as agent for all lenders (as amended by the Amendment (as hereinafter defined), the "Credit Agreement"), which amended and restated the Company's existing credit agreement. This credit facility totaled \$269.6 million, inclusive of a \$250.0 million revolving loan and a \$19.6 million delayed draw term loan, and is evidenced by the Credit Agreement. This credit facility amended and restated the Company's existing senior secured credit facility totaling \$250.0 million. As used throughout this Quarterly Report on Form 10-Q, "credit facility" shall mean the credit facility evidenced by the Credit Agreement. The maturity of this credit facility is May 8, 2023. Interest on the Company's credit facility may be payable at (x) the sum of (i) an applicable margin ranging from 0.75% to 1.50% based on the applicable senior net leverage ratio plus (ii) a base rate equal to the greatest of (a) the rate of interest last quoted by The Wall Street Journal as the "prime rate," (b) the sum of the federal funds rate plus a margin of 0.50% and (c) the sum of the adjusted LIBOR that would be applicable to a loan with an interest period of one month advanced on the applicable day (not to be less than 0.00%) plus a margin of 1.00% or (y) the sum of (i) an applicable margin ranging from 1.75% to 2.50% based on the applicable senior net leverage ratio plus (ii) the offered rate per annum for similar dollar deposits for the applicable interest period that appears on Reuters Screen LIBOR01 Page (not to be less than zero). Swing loans may not be LIBOR loans. The availability of additional draws under this 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. In connection with this amended and restated credit facility, the Company incurred approximately \$0.9 million of debt issuance costs.

Addus HealthCare, Inc. ("Addus HealthCare") is the borrower, and its parent, Holdings, and substantially all of Holdings' subsidiaries are guarantors under this amended and restated credit facility, and it is 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.

On September 12, 2019, the Company entered into a First Amendment (the "Amendment") to its Credit Agreement. The Amendment increased the Company's credit facility by \$50.0 million in incremental revolving loans, for an aggregate \$300.0 million in revolving loans. The Amendment provides that future incremental loans may be for term loans or an increase to the revolving loan commitments. The Amendment further provides that the proceeds of the incremental revolving loan commitments may be used for, among other things, general corporate purposes. In connection with the modification of this Amendment, the Company incurred approximately \$0.4 million of debt issuance costs.

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 amended and restated 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, as well as restrictions on guarantees, indebtedness, liens, investments and loans, subject to customary carve outs, a restriction on dividends (provided that Addus HealthCare may make distributions to the Company in an amount that does not exceed \$7.5 million in any year absent of an event of default, plus limited exceptions for tax and administrative distributions), a restriction on the ability to consummate acquisitions (without the consent of the lenders) 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. As of September 30, 2020, the Company was in compliance with all financial covenants under the Credit Agreement.

During the nine months ended September 30, 2020, the Company had no draws under its credit facility.

As of September 30, 2020, the Company had a total of \$43.4 million of revolving loans, with an interest rate of 1.89% and \$18.4 million of term loans, with an interest rate of 1.89%, outstanding on its credit facility. After giving effect to the amount drawn on its credit facility, approximately \$9.3 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 \$219.0 million available for borrowing under its credit facility.

As of December 31, 2019, the Company had a total of \$43.4 million of revolving loans, with an interest rate of 3.44%, and \$18.9 million of term loans, with an interest rate of 3.45%, outstanding on its credit facility. After giving effect to the amount drawn on its credit facility, approximately \$10.0 million of outstanding letters of credit and borrowing limits based on an advance multiple of adjusted EBITDA (as defined in the Credit Agreement), the Company had \$191.4 million available for borrowing under its credit facility.

## **9. Income Taxes**

The effective income tax rates are 23.6% and 24.4% for the three months ended September 30, 2020 and 2019, respectively. For the three months ended September 30, 2020 and 2019, the difference between our federal statutory and effective income tax rates was principally due to the inclusion of state taxes and non-deductible compensation, partially offset by an excess tax benefit and the use of federal employment tax credits.

The effective income tax rates are 20.5% and 21.3% for the nine months ended September 30, 2020 and 2019, respectively. For the nine months ended September 30, 2020 and 2019, the difference between our federal statutory and effective income tax rates was principally due to the inclusion of an excess tax benefit and the use of federal employment tax credits partially offset by state taxes and non-deductible compensation. The excess tax benefit is a discrete item, related to the vesting of equity shares, which requires the Company to recognize the benefit fully in the period. An excess tax benefit results if the Company's income tax deduction exceeds the cumulative costs of the award recognized on the Unaudited Condensed Consolidated Statements of Income.

## **10. Commitments and Contingencies**

### ***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 the Company's Unaudited Condensed Consolidated Balance Sheets and Unaudited Condensed Consolidated Statements of Income.

### ***Government Actions to Mitigate COVID-19's Impact***

On January 31, 2020, the Secretary of the U.S. Department of Health and Human Services ("HHS") declared a national public health emergency due to a novel coronavirus. In March 2020, the World Health Organization declared the outbreak of COVID-19, a disease caused by this novel coronavirus, a pandemic. This disease has spread throughout the United States and other parts of the world, and COVID-19 cases have recently been increasing in the United States and Europe. It is impossible to predict the effect and ultimate impact of the COVID-19 pandemic as the situation continues to rapidly evolve.

In recognition of the significant threat to the liquidity of financial markets posed by the COVID-19 pandemic, the Federal Reserve and Congress have taken dramatic actions to provide liquidity to businesses and the banking system in the United States. For example, on March 27, 2020, the President signed into law the CARES Act, a sweeping stimulus bill intended to bolster the U.S. economy. On April 24, 2020, the Paycheck Protection Program and Health Care Enhancement Act (“PPHCE Act”) was enacted, an expansion of the CARES Act. Together, the CARES Act and the PPHCE Act authorize \$175 billion in funding to be distributed to health care providers through the Relief Fund. This funding is intended to support healthcare providers by reimbursing them for healthcare-related expenses or lost revenues attributable to COVID-19. In addition to relief funding, the CARES Act includes temporary changes to Medicare and Medicaid payment rules and relief from certain accounting provisions.

In April 2020, the Company received grants in an aggregate principal amount of \$6.9 million, for which it did not apply, from the Relief Fund as part of the automatic general distributions by HHS. The Company returned these funds in June 2020. The CARES Act includes provisions relating to refundable payroll tax credits, deferral of the employer portion of certain payroll taxes, net operating loss carrybacks, and other areas. The payroll tax deferral requires that the deferred payroll taxes be paid over two years, with half of the amount required to be paid by December 31, 2021 and the other half by December 31, 2022. The Company elected to defer payroll taxes during the quarter ended June 30, 2020 and ceased the deferral election effective June 30, 2020. The Company deferred \$7.1 million of payroll taxes, which are included in accrued expenses in the Company’s Unaudited Condensed Consolidated Balance Sheets at September 30, 2020.

## 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 for the three and nine months ended September 30, 2020 and 2019 along with the items necessary to reconcile the segment information to the totals reported in the accompanying consolidated financial statements. Segment assets are not reviewed by the Company’s chief 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.

	<b>For the Three Months Ended September 30, 2020</b>			
	<b>(Amounts in Thousands)</b>			
	<b>Personal Care</b>	<b>Hospice</b>	<b>Home Health</b>	<b>Total</b>
Net service revenues	\$ 165,916	\$ 23,986	\$ 4,085	\$ 193,987
Cost of services revenues	124,493	10,508	2,685	137,686
Gross profit	41,423	13,478	1,400	56,301
General and administrative expenses	14,837	5,904	925	21,666
Segment operating income	<u>\$ 26,586</u>	<u>\$ 7,574</u>	<u>\$ 475</u>	<u>\$ 34,635</u>

  

	<b>For the Three Months Ended September 30, 2019</b>			
	<b>(Amounts in Thousands)</b>			
	<b>Personal Care</b>	<b>Hospice</b>	<b>Home Health</b>	<b>Total</b>
Net service revenues	\$ 153,753	\$ 10,874	\$ 4,366	\$ 168,993
Cost of services revenues	115,504	5,495	2,818	123,817
Gross profit	38,249	5,379	1,548	45,176
General and administrative expenses	14,737	1,824	844	17,405
Segment operating income	<u>\$ 23,512</u>	<u>\$ 3,555</u>	<u>\$ 704</u>	<u>\$ 27,771</u>

	For the Three Months Ended September 30,	
	2020	2019
(Amounts in Thousands)		
Segment reconciliation:		
Total segment operating income	\$ 34,635	\$ 27,771
Items not allocated at segment level:		
Other general and administrative expenses	19,067	17,680
Depreciation and amortization	3,045	2,756
Interest income	(87)	(786)
Interest expense	680	866
Income before income taxes	\$ 11,930	\$ 7,255

	For the Nine Months Ended September 30, 2020			
	(Amounts in Thousands)			
	Personal Care	Hospice	Home Health	Total
Net service revenues	\$ 482,849	\$ 73,723	\$ 12,207	\$ 568,779
Cost of services revenues	359,344	33,749	8,553	401,646
Gross profit	123,505	39,974	3,654	167,133
General and administrative expenses	45,042	18,658	2,831	66,531
Segment operating income	\$ 78,463	\$ 21,316	\$ 823	\$ 100,602

	For the Nine Months Ended September 30, 2019			
	(Amounts in Thousands)			
	Personal Care	Hospice	Home Health	Total
Net service revenues	\$ 419,124	\$ 27,228	\$ 10,063	\$ 456,415
Cost of services revenues	314,329	13,587	6,803	334,719
Gross profit	104,795	13,641	3,260	121,696
General and administrative expenses	40,053	4,962	2,187	47,202
Segment operating income	\$ 64,742	\$ 8,679	\$ 1,073	\$ 74,494

