ROYAL BANK OF CANADA
Form 424B2
April 27, 2018

RBC Capital Markets®

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Registration Statement No. 333-208507

Pricing Supplement Dated April 25, 2018 To the Product Prospectus Supplement ERN-EI-1 Dated January 12, 2016, Prospectus Supplement Dated January 8, 2016, and Prospectus Dated January 8, 2016

$882,000
Buffered Return Notes
Linked to the S&P 500® Index,
Due April 28, 2023
Royal Bank of Canada

Royal Bank of Canada is offering the Buffered Return Notes (the "Notes") linked to the performance of the S&P 500® Index (the "Reference Asset").

The CUSIP number for the Notes is 78013XJR0. The Notes do not pay interest. The Notes provide a one-for-one positive return if the level of the Reference Asset increases from the Initial Level to the Final Level. If the Final Level is less than the Initial Level by no more than 20%, investors will receive the principal amount. However, investors will lose 1% of the principal amount of the Notes for each 1% decrease from the Initial Level to the Final Level of more than 20%. Any payments on the Notes are subject to our credit risk.

Issue Date: April 30, 2018

Maturity Date: April 28, 2023

The Notes will not be listed on any securities exchange.

Investing in the Notes involves a number of risks. See "Risk Factors" beginning on page S-1 of the prospectus supplement dated January 8, 2016, "Additional Risk Factors Specific to the Notes" beginning on page PS-4 of the product prospectus supplement dated January 12, 2016, and "Selected Risk Considerations" beginning on page P-6 of this pricing supplement.

The Notes will not constitute deposits insured by the Canada Deposit Insurance Corporation, the U.S. Federal Deposit Insurance Corporation or any other Canadian or U.S. government agency or instrumentality.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined that this pricing supplement is truthful or complete. Any representation to the contrary is a criminal offense.

	Per Note	Total
Price to public[1]	100.00%	$882,000.00
Underwriting discounts and commissions	3.25%	$28,665.00
Proceeds to Royal Bank of Canada	96.75%	$853,335.00

[1]Certain dealers who purchase the Notes for sale to certain fee-based advisory accounts may forego some or all of their underwriting discount or selling concessions. The public offering price for investors purchasing the Notes in these accounts may be between $967.50 and $1,000 per $1,000 in principal amount.

The initial estimated value of the Notes as of the date of this pricing supplement is $939.75 per $1,000 in principal amount, which is less than the price to public. The actual value of the Notes at any time will reflect many factors, cannot be predicted with accuracy, and may be less than this amount. We describe our determination of the initial estimated value in more detail below.

RBC Capital Markets, LLC, which we refer to as RBCCM, acting as agent for Royal Bank of Canada, received a commission of $32.50 per $1,000 in principal amount of the Notes and used a portion of that commission to allow selling concessions to other dealers of up to $32.50 per $1,000 in principal amount of the Notes. The other dealers may forgo, in their sole discretion, some or all of their selling concessions. See “Supplemental Plan of Distribution (Conflicts of Interest)” below.

We may use this pricing supplement in the initial sale of the Notes. In addition, RBCCM or another of our affiliates may use this pricing supplement in a market-making transaction in the Notes after their initial sale. Unless we or our agent informs the purchaser otherwise in the confirmation of sale, this pricing supplement is being used in a market-making transaction.

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SUMMARY

The information in this "Summary" section is qualified by the more detailed information set forth in this pricing supplement, the product prospectus supplement, the prospectus supplement, and the prospectus.

Issuer:	Royal Bank of Canada ("Royal Bank")
Issue:	Senior Global Medium-Term Notes, Series G
Underwriter:	RBC Capital Markets, LLC ("RBCCM")
Reference Asset:	S&P 500® Index
Bloomberg Ticker:	SPX
Currency:	U.S. Dollars
Minimum Investment:	$1,000 and minimum denominations of $1,000 in excess thereof
Pricing Date:	April 25, 2018
Issue Date:	April 30, 2018
CUSIP:	78013XJR0
Valuation Date:	April 25, 2023
Payment at Maturity (if held to maturity):	If, on the Valuation Date, the Percentage Change is positive, then the investor will receive an amount per $1,000 principal amount per Note equal to: Principal Amount + (Principal Amount x Percentage Change) If, on the Valuation Date, the Percentage Change is less than or equal to 0%, but not by more than the Buffer Percentage (that is, the Percentage Change is between zero and -20.00%), then the investor will receive the principal amount only. If, on the Valuation Date, the Percentage Change is negative, by more than the Buffer Percentage (that is, the Percentage Change is between -20.01% and -100%), then the investor will receive a cash payment equal to: Principal Amount + [Principal Amount x (Percentage Change + Buffer Percentage)]
Percentage Change:	The Percentage Change, expressed as a percentage, is calculated using the following formula:

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Initial Level:	2,639.40, which was the closing level of the Reference Asset on the Pricing Date.
Final Level:	The closing level of the Reference Asset on the Valuation Date.
Buffer Percentage:	20%
Buffer Level:	2,111.52, which is 80% of the Initial Level.
Maturity Date:	April 28, 2023, subject to extension for market and other disruptions, as described in the product prospectus supplement dated January 12, 2016.
Term:	5 years
Principal at Risk:	The Notes are NOT principal protected. You may lose a substantial portion of your principal amount at maturity if there is a percentage decrease from the Initial Level to the Final Level of more than 20%.
Calculation Agent:	RBCCM
U.S. Tax Treatment:	By purchasing a Note, each holder agrees (in the absence of a change in law, an administrative determination or a judicial ruling to the contrary) to treat the Note as a pre-paid cash-settled derivative contract for U.S. federal income tax purposes. However, the U.S. federal income tax consequences of your investment in the Notes are uncertain and the Internal Revenue Service could assert that the Notes should be taxed in a manner that is different from that described in the preceding sentence. Please see the section below, “Supplemental Discussion of U.S. Federal Income Tax Consequences,” and the discussion (including the opinion of our counsel Morrison & Foerster LLP) in the product prospectus supplement dated January 12, 2016 under “Supplemental Discussion of U.S. Federal Income Tax Consequences,” which apply to the Notes.
Secondary Market:	RBCCM (or one of its affiliates), though not obligated to do so, may maintain a secondary market in the Notes after the Issue Date. The amount that you may receive upon sale of your Notes prior to maturity may be less than the principal amount of your Notes.
Listing:	The Notes will not be listed on any securities exchange.
Clearance and Settlement:	DTC global (including through its indirect participants Euroclear and Clearstream, Luxembourg as described under “Description of Debt Securities—Ownership and Book-Entry Issuance” in the prospectus dated January 8, 2016).
Terms Incorporated in the Master Note:	All of the terms appearing above the item captioned “Secondary Market” on pages P-2 and P-3 of this pricing supplement and the terms appearing under the caption “General Terms of the Notes” in the product prospectus supplement dated January 12, 2016, as modified by this pricing supplement. In addition to those terms, the following two sentences are also so incorporated into the master note: RBC confirms that it fully understands and is able to calculate the effective annual rate of interest applicable to the Notes based on the methodology for calculating per annum rates provided for in the Notes. RBC irrevocably agrees not to plead or assert Section 4 of the Interest Act (Canada), whether by way of defense or otherwise, in any proceeding relating to the Notes.

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ADDITIONAL TERMS OF YOUR NOTES

You should read this pricing supplement together with the prospectus dated January 8, 2016, as supplemented by the prospectus supplement dated January 8, 2016 and the product prospectus supplement dated January 12, 2016, relating to our Senior Global Medium-Term Notes, Series G, of which these Notes are a part. Capitalized terms used but not defined in this pricing supplement will have the meanings given to them in the product prospectus supplement. In the event of any conflict, this pricing supplement will control. The Notes vary from the terms described in the product prospectus supplement in several important ways. You should read this pricing supplement carefully.

This pricing supplement, together with the documents listed below, contains the terms of the Notes and supersedes all prior or contemporaneous oral statements as well as any other written materials including preliminary or indicative pricing terms, correspondence, trade ideas, structures for implementation, sample structures, brochures or other educational materials of ours. You should carefully consider, among other things, the matters set forth in "Risk Factors" in the prospectus supplement dated January 8, 2016 and "Additional Risk Factors Specific to the Notes" in the product prospectus supplement dated January 12, 2016, as the Notes involve risks not associated with conventional debt securities. We urge you to consult your investment, legal, tax, accounting and other advisors before you invest in the Notes. You may access these documents on the Securities and Exchange Commission (the "SEC") website at www.sec.gov as follows (or if that address has changed, by reviewing our filings for the relevant date on the SEC website):

Prospectus dated January 8, 2016:
http://www.sec.gov/Archives/edgar/data/1000275/000121465916008810/j18160424b3.htm
Prospectus Supplement dated January 8, 2016:
http://www.sec.gov/Archives/edgar/data/1000275/000121465916008811/p14150424b3.htm
Product Prospectus Supplement ERN-EI-1 dated January 12, 2016:
https://www.sec.gov/Archives/edgar/data/1000275/000114036116047560/form424b5.htm

Our Central Index Key, or CIK, on the SEC website is 1000275. As used in this pricing supplement, "we," "us," or "our" refers to Royal Bank of Canada.

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HYPOTHETICAL RETURNS

The examples set out below are included for illustration purposes only. The hypothetical Percentage Changes of the Reference Asset used to illustrate the calculation of the Payment at Maturity (rounded to two decimal places) are not estimates or forecasts of the Final Level or the level of the Reference Asset on any trading day prior to the Maturity Date. All examples are based on the Buffer Percentage of 20% (the Buffer Level is 80% of the Initial Level), and assume that a holder purchased Notes with an aggregate principal amount of $1,000 and that no market disruption event occurs on the Valuation Date.

Example 1 — Calculation of the Payment at Maturity where the Percentage Change is positive.

Percentage Change: 10%

Payment at Maturity: $1,000 + ($1,000 x 10%) = $1,000 + $100.00 = $1,100.00

On a $1,000 investment, a 10% Percentage Change results in a Payment at Maturity of $1,100.00, a 10.00% return on the Notes.

Example 2 — Calculation of the Payment at Maturity where the Percentage Change is negative (but not by more than the Buffer Percentage).

Percentage Change:	-8%
Payment at Maturity:	At maturity, if the Percentage Change is negative BUT not by more than the Buffer Percentage, then the Payment at Maturity will equal the principal amount.

On a $1,000 investment, a -8% Percentage Change results in a Payment at Maturity of $1,000, a 0% return on the Notes.

Example 3 — Calculation of the Payment at Maturity where the Percentage Change is negative (by more than the Buffer Percentage).

Percentage Change: -35%

Payment at Maturity: $1,000 + [$1,000 x (-35% + 20%)] = $1,000 - $150.00 = $850.00

On a $1,000 investment, a -35% Percentage Change results in a Payment at Maturity of $850.00, a -15% return on the Notes.

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SELECTED RISK CONSIDERATIONS

An investment in the Notes involves significant risks. Investing in the Notes is not equivalent to investing directly in the Reference Asset. These risks are explained in more detail in the section "Additional Risk Factors Specific to the Notes," beginning on page PS-4 of the product prospectus supplement. In addition to the risks described in the prospectus supplement and the product prospectus supplement, you should consider the following:

- Principal at Risk – Investors in the Notes could lose a substantial portion of their principal amount if there is a decline in the level of the Reference Asset. You will lose 1% of the principal amount of your Notes for each 1% that the Final Level is less than the Initial Level by more than 20%.
- The Notes Do Not Pay Interest and Your Return May Be Lower than the Return on a Conventional Debt Security of Comparable Maturity – There will be no periodic interest payments on the Notes as there would be on a conventional fixed-rate or floating-rate debt security having the same maturity. The return that you will receive on the Notes, which could be negative, may be less than the return you could earn on other investments. Even if your return is positive, your return may be less than the return you would earn if you bought a conventional senior interest bearing debt security of Royal Bank.
- Payments on the Notes Are Subject to Our Credit Risk, and Changes in Our Credit Ratings Are Expected to Affect the Market Value of the Notes – The Notes are Royal Bank's senior unsecured debt securities. As a result, your receipt of the amount due on the maturity date is dependent upon Royal Bank's ability to repay its obligations at that time. This will be the case even if the level of the Reference Asset increases after the Pricing Date. No assurance can be given as to what our financial condition will be at the maturity of the Notes.
- There May Not Be an Active Trading Market for the Notes—Sales in the Secondary Market May Result in Significant Losses – There may be little or no secondary market for the Notes. The Notes will not be listed on any securities exchange. RBCCM and other affiliates of Royal Bank may make a market for the Notes; however, they are not required to do so. RBCCM or any other affiliate of Royal Bank may stop any market-making activities at any time. Even if a secondary market for the Notes develops, it may not provide significant liquidity or trade at prices advantageous to you. We expect that transaction costs in any secondary market would be high. As a result, the difference between bid and asked prices for your Notes in any secondary market could be substantial.
- You Will Not Have Any Rights to the Securities Included in the Reference Asset – As a holder of the Notes, you will not have voting rights or rights to receive cash dividends or other distributions or other rights that holders of securities included in the Reference Asset would have. The Final Level will not reflect any dividends paid on the securities included in the Reference Asset, and accordingly, any positive return on the Notes may be less than the potential positive return on those securities.
- The Initial Estimated Value of the Notes Is Less than the Price to the Public – The initial estimated value set forth on the cover page of this pricing supplement does not represent a minimum price at which we, RBCCM or any of our affiliates would be willing to purchase the Notes in any secondary market (if any exists) at any time. If you attempt to sell the Notes prior to maturity, their market value may be lower than the price you paid for them and the initial estimated value. This is due to, among other things, changes in the level of the Reference Asset, the borrowing rate we pay to issue securities of this kind, and the inclusion in the price to the public of the underwriting discount and the estimated costs relating to our hedging of the Notes. These factors, together with various credit, market and economic factors over the term of the Notes, are expected to reduce the price at which you may be able to sell the Notes in any secondary market and will affect the value of the Notes in complex and unpredictable ways. Assuming no change in market conditions or any other relevant factors, the price, if any, at which you may be able to sell your Notes prior to maturity may be less than your original purchase price, as any such sale price would not be expected to include the underwriting discount and the hedging costs relating to the Notes. In addition to bid-ask spreads, the value of the

Notes determined for any secondary market price is expected to be based on the secondary rate rather than the internal funding rate used to price the Notes and determine the initial estimated value. As a result, the secondary price will be less than if the internal funding rate was used. The Notes are not designed to be short-term trading instruments. Accordingly, you should be able and willing to hold your Notes to maturity.

- The Initial Estimated Value of the Notes Is an Estimate Only, Calculated as of the Time the Terms of the Notes Were Set – The initial estimated value of the Notes is based on the value of our obligation to make the payments on the Notes, together with the mid-market value of the derivative embedded in the terms of the Notes. See "Structuring the Notes" below. Our estimate is based on a variety of assumptions, including our credit spreads, expectations as to dividends, interest rates and volatility, and the expected term of the Notes. These assumptions are based on certain forecasts about future events, which may prove to be incorrect. Other entities may value the Notes or similar securities at a price that is significantly different than we do.

The value of the Notes at any time after the Pricing Date will vary based on many factors, including changes in market conditions, and cannot be predicted with accuracy. As a result, the actual value you would receive if you sold the Notes in any secondary market, if any, should be expected to differ materially from the initial estimated value of your Notes.

- Market Disruption Events and Adjustments – The payment at maturity and the Valuation Date are subject to adjustment as described in the product prospectus supplement. For a description of what constitutes a market disruption event as well as the consequences of that market disruption event, see "General Terms of the Notes—Market Disruption Events" in the product prospectus supplement.

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INFORMATION REGARDING THE REFERENCE ASSET

All disclosures contained in this document regarding the Reference Asset, including, without limitation, its make up, method of calculation, and changes in its components, have been derived from publicly available sources. The information reflects the policies of, and is subject to change by, S&P Dow Jones Indices LLC ("S&P"). S&P, which owns the copyright and all other rights to the Reference Asset, has no obligation to continue to publish, and may discontinue publication of, the Reference Asset. The consequences of S&P discontinuing publication of the Reference Asset are discussed in the section of the product prospectus supplement entitled "General Terms of the Notes—Unavailability of the Level of the Reference Asset on a Valuation Date." Neither we nor RBCCM accepts any responsibility for the calculation, maintenance or publication of the Reference Asset or any successor index.

The Reference Asset is intended to provide an indication of the pattern of common stock price movement. The calculation of the level of the Reference Asset is based on the relative value of the aggregate market value of the common stocks of 500 companies as of a particular time compared to the aggregate average market value of the common stocks of 500 similar companies during the base period of the years 1941 through 1943.

S&P calculates the Reference Asset by reference to the prices of the constituent stocks of the Reference Asset without taking account of the value of dividends paid on those stocks. As a result, the return on the Notes will not reflect the return you would realize if you actually owned the Reference Asset constituent stocks and received the dividends paid on those stocks.

Effective with the September 2015 rebalance, consolidated share class lines will no longer be included in the Reference Asset. Each share class line will be subject to public float and liquidity criteria individually, but the company's total market capitalization will be used to evaluate each share class line. This may result in one listed share class line of a company being included in the Reference Asset while a second listed share class line of the same company is excluded.

Computation of the Reference Asset

While S&P currently employs the following methodology to calculate the Reference Asset, no assurance can be given that S&P will not modify or change this methodology in a manner that may affect the Payment at Maturity.

Historically, the market value of any component stock of the Reference Asset was calculated as the product of the market price per share and the number of then outstanding shares of such component stock. In March 2005, S&P began shifting the Reference Asset halfway from a market capitalization weighted formula to a float-adjusted formula, before moving the Reference Asset to full float adjustment on September 16, 2005. S&P's criteria for selecting stocks for the Reference Asset did not change with the shift to float adjustment. However, the adjustment affects each company's weight in the Reference Asset.

Under float adjustment, the share counts used in calculating the Reference Asset reflect only those shares that are available to investors, not all of a company's outstanding shares. Float adjustment excludes shares that are closely held by control groups, other publicly traded companies or government agencies.

In September 2012, all shareholdings representing more than 5% of a stock's outstanding shares, other than holdings by "block owners," were removed from the float for purposes of calculating the Reference Asset. Generally, these "control holders" will include officers and directors, private equity, venture capital and special equity firms, other publicly traded companies that hold shares for control, strategic partners, holders of restricted shares, ESOPs, employee and family trusts, foundations associated with the company, holders of unlisted share classes of stock, government entities at all levels (other than government retirement/pension funds) and any individual person who controls a 5% or greater stake in a company as reported in regulatory filings. However, holdings by block owners, such as depositary banks, pension funds, mutual funds and ETF providers, 401(k) plans of the company, government retirement/pension funds, investment funds of insurance companies, asset managers and investment funds, independent foundations and savings and investment plans, will ordinarily be considered part of the float.

Treasury stock, stock options, equity participation units, warrants, preferred stock, convertible stock, and rights are not part of the float. Shares held in a trust to allow investors in countries outside the country of domicile, such as depositary shares and Canadian exchangeable shares are normally part of the float unless those shares form a control block.

For each stock, an investable weight factor ("IWF") is calculated by dividing the available float shares by the total shares outstanding. Available float shares are defined as the total shares outstanding less shares held by control holders. This calculation is subject to a 5% minimum threshold for control blocks. For example, if a company's officers and directors hold 3% of the company's shares, and no other control group holds 5% of the company's shares, S&P would assign that company an IWF of 1.00, as no control group meets the 5% threshold. However, if a company's officers and directors hold 3% of the company's shares and another control group holds 20% of the company's shares, S&P would assign an IWF of 0.77, reflecting the fact that 23% of the company's outstanding shares are considered to be held for control. As of July 31, 2017, companies with multiple share class lines are no longer eligible for inclusion in the Reference Asset. Constituents of the Reference Asset prior to July 31, 2017 with multiple share class lines will be grandfathered in and continue to be included in the Reference Asset. If a constituent company of the Reference Asset reorganizes into a multiple share class line structure, that company will remain in the Reference Asset at the discretion of the S&P Index Committee in order to minimize turnover.

The Reference Asset is calculated using a base-weighted aggregate methodology. The level of the Reference Asset reflects the total market value of all 500 component stocks relative to the base period of the years 1941 through 1943. An indexed number is used to represent the results of this calculation in order to make the level easier to use and track over time. The actual total market value of the component stocks during the base period of the years 1941 through 1943 has been set to an indexed level of 10. This is often indicated by the notation 1941-43 = 10. In practice, the daily calculation of the Reference Asset is computed by dividing the total market value of the component stocks by the "index divisor." By itself, the index divisor is an arbitrary number. However, in the context of the calculation of the Reference Asset, it serves as a link to the original base period level of the Reference Asset. The index divisor keeps the Reference Asset comparable over time and is the manipulation point for all adjustments to the Reference Asset, which is index maintenance.

Index Maintenance

Index maintenance includes monitoring and completing the adjustments for company additions and deletions, share changes, stock splits, stock dividends, and stock price adjustments due to company restructuring or spinoffs. Some corporate actions, such as stock splits and stock dividends, require changes in the common shares outstanding and the stock prices of the companies in the Reference Asset, and do not require index divisor adjustments.

To prevent the level of the Reference Asset from changing due to corporate actions, corporate actions which affect the total market value of the Reference Asset require an index divisor adjustment. By adjusting the index divisor for the change in market value, the level of the Reference Asset remains constant and does not reflect the corporate actions of individual companies in the Reference Asset. Index divisor adjustments are made after the close of trading and after the calculation of the Reference Asset closing level.

Changes in a company's total shares outstanding of 5% or more due to public offerings are made as soon as reasonably possible. Other changes of 5% or more (for example, due to tender offers, Dutch auctions, voluntary exchange offers, company stock repurchases, private placements, acquisitions of private companies or non-index companies that do not trade on a major exchange, redemptions, exercise of options, warrants, conversion of preferred stock, notes, debt, equity participations, at-the-market stock offerings or other recapitalizations) are made weekly, and are generally announced on Fridays for implementation after the close of trading the following Friday (one week later). If a 5% or more share change causes a company's IWF to change by five percentage points or more, the IWF is updated at the same time as the share change. IWF changes resulting from partial tender offers are considered on a case-by-case basis.

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License Agreement

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The Notes are not sponsored, endorsed, sold or promoted by S&P Dow Jones Indices LLC, Standard & Poor's Financial Services LLC or any of their respective affiliates (collectively, "S&P Dow Jones Indices"). S&P Dow Jones Indices make no representation or warranty, express or implied, to the holders of the Notes or any member of the public regarding the advisability of investing in securities generally or in the Notes particularly or the ability of the Reference Asset to track general market performance. S&P Dow Jones Indices' only relationship to us with respect to the Reference Asset is the licensing of the Reference Asset and certain trademarks, service marks and/or trade names of S&P Dow Jones Indices and/or its third party licensors. The Reference Asset is determined, composed and calculated by S&P Dow Jones Indices without regard to us or the Notes. S&P Dow Jones Indices have no obligation to take our needs or the needs of holders of the Notes into consideration in determining, composing or calculating the Reference Asset. S&P Dow Jones Indices are not responsible for and have not participated in the determination of the prices, and amount of the Notes or the timing of the issuance or sale of the Notes or in the determination or calculation of the equation by which the Notes are to be converted into cash. S&P Dow Jones Indices have no obligation or liability in connection with the administration, marketing or trading of the Notes. There is no assurance that investment products based on the Reference Asset will accurately track index performance or provide positive investment returns. S&P Dow Jones Indices LLC and its subsidiaries are not investment advisors. Inclusion of a security or futures contract within an index is not a recommendation by S&P Dow Jones Indices to buy, sell, or hold such security or futures contract, nor is it considered to be investment advice. Notwithstanding the foregoing, CME Group Inc. and its affiliates may independently issue and/or sponsor financial products unrelated to the Notes currently being issued by us, but which may be similar to and competitive with the Notes. In addition, CME Group Inc. and its affiliates may trade financial products which are linked to the performance of the Reference Asset. It is possible that this trading activity will affect the value of the Notes.

S&P DOW JONES INDICES DO NOT GUARANTEE THE ADEQUACY, ACCURACY, TIMELINESS AND/OR THE COMPLETENESS OF THE REFERENCE ASSET OR ANY DATA RELATED THERETO OR ANY COMMUNICATION, INCLUDING BUT NOT LIMITED TO, ORAL OR WRITTEN COMMUNICATION (INCLUDING ELECTRONIC COMMUNICATIONS) WITH RESPECT THERETO. S&P DOW JONES INDICES SHALL NOT BE SUBJECT TO ANY DAMAGES OR LIABILITY FOR ANY ERRORS, OMISSIONS, OR DELAYS THEREIN. S&P DOW JONES INDICES MAKE NO EXPRESS OR IMPLIED WARRANTIES, AND EXPRESSLY DISCLAIMS ALL WARRANTIES, OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE OR AS TO RESULTS TO BE OBTAINED BY US, HOLDERS OF THE NOTES, OR ANY OTHER PERSON OR ENTITY FROM THE USE OF THE REFERENCE ASSET OR WITH RESPECT TO ANY DATA RELATED THERETO. WITHOUT LIMITING ANY OF THE FOREGOING, IN NO EVENT WHATSOEVER SHALL S&P DOW JONES INDICES BE LIABLE FOR ANY INDIRECT, SPECIAL, INCIDENTAL, PUNITIVE, OR CONSEQUENTIAL DAMAGES INCLUDING BUT NOT LIMITED TO, LOSS OF PROFITS, TRADING LOSSES, LOST TIME OR GOODWILL, EVEN IF THEY HAVE BEEN ADVISED OF THE POSSIBILITY OF SUCH DAMAGES, WHETHER IN CONTRACT, TORT, STRICT LIABILITY, OR OTHERWISE. THERE ARE NO THIRD PARTY BENEFICIARIES OF ANY AGREEMENTS OR ARRANGEMENTS BETWEEN S&P DOW JONES INDICES AND US, OTHER THAN THE LICENSORS OF S&P DOW JONES INDICES.

