



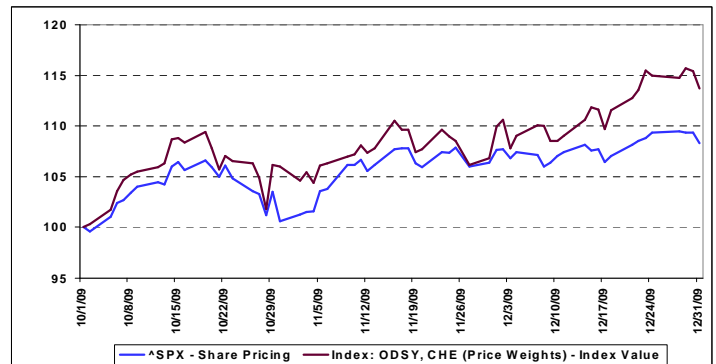
Q4-2009 HOSPICE SERVICES INDUSTRY UPDATE

INDUSTRY UPDATE

Despite concerns about healthcare reform and the Medicare cuts it will bring, the hospice industry remains well-positioned for rapid consolidation. While cuts to Medicare hospice reimbursement are included in both of the healthcare reform bills passed by the House and Senate, the hospice cuts are relatively minor when compared to those planned for other Medicare providers. Consequently, the hospice space, which was already attractive to buyers because of its potential for substantial long-term growth, high margins, and strong cash flow, has emerged as one of the most attractive spaces in all of healthcare.

In the coming quarters, the demand for strong platform and add-on acquisitions in the hospice space will likely increase as private equity groups and healthcare providers in ancillary markets look to obtain a presence in the industry. Valuations likely will continue to be favorable, as the demand for strong acquisitions will exceed the number of opportunities available.

Q4 2009 HOSPICE PUBLIC PERFORMANCE



TOP STRATEGIC PLAYERS TO WATCH

- **Odyssey HealthCare, Inc.** (NASDAQ: ODSY)
- **VITAS Healthcare Corporation** (Subsidiary of Chemed Corp.)
- **Amedisys, Inc.** (NASDAQ: AMED)
- **Gentiva Health Services, Inc.** (NASDAQ: GTIV)
- **Voyager HospiceCare, Inc.** (Private Equity-Backed)
- **Hospice Compassus** (Private Equity-Backed)
- **Regency Healthcare Group** (Private Equity-Backed)
- **Countryside Hospice** (Private Equity-Backed)
- **American Hospice** (Private Equity-Backed)
- **Evercare Hospice** (Subsidiary of UnitedHealth)

HEALTHCARE REFORM UPDATE

The healthcare reform debate continued to rage during the fourth quarter of the year. For the first time, however, an end appeared to be in sight. In November, the House of Representatives passed its healthcare reform legislation, the Affordable Health Care for America Act, by a razor thin margin of 220-215. The vote on the Senate bill, the Patient Protection and Affordable Care Act, was closer and even more contentious than the House vote, with Senate president Harry Reid (D-Nevada) finally obtaining the critical 60th vote needed to pass the legislation on Christmas Eve.

Despite significant progress, the year-long healthcare reform battle is still far from over. The bills passed by the House and Senate, although similar, contain some significant differences, and these differences will have to be reconciled before President Obama can sign any healthcare reform legislation into law. The main points of contention between the House and Senate will likely center around whether to include the House bill's government-run public health insurance option, and how to offset the cost of the legislation.

Given these significant differences and the narrow margins by which both bills passed in their respective chambers, a final healthcare reform bill may not be approved by Congress until the end of January, if not later.

RECENT TRANSACTIONS

Month	Acquirer	Target Company	Details
October 2009	The Ensign Group	Golden Acres	The Ensign Group announced that it had acquired Dallas, Texas-based Golden Acres, a skilled nursing and independent living facility, as well as a hospice business. The acquired hospice agency, also in Dallas, has been renamed Custom Care Hospice and marks Ensign's initial entry into the hospice market. The new hospice agency will serve as a platform for further growth in the hospice space.
October 2009	Sun Healthcare Group, Inc. & SolAmor Hospice Corporation	Allegiance Hospice Group	Sun Healthcare Group announced that it had completed the acquisition of Lowell, Massachusetts-based Allegiance Hospice Group through its subsidiary, SolAmor Hospice Corporation. Allegiance services approximately 300 patients in Maine, New Hampshire, and Massachusetts and significantly expands SolAmor's operations. As a result of this acquisition, SolAmor now services approximately 860 patients per day in eight states, with an annualized revenue run rate of approximately \$43 million.