	For the Nine Months Ended September 30,	
	2020	2019
(Amounts in Thousands)		
Segment reconciliation:		
Total segment operating income	\$ 100,602	\$ 74,494
Items not allocated at segment level:		
Other general and administrative expenses	58,939	46,907
Depreciation and amortization	8,872	7,365
Interest income	(576)	(1,096)
Interest expense	2,309	2,164
Income before income taxes	\$ 31,058	\$ 19,154

## 12. Significant Payors

For the three and nine months ended September 30, 2020 and 2019, the Company's revenue by payor type was as follows:

	Personal Care							
	For the Three Months Ended September 30,				For the Nine Months Ended September 30,			
	2020		2019		2020		2019	
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	\$ 85,344	51.5 %	\$ 75,176	48.9 %	\$ 242,751	50.3 %	\$ 221,450	52.8 %
Managed care organizations	71,700	43.2	68,438	44.5	213,087	44.1	170,004	40.6
Private pay	5,193	3.1	5,720	3.7	15,449	3.2	15,912	3.8
Commercial insurance	2,498	1.5	2,683	1.8	7,468	1.5	6,569	1.6
Other	1,181	0.7	1,736	1.1	4,094	0.9	5,189	1.2 %
Total personal care segment net service revenues	<u>\$ 165,916</u>	<u>100.0 %</u>	<u>\$ 153,753</u>	<u>100.0 %</u>	<u>\$ 482,849</u>	<u>100.0 %</u>	<u>\$ 419,124</u>	<u>100.0</u>

	Hospice							
	For the Three Months Ended September 30,				For the Nine Months Ended September 30,			
	2020		2019		2020		2019	
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	\$ 22,404	93.4 %	\$ 10,045	92.4 %	\$ 68,372	92.8 %	\$ 25,243	92.7 %
Managed care organizations	1,130	4.7	584	5.4	3,710	5.0	1,419	5.2
Other	452	1.9	245	2.2	1,641	2.2	566	2.1
Total hospice segment net service revenues	<u>\$ 23,986</u>	<u>100.0 %</u>	<u>\$ 10,874</u>	<u>100.0 %</u>	<u>\$ 73,723</u>	<u>100.0 %</u>	<u>\$ 27,228</u>	<u>100.0 %</u>

	Home Health							
	For the Three Months Ended September 30,				For the Nine Months Ended September 30,			
	2020		2019		2020		2019	
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	\$ 3,188	78.0 %	\$ 3,338	76.5 %	\$ 9,667	79.2 %	\$ 7,948	79.0 %
Managed care organizations	829	20.3	959	22.0	2,325	19.0	1,872	18.6
Other	68	1.7	69	1.5	215	1.8	243	2.4
Total home health segment net service revenues	<u>\$ 4,085</u>	<u>100.0 %</u>	<u>\$ 4,366</u>	<u>100.0 %</u>	<u>\$ 12,207</u>	<u>100.0 %</u>	<u>\$ 10,063</u>	<u>100.0 %</u>

The Company derives a significant amount of its revenue from its operations in Illinois, New York and New Mexico. The percentages of segment revenue for each of these significant states for the three and nine months ended September 30, 2020 and 2019 were as follows:

	Personal Care							
	For the Three Months Ended September 30,				For the Nine Months Ended September 30,			
	2020		2019		2020		2019	
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	\$ 74,448	44.9 %	\$ 61,633	40.1 %	\$ 215,047	44.6 %	\$ 178,449	42.5 %
New York	28,381	17.1	34,730	22.6	87,463	18.1	75,330	18.0
New Mexico	21,878	13.2	19,559	12.7	64,402	13.3	54,701	13.1
All other states	41,209	24.8	37,831	24.6	115,937	24.0	110,644	26.4
Total personal care segment net service revenues	<u>\$ 165,916</u>	<u>100.0 %</u>	<u>\$ 153,753</u>	<u>100.0 %</u>	<u>\$ 482,849</u>	<u>100.0 %</u>	<u>\$ 419,124</u>	<u>100.0 %</u>

	Hospice							
	For the Three Months Ended September 30,				For the Nine Months Ended September 30,			
	2020		2019		2020		2019	
	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	\$ 10,979	45.8 %	\$ 10,874	100.0 %	\$ 33,431	45.3 %	\$ 27,228	100.0 %
All other states	13,007	54.2	—	—	40,292	54.7	—	—
<b>Total hospice segment net service revenues</b>	<b>\$ 23,986</b>	<b>100.0 %</b>	<b>\$ 10,874</b>	<b>100.0 %</b>	<b>\$ 73,723</b>	<b>100.0 %</b>	<b>\$ 27,228</b>	<b>100.0 %</b>

  

	Home Health							
	For the Three Months Ended September 30,				For the Nine Months Ended September 30,			
	2020		2019		2020		2019	
	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	\$ 4,085	100.0 %	\$ 4,366	100.0 %	\$ 12,207	100.0 %	\$ 10,063	100.0 %
<b>Total home health segment net service revenues</b>	<b>\$ 4,085</b>	<b>100.0 %</b>	<b>\$ 4,366</b>	<b>100.0 %</b>	<b>\$ 12,207</b>	<b>100.0 %</b>	<b>\$ 10,063</b>	<b>100.0 %</b>

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 38.5%, and 36.4% of our net service revenues for the three months ended September 30, 2020, and 2019, respectively and accounted for 37.8% and 39.1% of our net service revenues for the nine months ended September 30, 2020 and 2019, respectively. The Illinois Department on Aging, the largest payor program for the Company's Illinois personal care operations, accounted for 22.9% and 22.1% of the Company's net service revenues for the three months ended September 30, 2020 and 2019, respectively, and accounted for 23.1% and 26.0% of the Company's net service revenues for the nine months ended September 30, 2020 and 2019, respectively.

The related receivables due from the Illinois Department on Aging represented 18.5% and 25.1% of the Company's net accounts receivable at September 30, 2020 and December 31, 2019, respectively.

### 13. Subsequent Events

On November 1, 2020, we completed the acquisition of County Homemakers Incorporated ("County Homemakers") for approximately \$14.6 million, with funding provided by cash on hand. With the purchase of County Homemakers, we expanded our personal care services in the state of Pennsylvania. The Company is currently assessing the fair value of identifiable net assets acquired.

**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 anticipated impact to our business operations with respect to developments related to the COVID-19 pandemic, including, without limitation, those related to the length and severity of the pandemic, as well as the timing and availability of effective medical treatments and vaccines; the pandemic's impact on our business operations, reimbursement and our consumer population; measures we are taking to respond to the pandemic; the impact of government regulation and stimulus measures, including the Coronavirus Aid, Relief, and Economic Security Act (“CARES Act”), Paycheck Protection Program and Health Care Enhancement Act (“PPHCE Act”) and other enacted legislation; increased expenses related to personal protective equipment, labor, supply chain, or other expenditures; and workforce disruptions and supply shortages and disruptions; uncertainty regarding the implementation of the CARES Act, the PPHCE Act, and any other future stimulus measures related to COVID-19; 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; 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, city and state minimum wage pressure, including any failure of Illinois or any other 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, including economic and business conditions resulting from the COVID-19 pandemic, and deficit spending by federal and state governments; cost containment initiatives undertaken by state 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; business disruptions due to natural disasters, acts of terrorism, pandemics, riots, civil insurrection or social unrest, looting, protests, strikes or street demonstrations; our ability to integrate and manage our information systems; our expectations regarding the size and growth of the market for our services; the acceptance of privatized social services; our expectations regarding changes in reimbursement rates; eligibility standards and limits on services imposed by state governmental agencies; the potential for litigation; 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 the acquisition of Hospice Partners; the potential impact of the discontinuation or modification of LIBOR; the effectiveness, quality and cost of our services; our ability to successfully execute our growth strategy; changes in tax rates; the impact of public health emergencies; the impact of inclement weather or natural disasters, including the COVID-19 pandemic; and various other matters, many of which are beyond our control. In addition, the risk factors set forth in Part I, Item 1A of our Annual Report on Form 10-K for the period ended December 31, 2019, filed on August 10, 2020 may result in these differences. You should carefully review all of these factors. 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**

The unaudited condensed consolidated financial statements for the three and nine months ended September 30, 2019 have been revised to correct prior period errors as discussed in Note 3, “Revision of Previously Issued Financial Statements” to the Notes to Consolidated Financial Statements and in Note 2, “Revision of Previously Issued Financial Statements” and Note 17, “Unaudited Summarized Quarterly Financial Information” to our consolidated financial statements included in Part II, Item 8—“Financial Statements and Supplementary Data,” of our Annual Report on Form 10-K for the period ended December 31, 2019, filed on August 10, 2020. Accordingly, this MD&A reflects the impact of those revisions.

We are a home care services provider operating in three segments: personal care, hospice, and home health. Our services are 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 38.0% and 41.4% of our revenue during the three months ended September 30, 2020 and 2019, respectively, and 38.5% and 38.0% of our revenue during the nine months ended September 30, 2020 and 2019, respectively.

A summary of our financial results for the three and nine months ended September 30, 2020 and 2019 is provided in the table below.

