

AMEDISYS, INC.

**Moderator: Kevin LeBlanc
February 17, 2009
9:00 am CT**

Operator: Good day and welcome to the Amedisys fourth quarter 2008 earnings conference call.

Today's conference is being recorded.

At this time, I would like to turn the conference over to Mr. Kevin LeBlanc; please go ahead.

Kevin LeBlanc: Thank you, Laura. Good morning and thank you for joining the Amedisys investor conference call to discuss this morning's fourth quarter 2008 earnings announcement and related matters.

By now, you should have received a copy of our earnings press release. If you have not received the press release, you may access it on the investor relations sub page on our Web site at www.amedisys.com.

Joining me on today's call from Amedisys are Bill Borne, Chairman and Chief Executive Officer; Larry Graham, President and Chief Operating Officer; and Dale Redman Chief Financial Officer.

Before we get started with our call, I'd like to remind everyone that any statements made on this conference call today were in press releases that express a belief, expectation or intent as well as

those that are not historical facts are considered forward-looking statements and are protected under the Safe Harbor of the Private Securities Litigation Reform Act.

These forward-looking statements are based on information available to Amedisys today and the company assumes no obligation to update these statements as circumstances change.

These forward-looking statements may involve a number of risks and uncertainties which may cause the company's results to differ materially from such statements. These risks and uncertainties include factors detailed in our SEC filings including our Forms 10-K and 10-Q.

Also, the company urges caution into considering any current trends of guidance that may be discussed on this conference call. The home health and hospice industry is highly competitive and trends and guidance are subject to numerous factors, risks, and influences which are described in the company's reports and registration statements filed with the SEC. The company disclaims any obligations to update information on trends or targets other than in the periodic filings with the SEC.

Our company Web site address is www.amedisys.com. We use our Web site as a channel distribution for important company information, important information including press releases, analyst presentation and financial information regarding the company's routinely posted on and accessible on the investor relations sub page of our Web site which is accessible by clicking on the tab labeled investors on our Web site home page.

We also used our Web site to expedite public access to time critical information regarding the company in advance or in lieu of distributing a press filing or a filing with the Securities and Exchange Commission disclosing the same information. Therefore, investors should look to the investors relation sub page of our Web site for important and time critical information. Visitors to

our Web site can also register to receive automatic e-mail and other notifications alerting them when new information is made available on the investor relations subpage of our Web site.

In addition, as required by SEC Regulation G, a reconciliation of any non-GAAP measures mentioned during our call today to the most comparable GAAP measures will be available on our Web site on the investor relations page under press releases.

Thank you. And now I'll turn the call over to Bill Borne. Please go ahead, Mr. Borne.

Bill Borne: Thank you, Kevin and good morning. First, let me welcome each of you to this call. We appreciate the opportunity to update you regarding the company's performance and share our vision for Amedisys. We had another year of outstanding results.

For the fourth quarter, we recorded net revenue of 340 million and adjusted earnings per share of 98 cents, a growth of 75 and 56% respectively over the fourth quarter of '07. For the full year, we recorded a net revenue of 1,187,000,000 in adjusted earnings per share of \$3.31 up from 697,000,000 and \$2.32 per diluted share in '07 net of the Alliance gain, which was growth of 70 and 43% respectively.

In addition to these financial results, several accomplishments in 2008 furthered our progress towards being the leading provider of high quality, home health services to the chronic co-morbid aging population. We completed six acquisitions adding 131 home health locations, 14 hospice locations, and over 365 million in annualized revenue. We started 35 new home health agencies and 5 new hospice agencies over the course of the year. We now operate in 37 states, Washington D.C. and Puerto Rico.

We continued the roll out of our specialty division. We concluded the largest acquisition in our company's history and completed the integration in six months. We arranged a new \$500 million

unsecured credit facility and an initial draw of 395 million in connection with the TLC acquisition. We successfully adjusted our clinical care coordination platform for the new payment system.

Finally, through cash flow from operations, we have reduced the debt incurred with the TLC acquisition by 87 million or 22%. During the quarter, we opened 15 new home health agencies as a result of the noble growth and acquisitions in previous quarters. We ended the year with 480 home health locations, 155 more agencies in the fourth quarter of '07. In addition, one new hospice agency in the fourth quarter as a result of the over growth in acquisitions in previous quarters. We ended the year with 48 hospice agencies, 19 more hospice agencies in the previous year.

