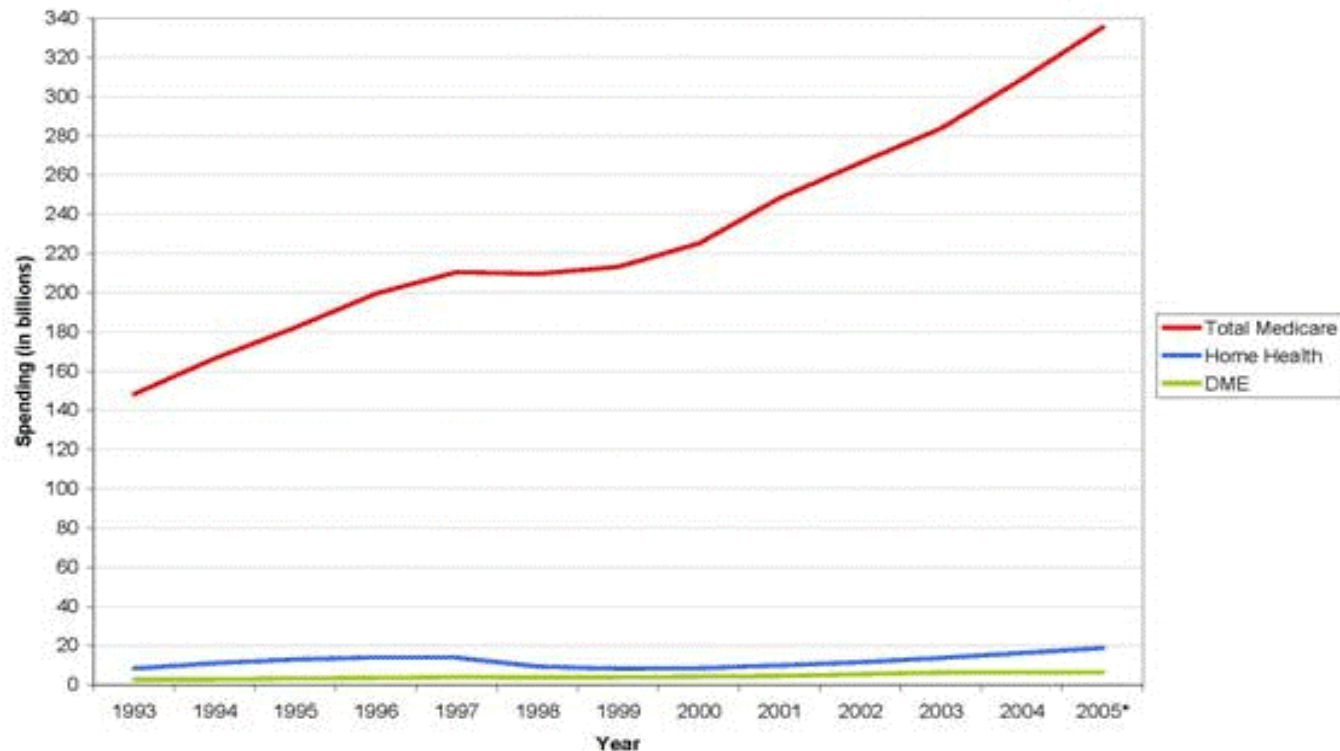


Before we begin...

Homecare is Not the Problem in Medicare

Total Medicare v. Durable Medical Equipment and Home Health Spending 1993 to 2005