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2020	2019	2020	2019
	(Amounts in Thousands)		(Amounts in Thousands)	
Net service revenues - continuing operations	\$ 193,987	\$ 168,993	\$ 568,779	\$ 456,415
Net income from continuing operations	9,119	5,486	24,684	15,074
Net loss from discontinued operations	—	(574)	—	(574)
Net income	<u>\$ 9,119</u>	<u>\$ 4,912</u>	<u>\$ 24,684</u>	<u>\$ 14,500</u>

As of September 30, 2020, we provided our services in 24 states through 193 offices. For the nine months ended September 30, 2020 and 2019, we served approximately 59,000 and 57,000 discrete individuals, respectively. Our personal care segment also includes staffing services, with clients including assisted living facilities, nursing homes and hospice facilities.

### COVID-19 Pandemic

On January 31, 2020, the HHS Secretary declared a national public health emergency due to a novel coronavirus. In March 2020, the World Health Organization declared the outbreak of COVID-19, the disease caused by this novel coronavirus, a pandemic. This disease has spread throughout the United States and other parts of the world, with a recent increase in cases in the United States and Europe. State and local governments, together with public health officials, have recommended and mandated precautions to mitigate the spread of the virus, including closures of and limitations on public facilities, parks, schools, restaurants, many businesses and other locations of public assembly. As a result, COVID-19 has significantly affected overall economic conditions in the United States. Although many of the restrictions have eased across the country, some areas are re-imposing closures and other restrictions as a result of increasing rates of COVID-19 infection. The FDA continues to facilitate the development of therapeutics to combat COVID-19 as well as provide oversight for the development of a vaccine. There are no reliable estimates of how long the pandemic will last, how many people are likely to be affected by it or the duration or types of restrictions that will be imposed or re-imposed as the situation is continuously evolving. For that reason, we are unable to predict the long-term impact of the pandemic on our business at this time.

We continue to monitor the impacts on our operations, and have taken precautions intended to minimize the risk to our employees and patients. We have created a COVID-19 Response Team that is responsible for creating and communicating policy, training and the latest COVID-19 updates to all employees. Most employees in our headquarters in Frisco, TX, and in Downers' Grove, IL, continue to work remotely, and do not believe this arrangement has had a material impact on our ability to maintain business operations.

For the three and nine months ended September 30, 2020, COVID-19 related costs were approximately \$2.5 million and \$4.8 million, respectively, which were mostly offset by temporary rate increases from certain payors, in our personal care segment, of \$1.8 million and \$3.6 million during the three and nine months ended September 30, 2020. As of September 30, 2020, \$3.0 million of payments received from payors for COVID-19 reimbursements have been recorded as deferred revenue and will be recognized as we incur related expenses on behalf of the payor. Three of our primary markets, New Mexico, New York and Illinois, have been significantly affected by the pandemic, with high numbers of cases reported. However, relevant authorities have universally designated our services as "essential services," exempting our services and service providers from many of the restrictions described above. In addition, the impact of the restrictions on the Company's operations for our consumer population has been minimal. For example, in our personal care services segment, we provide 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. Most of these consumers are largely confined to their homes, and a significant number of our caregivers provide services to only one consumer, often a family member. We have implemented several new procedures to further reduce the risk of COVID-19 transmission, including a new screening process for both the caregiver and the consumer and the expansion of the use of personal protective equipment from our hospice and home health segments to include our personal care segment. We are not able to reasonably predict the total amount of costs we will incur related to the COVID-19 pandemic, and such costs could be substantial. According to the Centers for Disease Control and Prevention, older adults and people with certain underlying medical conditions are at a higher risk for serious illness from COVID-19.

Prior to the widespread impacts of COVID-19, the primary limitation on our growth had been the difficulty to attract and retain sufficient caregivers in an environment of very low unemployment rates. Under the CARES Act, all states provide 13 additional weeks of federally funded Pandemic Emergency Unemployment Assistance benefits to people who exhaust their regular state benefits, followed by additional weeks of federally funded unemployment benefits in states with high unemployment (up to 13 or 20 weeks depending on state laws). With the widespread adverse impacts of the COVID-19 pandemic on the hospitality and other labor-intensive industries, we believe we will have an opportunity to increase our hiring of new caregivers. However, in the near term, the enhanced unemployment benefits offered by several states have suppressed the opportunity to tap into this new pool of potential caregivers in these states. For example in September 2020, the state of New York announced the Lost Wages Assistance ("LWA") program, which provides an additional \$300 in weekly benefits to unemployed individuals.

For the three and nine months ended September 30, 2020, the COVID-19 pandemic had limited impact on our reimbursements. Although we experienced some consumers suspending their personal care services due to health concerns, many of these consumers resumed our services within weeks. This reduction was partially offset by an increase in demand for our services by patients recovering from COVID-19 who have been released from the hospital but are still suffering lingering effects of the virus.

The economic slowdown caused by the COVID-19 pandemic pose significant risks to states' budgets for the 2021 fiscal year, which began July 1 in most states. Depending on the severity and length of a downturn, sales tax collections and income tax withholdings could continue to be depressed in fiscal 2021 and, potentially, future fiscal years. States could face significant fiscal challenges and may have no choice but to revise

their revenue forecasts and adjust their budgets for fiscal 2021 and, potentially, future fiscal years, accordingly. Indeed, Illinois, New York and New Mexico, our top three markets, have revised revenue estimates down for the 2021 fiscal year. In New York, which started its fiscal year April 1, the state comptroller recently estimated that the state would collect at least \$10 billion less than originally forecasted, the first year-to-year cut since 2011. The current New York fiscal plan authorizes the state of New York to issue up to \$8 billion in short-term bonds to provide funds in case of reduced revenues during the fiscal year. The state issued \$1.1 billion of bonds on October 28, 2020. The New York fiscal plan also allows two state authorities to provide the state with a \$3 billion line of credit in the new fiscal year. Congress could provide additional relief with additional stimulus and relief legislation, including extension of unemployment benefits and relief for states. We cannot determine the impact that COVID-19 may have on states budgets for 2021 or beyond, however, such impacts could have a material adverse effect on our financial condition, results of operations and cash flows.

At September 30, 2020, we had \$170.3 million of cash on hand and \$219.0 million of available, unused committed capacity under our credit facility. Our credit facility requires us to maintain a total net leverage ratio not exceeding 3.75:1.00. As of September 30, 2020, our total net leverage ratio was zero. 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. The COVID-19 pandemic has resulted in, and may continue to result in, significant disruption of financial and capital markets, and there can be no assurance that we will be able to raise additional funds on terms acceptable to us, if at all.

The impact of the COVID-19 pandemic is fluid and continues to evolve, and, therefore, we cannot currently predict with certainty the extent to which our business, results of operations, financial condition or liquidity will ultimately be impacted. Given the dynamic nature of these circumstances, the related financial effect cannot be reasonably estimated at this time but is not expected to materially adversely impact our business. See “Part I, Item 1A Risk Factors—*The COVID-19 pandemic could negatively affect our operations, business and financial condition, and our liquidity could also be negatively impacted, particularly if the U.S. economy remains unstable for a significant amount of time*” of our Annual Report on Form 10-K for the period ended December 31, 2019, filed on August 10, 2020.

In recognition of the significant threat to the liquidity of financial markets posed by the COVID-19 pandemic, the Federal Reserve and Congress have taken dramatic actions to provide liquidity to businesses and the banking system in the U.S. For example, on March 27, 2020, the President signed into law the CARES Act, a sweeping stimulus bill intended to bolster the U.S. economy. On April 24, 2020, the Paycheck Protection Program and Health Care Enhancement Act (“PPHCE Act”) was enacted, an expansion of the CARES Act. Together, the CARES Act and the PPHCE Act authorize \$175 billion in funding to be distributed to health care providers through the Relief Fund. This funding is intended to support healthcare providers by reimbursing them for healthcare-related expenses or lost revenues attributable to COVID-19. In addition to relief funding, the CARES Act includes temporary changes to Medicare and Medicaid payment rules and relief from certain accounting provisions. There can be no assurance that these governmental interventions will ultimately be successful or that any future interventions will prove successful, and the financial markets may experience significant contractions in available liquidity. In April 2020, we received grants in an aggregate principal amount of \$6.9 million, for which we did not apply, from the Relief Fund as part of the automatic general distributions by HHS. The Company returned these funds in June 2020. While we may receive further financial, tax or other relief and other benefits under and as a result of the CARES Act, the PPHCE Act and other stimulus measures, it is not possible to estimate at this time the need, availability, extent or impact of any such relief.

### **Acquisitions**

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

On June 1, 2019, we completed the acquisition of VIP for approximately \$29.9 million. With the purchase of VIP, we expanded our personal care services in the state of New York and into the New York City metropolitan area. We funded this acquisition through the delayed draw term loan portion of our credit facility and cash on hand.

On August 1, 2019, we completed the acquisition of Alliance for approximately \$23.5 million. Additionally, we acquired the assets of Foremost Home Care (“Foremost”) for approximately \$1.4 million. We funded these acquisitions through a combination of our revolving credit facility and available cash. With the purchase of Alliance, we expanded our personal care, home health and hospice operations in the state of New Mexico. The addition of Foremost will support our growth strategy in the New York City market area.

On October 1, 2019, we completed the acquisition of Hospice Partners for approximately \$135.6 million. We funded the acquisition with a portion of the net proceeds of our Public Offering. With the purchase of Hospice Partners, we expanded our hospice operations through 21 locations in Idaho, Kansas, Missouri, Oregon, Texas and Virginia. Hospice Partners also launched a palliative care program in Texas in 2018.

On July 1, 2020, we completed the acquisition of A Plus for approximately \$12.2 million plus the amount of excess cash held by A Plus at closing (approximately \$2.8 million), with funding provided by cash on hand. With the purchase of A Plus, we expanded our personal care services in the state of Montana.