So far in '09, we have closed on one acquisition that added two home health agencies in Arizona and announced that we have signed a purchase agreement for three home health agencies and one hospice agency located in Arkansas. We expect to close on this transaction in March.

In the spirit of full transparency, over the last few months, we have been posting relevant information about our clinical profile, ((inaudible)) controls, compliance procedures, and IT infrastructure to our investor relations page on our Web site. We have also posted white papers prepared by independent consultants and organizations.

We will continue to update this site with relevant facts and information that will help investors in their decision making process. So we encourage you to routinely visit the section to learn more about our company.

As a healthcare company providing services to the most fragile, vulnerable, and costly patients our mission is to provide services, as needed to our target population. Our focus is to care for the complex patients in our nation, providing appropriate care for their condition.

In our efforts to be the most transparent healthcare company in the nation, I want to remind our investors that there's a distinct difference in our interpretation of patient care metrics as it relates to financial metrics versus the (market). Our clinical metrics are reflective of newly developed patients including such considerations as acuity, research, and visits per episode which will vary and will not always be in alignment with the typical trends expected by the financial markets for its targets.

The trends of these methods are referencing patient needs and not free market trends. In many instances from our clinical perspective there is no correlation between the two. And our care is prioritized to the needs of our patients and not driving financial performance trends. Our focus is to leverage our core competency infrastructure and position the company to care for the most complex of the Medicare population. This is where we believe the best long-term opportunities lie for Amedisys. Thus, you will witness trends that are indicative of our mission and focus.

And example such as increased visits per patient episode which is more indicative of increased acuity, a clinical metric, is not necessarily a negative financial metric indicating high direct costs. Patients conditions vary. Care is patient specific. So an investor can expect to see constant variation in clinical care metrics and not fixed trends.

Americans today are living longer than any previous generation. The aging of the population has created a silver tsunami that has lead this country to a healthcare crisis. In addition, our nation has experienced a substantial increase in the number of Americans living with chronic conditions. Today 133 million people, almost half of all Americans live with a chronic condition. This number is anticipated to increase by an additional 20 million people over the next 11 years.

In the Medicare population, the average beneficiary sees seven different physicians and fills upwards of 20 prescriptions in a year. Ninety-six percent of Medicare program spending is consumed by chronic diseases. And a closer look at the data reveals that 2/3 of the Medicare

dollars are spent on beneficiaries who have five or more chronic conditions. A typical Amedisys patient is approximately 80 to 85 years of age. They have multiple chronic conditions and are on average of 13 medications.

Moving forward, delivering care to the elderly individuals with the chronic conditions will disproportionately dominate our nation's healthy care expenditures and must be considered carefully as our home healthcare delivery system is reexamined by the new administration. We are positioning our organization to be a solution to the problems identified by this reexamination as a scalable, high quality evidenced based provider for an ever growing chronically ill elderly population.

Our system is designed to deliver cost effective care for the most complex products and costly patient population in the comfort of their own home. This model combines our existing home care infrastructure which includes comprehensive in home assessments, patient centric plan of care development, multidisciplinary in home care delivery, coordinated chronic care management and in home end of life care.

This infrastructure combined with the advanced information and communication technologies as well as clinical capabilities will allow us to provide intensive home based healthcare. Amedisys is well positioned to take advantage of these trends. There are several initiatives currently evolving that will allow us to capitalize on our position in the market. We believe both the political and the administrative environment is ready and is in need of this critical change that could position us as a leader in care management for our target populations. And view our care capabilities from the perspective of clinical design and scale as one that is unmatched in today's market. I'm excited about what the future holds for Amedisys.

I would like to extend a warm welcome to all of our new employees of the agencies that we have acquired since our last earnings call. We are very excited that you are part of the Amedisys family.

In conclusion, we are grateful to the talented employees of Amedisys who provide our competitive advantage of cost effective quality healthcare services to the patients entrusted in our care. Our passion for servicing our patients, our commitment to our core values in a culture of hard work and other intangibles that separate us from our competition.

I will now pass this call to Dale for his financial overview. Thank you.

Dale Redman: Thank you, Bill. The fourth quarter 2008 was another excellent quarter for Amedisys which ended a tremendous year in both financial performance and acquisition integration.

All phases of our growth strategy played an important role as we saw growth in our internal episodic based revenue. We opened 35 new home health and 5 hospice agencies. We integrated 145 newly acquired agencies and had continual operational efficiencies.