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Historical Information

The graph below sets forth the information relating to the historical performance of the Reference Asset. In addition, below the graph is a table setting forth the intra-day high, intra-day low and period-end closing levels of the Reference Asset. The information provided in this table is for the four calendar quarters of 2013 through 2017, the first calendar quarter of 2018 and for the period from April 1, 2018 through April 25, 2018.

We obtained the information regarding the historical performance of the Reference Asset in the chart below from Bloomberg Financial Markets.

We have not independently verified the accuracy or completeness of the information obtained from Bloomberg Financial Markets. The historical performance of the Reference Asset should not be taken as an indication of its future performance, and no assurance can be given as to the Final Level of the Reference Asset. We cannot give you assurance that the performance of the Reference Asset will result in any positive return on your initial investment.

S&P 500® Index ("SPX")

Period-Start Date	Period-End Date	High Intra-Day Level of the Reference Asset	Low Intra-Day Level of the Reference Asset	Period-End Closing Level of the Reference Asset
1/1/2013	3/31/2013	1,570.28	1,426.19	1,569.19
4/1/2013	6/30/2013	1,687.18	1,536.03	1,606.28
7/1/2013	9/30/2013	1,729.86	1,604.57	1,681.55
10/1/2013	12/31/2013	1,849.44	1,646.47	1,848.36
1/1/2014	3/31/2014	1,883.97	1,737.92	1,872.34
4/1/2014	6/30/2014	1,968.17	1,814.36	1,960.23
7/1/2014	9/30/2014	2,019.26	1,904.78	1,972.29
10/1/2014	12/31/2014	2,093.55	1,820.66	2,058.90
1/1/2015	3/31/2015	2,119.59	1,980.90	2,067.89
4/1/2015	6/30/2015	2,134.72	2,048.38	2,063.11
7/1/2015	9/30/2015	2,132.82	1,867.01	1,920.03
10/1/2015	12/31/2015	2,116.48	1,893.70	2,043.94
1/1/2016	3/31/2016	2,072.21	1,810.10	2,059.74
4/1/2016	6/30/2016	2,120.55	1,991.68	2,098.86
7/1/2016	9/30/2016	2,193.81	2,074.02	2,168.27
10/1/2016	12/31/2016	2,277.53	2,083.79	2,238.83
1/1/2017	3/31/2017	2,400.98	2,245.13	2,362.72
4/1/2017	6/30/2017	2,453.82	2,328.95	2,423.41
7/1/2017	9/30/2017	2,519.44	2,407.70	2,519.36
10/1/2017	12/31/2017	2,694.97	2,520.40	2,673.61
1/1/2018	3/31/2018	2,872.87	2,532.69	2,640.87
4/1/2018	4/25/2018	2,717.49	2,553.80	2,639.40

PAST PERFORMANCE IS NOT INDICATIVE OF FUTURE RESULTS.

Buffered Return Notes
Linked to the S&P 500® Index,
Due April 28, 2023

SUPPLEMENTAL DISCUSSION OF
U.S. FEDERAL INCOME TAX CONSEQUENCES

The following disclosure supplements, and to the extent inconsistent supersedes, the discussion in the product prospectus supplement dated January 12, 2016 under “Supplemental Discussion of U.S. Federal Income Tax Consequences.” The discussions below and in the accompanying product prospectus supplement do not address the tax consequences applicable to holders subject to Section 451(b) of the Code.

Under Section 871(m) of the Code, a “dividend equivalent” payment is treated as a dividend from sources within the United States. Such payments generally would be subject to a 30% U.S. withholding tax if paid to a non-U.S. holder. Under U.S. Treasury Department regulations, payments (including deemed payments) with respect to equity-linked instruments (“ELIs”) that are “specified ELIs” may be treated as dividend equivalents if such specified ELIs reference an interest in an “underlying security,” which is generally any interest in an entity taxable as a corporation for U.S. federal income tax purposes if a payment with respect to such interest could give rise to a U.S. source dividend. However, the IRS has issued guidance that states that the U.S. Treasury Department and the IRS intend to amend the effective dates of the U.S. Treasury Department regulations to provide that withholding on dividend equivalent payments will not apply to specified ELIs that are not delta-one instruments and that are issued before January 1, 2019. Based on our determination that the Notes are not delta-one instruments, non-U.S. holders should not be subject to withholding on dividend equivalent payments, if any, under the Notes. However, it is possible that the Notes could be treated as deemed reissued for U.S. federal income tax purposes upon the occurrence of certain events affecting the Reference Asset or the Notes(for example, upon the Reference Asset rebalancing), and following such occurrence the Notes could be treated as subject to withholding on dividend equivalent payments. Non-U.S. holders that enter, or have entered, into other transactions in respect of the Reference Asset or the Notes should consult their tax advisors as to the application of the dividend equivalent withholding tax in the context of the Notes and their other transactions. If any payments are treated as dividend equivalents subject to withholding, we (or the applicable withholding agent) would be entitled to withhold taxes without being required to pay any additional amounts with respect to amounts so withheld.

Buffered Return Notes
Linked to the S&P 500® Index,
Due April 28, 2023

SUPPLEMENTAL PLAN OF DISTRIBUTION (CONFLICTS OF INTEREST)

Delivery of the Notes will be made against payment for the Notes on April 30, 2018, which is the third (3rd) business day following the Pricing Date (this settlement cycle being referred to as "T+3"). See "Plan of Distribution" in the prospectus dated January 8, 2016. For additional information as to the relationship between us and RBCCM, please see the section "Plan of Distribution—Conflicts of Interest" in the prospectus dated January 8, 2016.

We expect to deliver the Notes on a date that is greater than two business days following the Pricing Date. Under Rule 15c6-1 of the Exchange Act, trades in the secondary market generally are required to settle in two business days, unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade the Notes more than two business days prior to the original issue date will be required to specify alternative arrangements to prevent a failed settlement.

In the initial offering of the Notes, they will be offered to investors at a purchase price equal to par, except with respect to certain accounts as indicated on the cover page of this document.

The value of the Notes shown on your account statement may be based on RBCCM's estimate of the value of the Notes if RBCCM or another of our affiliates were to make a market in the Notes (which it is not obligated to do). That estimate will be based upon the price that RBCCM may pay for the Notes in light of then prevailing market conditions, our creditworthiness and transaction costs. For a period of approximately 12 months after the issue date of the Notes, the value of the Notes that may be shown on your account statement may be higher than RBCCM's estimated value of the Notes at that time. This is because the estimated value of the Notes will not include the underwriting discount and our hedging costs and profits; however, the value of the Notes shown on your account statement during that period may initially be a higher amount, reflecting the addition of RBCCM's underwriting discount and our estimated costs and profits from hedging the Notes. This excess is expected to decrease over time until the end of this period. After this period, if RBCCM repurchases your Notes, it expects to do so at prices that reflect their estimated value.

We may use this pricing supplement in the initial sale of the Notes. In addition, RBCCM or another of our affiliates may use this pricing supplement in a market-making transaction in the Notes after their initial sale. Unless we or our agent informs the purchaser otherwise in the confirmation of sale, this pricing supplement is being used in a market-making transaction.

No Prospectus (as defined in Directive 2003/71/EC (as amended, the "Prospectus Directive")) will be prepared in connection with the Notes. Accordingly, the Notes may not be offered to the public in any member state of the European Economic Area (the "EEA"), and any purchaser of the Notes who subsequently sells any of the Notes in any EEA member state must do so only in accordance with the requirements of the Prospectus Directive, as implemented in that member state.

The Notes are not intended to be offered, sold or otherwise made available to, and should not be offered, sold or otherwise made available to, any retail investor in the EEA. For these purposes, the expression "offer" includes the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes, and a "retail investor" means a person who is one (or more) of: (a) a retail client, as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, "MiFID II"); or (b) a customer, within the meaning of Insurance Distribution Directive 2016/97/EU, as amended, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (c) not a qualified investor as defined in the Prospectus Directive. Consequently, no key information document required by Regulation (EU) No 1286/2014 (as amended, the "PRIIPs Regulation") for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared, and therefore, offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

Buffered Return Notes
Linked to the S&P 500® Index,
Due April 28, 2023

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We may face increasing competition for acquisition candidates.

We intend to grow significantly through the continued acquisition of additional home nursing agencies. We face competition for acquisition candidates, which may limit the number of acquisition opportunities available to us and may lead to higher acquisition prices. Recently, we have observed an increase in acquisition prices for mid-sized and larger regional home health care companies. We cannot assure you that we will be able to identify suitable acquisitions in the future or that any such opportunities, if identified, will be consummated on favorable terms, if at all. In the absence of completing successful acquisitions, our future growth rate would decline. In addition, we cannot assure you that any future acquisitions, if consummated, will result in further growth.

We may require additional capital to pursue our acquisition strategy.

At December 31, 2004, we had cash and cash equivalents of approximately $90 million. Based on our current plan of operations, including acquisitions, we cannot assure you that this amount will be sufficient to support current growth strategies. We cannot readily predict the timing, size, and success of our acquisition efforts and the associated capital commitments. If we do not have sufficient cash resources, our growth could be limited unless we obtain additional equity or debt financing. Effective as of April 28, 2004, we entered into a credit agreement with General Electric Capital Corporation for a $15.0 million revolving credit facility, with $10.0 million of additional borrowing capacity, upon the satisfaction of certain conditions as defined in the credit agreement, for a total borrowing capacity of $25.0 million.

Our business depends on our information systems. Our inability to effectively integrate, manage, and keep secure our information systems could disrupt our operations.

Our business depends on effective and secure information systems that assist us in, among other things, monitoring utilization and other cost factors, processing claims, reporting financial results, measuring outcomes and quality of care, managing regulatory compliance controls, and maintaining operational efficiencies. These systems include software developed in-house and systems provided by external contractors and other service providers. To the extent that these external contractors or other service providers become insolvent or fail to support the software or systems, our operations could be affected negatively. Our agencies also depend upon our information systems for accounting, billing, collections, risk management, quality assurance, payroll, and other information. If we experience a reduction in the performance, reliability, or availability of our information systems, our operations and ability to produce timely and accurate reports could be adversely affected.

Our information systems and applications require continual maintenance, upgrading, and enhancement to meet our operational needs. Our acquisition activity requires transitions and integration of various information systems. We regularly upgrade and expand our information systems capabilities. If we experience difficulties with the transition and integration of information systems or are unable to implement, maintain, or expand our systems properly, we could suffer from, among other things, operational disruptions, regulatory problems, and increases in administrative expenses.

Our business requires the secure transmission of confidential information over public networks. Advances in computer capabilities, new discoveries in the field of cryptography or other events or developments could result in compromises or breaches of our security systems and patient data stored in our information systems. Anyone who circumvents our security measures could misappropriate our confidential information or cause interruptions in our services or operations. The Internet is a public network, and data is sent over this network from many sources. In the past, computer viruses or software programs that disable or impair computers have been

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distributed and have rapidly spread over the Internet. Computer viruses could be introduced into our systems, or those of our providers or regulators, which could disrupt our operations or make our systems inaccessible to our providers or regulators. We may be required to expend significant capital and other resources to protect against the threat of security breaches or to alleviate problems caused by breaches. Because of the confidential health information we store and transmit, security breaches could expose us to a risk of regulatory action, litigation, possible liability and loss. Our security measures may be inadequate to prevent security breaches, and our business operations would be negatively impacted by cancellation of contracts and loss of patients if security breaches are not prevented.

Our clinical software system has been developed in-house. Failure of, or problems with, our system could harm our business and operating results.

We have developed and utilize a proprietary Windows-based clinical software system to collect assessment data, schedule and log patient visits, generate medical orders, and monitor treatments and outcomes in accordance with established medical standards. The system integrates billing and collections functionality as well as accounting, human resource, payroll, and employee benefits programs provided by third parties. Problems with, or the failure of, our technology and systems could negatively impact data capture, billing, collections, and management and reporting capabilities. Any such problems or failures could adversely affect our operations and reputation, result in significant costs to us, and impair our ability to provide our services in the future. The costs incurred in correcting any errors or problems may be substantial and could adversely affect our profitability.

We may experience difficulties implementing a new information system.

We are in the process of consolidating our various agency databases into an enterprise-wide system to improve the accuracy, reliability, and efficiency of processing and management reporting. We are engaged in transitioning from our current database system to a Sequel database. However, if any problems emerge in connection with this transition, our ability to manage our operations would be impaired from both a clinical and financial perspective, which could have a material adverse effect on our business.

We depend on outside software providers.

We depend on the proper functioning and availability of our information systems in operating our business, some of which are provided by outside software providers. These information systems and applications require continual maintenance, upgrading, and enhancement to meet our operational needs. If our providers are unable to maintain or expand our information systems properly, we could suffer from operational disruptions and an increase in administrative expenses, among other things.

Our insurance liability coverage may not be sufficient for our business needs.

We maintain professional liability insurance for Amedisys and our subsidiaries. However, we cannot assure you that claims will not be made in the future in excess of the limits of such insurance, if any, nor can we assure you that any such claims, if successful and in excess of such limits, will not have a material adverse effect on our ability to conduct business or on our assets. Our insurance coverage also includes fire, property damage, and general liability with varying limits. Although we maintain insurance consistent with industry practice, we cannot assure you that the insurance we maintain will satisfy claims made against us. In addition, we cannot assure you that insurance coverage will continue to be available to us at commercially reasonable rates, in adequate amounts or on satisfactory terms.

Any claims made against us, regardless of their merit or eventual outcome, could damage our reputation and business. From December 31, 1998 to November 9, 2000, we were insured for risks associated with professional and general liability by an insurance company that currently is in liquidation under federal bankruptcy laws and may not be able to pay or defend claims incurred by us during this period, and our current insurance does not

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cover any such claims. We do not, however, believe that the ultimate resolution of current claims will be materially different from reserves established for them or that any material claims will be made in the future based on occurrences during that period.

We have established reserves for Medicare liabilities that may be payable by us in the future. These liabilities may be subject to audit or further review, and we may owe additional amounts beyond what we expect and have reserved for.

As of December 31, 2004, we have estimated an aggregate payable to Medicare of $9.3 million, all of which is reflected as a current liability in our Consolidated Balance Sheets. The $9.3 million liability has two components: a cost report adjustments reserve ($6.8 million), and a PPS payment adjustments reserve ($2.5 million). If actual amounts exceed our reserves, we may incur additional costs that may affect adversely our results of operations. We describe these adjustments below.

Cost Report Adjustments Reserve. Prior to the implementation of PPS on October 1, 2000, we recorded Medicare revenue at the lower of (1) actual costs, (2) the per-visit cost limit, or (3) a per-beneficiary cost limit on an individual provider basis. We determined ultimate reimbursement upon review of annual cost reports.

The recorded $6.8 million payable includes a $3.7 million reserve for open cost reports through periods ended October 2000. At the time when these audits are completed and final assessments are issued, we may apply to Medicare for repayment over a 36-month period, although there is no assurance that this application will be accepted by Medicare. These amounts relate to the Medicare payment system in effect until October 2000, under which Medicare provided us with periodic interim payments, subject to an audit of cost reports submitted by us and repayment of any overpayments by Medicare to us. The fiscal intermediary, acting on behalf of CMS, has not yet issued finalized audits with respect to 1999 and 2000, and is entitled to reopen settled cost reports for up to three years after issuing final assessments.

The payable to Medicare also includes a $3.1 million reserve related to amounts owed to Medicare as overpayments for Alliance Home Health, Inc. (Alliance), a subsidiary that is in bankruptcy proceedings under Chapter 7 of the U.S. Bankruptcy Code. It is uncertain at this time whether we will have any responsibility for that amount if the debt of the subsidiary is discharged in bankruptcy.

PPS Payment Adjustments Reserve. The remaining balance of $2.5 million is related to notice from CMS that it intended to make certain recoveries of amounts overpaid to providers for the periods dating from the implementation of PPS on October 1, 2000 through particular dates in 2003 and 2004. The first of these amounts related to partial episode payments whereby a patient was readmitted to home health care prior to the expiration of 60 days from the previous admission date at another home health agency. In such instances, reimbursement for the first agency is reduced. CMS advised the industry that CMS had recently implemented changes to its computer system such that these instances would be adjusted at the time of claim submission on an ongoing basis, and that recovery for prior overpayments would commence in the summer of 2003 and extend over a two-year period. We reserved, based on information supplied by CMS, approximately $1.0 million in 2003 for all claims dating from October 1, 2000. Second, CMS advised the industry that CMS would seek recovery of overpayments that were made for patients who had, within 14 days of such admission, been discharged from inpatient facilities, including hospitals, rehabilitation, and skilled nursing units, and that these recoveries would commence in April 2004, subsequently delayed until 2005. We conducted an analysis of a representative sample of claims where these events had occurred, and estimated that, for periods dating from October 1, 2000 through December 31, 2003, a reserve in the amount of approximately $1.5 million was appropriate.

We depend on the services of our executive officers and other key employees.

Our success depends upon the continued employment of certain members of our senior management team, including our Chairman and Chief Executive Officer, William F. Borne, our President and Chief Operating

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Officer, Larry R. Graham, our Chief Financial Officer, Gregory H. Browne, and our Chief Information Officer, Alica A. Schwartz. We also depend upon the continued employment of the Senior Vice Presidents that manage several of our key functional areas, including operations, business development, accounting, finance, human resources, marketing, information systems, contracting, and compliance.

We maintain key employee life insurance of $4.5 million on Mr. Borne s life and have entered into employment agreements with each of Mr. Borne, Mr. Graham and Mr. Browne. The departure of any member of our senior management team may materially adversely affect our operations.

We are defending class action lawsuits that may require us to pay substantial damage awards.

On August 23 and October 4, 2001, two class action lawsuits were filed, on behalf of all purchasers of our common stock between November 15, 2000 and June 13, 2001, against the Company and three of our executive officers. These suits, which were filed in the United States District Court for the Middle District of Louisiana, have now been consolidated. In May of 2003, the trial court certified the class, and the Company appealed that decision. On February 17, 2005, the United States Court of Appeals for the Fifth Circuit vacated the trial court s certification order and remanded the case for further proceedings relative to class certification. The parties have agreed to a stay of all depositions and other discovery (subject to certain limited exceptions) pending a ruling on class certification.

The suit seeks damages based on the decline in our stock price following an announced restatement of earnings for the fourth quarter of 2000 and first quarter of 2001. The suits allege that management of the Company knew or were reckless in not knowing the facts giving rise to the restatement. The Company is vigorously defending these lawsuits. The Company has directors and officers insurance coverage for an amount in excess of $100,000 up to $4 million, in respect of this period. The Company is not able to estimate at this time the potential amounts that could be awarded to the plaintiffs in this matter. Although management believes our insurance coverage is sufficient in respect to any amounts that may be awarded, the Company cannot assure you that the final resolution will fall within the Company s insurance coverage amounts. The Company has met our deductible with the legal fees that have been incurred to date. Additional legal fees will be paid by the insurer up to our policy limits.

There is a risk that we will be held responsible for some or all of the $4.2 million liability of a bankrupt subsidiary.

We consolidate the net liabilities of Alliance, a bankrupt subsidiary that is no longer in operation, in our consolidated financial statements. It is possible that we could be held responsible for some or all of this amount, and depending upon the outcome of the bankruptcy proceedings, a potentially larger amount.

Arthur Andersen LLP may not be able to satisfy any claims arising from their provision of auditing services to us, including claims that you may have under applicable securities laws.

Arthur Andersen LLP audited our financial statements for the five years ended December 31, 2001. On June 15, 2002, Arthur Andersen was convicted of obstruction of justice by a federal jury in Houston, Texas in connection with Arthur Andersen s work for Enron Corp. On September 15, 2002, a federal judge upheld this conviction. Arthur Andersen ceased its audit practice before the Securities and Exchange Commission (SEC) on August 31, 2002. Because of the circumstances currently affecting Arthur Andersen LLP, as a practical matter it may not be able to satisfy any claims arising from the provision of auditing services to us, including claims that you may have under applicable securities laws.

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Risks Related to Ownership of Our Common Stock

The price of our common stock may be volatile and this may adversely affect our stockholders.

The price at which our common stock trades may be volatile. The stock market has from time to time experienced significant price and volume fluctuations that have affected the market prices of securities, particularly securities of health care companies. The market price of our common stock may be influenced by many factors, including:

- our operating and financial performance;
- variances in our quarterly financial results compared to research analyst expectations;
- the depth and liquidity of the market for our common stock;
- future sales of common stock or the perception that sales could occur;
- investor perception of our business and our prospects;
- developments relating to litigation and governmental investigations;
- changes or proposed changes in health care laws or regulations or enforcement of these laws and regulations, or announcements relating to these matters; or
- general economic and stock market conditions.

In addition, the stock market in general, and the Nasdaq National Market in particular, has experienced price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of health care provider companies. These broad market and industry factors may materially reduce the market price of our common stock, regardless of our operating performance. In the past, securities class-action litigation has often been brought against companies following periods of volatility in the market price of their respective securities. We may become involved in this type of litigation in the future. Litigation of this type is often expensive to defend and may divert our management team s attention as well as resources from the operation of our business.

Sales of substantial amounts of our common stock, or the availability of those shares for future sale, could adversely affect our stock price and limit our ability to raise capital.

At December 31, 2004, 15,310,547 shares of our common stock are outstanding. There are 171,058 shares of our common stock that may be issued under our 1998 employee stock purchase plan. As of December 31, 2004, 374,354 shares of our common stock were issuable upon the exercise of stock options which were outstanding but not exercisable, 525,636 shares of our common stock were issuable upon the exercise of stock options which were outstanding and exercisable, and 38,000 shares of our common stock were issuable upon the exercise of outstanding warrants. The market price of our common stock could decline as a result of sales of substantial amounts of our common stock in the public market or the perception that substantial sales could occur. These sales also may make it more difficult for us to sell common stock in the future to raise capital.

We do not anticipate paying dividends on our common stock in the foreseeable future, and you should not expect to receive dividends on shares of our common stock.

We do not pay dividends and intend to retain all future earnings to finance the continued growth and development of our business. In addition, we do not anticipate paying cash dividends on our common stock in the foreseeable future. Any future payment of cash dividends will depend upon our financial condition, capital requirements, earnings, and other factors deemed relevant by our board of directors. As of December 31, 2004, the terms of our Senior Credit Facility restricts us from paying cash dividends and making other cash distributions to our stockholders.

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Our Board of Directors may utilize anti-takeover provisions or issue stock to discourage control contests.

Our Certificate of Incorporation authorizes us to issue up to 30,000,000 shares of common stock and 5,000,000 shares of undesignated Preferred Stock. Our Board of Directors may cause us to issue additional stock to discourage an attempt to obtain control of the Company. For example, shares of stock could be sold to purchasers who might support the Board of Directors in a control contest or to dilute the voting or other rights of a person seeking to obtain control. In addition, the Board of Directors could cause us to issue Preferred Stock entitling holders to:

- vote separately on any proposed transaction;
- convert preferred stock into common stock;
- demand redemption at a specified price in connection with a change in control; or
- exercise other rights designed to impede a takeover.

In addition, the issuance of additional shares may, among other things, dilute the earnings and equity per share of our common stock and the voting rights of common stockholders.

We have implemented other anti-takeover provisions or provisions that could have an anti-takeover effect, including (1) advance notice requirements for director nominations and stockholder proposals and (2) a stockholder rights plan, also known as a poison pill . These provisions, and others that the Board of Directors may adopt hereafter, may discourage offers to acquire us and may permit our Board of Directors to choose not to entertain offers to purchase us, even if such offers include a substantial premium to the market price of our stock. Therefore, our stockholders may be deprived of opportunities to profit from a sale of control.

ITEM 2. PROPERTIES

The Company operates 108 home care nursing offices, two hospice offices and two corporate offices in the southern and southeastern United States. The Company presently leases approximately 22,337 square feet located at 11100 Mead Road, Baton Rouge, Louisiana, and 15,963 square feet located at 3029 South Sherwood Forest Boulevard, Baton Rouge, Louisiana, representing the corporate offices. The Mead Road lease provides for a basic annual rental rate of approximately $15.50 per square foot through the expiration date on December 31, 2006. The South Sherwood Forest lease provides for a basic annual rental rate of approximately $14.43 per square foot through the expiration date on December 31, 2006. The Company has an aggregate of 473,350 square feet of leased space for nursing and regional offices pursuant to leases that expire between January 2005 and November 2009. Rental rates for these regional offices range from $2.09 per square foot to $43.20 per square foot with an average of $13.09 per square foot. In late 2002 the Company advised that it had abandoned space in several locations, as well as negotiated buyouts of certain leases, with the objective of reducing the overall cost of leased space.