On November 1, 2020, we completed the acquisition of County Homemakers for approximately \$14.6 million, with funding provided by cash on hand. With the purchase of County Homemakers, we expanded our personal care services in the state of Pennsylvania. The Company is currently assessing the fair value of identifiable net assets acquired.



### Revenue by Payor and Significant States

Our payor clients 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, budgetary 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.

For the three and nine months ended September 30, 2020 and 2019, our revenue by payor and significant states by segment were as follows:

	Personal Care							
	For the Three Months Ended September 30,				For the Nine Months Ended September 30,			
	2020		2019		2020		2019	
	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	\$ 85,344	51.5 %	\$ 75,176	48.9 %	\$ 242,751	50.3 %	\$ 221,450	52.8 %
Managed care organizations	71,700	43.2	68,438	44.5	213,087	44.1	170,004	40.6
Private pay	5,193	3.1	5,720	3.7	15,449	3.2	15,912	3.8
Commercial insurance	2,498	1.5	2,683	1.8	7,468	1.5	6,569	1.6
Other	1,181	0.7	1,736	1.1	4,094	0.9	5,189	1.2 %
Total personal care segment net service revenues	\$ 165,916	100.0 %	\$ 153,753	100.0 %	\$ 482,849	100.0 %	\$ 419,124	100.0
	<b>Hospice</b>							
	For the Three Months Ended September 30,				For the Nine Months Ended September 30,			
	2020		2019		2020		2019	
	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	\$ 22,404	93.4 %	\$ 10,045	92.4 %	\$ 68,372	92.8 %	\$ 25,243	92.7 %
Managed care organizations	1,130	4.7	584	5.4	3,710	5.0	1,419	5.2
Other	452	1.9	245	2.2	1,641	2.2	566	2.1
Total hospice segment net service revenues	\$ 23,986	100.0 %	\$ 10,874	100.0 %	\$ 73,723	100.0 %	\$ 27,228	100.0 %
New Mexico	\$ 10,979	45.8 %	\$ 10,874	100.0 %	\$ 33,431	45.3 %	\$ 27,228	100.0 %
All other states	13,007	54.2	—	—	40,292	54.7	—	—
Total hospice segment net service revenues	\$ 23,986	100.0 %	\$ 10,874	100.0 %	\$ 73,723	100.0 %	\$ 27,228	100.0 %
	<b>Home Health</b>							
	For the Three Months Ended September 30,				For the Nine Months Ended September 30,			
	2020		2019		2020		2019	
	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	\$ 3,188	78.0 %	\$ 3,338	76.5 %	\$ 9,667	79.2 %	\$ 7,948	79.0 %
Managed care organizations	829	20.3	959	22.0	2,325	19.0	1,872	18.6
Other	68	1.7	69	1.5	215	1.8	243	2.4
Total Home Health segment net service revenues	\$ 4,085	100.0 %	\$ 4,366	100.0 %	\$ 12,207	100.0 %	\$ 10,063	100.0 %
New Mexico	\$ 4,085	100.0 %	\$ 4,366	100.0 %	\$ 12,207	100.0 %	\$ 10,063	100.0 %
Total Home Health segment net service revenues	\$ 4,085	100.0 %	\$ 4,366	100.0 %	\$ 12,207	100.0 %	\$ 10,063	100.0 %

	Personal Care							
	For the Three Months Ended September 30,				For the Nine Months Ended September 30,			
	2020		2019		2020		2019	
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	\$ 74,448	44.9 %	\$ 61,633	40.1 %	\$ 215,047	44.6 %	\$ 178,449	42.5 %
New York	28,381	17.1	34,730	22.6	87,463	18.1	75,330	18.0
New Mexico	21,878	13.2	19,559	12.7	64,402	13.3	54,701	13.1
All other states	41,209	24.8	37,831	24.6	115,937	24.0	110,644	26.4
Total personal care segment net service revenues	\$ 165,916	100.0 %	\$ 153,753	100.0 %	\$ 482,849	100.0 %	\$ 419,124	100.0 %

We derive a significant amount of our net service revenues in Illinois, which represented 38.5% and 36.4% of our net service revenues for the three months ended September 30, 2020 and 2019, respectively, and accounted for 37.8% and 39.1% of our net service revenues for the nine months ended September 30, 2020 and 2019, respectively.

A significant amount of our revenue is derived from one payor client, the Illinois Department on Aging, the largest payor program for our Illinois personal care operations, which accounted for 22.9% and 22.1% of our net service revenues for the three months ended September 30, 2020 and 2019, respectively, and accounted for 23.1% and 26.0% of the Company's net service revenues for the nine months ended September 30, 2020 and 2019, respectively. The Illinois Department on Aging's payments for non-Medicaid consumers have been delayed in the past and may continue to be delayed in the future due to budget disputes. The state of Illinois did not adopt comprehensive budgets for fiscal years 2016 or 2017, ended June 30, 2016 and June 30, 2017, respectively. On July 6, 2017, the state of Illinois passed a budget for the state fiscal year 2018, which began on July 1, 2017, authorizing the Illinois Department on Aging to pay for our services rendered to non-Medicaid consumers provided in prior fiscal years. On June 4, 2018, the state of Illinois passed a budget for state fiscal year 2019, which began on July 1, 2018. On June 6, 2019, the state of Illinois passed a budget for state fiscal year 2020, which began on July 1, 2019. On June 10, 2020, the state of Illinois passed a budget for the state fiscal year 2021, which will take effect July 1, 2020. In December 2014, the Chicago City Council passed an ordinance that, over a period of years, raised the minimum wage for Chicago workers, resulting in an increase equal to \$13 per hour on July 1, 2019, with increases adjusted based on the Consumer Price Index in subsequent years. On November 26, 2019, the Chicago City Council 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.

The State of Illinois finalized its fiscal year 2020 budget with the inclusion of an appropriation to raise in-home care rates to offset the costs of previous minimum wage increases in Chicago and other areas of the state that were imposed beginning on July 1, 2018. These rates were originally set to be effective July 1, 2019, with in-home care rates to be initially increased by 10.9% to \$20.28 from \$18.29 to partially offset the costs of the minimum wage hikes. Rates were then further increased on January 1, 2020 by an additional 7.7% to \$21.84, providing full funding for both the Chicago minimum wage increases and a statewide raise for all current in-home caregivers.

On November 15, 2019, the State of Illinois received and announced official CMS approval for both rate increases, with the first increase to be effective on December 1, 2019, and the second increase to be effective on January 1, 2020. In addition, the Illinois Department on Aging, in conjunction with Illinois' Health Care and Family Services, announced that the new rates would become effective retroactive to July 1, 2019 for services covered by managed care organizations. On January 15, 2020, the Department on Aging announced confirmation that a one-time bonus payment would be paid to providers who have provided services to clients not enrolled in a managed care organization, for the time period of July 1, 2019 through November 30, 2019 using an updated hourly rate of \$20.28. The bonus payment of \$6.8 million was recognized as net service revenues as of December 31, 2019.

On June 10, 2020, the State of Illinois finalized its fiscal year 2021 budget, with in-home care rates to be increased by 7.1% to \$23.40 from \$21.84, effective January 1, 2021, contingent upon federal CMS approval.

Our business will benefit from the rate increases noted above, but there is no assurance that additional offsetting rate increases will be adopted in Illinois for fiscal years beyond fiscal year 2020, 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*

In June 2019, CMS began the Review Choice Demonstration for Home Health Services demonstration in Illinois to identify and prevent fraud, reduce the number of Medicare appeals, and improve provider compliance with Medicare program requirements. The Review Choice Demonstration began phasing in home health agencies in Ohio and Texas in August 2018 and January 2020, respectively. Home health agencies 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, less burdensome options. In March 2020, CMS paused certain claims processing requirements for the Review Choice Demonstration due to the COVID-19 pandemic. CMS announced that it would discontinue exercising enforcement discretion beginning in August 2020, regardless of the status of the public health emergency, and also began phasing in home health agencies in North Carolina and Florida. Following the resumption of the demonstration, MACs will conduct post-payment review on claims that were submitted and paid during the pause. We are currently unable to predict what impact, if any, this program may have on our result of operations or financial position.

Home health services provided to Medicare beneficiaries are paid under the Medicare Home Health Prospective Payment System (“HHPPS”). Historically, the HHPPS was based on 60-day episodes of care and used a case-mix system that relied on the number of visits to determine payment. Effective January 1, 2020, CMS began using a 30-day episode of care for home health payments and implemented the Patient-Driven Groupings Model (“PDGM”) as part of the shift toward value-based care. The PDGM classifies patients based on clinical characteristics and other patient information into payment categories and eliminates the use of therapy service thresholds. Also effective January 1, 2020, CMS finalized a policy allowing therapy assistants to provide maintenance therapy services in the home and modified certain requirements relating to the home health plan of care.

CMS updates the HHPPS payment rates each calendar year. Effective January 1, 2020, HHPPS rates increased by 1.3%, which reflects a 1.5% payment update as mandated by the Bipartisan Budget Act of 2018, offset by a 0.2 percentage point decrease in payments to home health agencies due to changes in the rural add-on percentages also mandated by the Bipartisan Budget Act of 2018, among other adjustments. CMS requires both home health and hospice providers to submit quality reporting data each year. Home health providers that do not comply are subject to a 2 percentage point reduction to their market basket update.

Historically, CMS has paid home health providers 50% to 60% of anticipated payment at the beginning of a patient’s care episode through a request for anticipated payment (“RAP”). However, to address potential program integrity risks, CMS is currently phasing out RAP payments. For calendar year 2020, CMS reduced RAP payments to 20% of the anticipated payment and limited those payments to existing home health providers. In calendar year 2021, CMS will not provide any up-front payments in response to a RAP but will continue to require home health providers to submit streamlined RAPs as notice that a beneficiary is under a home health period of care. CMS will further reduce the administrative burden on providers in calendar year 2022, replacing the RAP with a “Notice of Admission.”