Revenue grew 75% over the fourth quarter of 2007 to 340 million and for the year grew 70% to 1.2 billion. Our net income for the quarter was 26.3 million or 97 cents per share compared to 16.7 million or 63% per share for the fourth quarter of 2007.

Net income for the year increased 86.7 million or \$3.22 per share compared to 65.1 million or \$2.48 per share.

After adjusting for TLC integration costs and the non-cash gain on the settlement of the Alliance matter in 2007, our earnings per share increased 43% to \$3.31 in 2008 from \$2.32 last year. And they were 98 cents for the fourth quarter of 2008.

TLC integration costs totaled \$200,000 during the fourth quarter and 4 million or 9 cents per share for the year. These costs were limited primarily to severance costs. Our gross margin for 2008 was 57 – 52.6% versus 52.9% in 2007.

EBITDA after adjustments I mentioned earlier was 51.7 million or 15.2% of revenue for the fourth quarter versus 30.4 million or 15.7% of revenue for the fourth quarter of 2007. At 181 million or 15.3% of revenue for 2008 versus 110 million or 15.7% of revenue for 2007.

As we discussed in our previous calls, our days revenue out standing through the first three quarters of 2008 increased from 51.3 days to 56.7 days. We stated that our significant acquisition activity had impacted this metric and that we anticipated improvement by year end. We're pleased to be seeing this improvement during the fourth quarter resulting a 2-day reduction in DSO which brings our DSO to 54.4 days. This improvement is primarily the result of our strong cash collections in the fourth quarter.

Additionally, if we had not had a Medicare intermediary payment processing issue which I will discuss in a moment, our DSO would have decreased by another 2 days to 52.3 days. In the future, we will measure a DSO performance net of allowance for doubtful accounts. On a net basis DSO was 47.2 days in December 31, 2008 which was down from 51 days at the end of third quarter of 2008 and up from 45 days at the end of 2007. We will continue to focus on reducing our days revenue out standing.

And there are several factors which will help us lower this metric during 2009. First, at December 31, 2008, we had 7.8 million in Medicare payments delayed since November 2008 due to a CMS financial intermediary system issue. This issue was an industry wide problem and was not corrected until this month. Last week we received payment on these claims which will have approximately a 2-day improvement in our DSO.

Second, we continue to receive the regulatory approvals needed to bill our acquisition receivables. And finally, as our 145 agencies acquired and converted during 2008 continue to become more proficient with our operational systems we anticipate continued improvement.

As we discussed in our last call, there are two components of our receivables receiving process. We adjust our Medicare home health and hospice revenue for amounts we do not expect to collect from Medicare through an estimated revenue adjustment that reduces both revenue and accounts receivable. For our non-Medicare receivables we record an expense for doubtful accounts that reduces our gross patient accounts receivable. Together, these amounts total 30.4 million or 2.6% of net service revenue for the year ended December 31, 2008 compared to 17.1 million or 2.5% of net service revenue for 2007.

When we estimate our account receivable reserves, we evaluate both a collection history of our revenues, and the aging of our accounts receivable. At year end, we have very few accounts receivable older than 360 days. And we have fully reserved all of these claims. Our allowance for doubtful accounts at year end was \$27 million or 37% of our private and Medicaid accounts receivable versus 13 million or 37.7% in 2007.

Our estimated revenue adjustments were 7.2 million or 5.3% of Medicare accounts receivable at year end compared to 3.6 million or 4.6% in the prior year.

Our collection percentages remain over 99% for Medicare revenue and at present in the range of approximately 87% for non-Medicare. Our combined collection rate is over 97-1/2%. Our Medicare collection percentage continues to be reasonably stable and we've seen improvement over the last year in non-Medicare. Factors that can affect our collection percentages during any period include the impact of large acquisitions, and changes in and disruptions of Medicare and non-Medicare payment systems.

We've continued our cash management strategy of using all available free cash flow to fund acquisitions and to reduce our out standing debt. As you may recall, we borrowed \$395 million when we closed the TLC acquisition in March. Over the past 3 quarters, we paid down this debt by \$87 million. Accordingly, our out standing debt at year end was 329 million of which 20 million was seller notes from our non-TLC acquisitions. We've reduced our leverage from 2.4 times EBITDA at March 31, 2008 to 1.6 times at year end. This has resulted in a 50 basis point reduction in our interest rates on our variable weight debt. Our weighted average interest rate on our TLC debt was 4.8% for all 2008 and 3.8% at year end.