As of January 2005, the Company has entered into a conditional agreement to purchase and placed a conditional deposit on land and a building in Baton Rouge for the purpose of consolidating its corporate offices into one location, and providing additional space for further growth (See Note 15 to the Consolidated Financial Statements for further information).

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The following is a list of the Company s offices, including corporate offices, at December 31, 2004. Subsequent to this date, the Company has acquired or opened offices in South Carolina and Maryland.

Alabama (17)

Anniston

Bay Minette

Birmingham (3)

Demopolis

Fairhope

Fayette

Huntsville

Mobile

Montgomery

New Hope

Reform

Selma

Thomasville

Tuscaloosa

Walker

Arkansas (1)

Van Buren

Florida (9)

Boynton Beach

Bradenton

Brandon

Fort Lauderdale

Miami Lakes

Georgia (30)

Atlanta

Augusta

Blue Ridge

Cartersville

Cedartown

Clayton

College Park

Commerce

Covington

Cumming

Dalton

Decatur

Demorest

Douglasville

Fayetteville

Ft. Oglethorpe

Gainesville

Griffin

Hiawassee

Jasper

Kennesaw

Lavonia

Lawrenceville

Louisiana (15)

Alexandria

Baton Rouge (3)

Chalmette

Cutoff

Gonzales

Hammond

Houma (2)

Lafayette

Mandeville

Metairie

Monroe

Slidell

Mississippi (2)

Biloxi

Vicksburg

North Carolina (2)

Chapel Hill

Winston-Salem

Oklahoma (6)

Claremore

Gore

Grove

Oklahoma City

South Carolina (1)

Charleston

Tennessee (18)

Athens

Bristol

Chattanooga

Clarksville

Dickson

Gordonsville

Jamestown

Johnson City

Kingsport

Livingston

McMinnville

Memphis (2)

Nashville

O Neida

Pikeville

Portland

Winchester

Texas (6)

Corpus Christi

Dallas (2)

Fort Worth

Virginia (5)

Chesterfield

Duffield

Goochland

Jeterville

Lebanon

Lakeland	Macon	Stilwell	Houston (2)
Tampa	Madison	Tulsa	
West Palm Beach	Milledgeville		
Winter Haven	Rome		
	Summerville		
	Toccoa		
	Valdosta		

The Company entered into three leases on or before December 31, 2004 for the purpose of initiating new agency locations, but the agencies had not begun operations by the end of the 2004 fiscal year.

ITEM 3. LEGAL PROCEEDINGS

From time to time, the Company and its subsidiaries are defendants in lawsuits arising in the ordinary course of the Company s business. Based on currently available information, management believes that the resolution of these matters will not have a material adverse effect on the Company s financial condition or results of operations.

Alliance Home Health, Inc. (Alliance), a wholly-owned subsidiary of the Company (which was acquired in 1998 and ceased operations in 1999), filed for Chapter 7 Federal bankruptcy protection with the United States Bankruptcy Court in the Northern District of Oklahoma on September 29, 2000. A trustee was appointed for Alliance in 2001. Until the contingencies associated with the bankruptcy are resolved, the accompanying consolidated financial statements continue to consolidate Alliance, which has net liabilities of $4.2 million as of December 31, 2004.

On August 23 and October 4, 2001, two suits were filed against the Company and three of its executive officers in the United States District Court for the Middle District of Louisiana by individuals purportedly as class actions on behalf of all purchasers of Amedisys stock between November 15, 2000 and June 13, 2001. The suits, which have now been consolidated, seek damages based on the decline in Amedisys stock price following an announced restatement of earnings for the fourth quarter of 2000 and first quarter of 2001, claiming that the defendants knew or were reckless in not knowing the facts giving rise to the restatement. In February 2005, the United States Fifth Circuit Court of Appeals vacated the trial court s certification of the suit as a class action, and remanded the case to the trial court for further proceedings. The Company intends to vigorously defend these lawsuits, and has insurance coverage for an amount in excess of $100,000 up to $4 million. While the Company believes that insurance coverage is sufficient in respect to any amounts that may be awarded, there can be no assurance that the final resolution will be within the coverage amounts carried by the Company.

In 1999, the Company discovered questionable conduct involving the former owner of one of its smaller agencies, which occurred between 1994 and 1997. The Company conducted an initial audit (using an independent auditor) and voluntarily disclosed the irregularities to the Department of Health and Human Services OIG. Thereafter, the government examined the disclosed activities; and during the second quarter of 2002, the Company conducted a further audit of relevant claims at the request of the OIG, which was completed during the third quarter of 2002. In February 2003, the OIG offered a settlement that included certain penalties not previously anticipated by the Company, as the Company self reported the matter. On August 8, 2003, the Company signed both a Settlement Agreement and a Corporate Integrity Agreement with the OIG and Department of Justice. The Settlement Agreement provides for payment of a financial settlement in three equal annual payments of $386,000, with the first payment made on the date of execution and the second payment was made on August 6, 2004. This agreement also obligates the Company to amend previously filed cost reports to deduct costs incurred by the Company for audit and investigation of this matter. The Corporate Integrity Agreement, which is binding for a three-year period, requires that the Company maintain its existing Compliance Program and provides for enhanced training requirements, annual claims audits of the subject agency by an independent reviewer, and regular reporting to the OIG. This agreement provides for stipulated penalties in the event of non-compliance by the Company, including the possibility of exclusion from the Medicare program. The Company believes that these obligations will not materially affect the Company s operations, or financial performance, over the period of the agreement, although no assurances can be provided that the ultimate cost will not be materially different. Management believes the Company is in compliance with the Corporate Integrity Agreement as of December 31, 2004.

As discussed in Management s Discussion and Analysis of Financial Condition and Results of Operations , the Company has approximately $7.1 million in funds held by NPF VI and/or the Trustee for NPF VI bondholders, JP Morgan Chase, which have not been released to the Company. NPF VI has filed for Chapter 11 bankruptcy. The Company has instituted legal action against JP Morgan Chase, and others, in order to recover these funds. No assurance can be made as to the likelihood of a recovery, or the amount of such recovery, if any, by the Company.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of the Company s stockholders during the fourth quarter of 2004.

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PART II

ITEM 5. MARKET FOR REGISTRANT S COMMON STOCK AND RELATED STOCKHOLDER MATTERS

From September 1998 to April 2002, the Company s common stock traded on the Over the Counter (OTC) Bulletin Board. In April 2002 the Company s common stock was admitted to the NASDAQ Small Cap Market, and in September 2002, admitted to the NASDAQ National Market. As of March 10, 2005, there were approximately 484 holders of record of the Company s common stock and the Company believes there are approximately 4,574 beneficial holders. The Company has not paid any dividends on its common stock since inception and expects to retain any future earnings for use in its business development for the foreseeable future.

The following table provides the high and low prices of the Company s Common Stock during 2003 and 2004 as quoted by NASDAQ.

	High	Low
1st Quarter 2003	$ 6.00	$ 4.10
2nd Quarter 2003	7.01	4.48
3rd Quarter 2003	9.37	5.46
4th Quarter 2003	17.00	9.15
1st Quarter 2004	$ 24.95	$ 13.47
2nd Quarter 2004	33.57	23.01
3rd Quarter 2004	33.06	23.07
4th Quarter 2004	36.80	28.57

On September 28, 2004, the Company completed an equity offering of 2,460,000 shares of its Common Stock at $27.50 per share, providing net proceeds after expenses to the Company of approximately $67.4 million. The Company engaged Raymond James & Associates, Inc., Jefferies & Company, Inc. and Legg Mason Wood Walker, Incorporated, as underwriters for the transaction pursuant to which the underwriters received approximately 5.5% of the gross proceeds in cash. Additionally, the underwriters exercised their option to purchase an additional 300,000 shares of Amedisys, Inc. Common Stock at the offering price to cover over-allotments. The over-allotment included 150,000 shares offered by existing stockholders and 150,000 shares offered by the Company, and resulted in additional net proceeds to the Company of approximately $3.9 million. Approximately $21 million of the proceeds have been used through March 16, 2005 for acquisitions. The Company intends to use the balance of the proceeds from this offering for general corporate purposes, including potential acquisitions.

On November 26, 2003, the Company completed a private placement of 1,900,000 shares of Common Stock with private investors at a price of $12.00 per share. This placement provided net proceeds to the Company of approximately $21.3 million. The Company engaged Jefferies & Company, Inc. and Raymond James & Associates, Inc. as placement agents for the transaction pursuant to which the placement agents received approximately 6% of the gross proceeds in cash and warrants to purchase up to 95,000 shares of common stock exercisable at $14.40 per share. Exemption is claimed for the issuance of the common stock under Section 4(2) of the Securities Act of 1933 and Rule 506 thereunder. Approximately $4.3 million of the net proceeds of the offering were used to prepay Medicare debt and the remainder was used to reduce the Company s working capital deficit.

In 2004, holders of 306,720 warrants to purchase common stock exercised their warrants. Exemption is claimed for the issuance of the common stock under Section 4(2) of the Securities Act of 1933.

The information required under Regulation SK 201 (d) is shown in the Notes to the Consolidated Financial Statements beginning on page F-1.

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ITEM 6. SELECTED FINANCIAL DATA

The selected consolidated financial data presented below are derived from audited financial statements for each of the years ended December 31, 2000 through December 31, 2004. The financial data for the years ended December 31, 2004, 2003 and 2002 should be read in conjunction with the consolidated financial statements and related notes attached hereto, the information set forth under Management s Discussion and Analysis of Financial Condition and Results of Operations and other financial information included herein.

Selected Historical Statement of Income Data

	2004	2003	2002	2001	2000(a)
	(Dollar amounts in thousands, except per share amounts)				
Net service revenue	$ 227,089	$ 142,473	$ 129,424	$ 110,174	$ 88,155
Cost of service revenue (excluding amortization and depreciation)	96,078	58,554	58,244	49,046	41,468
Gross margin	131,011	83,919	71,180	61,128	46,687
General/administrative expenses	97,633	69,581	64,700	53,665	49,251
Operating income (loss)	33,378	14,338	6,480	7,463	(2,564)
Other income (expense), net	(19)	(711)	(9,013)	(2,167)	4,729
Income tax benefit (expense)	(12,855)	(5,220)	3,285	(220)	202
Income before discontinued operations	20,504	8,407	752	5,076	2,367
Discontinued operations:					
Loss from discontinued operations, net of income tax				(566)	(3,281)
Gain on dispositions, net of income tax				876	4,684
Net income	$ 20,504	$ 8,407	$ 752	$ 5,386	$ 3,770
Weighted avg. common shares outstanding basic	13,057	9,808	8,499	5,941	4,336
Weighted avg. common shares outstanding diluted	13,543	10,074	9,007	7,980	4,336
Basic earnings per common share(b)					
Net income before discontinued operations	$ 1.57	$ 0.86	$ 0.09	$ 0.85	$ 0.55
(Loss) from discontinued operations, net of income tax				(0.10)	(0.76)
Gain on dispositions, net of income tax				0.15	1.08
Net income	1.57	0.86	0.09	0.90	0.87
Diluted earnings per common share(b)					
Net income before discontinued operations	$ 1.51	$ 0.83	$ 0.08	$ 0.64	$ 0.55
(Loss) from discontinued operations, net of income tax				(0.07)	(0.76)
Gain on dispositions, net of income tax				0.11	1.08
Net income	1.51	0.83	0.08	0.68	0.87

(a) In connection with the refinancing of debt, the Company recorded an extraordinary gain from early extinguishment of debt in the year ended December 31, 2000. Under the provisions of Statement of Financial Accounting Standards No. 145 Recission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13 and Technical Corrections , issued by the Financial Accounting Standards Board in April 2002, the extraordinary gain has been reclassified in the prior period presented on a pretax basis as part of income from continuing operations.

(b) Calculated Net income per common share amounts on a basic and/or fully diluted basis may not precisely equal the sum of the components of such amounts due to rounding differences.

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Selected Historical Balance Sheet Data

(Dollar amounts in thousands)

	2004	2003	2002	2001	2000
Total Current Assets	$ 118,890	$ 49,596	$ 23,223	$ 28,263	$ 14,920
Total Assets	199,733	92,473	58,959	60,854	38,970
Total Current Liabilities	41,976	34,018	31,755	46,623	22,389
Total Long-term Obligations	9,284	7,056	10,241	10,856	21,102
Total Stockholders Equity (Deficit)	148,473	51,399	16,963	3,309	(4,521)

ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis provides information which management believes is relevant to an assessment and understanding of the Company s results of operations and financial condition. This discussion should be read in conjunction with the Risk Factors included herein and the Consolidated Financial Statements and notes thereto referenced in Item 8.

Overview

Amedisys is a leading provider of home health nursing services. The Company generates revenue and profits primarily by providing Medicare eligible patients with home health care services and also by delivering these services to patients with benefits coverage provided by insurance companies, managed care organizations and self-insured employers. During 2004, the Company acquired two hospice agencies from Tenet Healthcare these agencies contributed approximately $4.0 million, or less than 2%, to net service revenue for the year. The balance of the discussion below refers to the Company s home health care operations, unless otherwise noted.

The Company s services are delivered in the various geographic markets served by the Company 24 hours per day, 7 days per week, and are delivered through 110 operating locations as at December 31, 2004 (and 120 as of March 4, 2005).

Approximately 93% of Amedisys revenue is generated from a single payor the Medicare program, with the balance derived from commercial insurers and state Medicaid programs.

The Medicare program is subject to legislative and other risk factors that can result in fluctuating reimbursement rates for the Company s services. Despite these risks, the Company believes it can operate effectively by increasing its volume of Medicare patients, and implementing new business processes, and utilizing technology, to make the Company an increasingly efficient provider of services.

There are several factors, which lead the Company to believe it can continue to grow in the marketplace. These factors include: (1) the cost of a home health care visit can be significantly lower than the cost of an average day in a hospital; (2) the demand for home health care is expected to grow, primarily due to an aging population as well as patient preference; and (3) a highly fragmented industry with many smaller competitors.

In order to take advantage of these trends, the Company s strategic approach is to: (1) focus on employees; (2) expand the range and scope of services offered; (3) enhance disease management capabilities; and (4) utilize improved technology wherever possible.

Results from this strategic approach are reflected in Amedisys fiscal 2004 financial performance. The Company reported fiscal 2004 net service revenue of $227.1 million, an increase of 59% compared to fiscal 2003, and earnings per diluted share of $1.51, compared to the $0.83 reported for fiscal 2003.

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During fiscal 2004, the Company reported cash flow from operations of $29.7 million, an increase of 34% from fiscal 2003. In addition, the Company issued stock in a public offering of common stock in September 2004, resulting in net cash proceeds of $67.4 million. The Company increased its cash balances to approximately $90.0 million at December 31, 2004, as compared with $29.2 million at December 31, 2003.

The following discussion of Amedisys financial condition and results of operations are intended to assist in understanding the Company s financial statements and significant changes to its operations and other factors impacting such financial statements.

Results of Operations

The following table sets forth, for the periods indicated, certain items included in the Company s Consolidated Statements of Operations as a percentage of our net service revenue:

	2004	2003	2002
Net service revenue	100.00%	100.00%	100.00%
Cost of service revenue (excluding amortization and depreciation)	42.31	41.10	45.00
Gross margin	57.69	58.90	55.00
General and administrative expenses:			
Salaries and benefits	25.06	28.95	29.86
Other	17.93	19.88	20.13
Total general and administrative expenses	42.99	48.83	49.99
Operating income	14.70	10.07	5.01
Other (expense), net		(0.50)	(6.96)
Income (loss) before taxes	14.70	9.57	(1.95)
Income tax expense (benefit)	5.67	3.66	(2.53)
Net income	9.03%	5.91%	0.58%

Years Ended December 31, 2004 and 2003

Net Service Revenue.

Approximately 93% of the Company s net service revenue for the year ended December 31, 2004 was derived from Medicare, compared to 91% for the previous year. Included in the net service revenue is $4.0 million, or 2% of total net service revenue, for services provided by the Company s hospice business acquired in the second quarter of 2004 from Tenet Healthcare.

With respect to the home health nursing operations, the Company is paid by Medicare based on completed episodes of care. An episode of care may arise from either a new admission, or by a physician ordering additional episodes of care for an existing patient. For each episode of care, the Company receives the applicable amount for each patient s diagnoses, location and severity of illness see Revenue Recognition discussion in Note 2 to the Consolidated Financial Statements. In the case of non Medicare patients, the Company is generally paid on a per visit basis for each patient admission.

Net service revenue increased $84.6 million, or 59%, for the twelve months ended December 31, 2004, as compared to the same period in 2003. This increase is due to a 62% increase in Medicare revenue of $80.3 million, and a 34% increase in revenue from non-Medicare payors of $4.3 million. Of the 62% increase in Medicare revenue, $3.0 million is attributable to the hospice business. Of the remaining $77.3 million balance of this increase, $31.5 million is attributable to acquisitions completed after January 1, 2003 with the exception of the hospice revenue mentioned above (See Note 2 to the Consolidated Financial Statements for a discussion of

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Company acquisitions). The remaining $45.8 million reflects increases in Medicare patient admissions and a 4% improvement in revenue per episode. Substantially all of the 4% improvement in revenue per episode is due to internal improvements and analysis of episodes of care. In the fourth quarter of 2004, the Company determined that amounts previously reserved against revenue in 2001 and 2003 ($0.6 million and $0.5 million, respectively) were no longer necessary as a consequence of consistent application of the Company s revenue recognition policy, the conversion of all Metro locations, acquired in August 2003, to the Amedisys systems, and the commencement of appropriate billing procedures for the Company s hospice acquisitions. The reversal of these reserves increased net service revenues by $1.1 million in the fourth quarter of 2004.

Total patient admissions for the year ended December 31, 2004 totaled 61,700 and increased from the prior year admissions by 43%. Medicare patient admissions increased to 51,400, representing an increase of approximately 48% over the twelve months ended December 31, 2003.

The 48% increase in Medicare admissions for the most recent yearly comparative period is comprised of internal growth in admissions of 28% with acquisitions contributing growth of approximately 20%. The Company defines internal growth to include growth from operating locations owned by the Company for more than twelve months, any start up locations initiated by the Company, and from those acquisitions where the monthly Medicare admissions at the acquired locations does not exceed 1% of total Company admissions in the month of acquisition. Internal growth of 28%, including growth from new locations, arises from a combination of enhanced effectiveness of the sales force, increased size of the sales force, the introduction of additional disease management programs, and ongoing referral source education efforts. Admissions from non-Medicare payors increased by 25% from 8,300 in the twelve months ended December 31, 2003 to 10,300 in the same period in 2004, primarily as a result of acquisitions.

Cost of Service Revenue

Cost of service revenue for the twelve months ended December 31, 2004 increased by $37.5 million, or 64%, as compared to the same period in 2003. Of this increase, $3.1 million is attributable to the hospice business. The balance of the increase, $34.4 million, is attributable to a 44% increase in the total number of home health visits performed to 1,514,000 visits, and by a 10% increase in the cost per visit. The number of visits increased by 44% as a result of a 19% increase in visits for non-Medicare patients and a 48% increase in the number of visits to Medicare patients. This increase in the number of visits to Medicare patients is due to an increase in the average number of patients on service at month end during the most recent year of approximately 10,876 when compared with approximately 7,129 in the comparable period of 2003. The 10% increase in the cost per visit is attributable to higher rates of pay and benefits for visiting staff, including those at the acquired locations, and an increase of approximately 6% in the rate of reimbursement per visit for mileage. Typically, our acquisitions take up to 12 months to reach the labor efficiencies of existing operations.

Excluding the hospice business, cost of service revenue as a percent of net service revenue, increased 0.6%, in large part due to the increased cost per visit as described above.

General and Administrative Expenses (G&A)

General and administrative expenses increased by $28.1 million, or 40%, in the year ended December 31, 2004, as compared to 2003. This increase is primarily attributable to $14.2 million of general and administrative expenses incurred by the Company s acquisitions finalized since January 1, 2003 (see Note 2 to the Consolidated Financial Statements). The remaining balance of $13.9 million includes: increased personnel costs of $5.7 million related to additional operational and corporate staff necessitated by the Company s internal growth and acquisitions; other increases of $1.9 million, including increases with respect to supplies, rent, and professional fees; a $0.8 million increase in depreciation and amortization, primarily as a result of higher amortization associated with intangible assets attributable to the acquisitions; and an increase in travel and related costs of $3.0 million, particularly with respect to operational and corporate training meetings and new employee orientation sessions undertaken for all employees. In addition, severance costs of $0.5 million pursuant to agreements reached with certain employees were accrued in the fourth quarter of 2004.

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As a percentage of net service revenue, general and administrative expenses decreased 6% to 43% in 2004 from 49% in 2003.

Operating Income.

The Company had operating income of $33.4 million for the twelve months ended December 31, 2004, as compared with $14.3 million in the same period of 2003. This increase is attributable to internal growth, acquisitions and the operational efficiencies discussed above.

Other Income and Expense, net.

Net other income and expense decreased to $19,000 for the twelve months ended December 31, 2004 as compared to $711,000 in 2003. This decrease in net other income and expense is primarily attributable to a $0.8 million current year decrease in interest expense due to lower debt levels and a $0.5 million increase in interest income from increased levels of cash and cash equivalents resulting from the current year third quarter equity offering.

Income Tax Expense.

Income tax expense of $12.9 million and $5.2 million was recorded for the twelve months ended December 31, 2004 and 2003, respectively. An effective income tax rate of approximately 38.5% and 38.0% was recorded for the years ended December 31, 2004 and 2003, respectively. See Note 7 to the Consolidated Financial Statements for additional information.

Years Ended December 31, 2003 and 2002

Net Service Revenue

The Company is paid by Medicare based on completed episodes of care. An episode of care may arise from either a new admission or by a physician ordering additional episodes of care for an existing patient. For each episode of care, the Company receives the amount appropriate to each patient s diagnoses, location and severity of illness see Revenue Recognition. In the case of non-Medicare patients, the Company is generally paid on a per visit basis, which still requires an admission to take place.

For the year ended December 31, 2003 as compared to the year ended December 31, 2002, net service revenue increased by $13.1 million, or 10.1%, as a result of the factors described below. Net service revenue was decreased by $2.4 million in the year ended December 31, 2003 due to changes in prior years estimates for PPS revenue see Medicare Revenue Recognition discussion in Note 2 to the Consolidated Financial Statements, and by $1.0 million in the year ended December 31, 2002 due to changes in prior years cost report estimates see Liquidity and Capital Resources.

Of the $13.05 million increase in revenue, approximately two-thirds, or $9.0 million, is attributable to acquisitions completed during 2003. Average revenue per episode declined by approximately 1.8% to $2,454 in 2003, from $2,499 in 2002, accounting for a decline of approximately $2.3 million in revenue. Further, non-Medicare service revenue declined by $3.4 million to $12.5 million in the twelve months to December 31, 2003 primarily as a result of decisions made by management in 2002 to exit certain managed care contracts. Internal growth in admissions, and episodes of care, accounted for approximately 8.1% growth in net service revenue, or $9.95 million, in 2003 when compared to 2002.

For the year ended December 31, 2003, Medicare new patient admissions from both acquisitions and internal growth rose by 14.8% to 34,702, whereas total completed episodes of care rose by 16.2% to 51,078, when compared with the same period of 2002.

Revenue from other payors declined by approximately 21% in 2003 to $12.5 million, due to a 25% decrease in the number of visits performed, offset by a 4% increase in the average revenue per visit. Non-Medicare revenue accounted for approximately 9% of net service revenue for the period, compared to 12% in 2002.

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Cost of Service Revenue

For the year ended December 31, 2003 as compared to the year ended December 31, 2002, cost of service revenue increased by 0.5%, or $0.3 million. This increase is attributable to a 1.5% decrease in the total number of visits performed to 1.05 million visits offset by a 2.1% increase in the cost per visit. The number of visits decreased 1.5% to 1.05 million as a result of a 25% decrease in visits for non-Medicare patients for the reason noted above, and a 3.2% increase in the number of visits to Medicare patients. This increase in the number of visits to Medicare patients is due to a 16.2% increase in the number of completed episodes, offset by an approximately 12.7% decrease in the number of visits per Medicare episode. The 2.1% increase in the cost per visit is attributable to increased rates of pay, including benefits for full-time staff and for visiting staff.

General and Administrative Expenses

General and administrative expenses increased by $4.9 million, or by 7.5%, in 2003 as compared to 2002. This increase is primarily attributable to $4.1 million of general and administrative expenses for the acquisition of Metro Preferred completed in August 2003. Additional increases included $0.9 million related to outsourcing of operational functions, increased personnel costs, particularly bonuses for corporate personnel of approximately $2.2 million, and an increase of $1.7 million in legal and other professional fees, particularly with respect to ongoing litigation related to the NCFE matter, as well as costs related to the applications for and defense of awards of CONs for expanded service coverage in Georgia, Tennessee and Alabama. These increases were offset by a reduction in health insurance and other benefit costs of $1.3 million, and a decrease in bad debt expense of $1.0 million. The Company also reduced the personnel costs associated with the administration of our field offices by $1.1 million when compared with 2002 as a result of the restructuring undertaken in the fourth quarter of 2002. With respect to the OIG matter described below, the Company incurred $0.3 million in reserves in the 2002 year which were not required in 2003.