### *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 fiscal year. Effective October 1, 2020, CMS increased hospice payment rates by 2.4%. This reflected a 2.4% market basket increase reduced by the multifactor productivity adjustment of 0.04 percentage points as required by the ACA. Additionally, 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 \$30,683.93 for fiscal year 2021. This amount reflects the hospice payment update of 2.4%. If a hospice’s Medicare payments exceed its aggregate cap, it must repay Medicare the excess amount.

### *COVID-19 Relief*

As a result of the COVID-19 pandemic, federal and state governments have passed legislation, promulgated regulations, and taken other administrative actions intended to assist healthcare providers in providing care to COVID-19 patients and other patients during the public health emergency. These temporary measures include relief from Medicare conditions of participation requirements for healthcare providers, relaxation of licensure requirements for healthcare professionals, relaxation of privacy restrictions for telehealth remote communications, promoting use of telehealth by expanding the scope of services for which Medicare reimbursement is available, and limited waivers of fraud and abuse laws for activities related to COVID-19 during the emergency period. The current federal public health emergency declaration expires January 21, 2021. The HHS Secretary may renew the declaration for successive 90-day periods for as long as the emergency continues to exist and may terminate the declaration whenever he determines that the emergency no longer exists.

One of the primary sources of relief for healthcare providers is the CARES Act, which was expanded by the PPPHCE Act. Together, the CARES Act and the PPPHCE Act include \$175 billion in funding to be distributed through the Relief Fund to eligible providers, including public entities and Medicare- and/or Medicaid-enrolled providers. Relief Fund payments are intended to compensate healthcare providers for lost revenues and health care related expenses incurred in response to the COVID-19 pandemic and are not required to be repaid, provided that recipients attest to and comply with certain terms and conditions, including limitations on balance billing and not using funds received from the Relief Fund to reimburse expenses or losses that other sources are obligated to reimburse. In April 2020, the Company received grants in an aggregate principal amount of \$6.9 million, for which it did not apply, from the Relief Fund as part of the automatic general distributions by HHS. The Company returned these funds in June 2020.

In addition, the CARES Act expands the Medicare Accelerated and Advance Payment Program to increase cash flow to providers impacted by the COVID-19 pandemic. Hospice and home health providers were able to request an advance or accelerated payment of up to 100% of the Medicare payment amount for a three-month period (not including Medicare Advantage payments). Effective October 8, 2020, CMS is no longer accepting applications for accelerated or advance payments. The Medicare Accelerated and Advanced Payment Program payments are a loan that providers must pay back. Recoupment of these payments was due to begin in August, but CMS has delayed the recoupment process for these payments, based on amended repayment terms imposed by the Continuing Appropriations Act, 2021 and Others Extension Act, enacted October 1, 2020, until one year after payment was issued. Beginning one year from the date payment was issued and continuing for eleven months, Medicare payments owed to providers and suppliers will be recouped at a rate of 25%. After the eleven months end, Medicare payments owed to providers and suppliers will be recouped at a rate of 50% for another six months. After the six months end, a letter for any remaining balance will be issued. If the remaining balance is not paid within thirty days, interest will accrue at a rate of 4%.

The CARES Act also includes other provisions offering financial relief, for example temporarily lifting the Medicare sequester from May 1 through December 31, 2020, which would have otherwise reduced payments to Medicare providers by 2% (but also extending sequestration through 2030). The Medicare sequester relief resulted in an increase of \$0.1 million and \$0.2 million, respectively, to home health net service

revenues and \$0.5 million and \$0.8 million to hospice net service revenues, respectively, for the three and nine months ended September 30, 2020.

Due to the recent enactment of the CARES Act, the PPPHCE Act and other enacted legislation, there is still a high degree of uncertainty surrounding their implementation. Further, the federal government is considering additional stimulus measures, federal agencies continue to issue related regulations and guidance, and the public health emergency continues to evolve. We continue to assess the potential impact of the CARES Act, the PPPHCE Act and other laws, regulations, and guidance related to COVID-19 on our business, results of operations, financial condition and cash flows.

### ***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. We receive payment for providing such services from our payor clients, including federal, state and local governmental agencies, managed care organizations, commercial insurers and private consumers. 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. We also record estimated implicit price concessions (based primarily on historical collection experience) related to uninsured accounts to record self-pay revenues at the estimated amounts we expect to collect.

#### ***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 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, principally using accelerated methods based upon their estimated useful lives.

#### ***Interest Expense***

Interest expense is reported in the Unaudited Condensed Consolidated Statements of Income when incurred and consists of (i) interest and unused credit line fees on our credit facility and (ii) interest on our financing lease obligations.

#### ***Income Tax Expense***

All of our income is from domestic sources. We incur state and local taxes in states in which we operate. For the three and nine months ended September 30, 2020 and 2019, the federal statutory rate was 21.0%. The effective income tax rate was 23.6% and 24.4% for the three months ended September 30, 2020 and 2019, respectively. For the three months ended September 30, 2020 and 2019, the difference between our federal statutory and effective income tax rates was principally due to the inclusion of state taxes and non-deductible compensation, partially offset by an excess tax benefit and the use of federal employment tax credits.

The effective income tax rates are 20.5% and 21.3% for the nine months ended September 30, 2020 and 2019, respectively. For the nine months ended September 30, 2020 and 2019, the difference between our federal statutory and effective income tax rates was principally due to the inclusion of an excess tax benefit and the use of federal employment tax credits, partially offset by state taxes and non-deductible compensation. The excess tax benefit is a discrete item, related to the vesting of equity shares, which requires us to recognize the benefit fully in the period. An excess tax benefit results if the Company's income tax deduction exceeds the cumulative costs of the award recognized on the Unaudited Condensed Consolidated Statements of Income.

**Results of Operations — Consolidated**

Three Months Ended September 30, 2020 Compared to Three Months Ended September 30, 2019

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

	For the Three Months Ended September 30,				Change	
	2020		2019			
	Amount	% Of Net Service Revenues	Amount	% Of Net Service Revenues	Amount	%
	(Amounts in Thousands, Except Percentages)					
Net service revenues	\$ 193,987	100.0 %	\$ 168,993	100.0 %	\$ 24,994	14.8 %
Cost of service revenues	137,686	71.0	123,817	73.3	13,869	11.2
Gross profit	56,301	29.0	45,176	26.7	11,125	24.6
General and administrative expenses	40,733	21.0	35,085	20.8	5,648	16.1
Depreciation and amortization	3,045	1.6	2,756	1.6	289	10.5
Total operating expenses	43,778	22.6	37,841	22.4	5,937	15.7
Operating income from continuing operations	12,523	6.4	7,335	4.3	5,188	70.7
Interest income	(87)	—	(786)	(0.5)	699	(88.9)
Interest expense	680	0.3	866	0.5	(186)	(21.5)
Total interest expense, net	593	0.3	80	—	513	641.3
Income from continuing operations before income taxes	11,930	6.1	7,255	4.3	4,675	64.4
Income tax expense	2,811	1.4	1,769	1.1	1,042	58.9
Net income from continuing operations	9,119	4.7	5,486	3.2	3,633	66.2
Net loss from discontinued operations	—	—	(574)	(0.3)	574	(100.0)
Net income	\$ 9,119	4.7 %	\$ 4,912	2.9 %	\$ 4,207	85.6 %

Net service revenues increased by 14.8% to \$194.0 million for the three months ended September 30, 2020 compared to \$169.0 million for the three months ended September 30, 2019. The increase was due to an increase in same store growth of 4.8% and a 7.7% increase in revenues per billable hour for the three months ended September 30, 2020, partially offset by a decrease in average billable census of 1.9% in our personal care segment. In addition, revenue increased by \$13.1 million from our hospice segment during the three months ended September 30, 2020, compared to the same period in 2019, partially attributed to the fiscal year 2019 acquisitions of Hospice Partners and Alliance.

Gross profit, expressed as a percentage of net service revenues, increased to 29.0% for the three months ended September 30, 2020, compared to 26.7% for the same period in 2019. The increase was mainly attributed to the acquisition of the relatively higher margin businesses in 2019.

General and administrative expenses increased to \$40.7 million for the three months ended September 30, 2020 as compared to \$35.1 million for the three months ended September 30, 2019. 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 \$5.3 million, an increase in data processing of \$0.4 million and an increase in rent expense of \$0.3 million. In addition, professional fees increased by \$1.0 million for the three months ended September 30, 2020 compared to the three months ended September 30, 2019, partially offset by a decrease in acquisition related costs of \$1.6 million for the three months ended September 30, 2020 compared to the three months ended September 30, 2019. General and administrative expenses, expressed as a percentage of net service revenues increased to 21.0% for the three months ended September 30, 2020, from 20.8% for the three months ended September 30, 2019.

Depreciation and amortization expense increased to \$3.0 million from \$2.8 million for the three months ended September 30, 2020 and 2019, respectively, primarily due to the increase of intangible assets related to the fiscal year 2019 acquisitions.

All of our income is from domestic sources. We incur state and local taxes in states in which we operate. For the three months ended September 30, 2020 and 2019, the federal statutory rate was 21.0%. The effective income tax rate was 23.6% and 24.4% for the three months ended September 30, 2020 and 2019, respectively. For the three months ended September 30, 2020 and 2019, the difference between our federal statutory and effective income tax rates was principally due to the inclusion of state taxes and non-deductible compensation, partially offset by an excess tax benefit and the use of federal employment tax credits.

