



Q3-2011 HOSPICE SERVICES INDUSTRY UPDATE

M&A Update

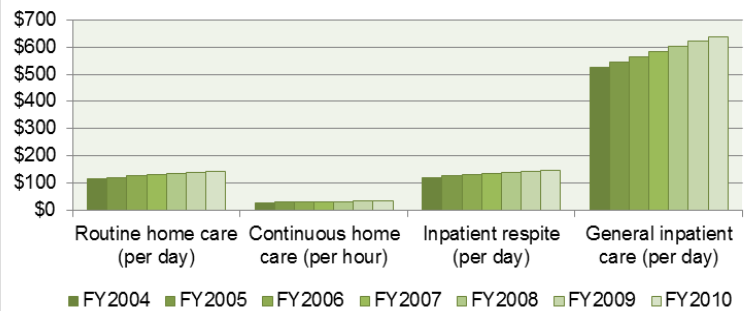
As 2011 heads into the final quarter of the year, there have been substantial market movements outside of the hospice industry that will benefit the sector moving forward. With the recent announcement of the Senate Finance Committee's findings against the three largest home-health companies along with the Centers for Medicare and Medicaid Services recently announcing a final ruling that it will cut Medicare skilled nursing pay by 11.1% or \$3.87 billion in 2012, hospice care remains at the forefront of the home care industry.

The need for diversification has made the hospice market grow increasingly competitive. This is the result of the rapid proliferation of new hospices entering the market, strategic players increasing their geographic presence through acquisitions, and the significant interest from private equity groups. Additionally, other providers, such as skilled nursing facilities, long term care facilities, home health agencies, and hospitals are acquiring hospices in an effort to take advantage of the industry's long term growth opportunities.

Medicare Reimbursement for Hospice

The chart to the right displays the average Medicare reimbursements for the hospice sector from 2004 through 2010. Average Medicare reimbursements for hospice care have risen each year in every category of hospice care from FY 2004-2010, as hospice care has played a larger role in patient care. An increasing number of Medicare beneficiaries are receiving hospice care, which has also lead to increased outlays per hospice patient. Hospice care represented an estimated 2.8% of Medicare spending in 2009 and 2010.

Average Medicare Reimbursements for Hospice Care FY2004-2010



Source: CMS estimates, Hospice Association of America

NOTEWORTHY TRANSACTIONS

Month	Acquirer	Target Company	Details
September 2011	Hospice Advantage, Inc.	Gulf Coast Hospice, LLC	Hospice Advantage, Inc. has acquired Gulf Coast Hospice, LLC. Gulf Coast Hospice is located in Mississippi and provides hospice services to Hancock, Harrison and Jackson counties. Hospice Advantage is one of the nation's largest privately held hospice agencies with 40 locations in 7 states. The specific financial terms of the deal were not disclosed.
September 2011	Trilogy Health Services, LLC	Serenity Hospice, Inc.	Trilogy Health Services, LLC has completed its acquisition of Serenity Hospice, Inc. Specific terms of the transaction were not disclosed. Serenity, founded in 2002, serves 15 counties in Indiana from its offices in Lafayette and Fowler, Indiana. Trilogy offers independent and assisted-living, skilled nursing and rehabilitation services at 66 communities in Kentucky, Indiana, Ohio, Michigan, and Illinois. Serenity will be part of Trilogy's TriStar division, which offers physical, speech and occupational therapy services and home care services in 11 states.
August 2011	American Hospice Management	Hospice Care of the Southwest	American Hospice Management, a portfolio company of The Riverside Company, completed the acquisition of two hospices from Hospice Care of the Southwest. The financial terms of the deal were not disclosed. The two hospices are located in Conroe and Livingston, Texas. Both hospices are licensed to serve an expansive 60 county area, including all of metro Houston and most of metro Austin. Livingston was established in 2006, with Conroe licensed in 2008. American Hospice now has locations in six states, including Arizona, Georgia, New Jersey, Oklahoma, Virginia, and Texas. This transaction provides American Hospice with a strong presence in the Houston area.