As a percentage of net revenue, general and administrative expenses decreased to 49% in 2003 from 50% in 2002.

In 1999, the Company discovered questionable conduct involving the former owner of one of our smaller agencies that occurred between 1994 and 1997. The Company conducted an initial audit (using an independent auditor) and voluntarily disclosed the irregularities to the Department of Health and Human Services Office of the Inspector General (OIG). Since that time, the OIG has been examining the disclosed activities and during the second quarter of 2002, a further audit of relevant claims was initiated at the request of the government, which was completed during the third quarter of 2002. Management believes the Company has adequately reserved for the estimated liability associated with this incident, including $0.3 million in additional reserves provided in the fourth quarter of 2002. In February 2003, the OIG offered a settlement that included certain penalties not previously anticipated by the Company, as the Company self reported the matter. On August 8, 2003, the Company signed both a Settlement Agreement and a Corporate Integrity Agreement with the OIG and Department of Justice. The Settlement Agreement provides for payment of a financial settlement in three equal annual payments of $386,000, with the first payment made on the date of execution. This agreement also obligates the Company to amend previously filed cost reports to deduct costs incurred by the Company for audit and investigation of this matter. The Corporate Integrity Agreement, which is binding for a three-year period, requires that the Company maintain its existing Compliance Program and provides for enhanced training requirements, annual claims audits of the subject agency by an independent reviewer, and regular reporting to the OIG. This agreement provides for stipulated penalties in the event of non-compliance by the Company, including the possibility of exclusion from the Medicare program. The Company believes that these obligations will not materially affect the Company s operations, or financial performance, over the period of the agreement, although no assurances can be provided that the ultimate cost will not be materially different. Management believes the Company is in compliance with the Corporate Integrity Agreement at December 31, 2003 and December 31, 2004.

Operating Income

The Company had operating income of $14.3 million in 2003 as compared to operating income of $6.5 million in 2002. The increase in operating income of $7.8 million is attributable to the changes described above.

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Other Income (Expense)

Other expenses decreased to $0.7 million in 2003 from $9.0 million in 2002. The expense in 2002 was primarily due to a reserve of $7.1 million with respect to amounts due to the Company arising from the failure of NPF VI, Inc. (NPF VI), its asset based lender (see Liquidity and Capital Resources below), and associated legal costs of $0.25 million. Further, the Company recorded a decrease in interest expense of $0.6 million to $1.3 million in 2003 from $1.9 million in 2002 due to reduced amounts of interest bearing debt outstanding, and recorded a gain of $0.3 million on the sale of land.

Income Tax Benefit (Expense)

For the year ended December 31, 2003 as compared to December 31, 2002, income tax expense increased from a benefit of $3.3 million in 2002 to an expense of $5.2 million in 2003. During 2003, the Company recorded income tax expense at an effective rate of 38%.

As of December 31, 2001, the Company had recorded a valuation allowance of $2.6 million. Management of the Company determined, based on the first quarter 2002 operating results and projections for fiscal year 2002, that it was more likely than not that the Company would be able to use all of the previously unrecognized tax benefits. Accordingly, in the quarter ended March 31, 2002, the Company recorded a tax benefit of $1.4 million resulting primarily from elimination of the valuation allowance. For the remainder of 2002, the Company recorded income tax expense at an effective rate of 37%.

Net Income

The Company recorded net income of $8.4 million, or $0.83 per diluted common share, compared to $0.8 million, or $0.08 per diluted common share for 2002.

Critical Accounting Policies

The consolidated financial statements are prepared in accordance with generally accepted accounting principles and include amounts based on management s judgments and estimates. These judgments and estimates are based on, among other things, historical experience and information available from outside sources. The critical accounting policies presented below have been discussed with the Audit Committee as to the development and selection of the accounting estimates used as well as the disclosures provided herein. Actual results could differ materially from these estimates.

Medicare Revenue Recognition

The following comments pertain to the Company s home care nursing services.

Since October 2000, with the implementation of PPS, the Company has been paid by Medicare based on episodes of care. An episode of care is defined as a length of care up to 60 days with multiple continuous episodes allowed. A base episode payment is established by the Medicare Program through federal legislation for all episodes of care ended on or after the applicable time periods detailed below:

Period Beginning	**Base episode payment**
October 1, 2000 through March 31, 2001	$2,115 per episode
April 1, 2001 through September 30, 2001	$2,264 per episode
October 1, 2001 through September 30, 2002	$2,274 per episode
October 1, 2002 through September 30, 2003	$2,159 per episode
October 1, 2003 through March 31, 2004	$2,231 per episode
April 1, 2004 through December 31, 2004	$2,213 per episode
January 1, 2005 through December 31, 2005	$2,264 per episode

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The provision in the Benefits Improvement and Protection Act (BIPA) whereby home health providers received a 10% increase in reimbursement that began April 2001 for serving patients in rural areas expired March 31, 2003, however, in April 2004, a 5% increase in reimbursement was reinstated for a one-year period. Patients in rural areas account for approximately 28% of the Company s patient population as of December 31, 2004.

Medicare reimbursement rates are subject to change. The applicability of a reimbursement change depends upon the completion date of the episode and generally applies to all episodes ending after the effective date of the change. Therefore, any change in Medicare reimbursement, positive or negative, will impact the financial results of the Company up to sixty days in advance of the effective date of such change, and the impact of a change could be material.

The base episode payment as shown above is adjusted by a number of factors including, but not limited to, the following: a case mix adjuster consisting of 80 home health resource groups (HHRG), the applicable geographic wage index (to give effect to geographic differences in wage levels), low utilization (either expected or unexpected), intervening events, such as a significant change in the patient s condition and other factors. The episode payment is also adjusted in the event that a patient is either readmitted by the Company, or admitted to another home health agency, prior to the expiration of 60 days from the original admission date these reimbursement adjustments are known as partial episode payments. As a result, the actual payment to the Company is different from the base episode payments listed above, but generally, a decrease in a base episode payment will result in a decrease in actual episode payment. The episode payment will be made to providers regardless of the cost to provide care. The services covered by the episode payment include all disciplines of care, in addition to medical supplies, within the scope of the home health benefit.

A portion of the cash reimbursement from each Medicare episode is typically received before all services are rendered. The estimated episodic payment is billed at the commencement of the episode. Medicare reimburses 60% of the estimated reimbursement at the initial billing for the initial episode of care per patient and the remaining reimbursement is received upon completion of the episode. Medicare reimburses 50% at initial billing for any subsequent episodes of care for a previously admitted patient immediately following the first episode of care for a patient. The remaining 50% reimbursement is received upon completion of the episode and upon final billing.

Revenue is recorded as services are provided to a patient. Amounts billed and/or received in advance of services performed are recorded as deferred revenue. The amount of deferred revenue at December 31, 2004 and 2003 was $14.9 million and $8.7 million respectively. These deferred revenue amounts have been recorded as a reduction to accounts receivable in the accompanying Consolidated Balance Sheet since only a nominal amount of deferred revenue represents cash collected in advance of providing services. For episodes of care that are completed, all of the revenue expected to be received for that episode is recognized. The amount of revenue recognized for episodes of care which are incomplete at period end is based on an estimate of the portion of the episode which applies to the period, and is calculated based upon total visits performed to date as a percentage of total expected visits for a particular episode. Management believes that this is a reasonable estimate for revenue with respect to services provided for incomplete episodes, and for which reimbursement will be ultimately received. Because of the potential for changes in base episode payments referred to above and the complexity of the regulations noted above, the estimated amounts originally recorded as net patient revenue and accounts receivable may be subject to revision as additional information becomes known.

During 2003, CMS informed home health care providers that it intended to make certain recoveries of amounts overpaid to providers for the periods dating from the implementation of PPS on October 1, 2000 through particular dates in 2003 and 2004. The first of these amounts related to partial episode payments (PEPs) whereby a patient was readmitted to a home health care agency prior to the passing of 60 days from the previous admission date at another home health agency. In such instances, reimbursement for the first agency is reduced. CMS advised the industry that CMS had implemented changes to its computer system such that the

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proper adjustment would be made at the time of claim submission on an ongoing basis, and that recovery for prior overpayments would commence in the summer of 2003 and extend over a two-year period. The Company reserved, based on information supplied by CMS, approximately $0.9 million in 2003 for all claims dating from October 1, 2000. During the twelve months ended December 31, 2004, CMS recouped approximately $51,000 of the above estimated overpayments. The Company cannot predict the actual timing of future collections initiated by CMS. Secondly, CMS advised the industry that it would seek recovery of overpayments that were made for patients who had, within 14 days of such admission, been discharged from inpatient facilities, including hospitals, rehabilitation and skilled nursing units, and that these recoveries would commence in April 2004. This date was subsequently extended to 2005. CMS will provide at least five weeks notice of any impending recovery. To date no notice has been received by the Company. The Company conducted an analysis of a representative sample of claims where and when these events had occurred, and estimated that, for all periods dating from October 1, 2000 through December 31, 2003, a reserve in the amount of approximately $1.5 million was appropriate. This reserve is recorded in current portion of Medicare liabilities in the accompanying Consolidated Balance Sheets.

Prior to the implementation of PPS on October 1, 2000, reimbursement for home health care services to patients covered by the Medicare program was based on reimbursement of allowable costs subject to certain limits. Final reimbursement was determined after submission of annual cost reports and audits thereof by the fiscal intermediaries. Retroactive adjustments have been accrued on an estimated basis in the period the related services were rendered and will be adjusted in future periods, as final settlements are determined. Estimated settlements for cost report years ended 1997 and subsequent years, which are still subject to audit by the intermediary and the Department of Health and Human Services, are recorded in current Medicare liabilities in the accompanying Consolidated Balance Sheets. Under the new PPS rules, annual cost reports are still required as a condition of participation in the Medicare program. However, there are no final settlements or retroactive adjustments based on the submitted annual cost reports.

Non-Medicare Revenue Recognition

The Company has agreements with third party payors that provide payments for services rendered to the Company at amounts different from established rates. Gross revenue is recorded on an accrual basis based upon the date of service at amounts equal to the Company s established rates or estimated reimbursement rates, as applicable. Allowances and contractual adjustments are recorded for the difference between the established rates and the amounts estimated to be payable by third parties and are deducted from gross revenue to determine net service revenue. Net service revenue is the estimated net amounts realizable from patients, third party payors and others for services rendered, including estimated retroactive adjustments under reimbursement agreements. Reimbursement from all sources (except Medicare as noted above) is typically billed and revenue is recorded as services are rendered and is based upon discounts from established rates.

Hospice Revenue Recognition

Services are billed to Medicare, Medicaid and private payors generally on a daily basis. The hospice locations are subject to limits for payments. For inpatient services the limit is based on inpatient care days. If inpatient care days provided to patients at a hospice exceeded 20% of the total days of hospice care provided for the year, then payment for days in excess of this limit are paid at the routine home care rate.

Overall payments made by Medicare are also subject to a cap amount calculated by the Medicare fiscal intermediary at the end of the hospice cap period. The hospice cap period runs from November 1st of each year through October 31st of the following year. Total Medicare payments during this period are compared to the cap amount for this period. Payments in excess of the cap amount must be returned to Medicare. The cap amount is calculated by multiplying the number of beneficiaries electing hospice care during the period by a statutory amount that is indexed for inflation. The per beneficiary cap amount was $19,636 for the twelve month period ending October 31, 2004. The hospice cap amount is computed on a hospice-by-hospice basis. Any amounts received in excess of this per beneficiary cap must be refunded to Medicare.

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Collectibility of Accounts Receivable

The process for estimating the ultimate collectibility of accounts receivable involves judgment, with the greatest subjectivity relating to non-Medicare accounts receivable. The Company currently records an allowance for uncollectible accounts on a percentage of revenue basis unless a specific issue is noted, at which time an adjustment to the allowance may be recorded.

In the year ended December 31, 2004, accounts receivable increased, net of allowance for doubtful accounts, to $24.5 million from $15.2 million at December 31, 2003. This increase was due to the increases in net service revenue of over 50% referred to earlier, and to delays in billing associated with the previously discussed acquisitions, particularly with respect to the hospice acquisitions. Accounts receivable as at December 31, 2004 by payor class is as follows:

Medicare, net of deferred revenue	$ 21,510	76%
Medicaid	$ 1,562	6%
Private	$ 5,157	18%
Total Gross Accounts Receivable	$ 28,229	100%
Allowance for Doubtful Accounts	$ (3,751)	
Accounts Receivable net of Doubtful Accounts	$ 24,478	

Amounts receivable from state Medicaid agencies and private insurers are significantly more difficult to collect, in particular, because all billing is done on a per visit basis resulting in a number of smaller accounts. In late 2002 the Company ceased servicing a number of private insurance companies as a result of these difficulties.

Insurance and Litigation Reserves

The Company is obligated for certain costs under various insurance programs, including employee health and welfare, workers compensation and professional liability, and while the Company maintains various insurance programs to cover these risks, it is self-insured for a substantial portion of the potential claims.

In January 2003, the Company reverted to a high deductible worker compensation plan with a $250,000 deductible per claim and this continued for the 2004 policy year. During these periods, the Company elected to fund a deposit with the carrier for the purpose of ensuring timely payment of claims. At December 31, 2003, the cash deposit was approximately equal to estimated claims outstanding in respect of the 2003 policy year. At December 31, 2004, the cash deposited with the carrier for both the 2003 and 2004 policy years was not equal to the estimated claims for either year, and therefore, the Company elected record the cash deposited as Other Assets, and the estimates for outstanding claims as Accrued Expenses Insurance in the accompanying Consolidated Balance Sheets. The Company maintained reserves at December 31, 2004 for worker s compensation claims incurred but not reported of $1.7 million and $0.8 million for the 2004 and 2003 policy years, respectively.

The Company recognizes its obligations associated with these costs in the period in which a claim is incurred, including with respect to both reported claims, and claims incurred but not reported, up to specified deductible limits. These costs have generally been estimated based on historical data, industry statistics, the Company s claims experience and analysis provided by the Company s insurance agents. Such estimates, and the resulting reserves, are reviewed and updated on a quarterly basis.

The Company maintained reserves at December 31, 2004 for health insurance claims incurred but not reported of $1.9 million for the 2004 fiscal year.

In the case of potential liability with respect to professional liability, employment, or other matters where litigation is involved, or where no insurance coverage is available, the Company s policy is to utilize advice from both internal and external counsel as to the likelihood and amount of any potential cost to Amedisys. The

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Company maintained reserves at December 31, 2004 for professional liability claims incurred but not yet reported of $475,000 ($0 at December 31, 2003). This advice is reviewed regularly by both internal staff, and on a quarterly basis, the Company s Audit Committee.

The Company recognizes its obligations associated with these costs in the period in which a claim is incurred, including with respect to both reported claims, and claims incurred but not reported, up to specified deductible limits. These costs have generally been estimated based on historical data, industry statistics, the Company s claims experience and analysis provided by the Company s insurance agents. Such estimates, and the resulting reserves, are reviewed and updated on a quarterly basis.

Goodwill and Other Intangible Assets

In July 2001, the FASB issued Financial Accounting Standards Statement No. 142, Goodwill and Other Intangible Assets (SFAS 142) that was effective January 1, 2002. Under SFAS 142, goodwill and indefinite-lived intangible assets are no longer amortized but are reviewed for impairment if circumstances indicate potential impairment. Separable intangible assets that are not deemed to have an indefinite life continue to be amortized over their useful lives. In particular, the Company has allocated amounts ranging from 4% to 9% of the purchase price of its acquisitions to the value of non-competition agreements, generally with a useful life of two to three years. In the twelve months to December 31, 2004, the Company amortized $1.2 million associated with these agreements.

In August 2001, the FASB issued SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets (SFAS 144), which supersedes FASB Statement No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of . This statement also supersedes certain aspects of APB 30, Reporting the Results of Operations-Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions , with regard to reporting the effects of a disposal of a segment of a business and requires expected future operating losses from discontinued operations to be reported in discontinued operations in the period incurred rather than as of the measurement date as previously required by APB 40. Additionally, certain dispositions may now qualify for discontinued operations treatment.

The Company reviews goodwill and other intangible assets on a quarterly basis to determine whether impairment has occurred, and if so, what impairment charge would be appropriate.

Income Taxes

The Company utilizes the asset and liability approach to measuring deferred tax assets and liabilities based on temporary differences existing at each balance sheet date using currently enacted tax rates in accordance with Statement of Financial Accounting Standards No. 109 (SFAS 109), Accounting for Income Taxes. This standard takes into account the differences between financial statement treatment and tax treatment of certain transactions. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The Company s deferred tax calculation requires management to make certain estimates about future operations. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. The effect of a change in tax rate is recognized as income or expense in the period that includes the enactment date.

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Liquidity and Capital Resources

Liquidity

The Company s principal source of liquidity is the collection of its account receivable, in particular under the Medicare program.

The Company s operating activities provided $29.7 million in cash during the year ended December 31, 2004, whereas such activities provided $22.1 million in cash during the year ended December 31, 2003. Cash provided by operating activities in 2004 is primarily attributable to net income of $20.5 million, non-cash items such as depreciation and amortization of $4.1 million, provision for bad debts of $3.1 million, increase in accrued expenses of $7.1 million, deferred income tax change of $7.0 million offset by an increase in accounts receivable of $12.3 million.

Investing activities used $35.0 million for the year ended December 31, 2004, whereas such activities used $8.3 million for the year ended December 31, 2003. Cash used in investing activities in 2003 is primarily attributed to purchases of property and equipment of $5.2 million and cash used in acquisitions of $29.8 million.

Financing activities provided $65.7 million during 2004, whereas such activities provided $11.4 million during 2003. Cash used by financing activities in 2004 is primarily attributed to net payments on notes and capital leases of $7.0 million, offset by proceeds from a public offering of common stock of $67.4 million in September 2004, and other proceeds from the issuance of common stock of $4.7 million.

At December 31, 2004, the Company had working capital of $76.9 million. This includes short-term Medicare liabilities of $9.3 million, $6.8 million of which the Company may not fully liquidate in cash during 2005. These Medicare liabilities include $3.1 million owed by a subsidiary currently in bankruptcy, and $3.7 million of anticipated cost report settlements yet to be finalized. Management does not expect the final cost report settlements to all occur in the 2005 coming year. In addition, when the cost reports are settled, the Company is entitled to apply for a payment plan for up to five years in length. There can be no assurance that such a payment plan would be granted if sought.

Effective April 28, 2004, the Company entered into a financing arrangement with GE Healthcare Financial Services (GE) for a $15 million working capital facility (the GE Facility), under which the Company may request, under certain conditions, that the borrowing capacity under the GE Facility be increased in two separate increments of $5 million each, for a total borrowing capacity of $25 million. The Company believes that it meets at December 31, 2004, all conditions necessary for increasing the borrowing capacity of the GE Facility to $25 million. To date, no amounts have been drawn under this facility.

The Company has certain other contingencies and reserves, including litigation reserves, recorded as current liabilities in the accompanying Consolidated Balance Sheets (in accordance with Statement of Financial Accounting Standard No. 5) that management may not be required to liquidate in cash during 2005. However, in the event that all current liabilities become due within twelve months, the Company may be required to limit its acquisition activities, utilize its GE Facility and/or sell securities on unfavorable terms. There can be no absolute assurance that such action may not be necessary to ensure appropriate liquidity for the operations of the Company. However, the Company believes that its cash flows from operations combined with borrowing availability under its GE Facility will be sufficient to meet its working capital needs for the next 12 months.

Subsequent to year-end, the Company announced acquisitions of eleven home health agencies (see Note 15 to the Consolidated Financial Statements) in South Carolina and Maryland for a total of $16.0 million in cash, a further $2.9 million in notes payable and 50,000 shares of Amedisys stock.

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Contractual Obligations and Medicare Liabilities

The following table summarizes the Company s contractual obligations at December 31, 2004:

Payments Due by Period

(Dollar amounts in thousands)

Contractual Obligations	Total	Less than 1 year	1-3 years	4-5 years
Long-Term Debt	$ 3,069	$ 1,689	$ 1,380	$
Capital Lease Obligations	752	423	305	24
Medicare Liabilities	9,327	9,327		
Total Contractual Cash Obligations	$ 13,148	$ 11,439	$ 1,685	$ 24

At December 31, 2004, the Company was indebted under various promissory notes for $3.1 million, including notes issued for various acquisition purchases of $2.6 million.

The Company s principal and interest requirements due under all promissory notes are approximately $1.7 million in 2005 and $1.4 million in 2006 and years thereafter. At December 31, 2004 the Company also had obligations under capital leases of $0.8 million. Subsequent to year end, the Company paid $0.3 million to buyout equipment under various capital leases. The Company s principal and interest requirements due under all capital leases are approximately $0.5 million in 2005 and $0.4 million in 2006 and years thereafter.

In June 2002, the terms of the NPF Note were amended to extend the maturity date to June 28, 2005 and to change the interest rate to prime plus 3.25%. The security for this note consisted of all credits, deposits, accounts, securities or moneys, and all other property rights belonging to or in which the Company has any interest, now or hereafter, as well as every other asset now or hereafter existing of the Company, absolute or contingent, due or to become due. NPF Capital filed for Chapter 11 bankruptcy in November 2002. The Company was instructed by NPF Capital Inc. to make payments related to this loan to Provident Bank, and on December 27, 2004, the Company paid $1.4 million to Provident Bank in full and final payment on the NPF Note.

As of December 31, 2004, the Company estimates an aggregate payable to Medicare of $9.3 million, all of which is reflected as a current liability in the accompanying Consolidate Balance Sheets. The corresponding amount at December 31, 2003 was $9.3 million. This amount includes $2.5 million reserved during 2003 as noted above see Revenue Recognition discussion in Note 2 to the Consolidated Financial Statements.

The recorded $9.3 million also includes a $3.1 million obligation of a subsidiary of the Company, which is currently in bankruptcy, and it is not clear whether the Company will have any responsibility for that amount if the debt of the subsidiary is discharged in bankruptcy.

Prior to the implementation of PPS on October 1, 2000, the Company recorded Medicare revenue at the lower of actual costs, the per visit cost limit, or a per beneficiary cost limit on an individual provider basis. Under the previous Medicare cost-based reimbursement system, ultimate reimbursement under the Medicare program was determined upon final settlement of the annual cost reports.

The $3.7 million remaining balance due Medicare reflects the Company s estimate of amounts likely to be assessed by Medicare as overpayments in respect of prior years when Medicare audits of the Company s cost reports from 1997 through October, 2000 are completed. At the time these audits are completed and final assessments are issued, the Company may apply to Medicare for repayment over a thirty-six month or longer period, although there is no assurance that such applications will be agreed to if sought. These amounts relate to the Medicare payment system in effect until October 2000, under which Medicare provided periodic interim

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payments to the Company, subject to audit of cost reports submitted by the Company and repayment of any overpayments by Medicare to the Company. The fiscal intermediary, acting on behalf of Medicare, is entitled to reopen settled cost reports for up to three years after issuing final assessments.

During the third and fourth quarters of 2002, the Company received cash settlements of $2.1 million from Medicare related to tentative settlements of the FY fiscal 2000 cost reports. This receivable was netted against the amounts due to Medicare on the balance sheet in the current-portion of Medicare liabilities, therefore, receipts of these settlements had no statement of operations impact.

In October 2002 the Company received notice from CMS that the FY fiscal 1997 Amedisys cost reports were being re-opened. In response to this notification from the intermediary, the Company established a liability of $1.0 million for amounts that may be assessed during the re-opening of the 1997 cost reports, due to the potential for different interpretations of reimbursement regulations between the intermediary and the Company. The increase in liability resulted in a charge against revenue in the fourth quarter of 2002. CMS has yet to complete the audit on these cost reports.

During the third and fourth quarters of 2003, the Company received cash settlements of $2.1 million from Medicare related to the settlements of the FY fiscal 1999 cost reports. This receivable was netted against the amounts due to Medicare on the balance sheet in the current-portion of Medicare liabilities, therefore, receipts of these settlements had no impact on the statement of operations.

During the second quarter of 2003, the Company recognized $402,000 as a decrease against revenue to offset settlements received in excess of amounts previously recorded.

In November 2002, the Company elected to terminate its asset financing facility with NPF VI (see Note 5 in the Notes to the Consolidated Financial Statements) and advised its payors that remittances should be directed to the bank accounts of the Company rather than bank accounts controlled by NPF VI under collateral arrangements for the facility. The decision to terminate the above facility was made in response to the failure of NPF VI to provide $3.3 million on October 31, 2002 as requested by the Company on October 29, 2002 in accordance with the terms of the facility. At that date, Amedisys, Inc. determined that an amount of approximately $7.1 million was being held on behalf of the Company by NPF VI, and engaged in correspondence with representatives of NPF VI in an effort to have these funds returned to the Company. On November 18, 2002, NPF VI filed bankruptcy petitions, and accordingly, the Company elected to reserve the amount of $7.1 million in the fourth quarter of fiscal 2002. As of March 14, 2005, the collateral held by NPF VI and JP Morgan Chase, as trustee for the bondholders of NPF VI, is currently still being held by these entities. The Company is taking legal and other action to have this collateral released, and to recover the funds that have not been released to the Company. As of December 31, 2004, the Company had incurred total legal fees related to this matter of approximately $2.0 million, and the Company may incur substantial additional legal expenses in the future with this matter.