We began 2008 with \$56 million in cash on our balance sheet and generated cash flow from operations of \$151 million. We spent \$28 million on capital expenditures, \$76 million on acquisitions net of borrowings and paid down our debt by 99 million which includes on non-TLC debt leaving us with approximately 3 million in cash on the balance sheet at year end.

From a liquidity standpoint, we have \$160 million available under our revolving credit facility at year end. And we anticipate continued strong cash flow from operations which after deducting required debt payments and cap ex, we estimate will be in the range of 140 million for 2009. We are then confirming our revenue and earnings guidance per share for 2009.

Net service revenue is anticipated to be in the range of 1,425,000,000 to 1,475,000,000 excluding the effects of any future acquisitions if we make them. Diluted earnings per share is expected to be in the range of \$4.10 to \$4.30 based on estimated 27.5 million shares out standing also excluding the effect of any future acquisitions if we make them.

Now, I'll turn the call over to Larry for his operational comments.

Larry Graham: Thank you, Dale. I will begin my comments by focusing on our internal episodic based revenue growth rate. This growth rate consists of both the dollar impact of increases and the volume of patient emissions and re-certifications for the period and the dollar impact of the rate we are paid for our services apply to the volume of patients we serve.

For the quarter, our internal episodic based revenue growth rate was 30% with 16% related to volume and 14% related to rate. For the full year, our internal episodic based revenue growth rate was 28% with 19% related to volume and 9% related to rate. The volume increased during the quarter and full year related to increases in the total number of admissions and recertifications with internal based episodic admissions growing 11% for both periods and internal episodic base recertifications growing 20% into quarter four and 25% for the full year. The rate increase for both periods was primarily driven by the roll out of our clinical programs.

As a reminder, we told the market we would launch approximately 160 specialty locations by year end. We completed the year ahead of schedule bringing 178 locations live. Some new acquisition markets were operationally ready for clinical program introduction. For 2009, we are projecting that our episodic base internal revenue growth will be in the 15% range. This is lower than what we achieved in 2008 as TLC which included 103 agencies, will be included in our base agencies beginning in April 2009.

It is not unusual for acquired agencies to experience a slower same store revenue growth even in the second year after an acquisition as they are just solidifying their new processes. Further the 103 TLC agencies were converted over a 6-month period with the later converted agencies still solidifying their new processes.

Shifting back to our specialty program, we intend to continue with our strategy and roll out approximately 40 locations per quarter in 2009. The balance for life program focuses on reduces fall risk in the elderly populations by applying advanced treatment modalities related to the

rebalancing of the inner ear or the vestibular system, the visual system and the muscular system. This program is strategic for us in that it addresses the leading cause of injury deaths and hospitalizations for trauma in the early. Balance for life is one of our 14 evidence-based clinical programs aimed at improving the health of our senior population.

Regarding our start up program we opened 15 new home health locations during the fourth quarter. We currently have approximately 150 start ups in various stages of the pipeline. Of these approximately 45 are incurring expenses but have not yet opened. And our 2009 target is 40 new home health locations compared to the 35 that we did in 2008. For hospice, we opened one new agency in the quarter and five for all 2008 and we are targeted five hospice start ups for 2009.

Moving to external growth, as we mentioned last quarter, we closed two acquisitions on October 1. We acquired six agencies from Home Health Corporation which consisted of two agencies each in the states of Pennsylvania, Maryland and Delaware. The second acquisition we closed was a regional home health and hospice business located in the state of Washington consisting of three home health and three hospice agencies.

After the end of the year, we announced the acquisition of the home health and hospice business of White River System in Arkansas which has three home health and one hospice location and is expected to close in March. Additionally, we announced the acquisition of two agencies located in Yuma, Arizona which closed on February 1. I would like to welcome to Amedisys all of the new employees who have just joined us from Yuma and those who ((inaudible)) from White River. We have a healthy pipeline of acquisition candidates and we continue to analyze potential opportunities as they become available.

Turning to the results from operations. Our quarterly revenue and contribution margin are broken down as follows, contribution margin is pre tax and pre corporate overhead. Two hundred and

twenty-six million in home health revenue related to agencies we have owned longer than 12 months with a contribution margin of 31%. Six million in home health and hospice start up revenue related to start ups open less than 12 months with a negative 4% contribution margin. Also in the quarter, we incurred approximately 3 million in costs associated in home health and hospice agencies we plan to open in the future.

Thirteen million in hospice revenue related to agencies we have owned longer than 12 months with a contribution margin of 16%. Ninety-four million in home health and hospice acquisition revenue associated with acquisitions completed during the last 12 months with a contribution margin of 22%.

