



HOSPICE SERVICES UPDATE

Q1/Q2-2009

INDUSTRY UPDATE

Merger and acquisition activity continued during the second quarter of 2009, with three transactions having been announced and/or completed. Publicly-traded home health and hospice provider LHC Group, Inc. led the charge, while other leading consolidators in the hospice space remained quiet. LHC Group expanded its service area in the Certificate of Need (CON) state of Washington through its acquisition of Central Basin Home Health & Hospice, and in the CON state of Arkansas through a joint venture with Levi Hospital.

Merger and acquisition activity will continue in the hospice space in 2009, although likely at a slower pace. The future of Medicare hospice reimbursement remains a major concern, and this will likely result in many buyers taking a more cautious approach to acquisitions. During the second quarter, the Centers for Medicare and Medicaid Services (CMS) announced its plans to eliminate 75% of the budget neutrality adjustment factor (BNAF) to the hospice wage index beginning October 1. This includes CMS's planned 50% cut to the BNAF for FY 2010, as well as its planned 25% cut for FY 2009, which had been delayed by the passage of the American Recovery and Reinvestment Act of 2009, or stimulus bill, in February. If Congress does not permanently restore the BNAF by September 30, hospice providers will begin suffering the effects of reduced reimbursement beginning October 1. Unfortunately, the fate of the BNAF is not the only threat to hospice reimbursement. In addition to the BNAF, there is also the potential threat to reimbursement resulting from the passage of healthcare reform legislation.

HEALTHCARE REFORM UPDATE

During the second quarter, President Obama intensified his efforts to overhaul the nation's healthcare system. The healthcare reform debate dominated the quarter, as every House and Senate committee with jurisdiction over the issue raced to create its own reform bill. Conflict was abundant, as liberal Democrats clashed with Republicans and even with fiscally conservative Democrats. The debate centered on several issues, the most important of which were the cost of healthcare reform and the public health plan option endorsed by the President.

In the House, the three committees with jurisdiction over healthcare reform worked on a single joint bill, and issued an initial draft of their legislation in June. In the Senate, the two committees with jurisdiction over healthcare reform worked on separate bills. The provisions of these bills vary, but one thing they have in common is their hefty price tags. Each would cost in excess of \$1 trillion over ten years, and even at that price some fall far short of extending coverage to the 46 million uninsured Americans who need it.

Perhaps of greater concern than the cost, however, is how the House and Senate committees plan to finance their respective bills without adding to the federal deficit. In addition to various tax increases and other measures, both the House and Senate are considering significant cuts to Medicare providers to help offset the cost. Concerns over cost dramatically slowed the pace of healthcare reform as the quarter drew to a close, and it now appears clear that the battle over healthcare reform will continue well into the summer at the very least.

RECENT TRANSACTIONS

Month	Acquirer	Company Acquired	Details
May 2009	LHC Group, Inc.	Central Basin Home Health & Hospice	On May 5, LHC Group announced that it had acquired 100% of the assets of Moses Lake, Washington-based Central Basin Home Health & Hospice. The acquired company services three counties in the state of Washington and had \$1.3 million in revenue for the most recent twelve month period. This acquisition expands LHC Group's presence in Washington, a CON state.
April 2009	Aspirus Keweenaw Hospital & Aspirus VNA	Keweenaw Home Nursing and Hospice	On April 29, Wausau, Wisconsin-based Aspirus Keweenaw Hospital & Aspirus VNA announced the acquisition of Keweenaw Home Nursing and Hospice effective June 1. The terms of the transaction were not disclosed.
April 2009	LHC Group, Inc.	Joint Venture with Levi Hospital	On April 1, LHC Group announced that it had entered into a hospice joint venture with Hot Springs, Arkansas-based Levi Hospital. LHC Group had previously completed a home health joint venture with Levi Hospital in 2005.
March 2009	Regency Healthcare Group	Three Hospice Programs from Trinity Healthcare	In March, Regency Healthcare Group acquired three hospice programs from Trinity Healthcare. The acquired programs are located in Chattanooga and Nashville, Tennessee, and in Joplin, Missouri. They will operate under the name Avalon Hospice.
March 2009	Amedisys, Inc.	A Home Health And Hospice Agency From Upper Chesapeake Health System & St. Joseph Medical Center	On March 12, Amedisys, Inc. announced that it had signed an agreement to purchase a home health and hospice agency from Upper Chesapeake Health System and St. Joseph Medical Center. Both agencies are located in Maryland, which is a CON state for both home health and hospice. This acquisition marks Amedisys' initial entry into the hospice market in Maryland and increases the Company's current home health presence throughout Northeast Maryland. The acquired agencies generated revenue of approximately \$11 million for the year ended December 31, 2008.
March 2009	Amedisys, Inc.	Three Home Health & One Hospice Agency From White River Health System	On March 12, Amedisys, Inc. announced that it had completed its previously announced acquisition of three home health agencies and one hospice agency from Batesville, Arkansas-based White River Health System. The acquired agencies expand Amedisys' service area in Arkansas, a Permit of Approval state, by seven counties. The acquired agencies generated revenue of approximately \$2.9 million for the year ended September 30, 2008.
January 2009	Odyssey HealthCare, Inc.	Avalon Hospice	On January 15, Odyssey HealthCare, Inc. announced that it had acquired Flint, Michigan-based Avalon Hospice, a non-profit hospice program with an average daily census of approximately 80 patients. This acquisition, which expands Odyssey's presence in Michigan, was completed on December 31, 2008.
January 2009	National HealthCare Corporation	The Assets of Advantage Hospice and Home Care's South Carolina Hospice Operations	On January 6, Murfreesboro, Tennessee-based National HealthCare Corporation, a leading operator of skilled nursing facilities and assisted living facilities, as well as a provider of hospice care services, announced that on January 1 it acquired the assets of Advantage Hospice and Home Care's South Carolina operations. The acquisition adds five hospice locations in Columbia, Sumter, Aiken, Myrtle Beach, and Charleston, South Carolina. With this acquisition, National HealthCare Corporation operates six hospice agencies in South Carolina and services thirty-eight of the forty-six counties in the state.