Although the Company s financial position has improved over the last twelve months, there can be no assurance that the Company will not be required to obtain debt financing, and/or sell equity securities on unfavorable terms, which could impact the Company s earnings by either increasing interest costs or by dilution to existing shareholders to ensure appropriate liquidity for the operations of the Company.

Subsequent to year-end, the Company has expended $3.5 million on a corporate aircraft for the purposes of enabling Company employees to visit and conduct business at the operating locations in thirteen states. Additionally, the Company is undertaking an analysis of the possible purchase of land and building in which the corporate offices could be consolidated by 2006. The combined cost of this purchase, and possible acquisition and refurbishment is not possible to precisely quantify at this time, but could be approximately $10 million.

Apart from expenditures related to the corporate aircraft and the corporate office mentioned above items, the Company expects that maintenance capital expenditures in fiscal 2005 will be approximately $7.6 million, as compared with $5.8 million in 2004.

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ARTHUR ANDERSEN LLP

The Company s financial statements for the year ended December 31, 2001 were audited by Arthur Andersen LLP (Andersen). On June 15, 2002, a jury convicted Andersen on obstruction of justice charges and Andersen ceased its public company audit practice at the end of August 2002. As the Company seeks access to the public capital markets in the future, SEC rules require us to include or incorporate by reference in any prospectus three years of audited financial statements. Until our audited financial statements for the fiscal year ending December 31, 2004 become available in the first quarter of 2005, the SEC s current rules would require us to present audited financial statements for one or more fiscal years audited by Andersen. Before then, the SEC may cease accepting financial statements audited by Andersen, in which case the Company would be unable to access the public capital market unless KPMG LLP, our current independent accounting firm, or another independent accounting firm, is able to audit the financial statements originally audited by Andersen. Although the SEC has indicated that in the interim it will continue to accept financial statements audited by Andersen, there is no assurance that the SEC will continue to do so in the future.

Inflation

The Company does not believe that inflation has had a material effect on its results of operations during the years ended December 31, 2004, 2003, or 2002.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

We are exposed to market risk from fluctuations in interest rates on our working capital facility, the GE Facility. The interest rate charged on our GE Facility can vary based on the interest rate option we choose to utilize. Our options for the rate are the Index Rate or LIBOR plus an applicable margin. The Index Rate is defined to be a floating rate equal to the higher of (i) the rate publicly quoted from time to time by The Wall Street Journal as the base rate on corporate loans posted by at lease 75% of the nation s 30 largest banks plus a margin of 1.25% to 1.75%, depending upon the Company s leverage ratio at the measurement date or (ii) the Federal Funds Rate plus 50 basis points per annum. The LIBOR rate of interest is equal to (a) the offered rate for deposits in United States Dollars for the applicable LIBOR Period that appears on Telerate Page 3750 as of 11:00 a.m. (London time), on the second full LIBOR Business Day next preceding the first day of such LIBOR Period; divided by (b) a number equal to 1.0 minus the aggregate of the rates (expressed as a decimal fraction) of reserve requirements in effect on the day that is 2 LIBOR Business Days prior to the beginning of such LIBOR Period for Eurocurrency funding that are required to be maintained by a member bank of the Federal Reserve System. The LIBOR Margin is 3.25% to 3.75%, depending upon the Company s leverage ratio at the measurement date. Changes in these interest rates had no impact on the Company s interest expense as the Company had no borrowings under the GE Facility during 2004.

We are exposed to market risk from fluctuations in interest rates on our cash investments. The Company invests its cash in short-term, highly liquid investments with maturity periods of less than 90 days from the purchase date. A hypothetical 100 basis point change in the interest rate yield of the Company s cash investments as of December 31, 2004, would result in an increase or decrease in interest income of $ 0.9 million.

ITEM 8. FINANCIAL STATEMENTS

See Consolidated Financial Statements beginning on Page F-1.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

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ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

We have established disclosure controls and procedures to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to the officers who certify the Company s financial reports and to other members of senior management and the Board of Directors.

In connection with the preparation of this Annual Report on Form 10-K/A, as of December 31, 2004, we conducted an evaluation under the supervision and with the participation of the Company s management, including our principal executive and principal financial officers, of the effectiveness of our disclosure controls and procedures, as such term is defined under Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934 (the Exchange Act).

Based on this evaluation, our principal executive and principal financial officers concluded that our disclosure controls and procedures were effective as of the end of the period covered by this annual report.

Management s Annual Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over the Company s financial reporting, as such term is defined in Rule 13a-15(f) of the Exchange Act. Under the supervision and with the participation of our management, including the Company s principal executive and principal financial officers, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. The scope of the evaluation excluded the Company s 2004 acquisitions as listed in Note 2 to the Consolidated Financial Statements. The Company s 2004 acquisitions comprised 8.9% of total net service revenue for the year ended December 31, 2004. Based on our evaluation under the framework in Internal Control Integrated Framework, our management concluded that our internal control over financial reporting was effective as of December 31, 2004.

Our internal control system is designed to provide reasonable assurance to the Company s management and Board of Directors regarding the preparation and fair presentation of published financial statements. All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Our management s assessment of the effectiveness of the Company s internal control over financial reporting as of December 31, 2004 has been audited by KPMG LLP, an independent registered public accounting firm, as stated in their report, which is included herein.

Changes in Internal Controls

There have been no changes in the Company s internal control procedures over financial reporting that have occurred during the fiscal quarter ended December 31, 2004 that have materially affected, or are likely to materially affect, the Company s internal control over financial reporting.

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Report of Independent Registered Public Accounting Firm Internal Control Over Financial Reporting

The Board of Directors and Stockholders

Amedisys, Inc.

We have audited management s assessment, included in the accompanying Management s Annual Report on Internal Control Over Financial Reporting, that Amedisys, Inc. maintained effective internal control over financial reporting as of December 31, 2004, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Amedisys, Inc. s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management s assessment and an opinion on the effectiveness of the Company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management s assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed 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. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management s assessment that Amedisys, Inc. maintained effective internal control over financial reporting as of December 31, 2004, is fairly stated, in all material respects, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Also, in our opinion, Amedisys, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2004, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Amedisys, Inc. excluded from its assessment of the effectiveness of Amedisys, Inc. s internal control over financial reporting as of December 31, 2004, the Company s 2004 acquisitions as listed in Note 2 to the consolidated financial statements. The Company s acquisitions comprised 8.9% of total net service revenues for the year ended December 31, 2004. Our audit of internal control over financial reporting of Amedisys, Inc. also excluded an evaluation of the internal control over financial reporting of the Company s 2004 acquisitions as listed in Note 2 to the consolidated financial statements.

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We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Amedisys, Inc. and subsidiaries as of December 31, 2004 and 2003, and the related consolidated statements of operations, stockholders equity, and cash flows for each of the years in the three-year period ended December 31, 2004, and our report dated March 16, 2005 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

Baton Rouge, Louisiana

April 15, 2005

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PART III

Certain information required by Part III is omitted from this Report in that the Registrant will file its definitive Proxy Statement for its 2005 Annual Meeting of Shareholders to be held June 10, 2005 pursuant to Regulation 14A of the Securities Exchange Act of 1934 (the Proxy Statement) no later than 120 days after the end of the fiscal year covered by this Report, and certain information included in the Proxy Statement is incorporated herein by reference.

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

(a) Directors Certain information about the current directors is set forth below:

Name	Age	Served as Director Since
William F. Borne	47	1982
Ronald A. LaBorde	48	1997
Jake L. Netterville	67	1997
David R. Pitts	65	1997
Peter F. Ricchiuti	48	1997
Donald Washburn	60	2004

William F. Borne. Mr. Borne founded the Company in 1982 and has been Chief Executive Officer and a director since then. In 1988, he also founded and served, until 1993, as President and Chief Executive Officer of Amedisys Specialized Medical Services, Inc., a wholly owned subsidiary of the Company, a provider of home health care services.

Ronald A. LaBorde. Mr. LaBorde manages personal investments which include non-public, operating companies. From 1995 to 2003, Mr. LaBorde was President and Chief Executive Officer of Piccadilly Cafeterias, Inc. (Piccadilly), a publicly held retail restaurant business. Prior to 1995, Mr. LaBorde held various executive positions with Piccadilly including Executive Vice President and Chief Financial Officer from 1992 to 1995, Executive Vice President, Corporate Secretary and Controller from 1986 to 1992, and Vice President and Assistant Controller from 1982 to 1986. Mr. LaBorde was appointed as Lead Director of the Company in February 2003.

Jake L. Netterville. Mr. Netterville was the Managing Director of Postlethwaite & Netterville, a professional accounting corporation from 1977 to 1998 and is now Chairman of the Board of Directors. Mr. Netterville is a certified public accountant and has served as Chairman of the Board of the American Institute of Certified Public Accountants, Inc. (AICPA) and is a permanent member of the AICPA s Governing Council. Mr. Netterville was appointed as Chairman of the Company s Audit Committee in February 2003.

David R. Pitts. Mr. Pitts is the Chairman and Chief Executive Officer of Pitts Management Associates, Inc., a national hospital and healthcare consulting firm. Mr. Pitts has over forty years experience in hospital operations, healthcare planning and multi-institutional organization, and has served in executive capacities in a number of hospitals, multi-hospital systems, and medical schools.

Peter F. Ricchiuti. Mr. Ricchiuti has been Assistant Dean and Director of Research of BURKENROAD REPORTS at Tulane University s A. B. Freeman School of Business since 1993, and an Adjunct Professor of Finance at Tulane since 1986. Mr. Ricchiuti also served as the Assistant State Treasurer and Chief Investment Officer for the state of Louisiana for five years.

Donald Washburn. Mr. Washburn, a private investor, currently serves on the Boards of LaSalle Hotel Properties, a real estate investment trust, and Key Technology, Inc., which designs and manufacturers process

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automation systems for the food processing and industrial markets. He also serves on several private company boards. Mr. Washburn held several senior level management positions with Northwest Airlines, Inc. the last of which was Executive Vice President, a position he held from 1995 to 1998.

(b) Executive Officers The executive officers of the Company are as follows:

Name	**Age**	**Capacity**	**Period of Service in Such Capacity Since**
William F. Borne (1)	47	Chief Executive Officer	December 1982
Larry R. Graham	39	President and Chief Operating Officer	August 2004 and January 1999
Gregory H. Browne	52	Chief Financial Officer	May 2002
Alice A. Schwartz	38	Chief Information Officer	August 2004
Jeffrey D. Jeter	33	Chief Compliance Officer/ Senior Vice President	April 2001

(1) Biographical information with respect to this officer was previously provided above.

Larry R. Graham was named President of the Company in August 2004. Mr. Graham became Chief Operating Officer in January 1999 and continues to serve in that capacity. He also served as interim Senior Vice President of Finance from January 2002 until May 2002. He joined the Company in April 1996 as Vice President of Finance and in January 1998 he was promoted to Senior Vice President of Operations. From 1993 to 1996, he was Director of Financial Services at General Health Systems, a privately-held regional multi-faceted health care system in Baton Rouge, LA. From 1989 to 1993, he was a Senior Accountant for Arthur Andersen LLP.

Gregory H. Browne was appointed Chief Financial Officer in May 2002. Previously, Mr. Browne had been Chief Financial Officer for Cards Etc, a software company, from May 2001 to December 2001, and from July 1996 to February 2001 he was Chief Executive Officer of PeopleWorks, Inc., a provider of outsourced human resources, payroll and related services. Mr. Browne provided consulting services to the Company from March 2002 until his appointment as Chief Financial Officer.

Alice A. Schwartz became Chief Information Officer in September 2004 and also served as a Senior Vice President of Clinical Operations from 2003 to 2004. She joined the Company in 1998 where she served in various leadership roles, such as an Administrator and a Regional Director of Clinical Services.

Jeffrey D. Jeter joined the Company in April 2001 as Vice President of Compliance/Corporate Counsel. In March 2004, he was appointed Senior Vice President of Compliance. Prior to joining the Company he served as an Assistant Attorney General for the Louisiana Department of Justice from 1996 where he prosecuted health care fraud and nursing home abuse.

(c) Section 16(a) Beneficial Ownership Reporting Compliance

The information required by this Item is incorporated by reference to the sections entitled Record Date and Principal Ownership and Security Ownership of Management in the Proxy Statement.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this Item is incorporated by reference to the section entitled Executive Compensation and Certain Transactions in the Proxy Statement.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information required by this Item is incorporated by reference to the sections entitled Record Date and Principal Ownership and Security Ownership of Management in the Proxy Statement.

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ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by this Item is incorporated by reference to the section entitled Executive Compensation and Certain Transactions in the Proxy Statement.

PART IV

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

General

Our consolidated financial statements for 2004, 2003 and 2002 were audited by the firm of KPMG LLP, which will remain as our auditors until replaced by the Board upon the recommendation of the Audit Committee. The Company s financial statements for the years ended December 31, 2001 and 2000 were audited by Arthur Andersen LLP (Andersen), our former independent accountants. On April 30, 2002, the Board of Directors of the Company, upon recommendation of the Audit Committee, dismissed Arthur Andersen LLP (Andersen) as the Company s independent auditors.

Fees

The information required by this Item is incorporated by reference to the section entitled Independent Accountants in the Proxy Statement.

Policy on Pre-Approval of Audit and Permissible Non-Audit Services of Independent Auditors

All audit and permissible non-audit services provided by the independent auditors are pre-approved by Amedisys Audit Committee. These services may include audit services, audit-related services and other services. Pre-approval is generally provided for up to one year and any pre-approval is detailed as to the particular service or category of services and is generally subject to a specific budget. The independent auditors and management are required to periodically report to the Audit Committee regarding the extent of services provided by the independent auditors in accordance with this pre-approval, and the fees for the services performed to date. The Audit Committee may also pre-approve particular services on a case-by-case basis.

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ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(a) Documents to be filed with Form 10-K:

(1) Financial Statements

(2) Exhibits.

Exhibit Number	Description of Document
2.1	Asset Purchase Agreement by and between Amedisys, Inc. and Professional Home Health, Brookwood Home Care Services, Memorial Home Care, Spalding Regional Home Health, Tenet Home Care of Palm Beach, Tenet Home Care of Broward County, St. Mary s Hospital Home Health, Tenet Home Care of Miami-Dade, First Community Home Care, Cypress-Fairbanks Home Health, St. Francis Home Health and Hospice, and Brookwood Health Services, Inc. (previously filed as Exhibit 2.1 to the Current Report on Form 8-K filed March 16, 2004)
2.2	Amendment to Asset Purchase Agreement by and between Amedisys, Inc. and Professional Home Health, Brookwood Home Care Services, Memorial Home Care, Spalding Regional Home Health, Tenet Home Care of Palm Beach, Tenet Home Care of Broward County, St. Mary s Hospital Home Health, Tenet Home Care of Miami-Dade, First Community Home Care, Cypress-Fairbanks Home Health, St. Francis Home Health and Hospice, and Brookwood Health Services, Inc. (previously filed as Exhibit 2.2 to the Current Report on Form 8-K filed March 16, 2004)
2.3	Second Amendment to Asset Purchase Agreement by and between Amedisys, Inc. and Professional Home Health, Brookwood Home Care Services, Memorial Home Care, Spalding Regional Home Health, Tenet Home Care of Palm Beach, Tenet Home Care of Broward County, St. Mary s Hospital Home Health, Tenet Home Care of Miami-Dade, First Community Home Care, Cypress-Fairbanks Home Health, St. Francis Home Health and Hospice, and Brookwood Health Services, Inc. (previously filed as Exhibit 2.3 to the Current Report on Form 8-K filed March 16, 2004)
2.4	Third Amendment to Asset Purchase Agreement by and between Amedisys, Inc. and Professional Home Health, Brookwood Home Care Services, Memorial Home Care, Spalding Regional Home Health, Tenet Home Care of Palm Beach, Tenet Home Care of Broward County, St. Mary s Hospital Home Health, Tenet Home Care of Miami-Dade, First Community Home Care, Cypress-Fairbanks Home Health, St. Francis Home Health and Hospice, and Brookwood Health Services. Inc. (previously filed as Exhibit 2.4 to the Current Report on Form 8-K filed March 16, 2004)
2.5	Fourth Amendment to Asset Purchase Agreement by and between Amedisys, Inc. and Professional Home Health, Brookwood Home Care Services, Memorial Home Care, Spalding Regional Home Health, Tenet Home Care of Palm Beach, Tenet Home Care of Miami-Dade, First Community Home Care, Cypress-Fairbanks Home Health, St. Francis Home Health and Hospice, and Brookwood Health Services, Inc. (previously filed as Exhibit 2.5 to the Current Report on Form 8-K/A filed July 15, 2004)

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Exhibit Number	Description of Document
2.6	Fifth Amendment to Asset Purchase Agreement by and between Amedisys, Inc. and Professional Home Health, Brookwood Home Care Services, Memorial Home Care, Spalding Regional Home Health, Tenet Home Care of Palm Beach, Tenet Home Care of Miami-Dade, First Community Home Care, Cypress-Fairbanks Home Health, St. Francis Home Health and Hospice, and Brookwood Health Services, Inc. (previously filed as Exhibit 2.6 to the Current Report on Form 8-K/A filed July 15, 2004)
2.7	Asset Purchase Agreement between Amedisys Mississippi, L.L.C. and Vicksburg Healthcare, LLC (previously filed as Exhibit 2.7 to the Quarterly Report on Form 10-Q filed August 9, 2004)
3.1	Certificate of Incorporation (previously filed as Exhibit 3.1 to the Quarterly Report on Form 10-Q for the period ended March 31, 2002)
3.2	By-Laws (previously filed as Exhibit 3.2 to the Annual Report on Form 10-K for the period ended December 31, 2004)
4.1.1	Credit Agreement with General Electric Capital Corporation (previously filed as Exhibit 4.1 to the Quarterly Report on Form 10-Q filed May 13, 2004)
4.1.2	Amendment No. 1 to Credit Agreement with General Electric Capital Corporation (previously filed as Exhibit 4.1.2 to the Annual Report on Form 10-K for the period ended December 31, 2004)
4.2	Common Stock Specimen (previously filed as an exhibit to the Annual Report on Form 10-KSB for the year ended December 31, 1994)
4.3	Shareholder Rights Agreement (previously filed as Exhibit 4 to the Current Report on Form 8-K filed June 16, 2000, and as Exhibit 4 to the Registration Statement on Form 8-A12G filed June 16, 2000)
4.4	Forms of Warrants issued by Amedisys, Inc. to Raymond James & Associates, Inc. and Jefferies & Company, Inc. (previously filed as exhibits to the Current Report on Form 8-K filed December 10, 2003)
4.5	Form of Purchase Agreement among Amedisys, Inc. and the purchasers set forth on the signature pages thereto (previously filed as an exhibit to the Current Report on Form 8-K filed December 10, 2003)
4.6	Registration Rights Agreement dated as of April 23, 2002 between Amedisys, Inc. and the investors listed on Schedule I thereto (previously filed as Exhibit 4.4 to the Registration Statement on Form S-3 filed May 23, 2002)
4.7	Registration Rights Agreement dated as of April 23, 2002 between Amedisys, Inc. and Belle Haven Investments, L.P. (previously filed as Exhibit 4.5 to the Registration Statement on Form S-3 filed May 23, 2002)
4.8	Warrant Agreement dated as of December 29, 1997 between Amedisys, Inc. and Hudson Capital Partners, L.P. (previously filed as Exhibit 4.3 to the Registration Statement on Form S-3 filed March 11, 1998)
4.9	Registration Rights Agreement dated as of December 1997 between the person whose name and address appears on the signature page thereto and Amedisys, Inc. (previously filed as Exhibit 10.5 to the Registration Statement on Form S-3 filed March 11, 1998)
10.1	Settlement Agreement between the Office of Inspector General of the Department of Health and Human Services and Amedisys Specialized Medical Services and Amedisys, Inc. (previously filed as Exhibit 10.1 to the Quarterly Report on Form 10-Q filed November 10, 2003)
10.2	Corporate Integrity Agreement between the Office of Inspector General of the Department of Health and Human Services and Amedisys Specialized Medical Services and Amedisys, Inc. (previously filed as Exhibit 10.2 to the Quarterly Report on Form 10-Q filed November 10, 2003)

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Exhibit Number	Description of Document
10.4	Amended and Restated Amedisys, Inc. 1998 Stock Option Plan (previously filed as Exhibit 10.4 to the Registration Statement on Form S-3 filed March 11, 1998)
10.8.1	Employment Agreement between Amedisys, Inc. and William F. Borne (previously filed as Exhibit 10.8 to the Annual Report on Form 10-K filed March 19, 2001)
10.8.2	Amendment to Employment Agreement by and between Amedisys, Inc. and William F. Borne (previously filed as Exhibit 10.1 to the Quarterly Report on Form 10-Q filed May 15, 2003)
10.9.1	Employment Agreement between Amedisys, Inc. and Larry Graham (previously filed as Exhibit 10.9 to the Annual Report on Form 10-K filed March 19, 2001)
10.9.2	Amendment to Employment Agreement by and between Amedisys, Inc. and Larry Graham (previously filed as Exhibit 10.10 to the Annual Report on Form 10-K filed March 19, 2001)
10.9.3	Second Amendment to Employment Agreement by and between Amedisys, Inc. and Larry Graham (previously filed as Exhibit 10.9.3 to the Registration Statement on Form S-3 filed August 18, 2004)
10.10.1	Employment Agreement between Amedisys Inc. and Gregory H. Browne (previously filed as Exhibit 10.1 to the Quarterly Report on Form 10-Q filed August 14, 2002)
10.10.2	Amendment to Employment Agreement between Amedisys Inc. and Gregory H. Browne (previously filed as Exhibit 10.10.2 to the Registration Statement on Form S-3 filed August 18, 2004)
10.14	Director s Stock Option Plan (previously filed as Exhibit 10.12 to the Quarterly Report on Form 10-Q filed May 14, 2001)
10.15	Modification Agreement by and between CareSouth Home Health Services, Inc. and Amedisys, Inc. (previously filed as Exhibit 10.1 to the Quarterly Report on Form 10-Q filed November 14, 2001)
10.16	Software License Agreement by and between CareSouth Home Health Services, Inc. and Amedisys, Inc. (previously filed as Exhibit 10.2 to the Quarterly Report on Form 10-Q filed November 14, 2001)
21.1	List of Subsidiaries (previously filed as Exhibit 21.1 to the Annual Report on Form 10-K for the period ended December 31, 2004)
23.1	Consent of KPMG LLP (filed herewith)
31.1	Certification of William F. Borne, Chief Executive Officer (filed herewith)
31.2	Certification of Gregory H. Browne, Chief Financial Officer (filed herewith)
32.1	Certification of William F. Borne, Chief Executive Officer (filed herewith)
32.2	Certification of Gregory H. Browne, Chief Financial Officer (filed herewith)

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report on Form 10-K/A to be signed on its behalf by the undersigned, there unto duly authorized, on the 14th day of April, 2005.

AMEDISYS, INC.

By: /s/ WILLIAM F. BORNE
William F. Borne,

Chief Executive Officer and

Chairman of the Board

Pursuant to the requirements of the Securities Exchange Act of 1934, this report on Form 10-K/A has been signed by the following persons on behalf of the registrant and in the capacities and on the dates indicated:

Signature	Title	Date
/s/ WILLIAM F. BORNE **William F. Borne**	Chief Executive Officer and Chairman of the Board	April 14, 2005
/s/ GREGORY H. BROWNE **Gregory H. Browne**	Chief Financial Officer, Principal Financial and Accounting Officer	April 14, 2005
/s/ JAKE L. NETTERVILLE **Jake L. Netterville**	Director	April 12, 2005
David R. Pitts	Director	
/s/ PETER F. RICCHIUTI **Peter F. Ricchiuti**	Director	April 15, 2005
/s/ RONALD A. LABORDE **Ronald A. Laborde**	Director	April 12, 2005
Donald Washburn	Director	

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AMEDISYS, INC. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2004 AND 2003

TOGETHER WITH REPORT OF

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders

Amedisys, Inc.:

We have audited the accompanying consolidated balance sheets of Amedisys, Inc. and subsidiaries (the Company) as of December 31, 2004 and 2003, and the related consolidated statements of operations, stockholders equity and cash flows for each of the years in the three-year period ended December 31, 2004. These consolidated financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Amedisys, Inc. and subsidiaries as of December 31, 2004 and 2003, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2004 in conformity with U.S. generally accepted accounting principles.