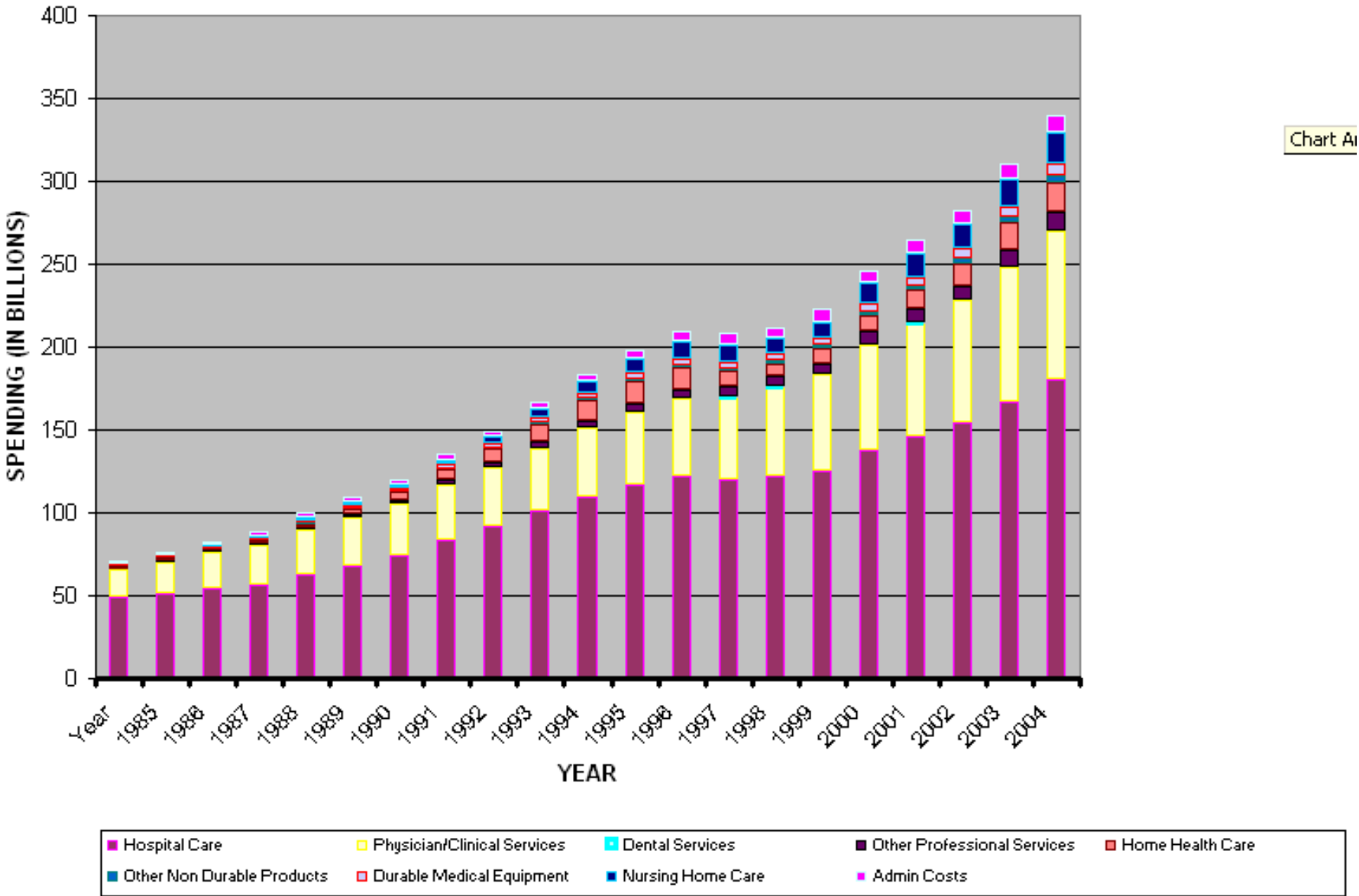


(Source: CMS National Health Expenditure Data 2006)