As I stated last quarter, the system integration of the agency locations and corporate office for TLC is complete. Over the next 12 months we will continue to introduce our clinical programs to these agencies. We anticipate over time that the contribution margin of the TLC agencies will approach our mature agency margins. As a reminder, the TLC home health agencies had a contribution margin in the fourth quarter of 20% versus our mature home health agencies which had a contribution margin of 31% in the same period. On a quarterly basis, CMS publishes information on how home health agencies compare on 12 measured patient outcomes. This information is presented on a rolling 12-month basis. The latest data published shows that Amedisys exceeded or met 10 out of the 12 outcomes we compared to national averages.

The organization improved or met its scores in 11 out of the 12 outcomes we compared to the previous quarterly reporting. We are very pleased with how well we compare to the national averages, especially given the fact that our acuity is higher than the typical homecare provider.

We will continue to focus very hard on improving our clinical outcomes and strive to exceed the national averages and all 12 outcomes measured.

On the regulatory front, Med Pack recently came out with their recommendation on home health rates for 2010. They recommended moving the 2.71% case (creep) for 2011 to 2010. And adding it to the 2.75% cut that is schedule to go into effect that year essentially making a 5.4% for 2010. They also recommended not giving the scheduled market basket increase for 2010. Although we cannot be certain what changes will occur, after speaking with various regulatory experts knowledgeable of the home health industry, we believe the conservative scenario is the 2010 cut will remain and it is possible that the industry could receive no market basket for 2010.

We also believe that if the full Med Pack recommended cuts are implemented it would place a serious strain on the industry which would, in turn, facilitate more industry consolidation. As a reminder, Med Pack has recommended cuts over the past few years and Congress has typically not followed their recommendation.

In conclusion, you will see Amedisys continue to focus on our three-pronged business strategy of providing superior clinical outcomes to our patients, growing the business aggressively and becoming as operationally efficient as possible. I would like to express our appreciation for the support of our shareholders, customers, employees, and vendors.

At this time, we will open the call up to your questions. Please limit yourself to two questions so that we may allow question time for everyone. Time permitting, we will allow for follow up questions. Operating, please go ahead.

Operator: Thank you. Today's question-and-answer session will be conducted electronically. If you would like to ask a question, you may do so by pressing the star key followed by the digit 1 on your touch-tone phone. If you are joining us on a speakerphone, please make sure your mute function is off to allow your signal to reach our equipment. Again, that is star 1 if you have a question. We'll pause for one moment.

And we'll take our first question from Art Henderson from Jefferies & Company.

Art Henderson: Hi, good morning. Two quick questions. Your guidance of 4.10 to 4.30 could you remind us what the delta is there between the low and the high end? Dale, I guess, that goes to you.

Dale Redman: You mean between the 4.10 and the 4.30?

Art Henderson: Yes, sir. Yes.

Dale Redman: The revenue differential is about \$50 million. I'm not sure I'm understanding your question.

Art Henderson: Well, I'm just wondering what the components are that get you to 4.10 versus what gets you to 4.30.

Dale Redman: Well, a big piece of it is revenue. The other piece of it is obviously we have anticipated enhancements to our efficiency going into 2009. And those we're not going to speculate on at this point.

Larry Graham: And Art, this is Larry. In my comments, I mentioned that TLC has a contribution margin of 20%.

Art Henderson: Right.

Larry Graham: And during the year they should approach 31%. So some of that delta is when that will happen.

Art Henderson: OK. And remind me, Larry how many locations are?

Larry Graham: There were 103 total locations. Some of those were hospice but a majority of them were home care.

Art Henderson: OK. Great. And then on the follow up question, just on the uses of your free cash flow. Larry, as I recall, this was – this was maybe not a year when you were pursuing big acquisitions. You were going after smaller stuff. So Dale, I don't know, if you could break out kind of what you're expecting for debt repayment or those components you were discussing in your portion of the script.

Dale Redman: Well, as you know in our situation we ended up being opportunistic when we see acquisitions. So it's difficult for us to predict the actual uses of free cash flow. They are substantial. We have \$160 million available under our line of credit. And we're projecting cash flow from operations after required debt payments in cap ex of about 140 million. So if you have available capital resources to be opportunistic from an acquisition standpoint. And our strategy simply because we have the flexibility to do that is we're going to use any free cash flow that we don't use for acquisitions to pay down debt.