KPMG LLP

Baton Rouge, Louisiana

March 16, 2005

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AMEDISYS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

As of December 31, 2004 and 2003

(Dollar amounts in thousands, except per share data)

	December 31, 2004	December 31, 2003
ASSETS:		
CURRENT ASSETS:		
Cash and cash equivalents	$ 89,679	$ 29,229
Patient accounts receivable, net of allowance for doubtful accounts of $3,751 and $3,008 at December 31, 2004 and 2003	24,478	15,185
Prepaid expenses	1,356	1,103
Deferred income taxes		1,650
Inventory and other current assets	3,377	2,429
Total current assets	118,890	49,596
Property and equipment, net	10,003	7,219
Goodwill	62,537	35,448
Intangible assets, net of $1,177 net of accumulated amortization at December 31, 2004	4,447	
Other assets	3,856	210
Total assets	$ 199,733	$ 92,473
LIABILITIES AND STOCKHOLDERS EQUITY:		
CURRENT LIABILITIES:		
Accounts payable	$ 6,681	$ 3,340
Accrued expenses:		
Payroll and payroll taxes	11,914	9,163
Insurance	4,663	2,336
Income taxes	271	575
Legal and other settlements	1,833	1,248
Other	3,822	2,818
Current portion of long-term debt	1,689	3,974
Current portion of obligations under capital leases	423	1,217
Current portion of Medicare liabilities	9,327	9,347
Current portion of deferred income taxes	1,353	
Total current liabilities	41,976	34,018
Long-term debt	1,380	2,696
Obligations under capital leases	329	391
Deferred income taxes	6,749	2,756
Other long-term liabilities	826	1,213
Total liabilities	51,260	41,074
STOCKHOLDERS EQUITY:		
Preferred stock, $.001 par value, 5,000,000 shares authorized; None issued or outstanding		
	15	12

Common stock, $.001 par value, 30,000,000 shares authorized; 15,310,547 and 11,908,146 shares issued and 15,306,380 and 11,900,979 shares outstanding at December 31, 2004 and December 31, 2003, respectively		
Additional paid-in capital	132,032	55,465
Treasury stock at cost, 4,167 shares of common stock held at December 31, 2004 and 2003	(25)	(25)
Retained earnings (accumulated deficit)	16,451	(4,053)
Total stockholders equity	148,473	51,399
Total liabilities and stockholders equity	$ 199,733	$ 92,473

The accompanying notes are an integral part of these consolidated financial statements.

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AMEDISYS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

For the Years Ended December 31, 2004, 2003 and 2002

(Dollar amounts in thousands, except per share data)

	2004	2003	2002
INCOME:			
Net service revenue	$ 227,089	$ 142,473	$ 129,424
Cost of service revenue (excluding amortization and depreciation)	96,078	58,554	58,244
Gross margin	131,011	83,919	71,180
GENERAL AND ADMINISTRATIVE EXPENSES:			
Salaries and benefits	56,916	41,252	38,650
Other	40,717	28,329	24,410
Restructuring charge			1,640
Total general and administrative expenses	97,633	69,581	64,700
Operating income	33,378	14,338	6,480
OTHER INCOME (EXPENSE):			
Interest income	550	91	97
Interest expense	(510)	(1,293)	(1,874)
Provision for uncollectible receivable			(7,349)
Miscellaneous, net	(59)	491	113
Total other expense, net	(19)	(711)	(9,013)
INCOME (LOSS) BEFORE INCOME TAXES	33,359	13,627	(2,533)
INCOME TAX BENEFIT (EXPENSE)	(12,855)	(5,220)	3,285
Net income	$ 20,504	$ 8,407	$ 752
Basic weighted average common shares outstanding	13,057,000	9,808,000	8,499,000
Basic income per common share:			
Net income	$ 1.57	$ 0.86	$ 0.09
Diluted weighted average common shares outstanding	13,543,000	10,074,000	9,007,000
Diluted income per common share:			
Net income	$ 1.51	$ 0.83	$ 0.08

The accompanying notes are an integral part of these consolidated financial statements.

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AMEDISYS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

For the Years Ended December 31, 2004, 2003 and 2002

(Dollar amounts in thousands, except share data)

	Common Stock		Additional Paid-In Capital	Treasury Stock	Retained Earnings (Deficit)	Total Stockholders Equity
	Shares	Amount				
BALANCE, December 31, 2001	7,178,152	$ 7	$ 16,539	$ (25)	$ (13,212)	$ 3,309
Issuance of stock for Employee Stock Purchase Plan (Note 9)	120,966		715			715
Issuance of stock in connection with 401(k) Plan (Note 11)	247,021	1	1,870			1,871
Exercise of stock options	142,670		521			521
Tax benefit from stock option exercises			328			328
Exercise of warrants	15,000		60			60
Issuance of stock in connection with Private Placement, net of offering costs of $160	1,460,000	1	9,406			9,407
Net income					752	752
BALANCE, December 31, 2002	9,163,809	$ 9	$ 29,439	$ (25)	$ (12,460)	$ 16,963
Issuance of stock for Employee Stock Purchase Plan (Note 9)	131,247		582			582
Issuance of stock in connection with 401(k) Plan (Note 11)	222,354	1	1,328			1,329
Exercise of stock options	160,757		675			675
Tax benefit from stock option exercises			426			426
Exercise of warrants	150,965		462			462
Issuance of stock in conjunction with acquisitions	163,132		1,099			1,099
Issuance of stock as compensation	15,882		102			102
Issuance of stock in connection with Private Placement, net of offering costs of $171	1,900,000	2	21,352			21,354
Net income					8,407	8,407
BALANCE, December 31, 2003	11,908,146	$ 12	$ 55,465	$ (25)	$ (4,053)	$ 51,399
Issuance of stock for Employee Stock Purchase Plan (Note 9)	54,219		823			823
Issuance of stock in connection with 401(k) Plan (Note 11)	55,085		1,290			1,290
Exercise of stock options	390,828		1,843			1,843
Issuance of stock as compensation	1,700		31			31
Tax benefit from stock option exercises			2,433			2,433
Issuance of stock in connection with public offering, net of offering costs of $4,473	2,610,000	3	67,422			67,425
Exercise of warrants	266,343		2,068			2,068
Issuance of stock in conjunction with acquisition	24,226		657			657
Net income					20,504	20,504
BALANCE, December 31, 2004	15,310,547	$ 15	$ 132,032	$ (25)	$ 16,451	$ 148,473

The accompanying notes are an integral part of these consolidated financial statements.

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AMEDISYS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2004, 2003 and 2002

(Dollar amounts in thousands)

	2004	2003	2002
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$ 20,504	$ 8,407	$ 752
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	4,126	3,072	2,947
Provision for bad debts	3,055	2,239	3,175
Compensation expense due to issuance of stock and stock options	31	102	
Deferred income taxes	6,996	4,620	(3,514)
Tax benefit from stock option exercises	2,433	426	328
Other			(93)
Changes in assets and liabilities, net of impact of acquisitions			
(Increase) decrease in patient accounts receivable	(12,348)	(3,321)	7,040
Increase in inventory and other current assets	(1,134)	(170)	(1,307)
Increase in other assets	(4,357)	(414)	(168)
Increase in accounts payable	3,341	845	55
(Decrease) increase in amounts due to Medicare	(20)	2,832	2,098
Increase in accrued expenses	7,084	3,425	1,904
Net cash provided by operating activities	29,711	22,063	13,217
CASH FLOWS FROM INVESTING ACTIVITIES:			
Proceeds from sale of property and equipment	102	234	139
Purchase of property and equipment	(5,231)	(1,789)	(1,267)
Acquisition of businesses, net	(29,822)	(6,772)	(2,125)
Partnership distributions			(66)
Net cash used in investing activities	(34,951)	(8,327)	(3,319)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net (payments) on line of credit agreements			(9,305)
Proceeds from issuance of notes payable	872	1,242	1,021
Payments on notes payable	(6,951)	(6,910)	(6,831)
Decrease in Medicare liabilities	0	(6,332)	(3,424)
Decrease in long-term liabilities	(387)	386	
Proceeds from private placement of stock, net		21,352	9,406
Proceeds from other issuance of stock	3,911	1,137	581
Proceeds from Employee Stock Purchase Plan	823	582	
Proceeds from equity offering, net of costs	67,422		
Net cash provided by (used in) financing activities	65,690	11,457	(8,552)
NET INCREASE IN CASH AND CASH EQUIVALENTS	60,450	25,193	1,346
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	29,229	4,036	2,690

CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 89,679	$ 29,229	$ 4,036
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION			
Cash paid for:			
Interest	$ 353	$ 1,166	$ 1,776
Income taxes	$ 2,730	$ 149	$ 895
SUPPLEMENTAL DISCLOSURES OF NON CASH FINANCING AND INVESTING ACTIVITIES			
Stock issued for 401(k) Plan	$ 1,290	$ 1,328	$ 1,871
Stock issued for acquisitions	657	1,099	
Notes payable issued for acquisitions	1,315	2,000	1,200
Capital leases	306	584	237

The accompanying notes are an integral part of these consolidated financial statements.

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AMEDISYS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2004

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Organization and Nature of Operations

Amedisys, Inc. and subsidiaries (Amedisys or the Company) is a provider of home health care nursing services. Amedisys is incorporated in the state of Delaware and, through its subsidiaries, operates in 13 southern and southeastern states including Alabama, Arkansas, Florida, Georgia, Louisiana, Maryland, Mississippi, North Carolina, Oklahoma, South Carolina, Tennessee, Texas and Virginia. The Company provides home health care nursing services, and in Alabama and Tennessee, also provides hospice services. The Company operates in one segment.

The Company derived 93% and 91% of its net service revenue from Medicare for the years ended December 31, 2004 and 2003, respectively.

Use of Estimates

The accounting and reporting policies of the Company conform with accounting principles generally accepted in the United States. In preparing the consolidated financial statements, the Company is required to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

Principles of Consolidation

The Consolidated Financial Statements include the accounts of the Company and its wholly-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in these consolidated financial statements. Business combinations accounted for as purchases are included in the Consolidated Financial Statements from the respective dates of acquisition.

Revenue Recognition

Medicare Revenue Recognition

Since October 2000, with the implementation of PPS, the Company has been paid by Medicare based on episodes of care. An episode of care is defined as a length of care up to 60 days with multiple continuous episodes allowed. A base episode payment is established by the Medicare Program through federal legislation for all episodes of care ended on or after the applicable time periods detailed below:

Period Beginning	**Base episode payment**
October 1, 2000 through March 31, 2001	$2,115 per episode
April 1, 2001 through September 30, 2001	$2,264 per episode
October 1, 2001 through September 30, 2002	$2,274 per episode
October 1, 2002 through September 30, 2003	$2,159 per episode
October 1, 2003 through March 31, 2004	$2,231 per episode
April 1, 2004 through December 31, 2004	$2,213 per episode
January 1, 2005 through December 31, 2005	$2,264 per episode

The provision in the Benefits Improvement and Protection Act (BIPA) whereby home health providers received a 10% increase in reimbursement that began April 2001 for serving patients in rural areas expired March 31, 2003, however, in April 2004, a 5% increase in reimbursement was reinstated for a one-year period. Patients in rural areas account for approximately 28% of the Company s patient population as of December 31, 2004.

Medicare reimbursement rates are subject to change. The applicability of a reimbursement change depends upon the completion date of the episode and generally applies to all episodes ending after the effective date of the

AMEDISYS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2004

change. Therefore, any change in Medicare reimbursement, positive or negative, will impact the financial results of the Company up to sixty days in advance of the effective date of such change, and the impact of a change could be material.

The base episode payment as shown above is adjusted by a number of factors including, but not limited to, the following: a case mix adjuster consisting of 80 home health resource groups (HHRG), the applicable geographic wage index (to give effect to geographic differences in wage levels), low utilization (either expected or unexpected), intervening events, such as a significant change in the patient s condition and other factors. The episode payment is also adjusted in the event that a patient is either readmitted by the Company, or admitted to another home health agency, prior to the expiration of 60 days from the original admission date these reimbursement adjustments are known as partial episode payments. As a result, the actual payment to the Company is different from the base episode payments listed above, but generally a decrease in a base episode payment will result in a decrease in actual episode payments. The episode payment will be made to providers regardless of the cost to provide care. The services covered by the episode payment include all disciplines of care, in addition to medical supplies, within the scope of the home health benefit.

A portion of the cash reimbursement from each Medicare episode is typically received before all services are rendered. The estimated episodic payment is billed at the commencement of the episode. Medicare reimburses 60% of the estimated reimbursement at the initial billing for the initial episode of care per patient and the remaining reimbursement is received upon completion of the episode and upon final billing. Medicare reimburses 50% at initial billing for any subsequent episodes of care for a previously admitted patient immediately following the first episode of care for a patient. The remaining 50% reimbursement is received upon completion of the episode and upon final billing.

Revenue is recorded as services are provided to a patient. Amounts billed and/or received in advance of services performed are recorded as deferred revenue. The amount of deferred revenue at December 31, 2004 and 2003 was $14.9 million and $8.7 million, respectively. These deferred revenue amounts have been recorded as a reduction to accounts receivable in the accompanying Consolidated Balance Sheet since only a nominal amount of deferred revenue represents cash collected in advance of providing services. For episodes of care that are completed, all of the revenue expected to be received for that episode is recognized. The amount of revenue recognized for episodes of care which are incomplete at period end is based on an estimate of the portion of the episode which applies to the period, and is calculated based upon total visits performed to date as a percentage of total expected visits for a particular episode. Management believes that this is a reasonable estimate for revenue with respect to services provided for incomplete episodes, and for which reimbursement will be ultimately received. Because of the potential for changes in base episode payments referred to above and the complexity of the regulations noted above, the estimated amounts originally recorded as net patient revenue and accounts receivable may be subject to revision as additional information becomes known.

During 2003, CMS informed home health care providers that it intended to make certain recoveries of amounts overpaid to providers for the periods dating from the implementation of PPS on October 1, 2000 through particular dates in 2003 and 2004. The first of these amounts related to partial episode payments (PEPs), whereby a patient was readmitted to a home health care agency prior to the passing of 60 days from the previous admission date at another home health agency. In such instances, reimbursement for the first agency is reduced. CMS advised the industry that CMS had implemented changes to its computer system such that the proper adjustment would be made at the time of claim submission on an ongoing basis, and that recovery for prior overpayments would commence in the summer of 2003 and extend over a two-year period. The Company reserved, based on information supplied by CMS, approximately $0.9 million in 2003 for all claims dating from October 1, 2000. During the twelve months ended December 31, 2004, CMS recouped approximately $51,000 of

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AMEDISYS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2004

the above estimated overpayments. The Company cannot predict the actual timing of future collections initiated by CMS. Secondly, CMS advised the industry that it would seek recovery of overpayments that were made for patients who had, within 14 days of such admission, been discharged from inpatient facilities, including hospitals, rehabilitation and skilled nursing units, and that these recoveries would commence in April 2004. This date was subsequently extended to 2005. CMS will provide at least five weeks notice of any impending recovery. To date no notice has been received by the Company. The Company conducted an analysis of a sample of claims where and when these events had occurred, and estimated that, for all periods dating from October 1, 2000 through December 31, 2003, a reserve in the amount of approximately $1.5 million was appropriate. These reserves are recorded in current portion of Medicare liabilities in the accompanying Consolidated Balance Sheets.

Prior to the implementation of PPS on October 1, 2000, reimbursement for home health care services to patients covered by the Medicare program was based on reimbursement of allowable costs subject to certain limits. Final reimbursement was determined after submission of annual cost reports and audits thereof by the fiscal intermediaries. Retroactive adjustments have been accrued on an estimated basis in the period the related services were rendered and will be adjusted in future periods, as final settlements are determined. Estimated settlements for cost report years ended 1997 and subsequent years, which are still subject to audit by the intermediary and the Department of Health and Human Services, are recorded in current Medicare liabilities in the accompanying Consolidated Balance Sheets. Under the new PPS rules, annual cost reports are still required as a condition of participation in the Medicare program. However, there are no final settlements or retroactive adjustments based on the submitted annual cost reports.

In the fourth quarter of 2004, the Company determined that amounts previously reserved against revenue in 2003 and 2001 ($0.5 million and $0.6 million, respectively) were no longer necessary as a consequence of consistent application of the Company s revenue recognition policy, the conversion of all Metro locations, acquired in August 2003, to the Amedisys systems, and the commencement of appropriate billing procedures for the Company s hospice acquisitions. The reversal of these reserves increased net service revenues by $1.1 million in the fourth quarter of 2004.

Non-Medicare Revenue Recognition

The Company has agreements with third party payors that provide payments for services rendered to the Company at amounts different from established rates. Gross revenue is recorded on an accrual basis based upon the date of service at amounts equal to the Company s established rates or estimated reimbursement rates, as applicable. Allowances and contractual adjustments are recorded for the difference between the established rates and the amounts estimated to be payable by third parties and are deducted from gross revenue to determine net service revenue. Net service revenue is the estimated net amounts realizable from patients, third party payors and others for services rendered, including estimated retroactive adjustments under reimbursement agreements. Reimbursement from all sources (except Medicare as noted above) is typically billed and revenue is recorded as services are rendered and is based upon discounts from established rates.

Hospice Revenue Recognition

Services are billed to Medicare, Medicaid and private payors generally on a daily basis. The hospice locations are subject to limits for payments. For inpatient services the limit is based on inpatient care days. If inpatient care days provided to patients at a hospice exceed 20% of the total days of hospice care provided for the year, then payment for days in excess of this limit are paid at the routine home care rate.

Overall payments made by Medicare are also subject to a cap amount calculated by the Medicare fiscal intermediary at the end of the hospice cap period. The hospice cap period runs from November 1st of each year

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through October 31st of the following year. Total Medicare payments during this period are compared to the cap amount for this period. Payments in excess of the cap amount must be returned to Medicare. The cap amount is calculated by multiplying the number of beneficiaries electing hospice care during the period by a statutory amount that is indexed for inflation. The per beneficiary cap amount was $19,636 for the twelve month period ending October 31, 2004. The hospice cap amount is computed on a hospice-by-hospice basis. Any amounts received in excess of this per beneficiary cap must be refunded to Medicare. The Company did not receive any amounts in excess of this per beneficiary cap during 2004.

Cash and Cash Equivalents

Cash equivalents include certificates of deposit and all highly liquid debt instruments with maturities of three months or less when purchased.

Collectibility of Accounts Receivable

The process for estimating the ultimate collectibility of accounts receivable involves judgment, with the greatest subjectivity relating to non-Medicare accounts receivable. The Company currently records an allowance for uncollectible accounts on a percentage of revenue basis unless a specific issue is noted, at which time an adjustment to the allowance is recorded. The Company reviews the adequacy of the allowance on a quarterly basis.

In the year ended December 31, 2004, accounts receivable increased, net of allowance for doubtful accounts, to $24.5 million from $15.2 million at December 31, 2003. This increase was due to the increases in net service revenue and to delays in billing associated with acquisitions, particularly with respect to the hospice acquisition. Accounts receivable as at December 31, 2004, by payor class is as follows (Dollar amounts in thousands):

	2004		2003	
Medicare, net of deferred revenue	$ 21,510	76%	$ 11,750	65%
Medicaid	1,562	6%	1,400	8%
Private, commercial insurance and other	5,157	18%	5,042	28%
Total gross accounts receivable	28,229	100%	18,192	100%

Allowance for doubtful accounts	(3,751)	(3,008)
Accounts receivable net of doubtful accounts	$ 24,478	$ 15,184

Amounts receivable from state Medicaid agencies and private insurers are significantly more difficult to collect, in particular because all billing is done on a per visit basis resulting in a number of smaller accounts.

Inventory

Inventory consists of medical supplies utilized in the treatment and care of home health patients. Inventory is stated at the lower of cost (first-in, first-out method) or market.

Property and Equipment

Property and equipment are carried at cost. Additions and improvements are capitalized, but ordinary maintenance and repair expenses are charged to expense as incurred. The cost of property and equipment sold or otherwise disposed of and the accumulated depreciation thereon are eliminated from the property and equipment

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and related accumulated depreciation accounts, and any gain or loss is credited or charged to income. Depreciation expense, including amortization of assets related to capital leases (see Note 3) for the years ended December 31, 2004, 2003 and 2002 was $3.0 million, $3.1 million and $3.0 million, respectively.

Capital leases, primarily consisting of software, computer equipment, and phone systems, are included in property and equipment. Capital leases are recorded at the present value of the future rentals at lease inception and are amortized over the shorter of the applicable lease term or the useful life of the equipment.

For financial reporting purposes, depreciation and amortization of property and equipment including those subject to capital leases is included in other general and administrative expenses and is provided utilizing the straight-line method based upon the following estimated useful service lives:

Buildings	40 years
Leasehold improvements	5 years
Equipment and furniture	5 7 years
Vehicles	5 years
Computer software	3-5 years

Goodwill and Other Intangible Assets

In July 2001, the FASB issued Financial Accounting Standards Statement No. 142, Goodwill and Other Intangible Assets (SFAS 142) that was effective January 1, 2002. Under SFAS 142, goodwill and indefinite-lived intangible assets are no longer amortized but are reviewed annually for impairment or if circumstances indicate potential impairment may have occurred. Separable intangible assets that are not deemed to have an indefinite life continue to be amortized over their useful lives. In particular, the Company has allocated amounts ranging from 4% to 9% of the purchase price of its acquisitions to the value of non-competition agreements, generally with a life of two to three years. In the year ended to December 31, 2004, the Company amortized $1.2 million associated with these agreements.

In August 2001, the FASB issued SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets (SFAS 144), which supersedes FASB Statement No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of . This statement also superseded certain aspects of APB 30, Reporting the Results of Operations Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions , with regard to reporting the effects of a disposal of a segment of a business and requires expected future operating losses from discontinued operations to be reported in discontinued operations in the period incurred rather than as of the measurement date as previously required by APB 40. Additionally, certain dispositions may now qualify for discontinued operations treatment.

The Company reviews goodwill and other intangible assets on a quarterly basis to determine whether impairment has occurred, and if so, what impairment charge would be appropriate. At December 31, 2004 the Company determined that no impairment had occurred.

Accounting for the Impairment of Long-Lived Assets

Whenever recognized, events or changes in circumstances indicate the carrying amount of an asset, including intangible assets, may not be recoverable, management reviews the asset for possible impairment. Management uses undiscounted estimated future cash flows to assess the recoverability of the asset. If the

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expected future net cash flows are less than the carrying amount of the asset, an impairment loss, measured as the amount by which the carrying amount of the asset exceeds the fair value of the asset, is recognized.

Derivative Instruments and Hedging Activities

The Company does not use derivative financial instruments or engage in hedging activities.

New Accounting Pronouncements

In December 2004, the FASB published a revision of FASB Statement No. 123. Accounting for Equity Based Compensation . FASB 123 focuses primarily on accounting for transactions in which an entity obtains employee services in share-based payment transactions. This Statement requires a public entity to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award (with limited exceptions). That cost will be recognized over the period during which an employee is required to provide service in exchange for the award the requisite service period (usually the vesting period). No compensation cost is recognized for equity instruments for which employees do not render the requisite service. Employee share purchase plans will not result in recognition of compensation cost if certain conditions are met; those conditions are much the same as the related conditions in Statement 123. The grant-date fair value of employee share options and similar instruments will be estimated using option-pricing models adjusted for the unique characteristics of those instruments (unless observable market prices for the same or similar instruments are available). If an equity award is modified after the grant date, incremental compensation cost will be recognized in an amount equal to the excess of the fair value of the modified award over the fair value of the original award immediately before the modification. Excess tax benefits, as defined by this Statement, will be recognized as an addition to paid-in capital. Cash retained as a result of those excess tax benefits will be presented in the statement of cash flows as financing cash inflows. The write-off of deferred tax assets relating to unrealized tax benefits associated with recognized compensation cost will be recognized as income tax expense unless there are excess tax benefits from previous awards remaining in paid-in capital to which it can be offset. The notes to financial statements of both public and nonpublic entities will disclose information to assist users of financial information to understand the nature of share-based payment transactions and the effects of those transactions on the financial statements. The Company estimates that the impact to fully diluted net income per share for the last six months of 2005 related to stock options to be approximately $0.04 per share, including new option grants in the period. The provisions of the revised statement are effective for financial statements issued for the first interim or annual reporting period beginning after June 15, 2005. If the Company had adopted this statement during 2004, the Company would have recognized $2.0 million of additional expense, net of tax.

Net Income Per Common Share

Earnings per common share is based on the weighted average number of shares outstanding during the period. The following table sets forth shares used in the computation of basic and diluted net income per common share for the years ended December 31, 2004, 2002, and 2001 (Share amounts in thousands).

	2004	2003	2002
Weighted average number of shares outstanding for basic net income per share	13,057	9,808	8,499
Effect of dilutive securities:			
Stock options	387	218	348
Warrants	99	48	160
Adjusted weighted average shares for diluted net income per share	13,543	10,074	9,007

For the year ended December 31, 2004, there were no potentially dilutive securities that were anti-dilutive at the end of the period, as compared to 71,000 and 139,000 potentially dilutive securities for 2003 and 2002, respectively.