*Nine Months Ended September 30, 2020 Compared to Nine Months Ended September 30, 2019*

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

	For the Nine Months Ended September 30,						Change	
	2020			2019				
	Amount	% Of Net Service Revenues		Amount	% Of Net Service Revenues		Amount	%
(Amounts in Thousands, Except Percentages)								
Net service revenues	\$ 568,779	100.0 %		\$ 456,415	100.0 %		\$ 112,364	24.6 %
Cost of service revenues	401,646	70.6		334,719	73.3		66,927	20.0
Gross profit	167,133	29.4		121,696	26.7		45,437	37.3
General and administrative expenses	125,470	22.0		94,109	20.7		31,361	33.3
Depreciation and amortization	8,872	1.6		7,365	1.6		1,507	20.5
Total operating expenses	134,342	23.6		101,474	22.3		32,868	32.4
Operating income from continuing operations	32,791	5.8		20,222	4.4		12,569	62.2
Interest income	(576)	(0.1)		(1,096)	(0.2)		520	(47.4)
Interest expense	2,309	0.4		2,164	0.4		145	6.7
Total interest expense, net	1,733	0.3		1,068	0.2		665	62.3
Income from continuing operations before income taxes	31,058	5.5		19,154	4.2		11,904	62.1
Income tax expense	6,374	1.2		4,080	0.9		2,294	56.2
Net income from continuing operations	24,684	4.3		15,074	3.3		9,610	63.8
Net loss from discontinued operations	—	—		(574)	(0.1)		574	(100.0)
Net income	\$ 24,684	4.3 %		\$ 14,500	3.2		\$ 10,184	70.2 %

Net service revenues increased by 24.6% to \$568.8 million for the nine months ended September 30, 2020 compared to \$456.4 million for the nine months ended September 30, 2019. The increase was due to an increase in same store growth of 8.8% and a 10.4 % increase in revenues per billable hour for the nine months ended September 30, 2020, partially offset by a decrease in average billable census of 2.1% in our personal care segment. In addition, revenue increased by \$46.5 million from our hospice segment during the nine months ended September 30, 2020, compared to the same period in 2019, attributed to the fiscal year 2019 acquisitions of Hospice Partners and Alliance.

Gross profit, expressed as a percentage of net service revenues, increased to 29.4% for the nine months ended September 30, 2020, compared to 26.7% for the same period in 2019. The increase was mainly attributed to the acquisition of the relatively higher margin businesses in 2019.

General and administrative expenses increased to \$125.5 million for the nine months ended September 30, 2020 as compared to \$94.1 million for the nine months ended September 30, 2019. 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 \$21.5 million, an increase in data processing of \$1.7 million and an increase in rent expense of \$1.6 million. In addition, professional fees increased by \$3.4 million for the nine months ended September 30, 2020 compared to the nine months ended September 30, 2019. General and administrative expenses, expressed as a percentage of net service revenues increased to 22.0% for the nine months ended September 30, 2020, from 20.7% for the nine months ended September 30, 2019.

Depreciation and amortization expense increased to \$8.9 million from \$7.4 million for the nine months ended September 30, 2020 and 2019, respectively, primarily due to the increase of intangible assets related to the fiscal year 2019 acquisitions.

All of our income is from domestic sources. We incur state and local taxes in states in which we operate. For the nine months ended September 30, 2020 and 2019, the federal statutory rate was 21.0%. The effective income tax rate was 20.5% and 21.3% for the nine months ended September 30, 2020 and 2019, respectively.

For the nine months ended September 30, 2020 and 2019, the difference between our federal statutory and effective income tax rates was principally due to the inclusion of an excess tax benefit and the use of federal employment tax credits, partially offset by state taxes and non-deductible compensation. The excess tax benefit is a discrete item, related to the vesting of equity shares, which requires us to recognize the benefit fully in the period.

## Results of Operations – Segments

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

### Personal Care Segment

Personal Care Segment	For the Three Months Ended September 30,						For the Nine Months Ended September 30,					
	2020		2019		Change		2020		2019		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)					
<b>Operating Results</b>												
Net service revenues	\$ 165,916	100.0 %	\$ 153,753	100.0 %	\$ 12,163	7.9 %	\$ 482,849	100.0 %	\$ 419,124	100.0 %	\$ 63,725	15.2 %
Cost of services revenues	124,493	75.0	115,504	75.1	8,989	7.8	359,344	74.4	314,329	75.0	45,015	14.3
Gross profit	41,423	25.0	38,249	24.9	3,174	8.3	123,505	25.6	104,795	25.0	18,710	17.9
General and administrative expenses	14,837	8.9	14,737	9.6	100	0.7	45,042	9.3	40,053	9.6	4,989	12.5
Segment operating income	\$ 26,586	16.0 %	\$ 23,512	15.3 %	\$ 3,074	13.1 %	\$ 78,463	16.3 %	\$ 64,742	15.4 %	\$ 13,721	21.2 %
<b>Business Metrics (Actual Numbers, Except Billable Hours in Thousands)</b>												
Location at period end							153		153			
Average billable census * (1)	38,589		39,342		(753)	(1.9) %	38,443		39,279		(836)	(2.1) %
Billable hours * (2)	7,778		7,785		(7.0)	(0.1)	22,825		21,918		907	4.1
Average billable hours per census per month * (2)	66.9		65.5		1.4	2.1	65.6		61.5		4.1	6.7
Billable hours per business day * (2)	117,841		117,956		(115)	(0.1)	116,454		112,400		4,054	3.6
Revenues per billable hour * (2)	\$ 21.29		\$ 19.76		\$ 1.53	7.7 %	\$ 21.11		\$ 19.13		\$ 1.98	10.4 %
Same store growth revenue % * (3)	4.8 %		7.2 %				8.8 %		6.3 %			

- (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 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.

\* 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.

Net service revenues from state, local and other governmental programs accounted for 51.5% and 48.9% of net service revenues for the three months ended September 30, 2020 and 2019, respectively, and 50.3% and 52.8% of net service revenues for the nine months ended September 30, 2020 and 2019, respectively. Managed care organizations accounted for 43.2% and 44.5% of net service revenues for the three months ended September 30, 2020 and 2019, and 44.1% and 40.6% of net service revenues for the nine months ended September 30, 2020 and 2019, respectively, with commercial insurance, private pay and other payors accounting for the remainder of net service revenues. One payor client, the Illinois Department on Aging, accounted for 22.9% and 22.1% of net service revenues for the three months ended September 30, 2020 and 2019, respectively, and accounted for 23.1% and 26.0% of net service revenues for the nine months ended September 30, 2020 and 2019, respectively.

Net service revenues increased by 7.9% for the three months ended September 30, 2020 compared to the three months ended September 30, 2019. Net service revenues increased primarily as a result of an increase in same store growth of 4.8% and an increase in revenues per billable hour of 7.7%, partially offset by a decrease in average billable census of 1.9% for the three months ended September 30, 2020 as compared to the three months ended September 30, 2019. Net service revenues increased by 15.2% for the nine months ended September 30, 2020 compared to the nine months ended September 30, 2019. Net service revenues increased primarily due to a result of an increase in same store growth of 8.8%, an increase in billable hours of 4.1% and a 10.4% increase in revenues per billable hour, partially offset by a decrease in average billable census of 2.1% for the nine months ended September 30, 2020 compared to the nine months ended September 30, 2019. Revenue per billable hours increased for the three and nine months ended September 30, 2020 compared to September 30, 2019, mainly attributed to rate increases discussed above.

Gross profit, expressed as a percentage of net service revenues, increased to 25.0% for the three months ended September 30, 2020 from 24.9% for the three months ended September 30, 2019 and from 25.6% for the nine months ended September 30, 2020 to 25.0% for the nine months ended September 30, 2019. This increase was primarily due to a decrease in direct employee wages, taxes and benefit costs as a percentage of net service revenues of 0.1% and 0.9% for the three and nine months ended September 30, 2020 as compared to the three months ended September 30, 2019.

General and administrative expenses increased by approximately \$0.1 million and \$5.0 million for the three and nine months ended September 30, 2020, respectively. Administrative employee wages, taxes and benefit costs for the nine months ended September 30, 2020 increased \$5.1 million primarily due to acquisitions.

### Hospice Segment

Hospice Segment	For the Three Months Ended September 30,						For the Nine Months Ended September 30,					
	2020		2019		Change		2020		2019		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)											
<b>Operating Results</b>												
Net service revenues	\$ 23,986	100.0 %	\$ 10,874	100.0 %	\$ 13,112	120.6 %	\$ 73,723	100.0 %	\$ 27,228	100.0 %	\$ 46,495	170.8 %
Cost of services revenues	10,508	43.8	5,495	50.5	5,013	91.2	33,749	45.8	13,587	49.9	20,162	148.4
Gross profit	13,478	56.2	5,379	49.5	8,099	150.6	39,974	54.2	13,641	50.1	26,333	193.0
General and administrative expenses	5,904	24.6	1,824	16.8	4,080	223.7	18,658	25.3	4,962	18.2	13,696	276.0
Segment operating income	\$ 7,574	31.6 %	\$ 3,555	32.7 %	\$ 4,019	113.1 %	\$ 21,316	28.9 %	\$ 8,679	31.9 %	\$ 12,637	145.6 %
<b>Business Metrics (Actual Numbers)</b>												
Locations at period end							30		14			
Admissions * (1)	1,399		563		836	148.5 %	4,393		1,548		2,845	183.8 %
Average daily census * (2)	1,681		791		890	112.5 %	1,762		659		1,103	167.4 %
Average length of stay * (3)	109		121		(12)	(9.9)	103		122		(19)	(15.6)
Patient days * (4)	154,609		72,261		82,348	114.0 %	482,765		178,792		303,973	170.0 %
Revenue per patient day * (5)	\$ 155.14		\$ 150.48		\$ 4.66	3.1 %	\$ 152.71		\$ 152.29		\$ 0.42	0.3 %

(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.