* 2005 figures are projected spending

- Home health figures include home hospice

MEDICARE HEALTH EXPENDITURES BY TYPE OF SERVICE



2005 Medicare Expenditures - % of total spend

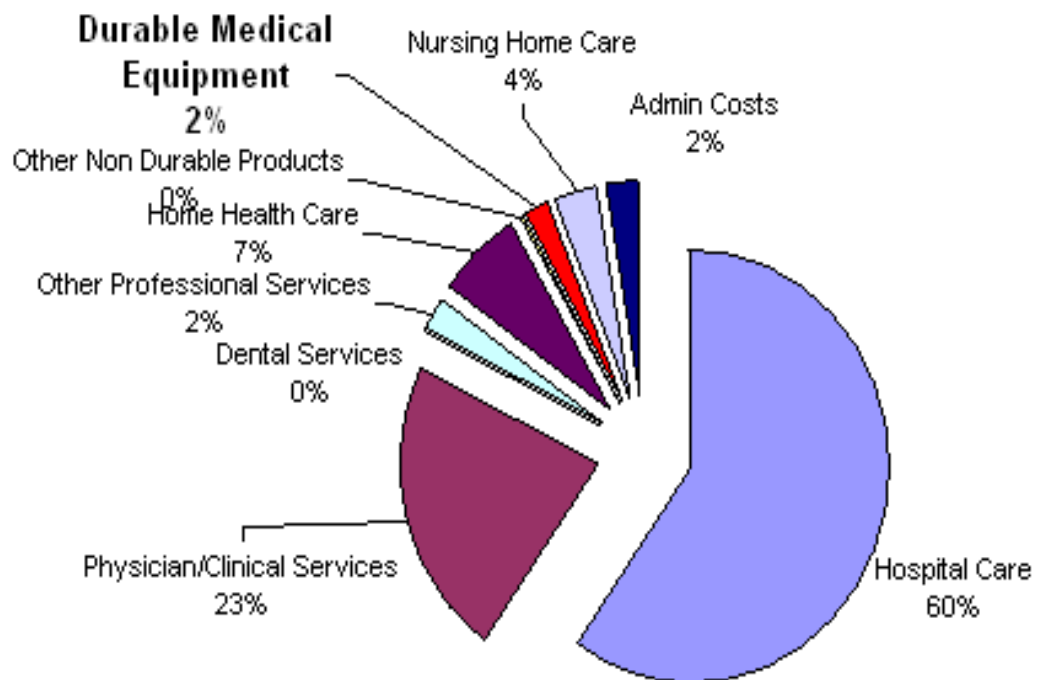
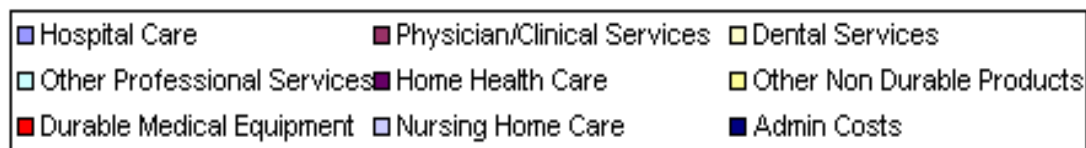
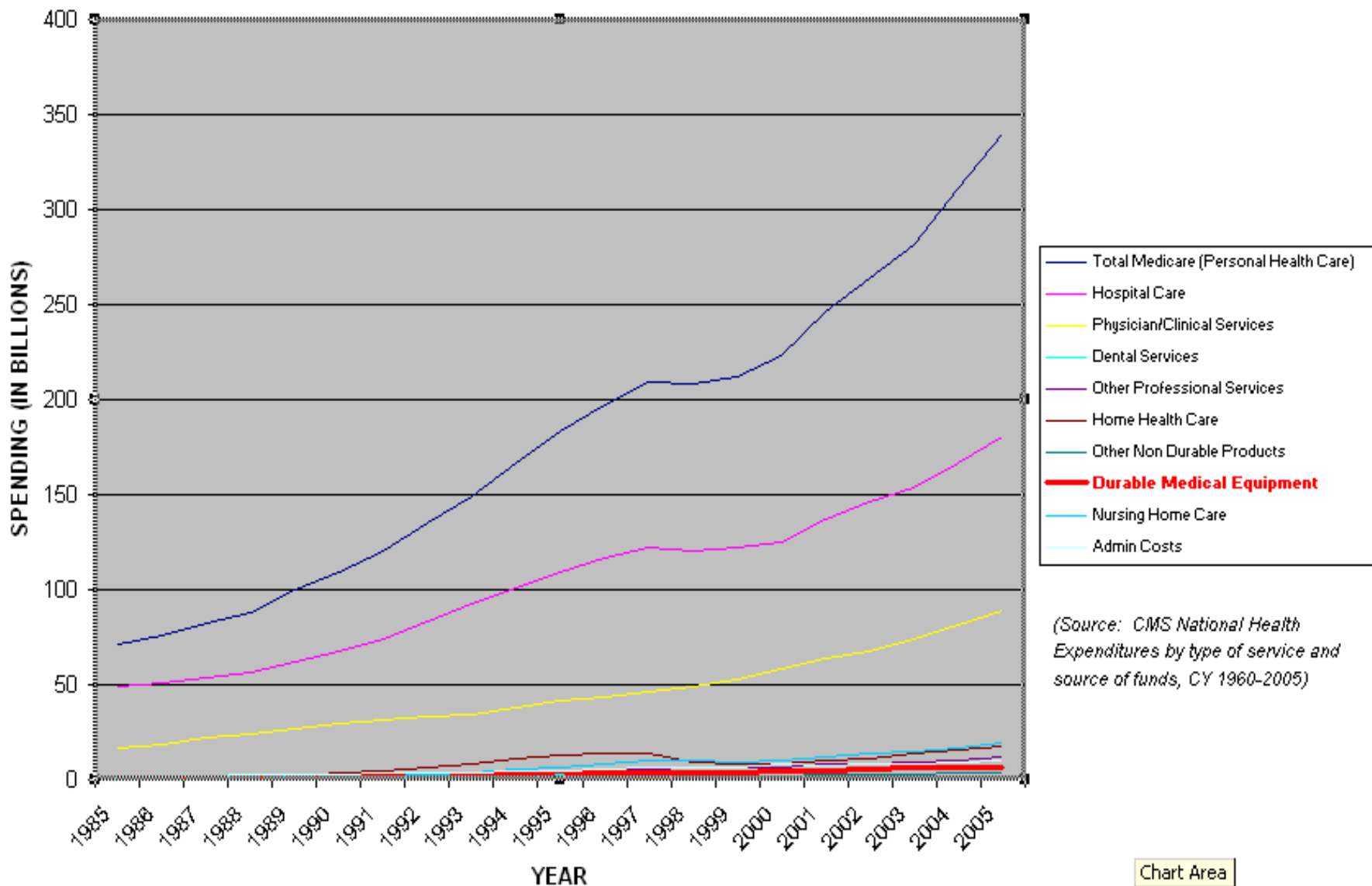