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Stock-Based Compensation

The Company has two stock option plans, the Amedisys, Inc. 1998 Stock Option Plan and the Amedisys, Inc. Directors Stock Option Plan (the Plans) as described in Note 9. The Company accounts for its stock-based compensation in accordance with Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees (APB 25). Statement of Financial Accounting Standards No. 123 Accounting for Stock-Based Compensation (SFAS 123), and SFAS 148 Accounting for Stock-Based Compensation Transition and Disclosure permit the continued use of the intrinsic value-based method prescribed by APB 25, but require additional disclosures, including pro-forma calculations of earnings and net earnings per share as if the fair value method of accounting prescribed by SFAS 123 had been applied. The following table illustrates the effect on net income and earnings per share if the Company had recognized compensation expense for the Plans using the fair-value recognition method in SFAS 123 (Dollar amounts in thousands, except per share amounts):

	2004	2003	2002
Net income			
As reported	$ 20,504	$ 8,407	$ 752
Add: Stock based employee compensation expense included in reported net income, net of taxes	16	63	
Deduct: Total stock-based employee compensation determined under fair value based method for all awards, net of income taxes	(1,699)	(591)	(698)
Pro forma net income	$ 18,821	$ 7,879	$ 54
Basic earnings per share:			
As reported	$ 1.57	$ 0.86	$ 0.09
Pro forma	$ 1.44	$ 0.80	$ 0.01
Diluted earnings per share:			
As reported	$ 1.51	$ 0.83	$ 0.08
Pro forma	$ 1.39	$ 0.78	$ 0.01
Weighted average fair value of grants during the year	$ 12.21	$ 5.40	$ 7.89
Black-Scholes option pricing model assumptions:			
Risk free interest rate	3.53 5.16%	3.55 5.16%	4.26 5.80%
Expected life (years)	5 10	10	10
Volatility	42.88 105.71%	58.85 110.35%	92.28 115.18%
Expected annual dividend yield			

Restructuring

In response to the significant reduction in Medicare reimbursement effective October 1, 2002 and in anticipation of a further reduction effective April 1, 2003, management initiated major changes in its operations, including termination of employees, abandonment and buyouts of certain leased space in December 2002. As a result of this restructuring plan, 117 employees were terminated. In 2002, the Company recorded $1,640,000 of costs associated with its restructuring plan. These costs were comprised of $1,209,000 for employee severance and $431,000 of costs associated with the abandonment and buyout of existing operating leases which were included in general and administrative expenses for the year ended December 31, 2002. During 2002, $262,000 of termination benefits were paid associated with the termination of 83 employees and charged against the accrued expenses. There were no other changes to the accrued liability. At December 31, 2002, a liability of $1,378,000 remained in other accrued liabilities for the unpaid portion of the benefits and lease cancellation

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payments and buyouts associated with the restructuring plan. At December 31, 2003, a liability of $352,000 remained for the unpaid portion of the restructuring plan, and is expected to be paid through the fourth quarter of 2006. At December 31, 2004, a liability of $127,000 remains for the unpaid portion of the restructuring plan, and will be paid through the first quarter of 2008. The following table summarizes the balance remaining at December 31, 2004 (Dollar amounts in thousands):

	Employee severance and other related benefits	Lease abandonment and buyouts	Total
Restructuring costs, incurred to date	$ 1,209	$ 431	$ 1,640
Cash payments	(1,193)	(320)	(1,513)
Balance at December 31, 2004	$ 16	$ 111	$ 127

Advertising Costs

The Company expenses all advertising costs as incurred. Advertising expense for the fiscal years ended December 31, 2004, 2003 and 2002 were $2,145,000, $1,006,000, $889,000, respectively.

2. ACQUISITIONS AND DISPOSITIONS:

Acquisitions:

Each of the following acquisitions was completed in order to pursue the Company s strategy of achieving market dominance in the southern and southeastern United States by expanding its service base and enhancing its position in certain geographic areas as a leading provider of home health nursing services. The purchase price of each acquisition was determined based on the Company s analysis of comparable acquisitions and expected cash flows. Goodwill generated from the acquisitions was recognized given the expected contributions of each acquisition to the overall corporate strategy and is fully tax deductible. Each of the acquisitions completed was accounted for as a purchase and or included in the Company s financial statements from the respective acquisition date.

Acquisitions in 2004:

1. On January 5, 2004, the Company entered into an agreement to purchase certain assets and certain liabilities of 11 home health agencies and two hospice agencies (the Acquired Entities) that operated as departments of individual hospitals (the Sellers) owned by Tenet Healthcare Corporation. Subsequent to January 5, 2004, the Company and the Sellers agreed to exclude one of the home health agencies from the Acquired Entities. The Acquired Entities are Professional Home Health, Brookwood Home Care Services, Memorial Home Care, Spalding Regional Home Health, Tenet Home Care of Palm Beach, Tenet Home Care of Broward County, Tenet Home Care of Miami-Dade, First Community Home Care, Cypress-Fairbanks Home Health, St. Francis Home Health and Hospice, and Brookwood Health Services, Inc. The Company had no material relationship with the Sellers or any of their affiliates prior to this transaction.

The transaction closed in three stages. Control over the first four agencies was transferred effective March 1, 2004. The second group was transferred effective April 1, 2004, with the final transfer effective May 1, 2004. The purchase price of approximately $19.1 million was comprised of $14.2 million in cash at initial closing, with the balance paid in two equal installments on April 1, 2004 and May 1, 2004. Total transaction costs capitalized as part of the purchase price of $0.5 million.

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Tangible assets acquired and liabilities assumed are immaterial to the purchase price. The Company has allocated approximately $18.9 million of the purchase price to goodwill ($16.7 million) and other intangibles ($2.2 million). The following table contains pro forma consolidated income statement information as if the transaction occurred January 1, 2003 (Dollar amounts in thousands except per share data)

	2004	2003
	(unaudited)	
Net service revenue	$ 231,826	$ 169,189
Operating income	$ 33,482	$ 19,584
Net income	$ 21,208	$ 11,659
Basic earnings per share	$ 1.61	$ 1.19
Diluted earnings per share	$ 1.54	$ 1.16

The unaudited pro forma information presented above is presented for illustrative purposes only and may not be indicative of the results of operations that would have actually occurred if the transaction described had occurred as presented. In addition, future results may vary significantly from the results reflected in such information.

2. Effective April 1, 2004, the Company, through its wholly-owned subsidiary Amedisys Oklahoma, L.L.C., acquired certain assets and liabilities of Hillcrest Medical Center (Hillcrest) associated with its home health care operations in Tulsa, Oklahoma, for which the Company paid $375,000 cash at closing with a deferred payment of $75,000 made on June 25, 2004. In connection with this acquisition, the Company recorded substantially the entire purchase price as goodwill ($413,000) and other intangibles ($27,000) in the second quarter of 2004.

3. Effective June 1, 2004, the Company, through its wholly-owned subsidiary Amedisys Mississippi, L.L.C., acquired a single home health agency in Vicksburg, Mississippi, from River Region Health System (River Region) for $1.65 million in cash. In connection with the acquisition, the Company recorded substantially the entire purchase price as goodwill ($1.4 million) and other intangibles ($0.2 million) in the second quarter of 2004.

4. Effective September 1, 2004, the Company, through its wholly-owned subsidiary Amedisys Home Health, Inc. of Virginia, acquired a home health agency with three locations in Richmond, Virginia, from Freedom Home Health (Freedom) for $6.6 million. Of the $6.6 million purchase price, $4.6 million was paid in cash; the Company issued a $1.3 million note payable and issued $0.7 million of Amedisys stock. In connection with the acquisition, the Company recorded substantially the entire purchase price as goodwill ($5.9 million) and other intangibles ($0.6 million) in the third quarter of 2004,

5. Effective October 1, 2004, the Company, through its wholly-owned subsidiaries Amedisys Home Health, Inc. of South Carolina and Amedisys Georgia, L.L.C., acquired two home health agencies from Winyah Health Care Group for approximately $3.5 million in cash. The agencies are located in Augusta, Georgia and Clinton, South Carolina. In connection with the acquisition, the Company recorded substantially all of the purchase price as goodwill ($2.8 million) and other intangibles ($0.6 million) in the fourth quarter of 2004.

6. Effective December 1, 2004 the Company, through its wholly owned subsidiary, Amedisys Home Health Inc. of North Carolina acquired a single home health agency in Winston-Salem, North Carolina from In Home

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Care for approximately $1 million in cash. Substantially all of the purchase price was recorded as goodwill ($0.7 million) and other intangibles ($0.2 million in the fourth quarter of 2004.

Supplemental pro forma information as required by Paragraph 58 of SFAS 141 for this acquisition would not have a material impact on the results of operations for the twelve months ended December 31, 2004.

Acquisitions in 2003

1. Effective July 1, 2003, the Company, through its wholly-owned subsidiary Amedisys Arkansas, L.L.C., acquired certain assets and liabilities of Van Buren H.M.A., Inc. associated with its home health care operations in Van Buren, Arkansas. In connection with this acquisition, the Company recorded $391,000 of goodwill and other intangibles in the third quarter of 2003.

2. Effective August 1, 2003, the Company, through its wholly-owned subsidiary Amedisys LA Acquisitions, LLC., acquired substantially all of the assets and certain liabilities of Standard Home Health Care Inc. and Cypress Health Services, LLC, collectively Metro Preferred Home Care (Metro). In consideration for the acquired assets and liabilities, the Company paid $6.0 million cash at closing and executed a three-year promissory note in the amount of $1.0 million, which is subject to achievement of certain minimum earnings of the acquired operations, and issued 163,000 shares of Amedisys, Inc. common stock, for a total purchase price of approximately $8.0 million. The promissory note, bearing a maximum interest rate of 5% per annum, is payable in arrears in equal quarterly installments, plus accrued interest, beginning December 2003. In February 2004 the note was amended to remove the minimum earning requirements. In connection with this acquisition, the Company recorded $8,212,000 of goodwill and other intangibles in the third and fourth quarters of 2003. The following table contains pro forma income consolidated statement information as if the transaction occurred January 1, 2002 (Dollar amounts in thousands, except per share data)

	2003	2002
	(unaudited)	
Net service revenue	$ 153,809	$ 146,675
Operating income	$ 15,411	$ 9,006
Net income	$ 9,065	$ 2,290
Basic earnings per share	$ 0.92	$ 0.26
Diluted earnings per share	$ 0.90	$ 0.25

The unaudited pro forma information presented above is presented for illustrative purposes only and may not be indicative of the results of operations that would have actually occurred if the transaction described had occurred as presented. In addition, future results may vary significantly from the results reflected in such information.

3. Effective November 1, 2003, the Company, through its wholly-owned subsidiary Amedisys Texas, Ltd., acquired certain assets and liabilities of St. Luke s Episcopal Hospital associated with its home health services program for which the Company paid $0.5 million cash at closing and executed a promissory note for $1.0 million bearing interest at the Prime Rate plus two percent and payable over a three-year term in equal monthly installments beginning December 1, 2003. In connection with this acquisition, the Company recorded $1,249,000 of goodwill and other intangibles in the fourth quarter of 2003.

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3. PROPERTY AND EQUIPMENT:

Property and equipment consist of the following as of December 31, 2004 and 2003 (Dollar amounts in thousands):

	2004	2003
Buildings and leasehold improvements	$ 322	$ 193
Equipment, furniture and vehicles	16,813	12,090
Computer software	5,550	4,935
	22,685	17,218
Less: Accumulated depreciation and amortization	(12,682)	(9,999)
Total property and equipment	$ 10,003	$ 7,219

4. GOODWILL, OTHER INTANGIBLE ASSETS AND OTHER ASSETS:

Goodwill and Other Intangible Assets

The following table summarizes the activity related to goodwill and other intangible assets for the years ended December 31, 2004, 2003 and 2002.

	Goodwill	Certificates of Need	Acquired Name of Business	Non-Compete Agreements (1)
Balances at January 1, 2002	$ 22,217	$	$	$
Additions	3,365			
Amortization				

Balances at December 31, 2002	25,582			
Additions	9,866			
Amortization				
Balances at December 31, 2003	35,448			
Additions	28,719	2,125		1,869
Amortization				(1,177)
Reclass (1)	(1,630)	400	200	1,030
Balances at December 31, 2004	$ 62,537	$ 2,525	$ 200	$ 1,722

(1) The weighted-average amortization period of non-compete agreements is 2.1 years.

(2) Amounts previously classified as goodwill were allocated to other intangible assets based on valuation studies of the assets acquired.

The estimated aggregate amortization expense for each of the four succeeding years is as follows:

2005	$ 1,125
2006	563
2007	18
2008	16
	$ 1,722

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Other Assets

Other Assets were $3.8 million and $0.2 million at December 31, 2004 and 2003, respectively. Included in Other Assets at December 31, 2004, were workers compensation deposits of $1.7 million and $1.3 million for policy years 2004 and 2003 (see Management s Discussion and Analysis of Financial Condition and Results of Operations), respectively. Also included in Other Assets at December 31, 2004 are net deferred financing costs associated with the Company's GE Facility of $0.5 million. These costs are being amortized over the four-year term of the GE Facility and are being charged to interest expense. Other deposits were $0.3 million and $0.2 million at December 31, 2004 and 2003, respectively.

5. LONG-TERM DEBT:

Long-term debt consists primarily of notes payable to banks, other financial institutions and sellers notes related to acquisitions that are due in monthly installments through 2007. Long-term debt includes the following as of December 31, 2004 and 2003 (amounts in thousands):

	2004	2003
Long-term debt payable to NPF interest was at a fixed interest rate of 10.50% until June 2002 and variable thereafter (7.25% at December 31, 2003)	$	$ 3,551
Long-term debt interest rates ranging from 3.00-8.00%	3,069	3,119
	3,069	6,670
Less current portion	(1,689)	(3,974)
Long-term debt	$ 1,380	$ 2,696

Maturities of debt as of December 31, 2004 are as follows (amounts in thousands):

Year Ended	
December 31, 2005	$ 1,689

December 31, 2006	1,027
December 31, 2007	353

The fair value of long-term debt, estimated based on the Company s current borrowing rate of 6.10 and 6.22% at December 31, 2004 and 2003, respectively, was approximately $3.1 million and $6.5 million at December 31, 2004 and 2003, respectively.

Effective April 28, 2004, the Company entered into a financing arrangement with GE Healthcare Financial Services (GE) for a working capital facility (the GE Facility). At December 31, 2004, the Company s maximum borrowing capacity under the GE Facility was $15 million. However, the Company may request, under certain conditions, that the borrowing capacity be increased in two separate increments of $5 million each, for a total borrowing capacity of $25 million. The Company believes it meets at December 31, 2004, all conditions for increasing the borrowing capacity of the GE Facility to $25 million. To date, no amounts have been drawn under this facility. The Company s obligations under the GE Facility are collateralized by its existing and after-acquired personal and real property. The Company s bank accounts are subject to pledge account agreements between GE and the Company, whereby GE has a present and continuing security interest in the Company s pledged accounts upon the occurrence of an Event of Default, as defined, under the GE Facility.

The GE facility matures in April 2008 and bears interest with respect to revolving credit advances at the index rate plus 1.75%. The index rate is determined by the higher of (i) the rate publicly quoted from time to

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time by The Wall Street Journal as the base rate on corporate loans posted by at least 75% of the nation s 30 largest banks or (ii) the Federal Funds Rate plus 50 basis points per annum. At the election of the Company, revolving credit advances may bear interest at LIBOR plus 3.75%. With respect to swing line loans, the index rate as defined above plus 1.75% is applicable. The GE Facility contains financial covenants including: (i) a maximum capital expenditures limit, (ii) a minimum fixed charge coverage ratio, (iii) a minimum EBITDA (earnings before interest, taxes, depreciation and amortization), (iv) a maximum leverage ratio limit and (v) a maximum days sales outstanding limit. Compliance with the financial covenants is measured quarterly. All of the financial covenants are predetermined and adjust over the term of the GE Facility. All of the financial covenants are measured with results from the most recent 12-month period then ended, except for the maximum days sales outstanding covenant, which is measured against the most recent 90-day period then ended. As of December 31, 2004, the Company was in compliance with all of the financial covenants of the GE Facility.

6. CAPITAL LEASES:

The Company has acquired certain equipment under capital leases for which the related liabilities have been recorded at the present value of future minimum lease payments due under the leases. The present minimum lease payments under the capital leases and the net present value of future minimum lease payments at December 31, 2004 are as follows (amounts in thousands):

Year Ended	
December 31, 2005	460
December 31, 2006	210
December 31, 2007	76
December 31, 2008	50
December 31, 2009	24
Total future minimum lease payments	820
Amount representing interest	(68)
Present value of future minimum lease payments	752
Less current portion	(423)
Obligations under capital leases	$ 329

7. INCOME TAXES:

The Company files a consolidated federal income tax return that includes all of the Company s subsidiaries. State income tax returns are filed individually by the subsidiaries in accordance with state statutes.

The Company utilizes the asset and liability approach to measuring deferred tax assets and liabilities based on temporary differences existing at each balance sheet date using currently enacted tax rates in accordance with Statement of Financial Accounting Standards No. 109 (SFAS 109), Accounting for Income Taxes . Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2004

The total provision for income taxes consists of the following for the years ended December 31, 2004, 2003 and 2002 (Dollar amounts in thousands):

	2004	2003	2002
Current portion	$ 5,859	$ 168	$ (100)
Deferred portion	6,996	5,052	(3,185)
Income tax expense (benefit)	$ 12,855	$ 5,220	$ (3,285)

Net deferred tax assets consist of the following components as of December 31, 2004 and 2003 (Dollar amounts in thousands):

	2004	2003
Current portion of deferred tax assets (liabilities):		
NOL carryforward, expiring through 2022	$ 352	$ 2,805
Allowance for doubtful accounts	1,378	1,143
Self-insurance reserves	4	875
Deferred revenue	(2,618)	(2,618)
Expenses not currently deductible for tax purposes	374	222
Other	(843)	(777)
Current portion of deferred tax assets (liabilities)	(1,353)	1,650
Deferred tax liabilities:		
Amortization of intangible assets	(4,735)	(3,083)
Property and equipment	(2,245)	(1,667)
Losses of consolidated subsidiaries not consolidated for tax purposes, expiring beginning in 2010	144	144
Expenses not currently deductible for tax purposes	87	1,850
Total deferred tax liabilities	(6,749)	(2,756)
Net deferred tax liabilities	$ (8,102)	$ (1,106)

Total tax expense (benefit) on income before taxes resulted in effective tax rates that differed from the federal statutory income tax rate. A reconciliation of these rates is as follows for 2004, 2003 and 2002:

	2004	2003	2002
Income taxes computed on federal statutory rate	35.0%	35.0%	35.0%
State income taxes and other, net of federal impact	2.5	2.0	8.0
Valuation allowance			94.0
Nondeductible expenses and other, net	1.0	1.0	(11.0)
Total	38.5%	38.0%	126.0%

The Company has State net operating losses of $852, tax effected, for which it has determined it is more likely than not that the company will not be able to utilize.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2004

8. RELATED PARTY TRANSACTIONS:

The Company paid consulting fees of $60,000 to an Amedisys stockholder for the year ended December 31, 2002. The Company paid The Printing Department, owned by the father-in-law of an officer of the Company until May 2002, $609,000 and $465,000 for the year ended December 31, 2002. The Printing Department printed forms and other materials used in daily operations. The Company paid Alphagraphics, owned by the wife of an officer of the Company until June 2002, $34,000 for the year ended December 31, 2002. Alphagraphics provides printing and recruitment mail-out services. The Company believes the fees paid for these goods and services approximated fair market value. There were no related party transactions for the years ended December 31, 2004 and 2003.

9. CAPITAL STOCK:

Equity Offering

On September 28, 2004, the Company completed an equity offering of 2,460,000 shares of its Common Stock at $27.50 per share, providing net proceeds less expenses to the Company of approximately $67.4 million. The Company engaged Raymond James & Associates, Inc., Jefferies & Company, Inc. and Legg Mason Wood Walker, Incorporated as underwriters for the transaction pursuant to which the underwriters received approximately 5.5% of the gross proceeds in cash. Additionally, the underwriters exercised their option to purchase an additional 300,000 shares of Amedisys, Inc. Common Stock at the offering price to cover over-allotments. The over-allotment included 150,000 shares offered by existing stockholders and 150,000 shares offered by the Company, and resulted in net proceeds to the Company of approximately $3.9 million. The Company intends to use the proceeds from this offering for general corporate purposes, including potential acquisitions.

Private Placements

On April 26, 2002, the Company completed a private placement of 1,460,000 shares of Common Stock with private investors at a price of $6.94 per share. This placement provided net proceeds to the Company of approximately $9.4 million. The Company engaged Belle Haven Investments, L.P. (BHI) and Sanders Morris Harris (Sanders) as placement agents for this transaction pursuant to which BHI received $544,300 in cash and BHI and its principals received warrants to purchase up to 64,500 shares of common stock exercisable at $8.12 per share and Sanders received $15,615 in cash and warrants to purchase up to 4,500 shares of common stock exercisable at $8.12 per share. BHI and its principals exercised 64,500 warrants during the first quarter of 2004 to purchase 33,642 shares of stock. Sanders exercised 4,500 warrants during the fourth quarter of 2004 to purchase 4,500 shares of stock.

On November 25, 2003, the Company completed a private placement of 1,900,000 shares of Common Stock with private investors at a price of $12.00 per share. This placement provided net proceeds to the Company of approximately $21.3 million. The Company engaged Jefferies & Company, Inc. (Jefferies) and Raymond James & Associates, Inc. (Raymond James) as placement agents for the transaction pursuant to which the placement agents received approximately 6% of the gross proceeds in cash and warrants to purchase up to 95,000 shares of common stock exercisable at $14.40 per share. Jefferies exercised 57,000 warrants in the fourth quarter of 2004 to purchase 57,000 shares of stock. Raymond James owns 38,000 warrants at December 31, 2004.

Stock Options and Warrants

The Company s Statutory Stock Option Plan (the Plan) provides incentive stock options to key employees. The Plan is administered by the Compensation Committee which determines, within the provisions of the Plan, those eligible employees to whom, and the times at which, options shall be granted. Each option granted

AMEDISYS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2004

under the Plan is convertible into one share of common stock, unless adjusted in accordance with the provisions of the Plan. Options may be granted for a number of shares not to exceed, in the aggregate, 2,125,000 shares of common stock at an option price per share of no less than the greater of (a) 100% of the fair value of a share of common stock on the date the option is granted or (b) the aggregate par value of the shares of common stock on the date the option is granted. If the option is granted to any owner of 10% or more of the total combined voting power of the Company and its subsidiaries, the option price is to be at least 110% of the fair value of a share of common stock on the date the option is granted. Each option vests ratably over an 18 month to three year period, with the exception of those issued under contractual arrangements that specify otherwise, and may be exercised during a period as determined by the Compensation Committee or as otherwise approved by the Compensation Committee, not to exceed ten years from the date such option is granted.

The Company s Directors Stock Option Plan (the Directors Plan) provides stock options to directors. The Directors Plan is administered by the Board of Directors in accordance with the provisions of the Directors Plan. Each option granted under the Directors Plan is convertible into one share of common stock, unless adjusted in accordance with the provisions of the Directors Plan. Options may be granted for a number of shares not to exceed, in the aggregate, 400,000 shares of common stock. The option price is to be the fair value, which is the closing price of a share of common stock on the last preceding business day prior to the date as to which fair value is being determined, or on the next preceding business day on which such common stock is traded, if no shares of common stock were traded on such date. Each option vests ratably over an eighteen month to three year period and may be exercised during a period not to exceed ten years from the date such option is granted.

A summary of the Company s stock options as of December 31, 2004, 2003 and 2002 and changes during each of the years then ended is as follows:

	2004		2003		2002	
	Shares	Wgtd. Avg. Exer. Price	Shares	Wgtd. Avg. Exer. Price	Shares	Wgtd. Avg. Exer. Price
Outstanding at beginning of year	918,686	$ 5.41	900,693	$ 5.12	919,033	$ 4.25
Granted, at market value	383,098	21.97	208,000	5.34	179,000	8.56
Exercised (1)	(375,827)	4.92	(175,757)	3.84	(142,670)	3.65
Cancelled, forfeited or expired	(25,967)	14.97	(14,250)	6.56	(54,670)	5.63
Outstanding at end of year	899,990	$ 12.46	918,686	$ 5.41	900,693	$ 5.12
Exercisable at end of year	525,636	$ 9.02	687,857	$ 5.07	756,943	$ 4.42
		$ 12.21		$ 5.40		$ 7.89

Weighted average fair value of options granted during the year			

Of the 374,354 options outstanding but not exercisable at December 31, 2004, 188,816 become exercisable in 2005, 117,855 in 2006 and 67,683 in 2007.

(1) At the end of 2003, an option holder elected to exercise 15,000 options. The shares related to this exercise were issued in 2004.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2004

The following table summarizes information about stock options outstanding at December 31, 2004:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding At 12/31/04	Wgtd. Avg. Remaining Contractual Life	Wgtd. Avg. Exercise Price	Number Exercisable at 12/31/04	Wgtd. Avg. Exercise Price
$3.00	112,420	4.37	$ 3.00	112,420	$ 3.00
$4.34 4.70	5,455	6.00	4.34	5,455	4.34
$5.13 5.65	192,470	7.67	5.40	107,127	5.38
$6.00 6.75	79,806	5.19	6.18	79,806	6.18
$6.95 7.85	51,667	6.98	7.25	50,000	7.26
$8.43 9.40	53,374	7.39	8.65	29,371	8.59
$9.95	40,000	7.49	9.95	40,000	9.95
$15.05 $18.10	202,798	9.11	17.29	51,457	15.28
$24.92 $30.23	162,000	9.62	28.27	50,000	30.23
$3.00 $30.23	899,990	7.64	$ 12.46	525,636	$ 9.02

Warrants

At December 31, 2004, the Company had 38,000 warrants outstanding with an exercise price of $14.40 per share. The warrants were issued in connection with the November 2003 private placement as described above.