\* 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.

Hospice generates net service revenues by providing care to patients with a life expectancy of six months or less, and their families. Net service revenues from Medicare accounted for 93.4% and 92.4% and managed care organizations accounted for 4.7% and 5.4% for the three months ended September 30, 2020 and 2019, respectively. Net service revenues from Medicare accounted for 92.8% and 92.7% and managed care organizations accounted for 5.0% and 5.2% for the nine months ended September 30, 2020 and 2019, respectively.

Net service revenues increased by \$13.1 million and \$46.5 for the three and nine months ended September 30, 2020 compared to the three and nine months ended September 30, 2019. For the three and nine months ended September 30, 2020, net service revenues increased primarily due to an increase in average daily census partially attributed to the acquisitions of Alliance on August 1, 2019 and Hospice Partners on October 1, 2019.

Gross profit, expressed as a percentage of net service revenues was 56.2% and 49.5% for the three months ended September 30, 2020 and 2019, respectively, and 54.2% and 50.1%, for the nine months ended September 30, 2020 and 2019, respectively. For the three months ended September 30, 2020, the increase of gross profit as a percentage of net service revenues was mainly attributed to a decrease of employee wages, taxes and benefit costs of 1.8%, pharmacy costs of 1.2%, medical equipment of 1.1% and direct service supply costs of 0.7%. For the nine months ended September 30, 2020, the increase of gross profit as a percentage of net service revenues was mainly attributed to a decrease in pharmacy costs of 1.0% and medical equipment of 1.0%.



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 24.6% and 16.8% for the three months ended September 30, 2020 and 2019, respectively, and 25.3% and 18.2% for the nine months ended September 30, 2020 and 2019, respectively. The increase in general and administrative expenses was primarily due to acquisitions that resulted in a \$3.4 million and \$11.4 million increase in administrative employee wages, taxes and benefit costs and a \$0.3 million and \$0.9 million increase in rent expenses for the three and nine months ended September 30, 2020. The hospice segment's operating income was \$7.6 million and \$3.6 million for the three months ended September 30, 2020 and 2019, respectively, and \$21.3 million and \$8.7 million for the nine months ended September 30, 2020 and 2019, respectively.

### Home Health Segment

	For the Three Months Ended September 30,						For the Nine Months Ended September 30,					
	2020		2019		Change		2020		2019		Change	
Home Health Segment	Amount	% of Segment Net Service Revenues	Amount	% of Segment Net Service Revenues	Amount	%	Amount	% of Segment Net Service Revenues	Amount	% of Segment Net Service Revenues	Amount	%
(Amounts in Thousands, Except Percentages)												
<b>Operating Results</b>												
Net service revenues	\$ 4,085	100.0 %	\$ 4,366	100.0 %	\$ (281)	(6.4) %	\$ 12,207	100.0 %	\$ 10,063	100.0 %	\$ 2,144	21.3 %
Cost of services revenues	2,685	65.7	2,818	64.5	(133)	(4.7)	8,553	70.1	6,803	67.6	1,750	25.7
Gross profit	1,400	34.3	1,548	35.5	(148)	(9.6)	3,654	29.9	3,260	32.4	394	12.1
General and administrative expenses	925	22.6	844	19.3	81	9.6	2,831	23.2	2,187	21.7	644	29.4
Segment operating income	\$ 475	11.6 %	\$ 704	16.1 %	\$ (229)	(32.5) %	\$ 823	6.7 %	\$ 1,073	10.7 %	\$ (250)	(23.3) %
<b>Business Metrics (Actual Numbers)</b>												
Locations at period end							10		12			
New admissions * (1)	1,096		910		186	20.4 %	3,186		2,325		861	37.0 %
Recertifications * (2)	607		764		(157)	(20.5)	2,006		1,949		57	2.9
Total volume * (3)	1,703		1,674		29	1.7	5,192		4,274		918	21.5
Visits * (4)	28,073		31,477		(3,404)	(10.8) %	91,580		75,188		16,392	21.8 %

- (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.

\* 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.

Home health 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 78.0% and 76.5%, managed care organizations accounted for 20.3% and 22.0% and other accounted for 1.7% and 1.5% for the three months ended September 30, 2020 and 2019, respectively. Net service revenues from Medicare accounted for 79.2% and 79.0%, managed care organizations accounted for 19.0% and 18.6% and other accounted for 1.8% and 2.4% for the nine months ended September 30, 2020 and 2019, respectively.

Net service revenues decreased by \$0.3 million primarily due to a decrease of recertifications and visits of 20.5% and 10.8% respectively, related to COVID-19 restrictions in New Mexico. For the nine months ended September 30, 2020, net service revenues increased primarily due to an increase in total visits partially related to the acquisition of Alliance on August 1, 2019.

Gross profit, expressed as a percentage of net service revenues was 34.3% and 35.5% for the three months ended September 30, 2020 and 2019, respectively, and 29.9% and 32.4%, for the nine months ended September 30, 2020 and 2019, respectively. For the three and nine months ended September 30, 2020, the decrease of gross profit as a percentage of net service revenues was due to an increase of direct employee wages, taxes and benefit costs of 1.4% and 2.7% as a percentage of net service revenues, respectively.

The home health segment's general and administrative expenses 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 22.6% and 19.3%, respectively, for the three months ended September 30, 2020 and 2019, respectively, and 23.2% and 21.7% for the nine months ended September 30, 2020 and 2019, respectively. For the nine months ended September 30, 2020, the increase in general and administrative expenses was primarily due to increases in administrative employee wages, taxes and benefit costs of \$0.6 million. The home health segment's operating income was \$0.5 million and \$0.7 million for the three months ended September 30, 2020 and 2019, respectively, and \$0.8 million and \$1.1 million for the nine months ended September 30, 2020 and 2019, respectively.

## **Liquidity and Capital Resources**

### *Overview*

Our primary sources of liquidity are cash on hand and cash from operations. At September 30, 2020 and December 31, 2019, we had cash balances of \$170.3 million and \$111.7 million, respectively.

During the three and nine months ended September 30, 2020, we did not draw on the term loan. As of September 30, 2020, we had a total of \$43.4 million in revolving loans, with an interest rate of 1.89% and \$18.4 million of term loans, with an interest rate of 1.89%, outstanding on our credit facility. After giving effect to the amount drawn on our credit facility, approximately \$9.3 million of outstanding letters of credit and borrowing limits based on an advance multiple of adjusted EBITDA, we had \$219.0 million available for borrowing under our revolving credit loan facility.

At December 31, 2019, we had a total of \$43.4 million revolving credit loans, with an interest rate of 3.44%, and \$18.9 million term loans, with an interest rate of 3.45%, outstanding on our credit facility. After giving effect to the amount drawn on our credit facility, approximately \$10.0 million of outstanding letters of credit and borrowing limits based on an advance multiple of adjusted EBITDA, we had \$191.4 million available for borrowing under our revolving credit loan facility.

Cash flows from operating activities represent the inflow of cash from our payor clients and the outflow of cash for payroll and payroll taxes, operating expenses, interest and taxes. Due to its revenue deficiencies as well as budget and financing issues, from time to time the state of Illinois has reimbursed us on a delayed basis with respect to our various agreements including with our largest payor, the Illinois Department on Aging. The open receivable balance from the Illinois Department on Aging decreased by \$15.8 million from \$37.6 million as of December 31, 2019 to \$21.8 million as of September 30, 2020.

### **Amended and Restated Senior Secured Credit Facility**

On October 31, 2018, we amended and restated our Existing Credit Agreement, with certain lenders and Capital One, National Association as a lender and swing line lender and as agent for all lenders. This amended and restated credit facility totals \$269.6 million, inclusive of a \$250.0 million revolving loan and a \$19.6 million delayed draw term loan and is evidenced by the Credit Agreement. This amended and restated credit facility amended and restated our existing senior secured credit facility totaling \$250.0 million. The maturity of this amended and restated credit facility is May 8, 2023, with borrowing under the delayed draw term loan available until June 30, 2019, as extended pursuant to the consent letter, dated January 30, 2019, executed by the Required Lenders (as defined in the Credit Agreement). Interest on our amended and restated credit facility may be payable at (x) the sum of (i) an applicable margin ranging from 0.75% to 1.50% based on the applicable senior net leverage ratio plus (ii) a base rate equal to the greatest of (a) the rate of interest last quoted by The Wall Street Journal as the "prime rate," (b) the sum of the federal funds rate plus a margin of 0.50% and (c) the sum of the adjusted LIBOR that would be applicable to a loan with an interest period of one month advanced on the applicable day (not to be less than 0.00%) plus a margin of 1.00% or (y) the sum of (i) an applicable margin ranging from 1.75% to 2.50% based on the applicable senior net leverage ratio plus (ii) the offered rate per annum for similar dollar deposits for the applicable interest period that appears on Reuters Screen LIBOR01 Page (not to be less than zero). Swing loans may not be LIBOR loans. The availability of additional draws under this amended and restated credit facility is conditioned, among other things, upon (after giving effect to such draws) the Total Net Leverage Ratio (as defined in the Credit Agreement) not exceeding 3.75:1.00. In certain circumstances, in connection with a Material Acquisition (as defined in the Credit Agreement), we can elect to increase our Total Net Leverage Ratio compliance covenant to 4.25:1.00 for the then current fiscal quarter and the three succeeding fiscal quarters. In connection with this amended and restated credit facility, we incurred approximately \$0.9 million of debt issuance costs.