So we would anticipate absent substantial acquisitions we continue to see improvements in our ratios related to debt.

Art Henderson: OK. Great. Larry, one last question I'll jump back in the queue, the de novos are you still experiencing delays from the fiscal intermediaries?

Larry Graham: Yes, that's an ongoing process. But I am encouraged that we were able to open 15 up during the quarter. And it was important to note that I stated we had 150 in the pipeline, about 45 or so we're incurring costs on. So we're still aggressive on our end and as they open up we will open them, obviously.

Art Henderson: OK. Thank you.

Operator: We will take our next question for Whit Mayo from Robert Baird.

Whit Mayo: Thanks, good morning. The first question is really a two-part question on receivables. Bill, do you have handy what the unbilled receivable number was for the quarter, I may have missed that if you provided that. And also, could you tell us how much of that is actually coming from Medicare?

Dale Redman: The unbilled receivable number is 48 million at the end of the year, and that's down from 56 million at the end of September. And I haven't broken that out in terms of how much of that is Medicare?

Whit Mayo: Is it just safe to say that the majority of that is though?

Dale Redman: Yes.

Whit Mayo: OK. And then also on just your deferred revenue liability I don't know if you have that handy. And just for the record, if we could get the breakdown of that by aging category. I don't know if that's something you have handy or if you plan on putting that on the queue.

Dale Redman: I understand the request.

Whit Mayo: Do you have your deferred revenue liability number for the quarter.

Dale Redman: I don't know that we've disclosed that. We haven't disclosed that, Whit. I'd be happy to talk to you about it offline.

Whit Mayo: We'll talk offline.

Dale Redman: We don't disclose what the revenue liability is because we don't calculate it that way. For us it's an unearned revenue number.

Whit Mayo: Yes, actually. We'll talk about it offline. I guess, second question just as it pertains to your guidance again, I mean you reported 30% organic growth this quarter. That's the highest we've seen you know probably my recollection. And I guess Larry mentioned I guess interpolated within the guidance is for internal based, episodic based revenue of 15%. Just any sense for how to think of the components of that between the (ad met) growth and research and revenue per episode? Just any more granularity you can give us around the assumptions?

Larry Graham: Yes, that's a good question. What I'm stating now is we will forecast, if you will the revenue growth in terms of percentages and that's where we articulated the 15%. And at the end of every quarter, we'll break that growth down for you in terms of rate and volume. But we're not going to get into predicting admission or recertification or rate growth. We'll just articulate those at the end of the quarter. The 15% is an all end number. As a reminder, we grew 11% in admissions last year around the 10% categories is what we've been targeting.

Whit Mayo: OK. Thanks guys. I appreciate it. We will take our next question from Kevin Ellich with RBC Capital Markets.

Kevin Ellich: Good morning, guys. Thanks for taking my questions. Dale, just kind of following up on Whit's question and maybe asking it a different way, do you have the allowance for doubtful accounts and the bad debt handy? Or did you provide that in your prepared remarks? I might have missed that.

Dale Redman: I'm sorry, ask the question again. Sorry.

Kevin Ellich: The allowance doubtful accounts.

Dale Redman: Do we have an allowance for doubtful accounts against our non-Medicare?

Larry Graham: The dollar amount.

Dale Redman: The dollar amount is \$27 million.

Kevin Ellich: Twenty-seven. OK. That's what I thought you said. And then what was the provision for bad debt. Was that 7.2, did I catch on the call?

Dale Redman: No, the 7.2 is the estimated revenue adjustment against Medicare revenue. And that's the cumulative number at the end of the year. So the combination of those two numbers is about \$34 million.

Kevin Ellich: Excellent. And then D&A expense was a little bit lower than I was expecting. Is there anything significant going on there? I was just wondering why D&A ticked down sequentially?

Dale Redman: It went down about 900,000 or \$1 million because due to the tru-up of our purchase accounting balance sheet on TLC.

Kevin Ellich: OK.

Dale Redman: And going forward, it will be more reflected of what that number will be.

Kevin Ellich: OK. And then just one last question, Larry, I don't know if you could talk about the acquisition – you did talk about the acquisition pipeline and what not, but are there any large deals that you're actually looking at? Are you contemplating everything? Or is it really kind of focused on one area.