The following table depicts warrant activity for the two years ended December 31, 2004:

	Warrants	Exercise Price	Shares Purchased
Outstanding warrants at 12/31/02	393,720		

Issued 2003:	145,000	$ 14.40-14.92	
Exercised 2003:	(153,167)	$ 3.00-6.25	153,158
Expired 2003:	(40,833)	$ 3.00	
Outstanding warrants at 12/31/03	344,720		
Exercised 2004:	(306,720)	$ 5.00-14.92	266,343
Outstanding warrants at 12/31/04	38,000		

AMEDISYS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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Employee Stock Purchase Plan

The Company has a plan whereby eligible employees may purchase the Company s common stock at 85% of the lower of the market price at the time of grant or the time of purchase. There are 1,000,000 shares reserved for this plan. At December 31, 2004, there were 171,058 shares available for future issuance.

Employee Stock Purchase Plan Period	Shares Issued	Price
2002 and Prior	664,779	$ 3.43
January 1, 2003 to March 31, 2003	37,278	3.89
April 1, 2003 to June 30, 2003	34,497	3.83
July 1, 2003 to September 30, 2003	27,117	5.10
October 1, 2003 to December 31, 2003	18,853	8.14
January 1, 2004 to March 31, 2004	15,445	12.75
April 1, 2004 to June 30, 2004	9,977	22.23
July 1, 2004 to September 30, 2004	9,944	25.29
October 1, 2004 to December 31, 2004	11,052	26.38
	828,942	

10. COMMITMENTS AND CONTINGENCIES:

Legal Proceedings

From time to time, the Company and its subsidiaries are defendants in lawsuits arising in the ordinary course of the Company s business. Based on current knowledge, management believes that the resolution of these matters will not have a material adverse effect on the Company s financial condition, results of operations or cash flows.

Alliance Home Health, Inc. (Alliance), a wholly-owned subsidiary of the Company (which was acquired in 1998 and ceased operations in 1999), filed for Chapter 7 Federal bankruptcy protection with the United States Bankruptcy Court in the Northern District of Oklahoma on September 29, 2000. A trustee was appointed for Alliance in 2001. The accompanying consolidated financial statements continue to include the net liabilities of Alliance of $4.2 million until the contingencies associated with the liabilities are resolved.

On August 23 and October 4, 2001, two suits were filed against the Company and three of its executive officers in the United States District Court for the Middle District of Louisiana by individuals purportedly as class actions on behalf of all purchasers of Amedisys stock between November 15, 2000 and June 13, 2001. The suits, which have now been consolidated, seek damages based on the decline in Amedisys stock price following an announced restatement of earnings for the fourth quarter of 2000 and first quarter of 2001, claiming that the defendants knew or were reckless in not knowing the facts giving rise to the restatement. In February, 2005, the United States Fifth Circuit Court of Appeals vacated the trial court s certification of the suit as a class action, and remanded the case to the trial court for further proceedings. The Company intends to vigorously defend these lawsuits, and has insurance coverage for an amount in excess of $100,000 up to $4 million. While the Company believes that insurance coverage is sufficient in respect to any amounts that may be awarded, there can be no assurance that the final resolution will be within the coverage amounts carried by the Company. The Company has met our deductible with the legal fees that have been incurred to date. Additional legal fees will be paid by the insurer up to our policy limits.

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December 31, 2004

In 1999, the Company discovered questionable conduct involving the former owner of one of its smaller agencies, which occurred between 1994 and 1997. The Company conducted an initial audit (using an independent auditor) and voluntarily disclosed the irregularities to the Department of Health and Human Services Office of the Inspector General (OIG). Thereafter, the government examined the disclosed activities; and during the second quarter of 2002, the Company conducted a further audit of relevant claims at the request of the OIG, which was completed during the third quarter of 2002. In February 2003, the OIG offered a settlement that included certain penalties not previously anticipated by the Company, as the Company self reported the matter. On August 8, 2003, the Company signed both a Settlement Agreement and a Corporate Integrity Agreement with the OIG and Department of Justice. The Settlement Agreement provides for payment of a financial settlement in three equal annual payments of $386,000, with the first payment made on the date of execution, and the second payment made on August 8, 2004. This agreement also obligates the Company to amend previously filed cost reports to deduct costs incurred by the Company for audit and investigation of this matter. The Corporate Integrity Agreement, which is binding for a three-year period, requires that the Company maintain its existing Compliance Program and provides for enhanced training requirements, annual claims audits of the subject agency by an independent reviewer, and regular reporting to the OIG. This agreement provides for stipulated penalties in the event of non-compliance by the Company, including the possibility of exclusion from the Medicare program. The Company believes that these obligations will not materially affect the Company s operations, or financial performance, over the period of the agreement, although no assurances can be provided that the ultimate cost will not be materially different.

In November 2002, the Company elected to terminate its asset financing facility with NPF VI and advised its payors that remittances should be directed to the bank accounts of the Company rather than bank accounts controlled by NPF VI under collateral arrangements for the facility. The decision to terminate the above facility was made in response to the failure of NPF VI to provide $3.3 million on October 31, 2002 as requested by the Company on October 29, 2002 in accordance with the terms of the facility. At that date, Amedisys, Inc. determined that an amount of approximately $7.1 million was being held on behalf of the Company by NPF VI, and engaged in correspondence with representatives of NPF VI in an effort to have these funds returned to the Company. On November 18, 2002, NPF VI filed bankruptcy petitions, and accordingly, the Company elected to reserve the amount of $7.1 million in the fourth quarter of fiscal 2002. As of March 14, 2005, the collateral held by NPF VI and JP Morgan Chase, as trustee for the bondholders of NPF VI, is still being held by these entities. The Company is taking legal and other action to have this collateral released, and to recover the funds that have not been released to the Company. As of December 31, 2004, the Company had incurred total legal fees related to this matter of approximately $2 million, and the Company may incur substantial additional legal expenses in the future in connection with this matter.

Legislation

The Company s home health care business is regulated by federal, state and local authorities. Regulations and policies frequently change, and the Company monitors changes through trade and governmental publications and associations. The Company s home health care subsidiaries are certified by Centers for Medicare & Medicaid Services (CMS) and are therefore eligible to receive reimbursement for services through the Medicare system. As a provider under the Medicare and Medicaid systems, the Company is subject to the various anti-fraud and abuse laws, including the federal health care programs anti-kickback statute. These laws prohibits any offer, payment, solicitation or receipt of any form of remuneration to induce the referral of business reimbursable under a federal health care program or in return for the purchase, lease, order, arranging for, or recommendation of items or services covered by any federal health care programs or any health care plans or programs that are funded by the United States government (other than certain federal employee health insurance

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December 31, 2004

benefits) and certain state health care programs that receive federal funds under various programs, such as Medicaid. A related law forbids the offer or transfer of any item or service for less than fair market value, or certain waivers of copayment obligations, to a beneficiary of Medicare or a state health care program that is likely to influence the beneficiary s selection of health care providers. Violations of the anti-fraud and abuse laws can result in the imposition of substantial civil and criminal penalties and, potentially, exclusion from furnishing services under any federal health care programs. In addition, the states in which the Company operates generally have laws that prohibit certain direct or indirect payments or fee-splitting arrangements between health care providers where they are designed to obtain the referral of patients to a particular provider.

Congress adopted legislation in 1989, known as the Stark Law , that generally prohibits a physician from ordering clinical laboratory services for a Medicare beneficiary where the entity providing that service has a financial relationship (including direct or indirect ownership or compensation relationships) with the physician (or a member of his/her immediate family), and prohibits such entity from billing for or receiving reimbursement for such services, unless a specified exception is available. Additional legislation became effective as of January 1, 1993, known as Stark II, that extends the Stark law prohibitions to services under state Medicaid programs, and beyond clinical laboratory services to all designated health services, including but not limited to home health services, durable medical equipment and supplies, and parenteral and enteral nutrients, equipment, and supplies. Violations of the Stark Law may also trigger civil monetary penalties and program exclusion. Pursuant to Stark II, physicians who are compensated by the Company will be prohibited from seeking reimbursement for designated health services rendered to such patients unless an exception applies. Several of the states in which the Company conducts business have also enacted statutes similar in scope and purpose to the federal fraud and abuse laws and the Stark laws.

Various federal and state laws impose criminal and civil penalties for submitting false claims for Medicare, Medicaid or other health care reimbursements. The Company believes that it bills for its services under such programs accurately, although the rules governing coverage of, and reimbursements for, the Company s services are complex. There can be no assurance that these rules will be interpreted in a manner consistent with the Company s billing practices.

The Health Insurance Portability and Accountability Act (HIPAA) was enacted August 21, 1996 to assure health insurance portability, reduce health care fraud and abuse, guarantee security and privacy of health information and enforce standards for health information. Organizations were required to be in compliance with certain HIPAA provisions relating to security and privacy beginning April 14, 2003. Organizations are subject to significant fines and penalties if found not to be compliant with the provisions outlined in the regulations. Regulations issued pursuant to HIPAA impose ongoing obligations relative to training, monitoring and enforcement, and management has implemented processes and procedures to ensure continued compliance with these regulations.

Pursuant to the provisions of HIPAA, covered health care providers were required to comply with the statute s electronic Health Care Transactions and Code Sets. The Company is now capable of transmitting electronic information in HIPAA-compliant format to any vendor who is also 100 percent HIPAA-compliant. The Company s largest trading partner, as defined by HIPAA, processes claims on behalf of CMS, is our fiscal intermediary, who is using the HIPAA-compliant specifications. However, the Virginia Medicaid program, one of the Company s smaller trading partners, has elected to utilize HIPAA-compliant specifications with non-standard coding specifications, which has required the Company to integrate this new format, which is presently pending, but which will not materially impair the Company s operations or finances.

New HIPAA electronic security regulations also become effective in April of 2005, with which the Company intends to be fully compliant.

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Home health care offices have licenses granted by the health authorities of their respective states. Additionally, some state health authorities require a Certificate of Need (CON) or Permit of Approval (POA). Tennessee, Georgia, Alabama, North Carolina, South Carolina, Mississippi, and Maryland require a CON to establish and operate a home health care agency, while Arkansas requires a POA. Louisiana, Oklahoma, Virginia, Texas and Florida currently do not have such requirements. However, Louisiana remains subject to a legislative moratorium on the award of new home health licenses that has been in place for several years, and will continue for the foreseeable future. In every state, each location license and/or CON or POA issued by the state health authority determines the service areas for the home health care agency.

In 1999, the Company discovered questionable conduct involving the former owner of one of its agencies, which occurred between 1994 and 1997. The Company conducted an initial audit (using an independent auditor) and voluntarily disclosed the irregularities to the Department of Health and Human Services Office of the Inspector General (OIG). Thereafter, the government examined the disclosed activities; and during the second quarter of 2002 the Company conducted a further audit of relevant claims that was initiated at the request of the OIG, which was completed during the third quarter of 2002. In February 2003, the OIG offered a settlement that included certain penalties not previously anticipated by the Company, as the Company self reported the matter. On August 8, 2003, the Company signed both a Settlement Agreement and a Corporate Integrity Agreement with the OIG and Department of Justice. The Settlement Agreement provides for payment of a financial settlement in three equal annual payments of $386,000, with the first payment made on the date of execution and the second payment made on August 6, 2004. This agreement also obligates the Company to amend previously filed cost reports to deduct costs incurred by the Company for audit and investigation of this matter, and the Company has taken the necessary steps to re-open the applicable cost reports. The Corporate Integrity Agreement, which is binding for a three-year period, requires that the Company maintain its existing Compliance Program and provides for enhanced training requirements, annual claims audits of the subject agency by an independent reviewer, and regular reporting to the OIG. This agreement provides for stipulated penalties in the event of non-compliance by the Company, including the possibility of exclusion from the Medicare program. The Company believes that these obligations will not materially affect the Company s operations, or financial performance, over the period of the agreement, although no assurances can be provided that the ultimate cost will not be materially different. Management believes the Company is in compliance with the Corporate Integrity Agreement at December 31, 2004.

Operating Leases

The Company and its subsidiaries have leased office space at various locations under non-cancelable agreements that expire between March 1, 2005 and March 31, 2010, and require various minimum annual rentals. The Company s typical operating leases are for lease terms of three to five years and may include, in addition to base rental amounts, certain landlord pass-thru costs for the Company s pro-rata share of the lessor s real estate taxes, utilities and common area maintenance costs. Some of the Company s operating leases contain escalation clauses, in which annual minimum base rentals increase over the term of the lease. These leases are expenses on a straight line basis over the term of the lease.

Total minimum rental commitments at December 31, 2004 are as follows (amounts in thousands):

Year Ended	
December 31, 2005	$ 6,203
December 31, 2006	5,170
December 31, 2007	3,335
December 31, 2008	1,931
December 31, 2009	841
December 31, 2010	12

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Rent expense for all non-cancelable operating leases was $5.0 million, $3.7 million, and $3.7 million, for the years ended December 31, 2004, 2003, and 2002, respectively.

Guarantees

At December 31, 2004, the Company has issued guarantees totaling $1.6 million related to office leases of subsidiaries. Approximately $86,000 of this amount is related to guarantees on locations that have been sold which the Company has the right to recover amounts under the sale agreement from the buyer, if payments are requested. The Company has not received any requests to make payments under these guarantees. Approximately $89,000 is related to locations that have been closed and the landlords have obtained judgements against the Company for unpaid rent. The Company has reserved substantially all of these amounts in Legal settlements at December 31, 2004. The above amounts were $951,000, $106,000 and $89,000 respectively at December 31, 2003.

Management and License Agreement

Effective October 1, 2001, the Company terminated a management agreement with CareSouth Home Health Services, Inc. (CareSouth) and in connection with this termination, the Company entered into a Software License Agreement (License Agreement) with CareSouth for the use of a home health care billing and collections software system. The License Agreement, which expired on May 1, 2004, provided for a $2,000,000 cash payment at signing, monthly payments beginning October 1, 2001 of $178,226 through May, 2004, and a $1,000,000 cash payment due on or before February 28, 2002. At the expiration of the License Agreement, the Company exercised an option to acquire the software system for $1.

Self-Funded Insurance Plans

The Company was self insured for workers compensation in the state of Louisiana up to defined policy limits. In connection with the self-insurance plan and as required by the State of Louisiana, the Company provided a $175,000 letter of credit in favor of the Louisiana Department of Labor, which expired February 2003. In January 1999, the Company changed from a self-insured workers compensation plan to a fully insured, guaranteed cost plan. In 2000 the Company was insured under a fully insured workers compensation insurance policy that contained a provision for retroactive return of certain premiums based on favorable claims activity. During 2004, the Company entered into an agreement to pay an amount of $275,000 to cover all outstanding obligations to workers compensation for the years ended December 31, 1999 and 2000. This resulted in a reduction of $175,000 during the quarter ended September 30, 2004 in reserves previously recorded for these years. In January 2003, the Company reverted to a loss sensitive workers compensation plan, with coverage for claims exceeding $250,000 per incident.

The Company had a letter of credit with Bank One for $825,000 at December 31, 2002, secured in full by cash relating to its workers compensation plan for the plan year December 31, 2000 through December 30, 2001. In February 2003 the letter of credit was reduced to $550,000. In January 2004 the letter of credit was further reduced to $200,000.

The Company is self-insured for health claims up to certain policy limits. Claims in excess of $100,000 per incident are insured by third party reinsurers. The Company has accrued a liability of approximately $1.9 million and $1.0 million at December 31, 2004 and 2003, respectively, for both outstanding and incurred but not reported claims based on historical experience.

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Other Insurance

The Company maintains professional liability insurance coverage (including medical malpractice insurance) with aggregate annual limits of $3 million, and a deductible of $75,000 per occurrence. In February 2004 the Company added an excess policy with limits of $5 million and a $50,000 deductible. Further, the Company maintains directors and officers insurance coverage with annual aggregate limits of $10 million, and a deductible of $350,000 per claim.

Employment Contracts

The Company has commitments related to employment contracts with a number of its senior executives. Such contracts generally commit the Company to pay bonuses upon the attainment of certain operating goals and severance benefits under certain circumstances.

Other

The Company is subject to various other types of claims and disputes arising in the ordinary course of its business. While the resolution of such issues is not presently determinable, management believes that the ultimate resolution of such matters will not have a significant effect on the Company s financial position, results of operations, or cash flows.

11. 401(k) BENEFIT PLAN:

The Company maintains a plan qualified under Section 401(k) of the Internal Revenue Code for all employees the first month after hire date and who have reached 21 years of age. Under the plan, eligible employees may elect to defer a portion of their compensation, subject to Internal Revenue Service limits. The Company may make matching contributions equal to a discretionary percentage of the employee s salary deductions. Such contributions were made in the form of common stock of the Company, valued based upon the fair value of the stock as of December 31 of the applicable year. A matching contribution of $0.9 million was made in 2001 for the 2000 plan year. During 2001, the Company accelerated the matching frequency from an annual basis to a quarterly basis based on the lower of the stock value measured at the beginning and end of each quarter. The Company contributed approximately $1.9 million for the 2002 plan year and $1.3 million for the 2003 plan year. During 2004 the Company contributed approximately $1.3 million for 2004 plan year matching contributions.

12. AMOUNTS DUE TO AND DUE FROM MEDICARE:

Prior to the implementation of PPS on October 1, 2000, the Company recorded Medicare revenue at the lower of actual costs, the per visit cost limit, or a per beneficiary cost limit on an individual provider basis. Under this previous Medicare cost-based reimbursement system, ultimate reimbursement under the Medicare program was determined upon review of annual cost reports by the fiscal intermediary.

As of December 31, 2004, the Company estimates an aggregate payable to Medicare of $9.3 million, all of which is reflected as a current liability in the accompanying Consolidated Balance Sheet. The Company does not expect to fully liquidate in cash the entire $9.3 million due Medicare in 2005. The $9.3 million payable to Medicare is comprised of $6.8 million of cost report reserves and $2.5 million of PPS related reserves as more fully described below.

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Cost Report Reserves

The recorded $9.3 million includes a $3.1 million obligation of a subsidiary of the Company that is currently in bankruptcy, and it is not clear whether the Company will have any responsibility for that amount if the debt of the subsidiary is discharged in bankruptcy.

Also included in the balance is $3.7 million that reflects the Company s estimate of amounts likely to be assessed by Medicare as overpayments in respect of prior years when Medicare audits of the Company s cost reports through October 2000 are completed. At the time when these audits are completed and final assessments are issued, the Company may apply to Medicare for repayment over a thirty-six month period, although there is no assurance that such applications will be agreed to, if sought. These amounts relate to the Medicare payment system in effect until October 2000, under which Medicare provided periodic interim payments to the Company, subject to audit of cost reports submitted by the Company and repayment of any overpayments by Medicare to the Company. The fiscal intermediary, acting on behalf of Medicare, has not yet issued finalized audits with respect to 1999 and 2000, and is entitled to reopen settled cost reports for up to three years after issuing final assessments.

The following table summarizes the cost report activity included in the amounts due to/from Medicare related to Cost Reports (amounts in thousands):

	Cost report reserves
Amounts recorded at December 31, 2001	$ 14,172
Cash payments made	(4,389)
Settlements received	2,063
Reserve for re-opened 1997 cost reports	1,001
Amounts recorded at December 31, 2002	$ 12,847
Cash payments made	(8,507)
To change estimated amounts owed to Medicare	402
Settlements received	2,101
Amounts recorded at December 31, 2003	$ 6,843
Settlements received	29

Amounts recorded at December 31, 2004	$ 6,872

Also in the fourth quarter of 2001, CMS completed audits of the filed cost reports for the 1999 cost report year. Based on information received from the completed audits, the Company determined that the 2% audit adjustment factor, withheld from the initial review conducted by the intermediary in 2000, would be refunded less any additional audit adjustments. Based on guidance received from the intermediary, the fiscal 1999 provider cost reports for those providers the Company purchased from Columbia/HCA in December, 1998 were to receive an additional month of costs because the intermediary allowed the Company to file a 13 month cost report. Even though Amedisys did have unfavorable audit adjustments, the net effect of the additional allowable cost and the refunded 2% audit adjustment factor resulted in a net receivable from Medicare. As a result of this information, the Company reversed the previously established $1.2 million due to Medicare for the 2% audit adjustment factor with an increase to revenue in the fourth quarter of 2001.

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AMEDISYS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2004

During the third and fourth quarters of 2002, the Company received cash settlements of $2.1 million from Medicare related to tentative settlements of the fiscal 2000 cost reports. This receivable was netted against the amounts due to Medicare on the balance sheet in the current-portion of Medicare liabilities, therefore, receipts of these settlements had no income statement impact.

In October 2002 the Company received notice from CMS that the fiscal 1997 Amedisys cost reports were being re-opened. In response to this notification from the intermediary, the Company established a liability of $1.0 million for amounts that are probable to be assessed during the re-opening of the 1997 cost reports, due to different interpretations of reimbursement regulations between the intermediary and the Company. The increase in liability resulted in a decrease to revenue in the fourth quarter of 2002. CMS has yet to complete the audit on these cost reports.

During the third and fourth quarters of 2003, the Company received cash settlements of $2.1 million from Medicare related to the settlements of the fiscal 1999 cost reports. This receivable was netted against the amounts due to Medicare on the balance sheet in the current-portion of Medicare liabilities, therefore, receipts of these settlements had no statement of operations impact.

During the second quarter of 2003, the Company recognized $0.4 million as a decrease to revenue to offset settlements received in excess of amounts previously recorded.

Medicare PPS Reserves

The remaining balance of $2.5 million is related to notice from CMS that it intended to make certain recoveries of amounts overpaid to providers for the periods dating from the implementation of PPS on October 1, 2000 through particular dates in 2003 and 2004. The first of these amounts related to partial episode payments (PEPs) whereby a patient was readmitted to home health care prior to the expiry of 60 days from the previous admission date at another home health agency. In such instances, reimbursement for the first agency is reduced. CMS advised the industry that CMS had recently implemented changes to its computer system such that these instances would be adjusted at the time of claim submission on an ongoing basis, and that recovery for prior overpayments would commence in the summer of 2003 and extend over a two-year period. The Company reserved, based on information supplied by CMS, approximately $0.9 million in 2003 for all claims dating from October 1, 2000. Secondly, CMS advised the industry that it would seek recovery of overpayments that were made for patients who had, within 14 days of such admission, been discharged from inpatient facilities, including hospitals, rehabilitation and skilled nursing units, and that these recoveries would commence in April 2004. The Company conducted an analysis of a representative sample claims where these events had occurred, and estimated that, for periods dating from October 1, 2000 through to December 31, 2003, a reserve in the amount of approximately $1.5 million was appropriate. These reserves are included in the current portion of Medicare liabilities.

The following table summarizes the PPS activity included in the amounts due to/from Medicare (Dollar amounts in thousands:

Amounts recorded at December 31, 2002	
To reserve estimated amounts owed to Medicare	$ 2,504
Amounts recorded at December 31, 2003	2,504
Cash payments made to Medicare	(51)
Amounts recorded at December 31, 2004	$ 2,453

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2004

13. VALUATION AND QUALIFYING ACCOUNTS:

The following table summarizes the activity and ending balances in the allowance for doubtful accounts (Dollar amounts in thousands)

Year ended December 31,	Balance at beginning of year	Costs and expenses	Deductions	Balance at end of year
2004	3,008	3,055	(2,312)	3,751
2003	1,865	2,239	(1,096)	3,008
2002	3,126	3,175	(4,436)	1,865

14. UNAUDITED SUMMARIZED QUARTERLY FINANCIAL INFORMATION:

The following is a summary of the unaudited quarterly results of operations (Dollar amounts in thousands, except per share data):

	Revenue	Net Income	Net Income per Share	
			Basic	Diluted
2004:				
1st Quarter	$ 47,339	$ 4,222	$ 0.35	$ 0.34
2nd Quarter	56,896	4,960	0.40	0.39
3rd Quarter	58,494	5,187	0.41	0.40
4th Quarter	64,359	6,135	0.40	0.39
	227,089	20,504	1.57	1.51
2003:				
1st Quarter	$ 31,132	$ 1,149	$ 0.12	$ 0.12
2nd Quarter	32,194	1,514	0.16	0.16
3rd Quarter	37,048	2,381	0.25	0.24

4th Quarter	42,098	3,362	0.31	0.30
	142,473	8,407	0.86	0.83

Because of the method used in calculating per share data, the quarterly per share data may not necessarily total to the per share data as computed for the entire year.

15. SUBSEQUENT EVENTS:

On January 31, 2005, the Company announced the purchase of eleven home health agencies in South Carolina for a total of $13 million in cash, the issuance of a $2.0 million note payable and 50,000 shares of Amedisys stock.

On March 1, 2005, the Company announced the purchase of a home health agency in Maryland for a total of $3 million in cash and a $0.9 million notes payable.

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AMEDISYS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2004

Purchase Commitments

On January 19, 2005, the Company entered into an Agreement to Purchase (the Purchase Agreement) land and building located in Baton Rouge, Louisiana, for the purpose of consolidating its two corporate offices into one location by 2006, and to provide additional space for further growth of the corporate staff and related needs. The purchase price for the land and building is $4.3 million (unaudited). Pursuant to the Purchase Agreement, the Company has a right to cancel to Purchase Agreement up until March 21, 2005. Should the Company not cancel the Purchase Agreement, the Company expects to fund the balance of the purchase price in early second quarter 2005. The Company expects to incur significant construction costs to refurbish the building. Although the amount of refurbishment costs is not known at this time, the Company estimates that the total combined costs for the land, building and refurbishment costs could approximate $10 million.