Addus HealthCare is the borrower, and its parent, Holdings, and substantially all of Holdings' subsidiaries are guarantors under this amended and restated credit facility, and it is secured by a first priority security interest in all of our 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 the timely delivery of audited financial statements, limitations on us with respect to liens, indebtedness, guaranties, investments, distributions, mergers and acquisitions and dispositions of assets.

We pay 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 amended and restated 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, as well as restrictions on guaranties, indebtedness, liens, investments and loans, subject to customary carve outs, a restriction on dividends (provided that Addus HealthCare may make distributions to us 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 our credit facility subject to compliance with the Total Net Leverage Ratio (as defined in the Credit Agreement), restrictions on mergers, dispositions of assets, and affiliate transactions, and restrictions on fundamental changes and lines of business.

At September 30, 2020, we were in compliance with our financial covenants under the Credit Agreement.

### Cash Flows

The following table summarizes changes in our cash flows for the nine months ended September 30, 2020 and 2019:

	For the Nine Months Ended September 30,	
	2020	2019
	(Amounts in Thousands)	
Net cash provided by operating activities	\$ 73,299	\$ 8,084
Net cash used in investing activities	(17,507)	(56,301)
Net cash provided by financing activities	2,825	217,420

### Nine Months Ended September 30, 2020 Compared to Nine Months Ended September 30, 2019

Net cash provided by operating activities was \$73.3 million for the nine months ended September 30, 2020, compared to \$8.1 million for the same period in 2019. The increase in cash provided by operations was primarily due to decreases in accounts receivable for the state of New York, Illinois Department of Aging and a decrease in days sales outstanding (“DSO”) as discussed below, combined with organic growth and acquisition activity.

Net cash used in investing activities was \$17.5 million for the nine months ended September 30, 2020 compared to cash used in investing activities of \$56.3 million for the nine months ended September 30, 2019. Our investing activities for the nine months ended September 30, 2020 consisted of \$6.0 million in purchases of property and equipment primarily related to investments in our technology infrastructure. Our investing activities for the nine months ended September 30, 2019 consisted of \$29.9 million primarily for the acquisition of VIP, \$23.5 million for the acquisition of Alliance, and \$3.1 million in purchases of property and equipment primarily related to our ongoing investments in our technology infrastructure.

Net cash provided by financing activities was related to cash received from the exercise of stock options of \$3.3 million for the nine months ended September 30, 2020. Our financing activities for the nine months ended September 30, 2019 were primarily related to net proceeds from our Public Offering of \$172.9 million, borrowings of approximately \$23.5 million on the revolver portion of our credit facility to fund the Alliance acquisition, borrowings of \$19.6 million on the delayed draw term loan portion of our credit facility to fund, in part, the VIP acquisition and \$2.1 million in cash received from the exercise of stock options.

### Outstanding Accounts Receivable

Gross accounts receivable as of September 30, 2020 and December 31, 2019 were approximately \$118.5 million and \$150.6 million, respectively. Outstanding accounts receivable, net of allowance, decreased by \$31.1 million as of September 30, 2020 as compared to December 31, 2019. Accounts receivable for the Illinois Department on Aging decreased approximately \$15.8 million during the quarter ended September 30, 2020. 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 received a bonus payment of \$6.8 million in May of 2020.

We calculate our DSO by taking the trade accounts receivable outstanding, net of allowance 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 56 days and 72 days at September 30, 2020 and December 31, 2019, respectively. The DSOs for our largest payor, the Illinois Department on Aging, at September 30, 2020 and December 31, 2019 were 48 days and 78 days, respectively. We may not receive payments on a consistent basis in the near term and our DSOs and the DSO for the Illinois Department on Aging may increase despite the state of Illinois’s enactment of state budgets for fiscal years 2020 and 2021.

The economic slowdown caused by the COVID-19 pandemic poses significant risks to states’ budgets for the 2021 fiscal year, which began July 1 in most states. Depending on the severity and length of a downturn, sales tax collections and income tax withholdings could continue to be depressed in fiscal 2021 and, potentially, future fiscal years. States could face significant fiscal challenges and may have no choice but to revise their revenue forecasts and adjust their budgets for fiscal 2021 and, potentially, future fiscal years, accordingly. In New York, which started its fiscal year April 1, the state comptroller recently estimated that the state would collect at least \$10 billion less than originally forecasted, the first year-to-year cut since 2011. The current New York fiscal plan authorizes the state to issue up to \$8 billion in short-term bonds to provide funds in case of reduced revenues during the fiscal year. The state issued \$1.1 billion of bonds on October 28, 2020. It also allows two state authorities to provide the state with a \$3 billion line of credit in the new fiscal year. As the state continues to deal with lower levels of funding due to the COVID-19 virus, the state implemented a 1% reduction to all Medicaid providers effective January 1, 2020. The recently passed budget included an additional 0.5% reduction to the Medicaid rate, which also allows the governor to make any additional changes needed as the budget year progresses.

Congress could provide additional relief with additional stimulus and relief legislation, including extension of unemployment benefits and relief for states. We cannot determine the impact that COVID-19 may have on states budgets for 2021 or beyond, however, such impacts could have a material adverse effect on our financial condition, results of operations and cash flows.

***Off-Balance Sheet Arrangements***

As of September 30, 2020, 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, 2019, filed on August 10, 2020.

***Recently Issued Accounting Pronouncements***

Refer to Note 2 to the Notes to Consolidated Financial Statements for further discussion.

### **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

We are exposed to market risk associated with changes in interest rates on our variable rate long-term debt. As of September 30, 2020, we had outstanding borrowings of approximately \$61.8 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 months period ended September 30, 2020, our net income would have decreased by \$0.1 million, or \$0.01 per diluted share and \$0.4 million, or \$0.02 per diluted share, for the respective periods. 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, 2020. 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 not effective as of September 30, 2020 due to the material weaknesses in internal control over financial reporting that were disclosed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2019.

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

During the quarter ended September 30, 2020, we continued to implement the following changes to our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

- Implemented enhancements to the design of control activities related to the review and approval of hours worked and billed, including obtaining and reviewing the Service Organization Control 1 Type 2 (“SOC 1 Type 2”) report from our preferred electronic visit verification (“EVV”) vendor. Additionally, we enhanced existing controls to increase our level of precision of review of hours worked and billed and implemented new controls within the payroll process.
- Implemented enhancements to the design of control activities over the accuracy of the implicit price concession assumption used in the estimate of recoverability of unadjudicated net service revenues, including additional analysis around aged accounts receivable and using cash collection data to validate the recoverability.

#### ***Remediation Efforts with Respect to Material Weaknesses***

As previously described in Part II, Item 9A of our Annual Report on Form 10-K for the fiscal year ended December 31, 2019, our management began a remediation plan to address the material weaknesses. We have identified dedicated internal resources, supplemented with third-party specialists, to assist with formalizing a robust and detailed remediation plan and updated risk assessment, including identifying and assessing those risks commensurate with the significant changes within our company.

Because the reliability of the internal control process requires repeatable execution, the successful remediation of these material weaknesses will require review and evidence of operating effectiveness prior to concluding that the controls are effective. Although significant progress has been made, the previously identified material weaknesses continue to exist as of September 30, 2020, and will not be considered remediated until the applicable controls operate for a sufficient period of time and management has concluded, through testing, that these controls are operating effectively.

**PART II – OTHER INFORMATION**

**Item 1. Legal Proceedings**

***Legal Proceedings***

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

**Item 1A. Risk Factors**

Investing in our common stock involves a high degree of risk. You should carefully consider the risk factors discussed under the caption “Risk Factors” set forth in Part I, Item 1A, of our Annual Report on Form 10-K for the year ended December 31, 2019, as filed on August 10, 2020. 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**

None.

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### Item 6. Exhibits

- 3.1 [Amended and Restated Certificate of Incorporation of the Company dated as of October 27, 2009 \(filed on November 20, 2009 as Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q \(File No. 001-34504\) and incorporated by reference herein\).](#)
  - 3.2 [Amended and Restated Bylaws of the Company, as amended by the First Amendment to the Amended and Restated Bylaws \(filed on May 9, 2013 as Exhibit 3.2 to the Company's Quarterly Report on Form 10-Q \(File No. 001-34504\) and incorporated by reference herein\).](#)
  - 4.1 [Form of Common Stock Certificate \(filed on October 2, 2009 as Exhibit 4.1 to Amendment No. 4 to the Company's Registration Statement on Form S-1 \(File No. 333-160634\) and incorporated by reference herein\).](#)
  - 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: November 6, 2020

By: \_\_\_\_\_ /s/ R. DIRK ALLISON

**R. Dirk Allison**  
**President and Chief Executive Officer**  
**(As Principal Executive Officer)**

Date: November 6, 2020

By: \_\_\_\_\_ /s/ BRIAN POFF

**Brian Poff**  
**Chief Financial Officer**  
**(As Principal Financial Officer)**



**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: November 6, 2020

By: /s/ R. Dirk Allison  
R. Dirk Allison  
President and Chief Executive Officer

**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: November 6, 2020

By: /s/ Brian Poff

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Brian Poff  
Chief Financial Officer

**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, 2020 of Addus HomeCare Corporation (the "Company") as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, R. Dirk Allison, President 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: November 6, 2020

By: /s/ R. Dirk Allison

R. Dirk Allison

President and Chief Executive Officer

**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, 2020 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: November 6, 2020

By: /s/ Brian Poff

Brian Poff  
Chief Financial Officer