Chart Area



MEDICARE HEALTH EXPENDITURES BY TYPE OF SERVICE



(Source: CMS National Health Expenditures by type of service and source of funds, CY 1960-2005)

Chart Area

MEDICARE HEALTH EXPENDITURES BY TYPE OF SERVICE (OTHER THAN HOSPITAL CARE AND PHYSICIAN / CLINICAL SERVICES)

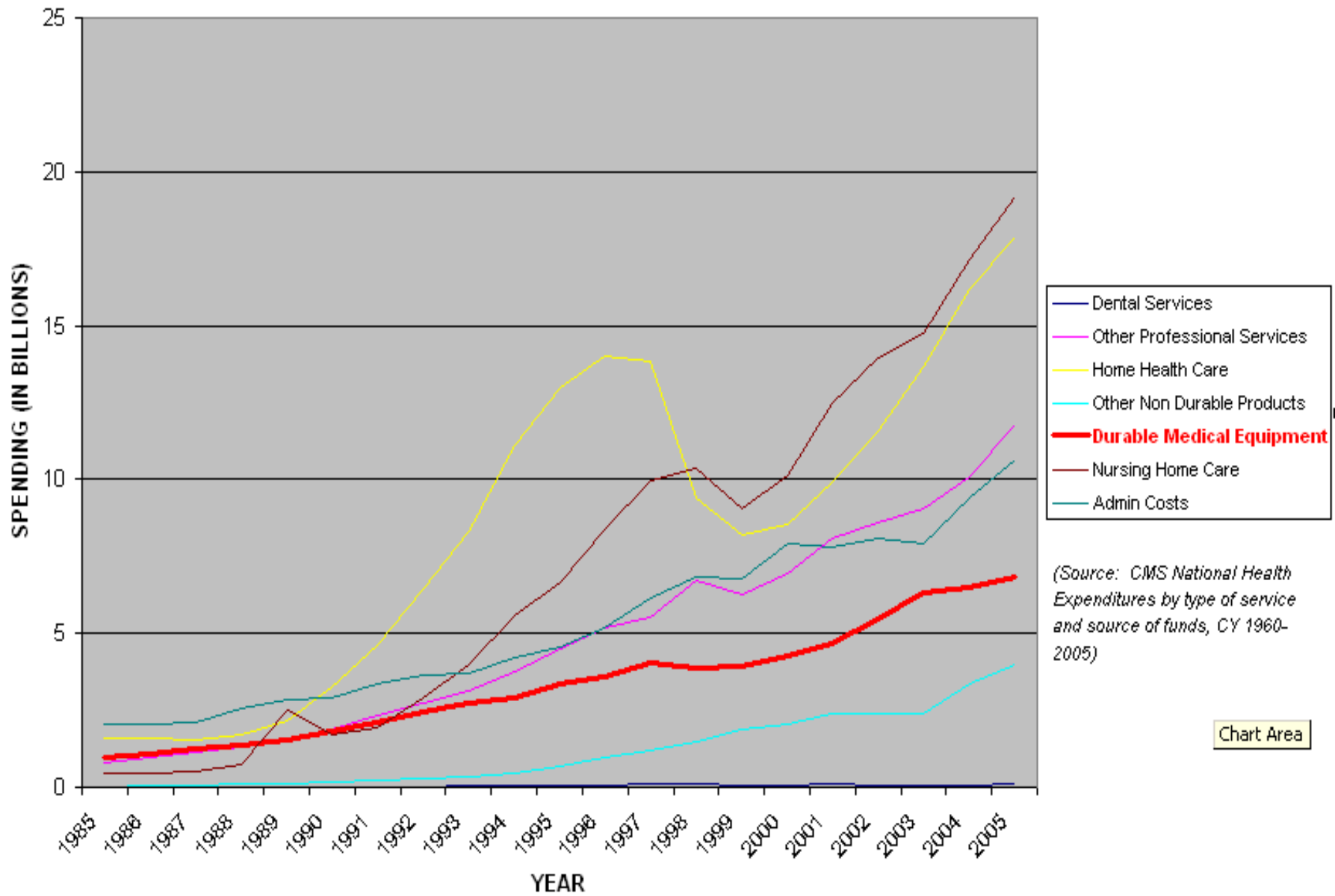
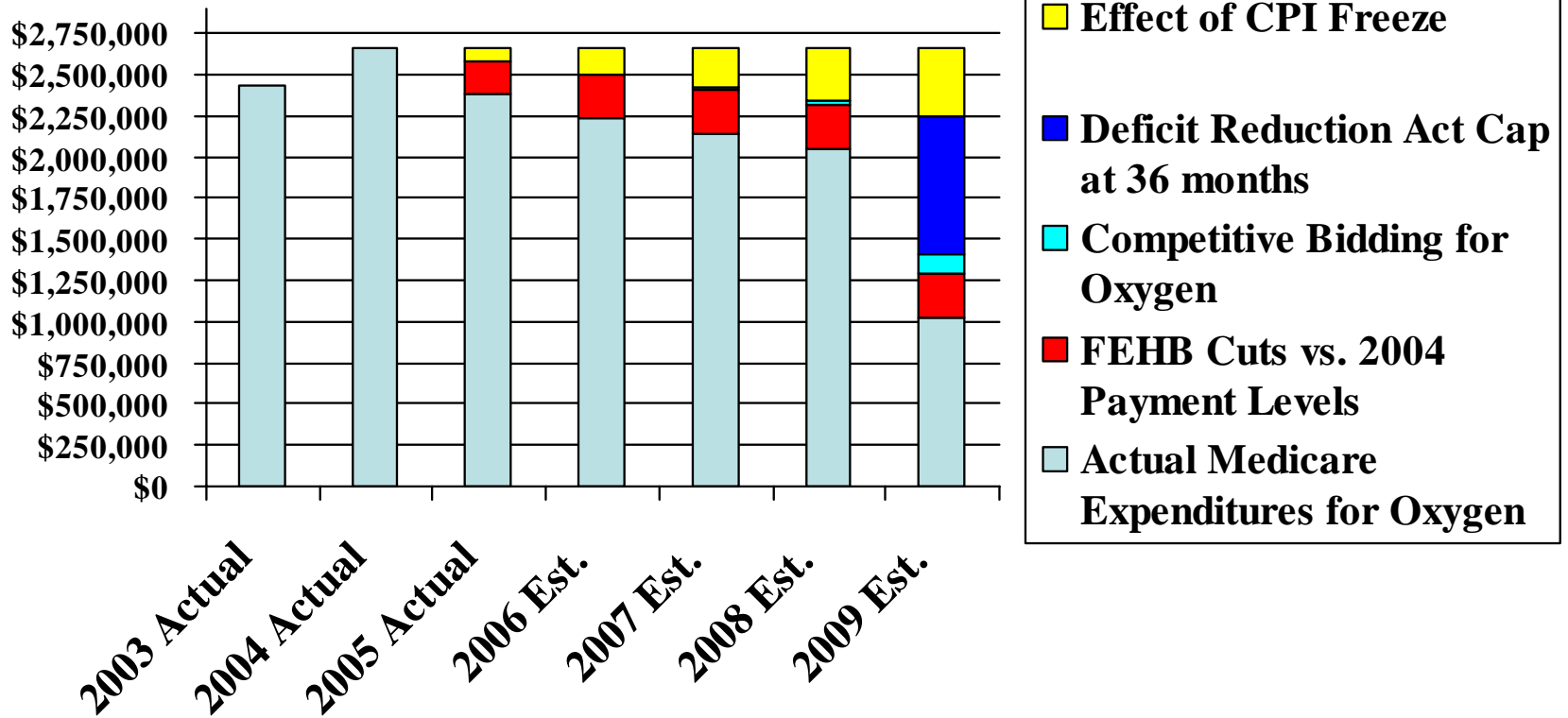