Larry Graham: As a reminder, we look at acquisitions as they come available. We like to target areas of the country that have high Medicare population growth so we kind of know where we want to be. On the large scale at any given time there are two, three or four of them out there being circulated and talked about. But you know typically when we do a large acquisition like we did in TLC, we tend to integrate that before we jump into another large acquisition. But again, if something came available and everything was right in terms of financing and what we thought we could do with it, we would take a serious look at it.

Kevin Ellich: OK. Thanks.

Operator: And we will take our next question from John Ransom with Raymond James.

John Ransom: Hey, good morning. Could you give us the Medicare receivable balance in the fourth quarter?

Dale Redman: The Medicare receivable balance in the fourth quarter is 129.6 million net.

John Ransom: And also gross ...

Dale Redman: ... the \$7 million estimated revenue adjustment.

John Ransom: So 129.6 and then we'd add back the gross of 7.6.

Dale Redman: That's correct.

John Ransom: OK.

Dale Redman: It's actually 7.2, John, but OK.

John Ransom: OK. Sorry, 7.2. And the second question, as you look forward to the March quarter it sounds like your DSOs will be down all other things being equal a couple of days. Do you expect any further moves in that direction? Or would that be a good estimate for the end of the quarter?

Dale Redman: No. We're optimistic that we will get additional positive impact on DSO in the first quarter over and above the 2 days that we received last week.

John Ransom: OK. Are the TLC receivables still on the 60-plus day range?

Dale Redman: Some of them are. John, it's all over the place. We are collecting those and we've done a pretty good job of collecting the accounts receivable that we got when we made the acquisition. It was about 40 million of receivables. We've done a pretty good job of collecting those.

John Ransom: OK. And did the goodwill balance change as you did your end trips, did your sequential goodwill balance change between third and fourth quarter?

Dale Redman: We added about in addition to what we're talking about with depreciation and amortization we added about \$1.7 million to our allowance for doubtful accounts on the TLC accounts receivable and that went to goodwill. So those were receivables that you bought that you subsequently deem are not collectively right?

Dale Redman: That's simply our reserve against it. I'm trueing up that balance sheet. That is almost done. We are going to take another look at it because we have one year from the date of the acquisition to finish the true up which would be the end of March of '09 but we're pretty close to being finished with that.

John Ransom: OK. Thanks a lot. And last question, your cash flow, what was in the quarter that – I mean there didn't seem to be a huge receivable change, but what drove such strong cash flow in the quarter? Was there a current liability that increased or something else we need to think about?

Dale Redman: No. It was basically, John, the change in AR. If you look at it from the third quarter to the fourth quarter it was a very positive impact on AR. But at the same time our revenue went up and therefore our AR increased. So it was a combination of those two things. But the cash flow from operations was primarily the change in networking capital which was largely focused on accounts receivable.

John Ransom: Got you. OK. Thank you.

Operator: And we will take our next question from Newton Juhng with BB&T Capital Markets.

Newton Juhng: Good morning, gentlemen. I was just curious about the half visit – the sequential increase in the visits per episode. Is that purely a function of dealing with the more acute patients? Or could you provide us with a little bit more insight into what other factors might be driving up that number.

Larry Graham: The utilization has to do more to do with the acuity level, so you hit that. And that's going to vary from quarter to quarter based on the mix of stroke, cardiac, wound patients and the types of patients you're caring for.

Newton Juhng: OK. So versus last quarter was there any one of those particular areas where the impact was seen more?

Larry Graham: Over the last year, all three of those we've seen an increase. Over the last, year we've seen our acuity level increase.

Newton Juhng: Right. So similar to what we talked about on the last quarterly call. OK. Larry, I was just you know in your prepared remarks, you talked a little bit about you know second year agencies could see just a general slow down in the internal growth and so on. And I was just curious as to you know is it just a function of the you know you've got TLC coming and (anniversaring) and you know the number of agencies that you're talking about there versus what you're going to be adding on in this year. Is that really what's driving that particular slow down there?

Larry Graham: There's a couple of things you know we converted those agencies over a 6-month period. And some of the higher revenue agencies we converted on the back end of that 6-month. So stating another way the first quarter we owned them April, May and June of last year. Their admission volume was probably pretty strong and we weren't upsetting, if you will, by converting the larger agencies. So the larger agencies didn't convert until September or October. So comparing to the second quarter of last year I'm anticipating a little slow down in the same store growth and then we'll build that by quarter from there.

Newton Juhng: OK. Thank you very much.

Operator: We will take our next question from David MacDonald with SunTrust.

David MacDonald: Hi, good morning guys. Just two questions left. Larry, can – I missed the number in terms of next year on the specialty programs. Did you say you guys are working to do about 40 a quarter in 2009 so 160 for the year, was that a good number?

Larry Graham: That's correct.

David MacDonald: And then just one other question guys you know kind of given the environment are you seeing any increased receptivity from some of the private equity folks, some of the people who actually own maybe some of the larger properties? And have you seen any movement in what you think you're going to have to pay for these things at all just given the financing market out there?

Larry Graham: A couple of things on that front. We have seen a few private equity backed deals come to market. I don't know if that's indicative that we'll see more as the year goes on. We do believe we're one of a handful of people that might have the capital to do acquisitions. So we do believe that it may impact terms and pricing. I haven't seen enough to articulate what that would be or say that that's factual. But we just know that there's not a lot of buyers on sizeable deals out there.

David MacDonald: OK. Thank you.

Operator: We will take our next question from Tony Perkins with First Analysis.

Tony Perkins: Good morning. You had 15 di novo locations in Q4 and I think you said you expect 40 in '09 is that correct?

Larry Graham: That's correct.

David MacDonald: Should we expect that number to drop off in Q1 and then grow throughout the year?

Larry Graham: It's impossible for me to predict which quarter these startups are going to land based on regulatory approval. If you look at last year, it went around – it bounced from 7 to 15. But I did say that we have 45 that we're actively incurring expenses on so that means they're close. And then we've got 150 in total in the pipeline. But if you were going to model out, I would always be conservative and model more towards the back end of the year than the front of the year.

David MacDonald: OK. And then just one quick question on the new accounting rule the 141-R where you have to express deal related costs on an acquisition as they're occurred. And I know your guidance doesn't include any acquisitions. But as we go forward, just curious if you expect to pro form out those expenses are you going to keep those in?

Dale Redman: We would disclose – if we did an acquisition that that had an impact on then we would disclose what those expenses as we essentially do now.

David MacDonald: Great. Thank you.

Operator: Once again, that is star 1 and we'll take our next question from Ralph Giacobbe with Credit Suisse.

Ralph Giacobbe: Great. Thanks. Just a couple of questions. Can you give us the case mix number for the quarter and maybe how that compares to a year ago and sequentially?

Larry Graham: You can look for that possibly in the 10-K but we don't typically go over case mix numbers on a quarterly basis.

Ralph Giacobbe: OK. And then what percentage of admissions have therapy visits tied to them. And maybe how that compares to a year ago?

Larry Graham: The percentage of patients that have therapy in that episode has always been around 55 to 60% of our patient population. And that's been consistent for the last 3 or 4 years.

Ralph Giacobbe: OK and then just a couple of quick ones. Can you talk about the economy and maybe benefits on the nursing side? Your ability to recruit and maybe you know benefits to wage growth, again, given the economic backdrop.

Larry Graham: Yes. First of all, you know, we believe our business is fairly recession proof. We also believe we have a recruiting advantage given the nature of our business that nurses get to provide care independently differently than in the hospital working 12 hour shifts. We have not seen to date where it's going to impact the dollar amount we pay for nursing. I do believe it will increase the nursing pool meaning a lot of maybe retired nurses may reenter the workforce. But we haven't been able to quantify that today.

Ralph Giacobbe: OK and then just my last question, just to clarify what you said around the reimbursement environment for 2010. I think you said, what you thought would be a conservative way to think about it would be a freeze of the market basket and the negative 2.75% cut for 2010. Is that fair?

Larry Graham: That's correct. The 2.75 is all ready part of CMS's 40-year case grip so that's there.

Ralph Giacobbe: So you're saying no pull forward of the 2011 and a freeze on the market basket?

Larry Graham: That's correct. And last year I said the same thing about a market basket anticipated zero. That's how we operate if you were modeling out I would anticipate a zero. There is a

probability we'll get a rural add on or some percentage of that market basket increase. But for modeling purposes that's what I would do.

Ralph Giacobbe: OK. So just to be clear on the net-net basis negative 2.75%.

Larry Graham: You're correct.

Ralph Giacobbe: OK. Thanks.

Operator: At this time, I would like to turn the conference back over to our presenters for any additional comments.

Bill Borne: I'd like to thank everyone for taking the time today to join our fourth quarter results. We're excited and passionate about the company and the prospects of the future. We look forward to speaking to everyone again in just a few months when – as we move forward. Thanks.

Operator: That concludes today's conference call. Thank you for your participation. And have a wonderful day.

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