Chart Area

Cumulative Effect of Trended Medicare Oxygen Cuts, 2004-2009*

Unadjusted for Growth in Beneficiary Enrollment

\$ In Thousands



**Estimates for competitive bidding are based on CMS' proposed rule, list of top MSAs, an initial start date of Q4 2007, estimated portion for oxygen spending in each MSA and 10% estimated net savings in each MSA per CMS' Regulatory Impact Assessment. Deficit Reduction Act estimate uses CMS' data that 36% of oxygen patients exceed 36 months on service and applies that to 2008's Medicare oxygen estimated billings. The CPI would have been 3.1% and is the only factor that grows larger each year.*

Summary of Medicare Cuts Impacting the DME/HME/Respiratory/Inhalation Provider, 2004-2009

Recap of Medicare Cuts Since 2004

2004

- AWP reduction to –20% from –5% for inhalation drugs

2005

- Inhalation drugs reduced to ASP plus \$57 dispensing fee
- Inhalation drugs increased cost of goods
- Certain DME items cut to FEHBP pricing (approximately 10% price cut on a blended basis)
- Oxygen cuts to FEHBP effective Q2 (approximately 10% price cut)

2006

- Inhalation drugs reduced to ASP plus new two-tiered \$57/\$32 dispensing fee
- Inhalation drugs -- downward quarterly ASP changes
- Inhalation drugs -- increased cost of goods from manufacturers
- Oxygen -- Carryover FEHBP cut from 2005 into Q1 2006
- BiPAP-ST rebase after 3 months

Summary of Medicare Cuts Impacting the DME/HME/Respiratory/Inhalation Provider, 2004-2009

Recap of Medicare Cuts Since 2004

2007

- HME capped rental equipment changes to 13 months from 15 months
- Loss of Medicare service/maintenance revenue (11 months)
- Cap BiPAP-ST at 13 months (6 months)
- Competitive bidding in 10 large MSAs
- *Pending*: Xopenex/Duoneb reimbursed at generic rate
- *Pending*: New O2 Modality Pricing, mixed modality assumption and nominal increase in allowable for contents
- Power mobility devices: re-coding and new payment levels

2008

- HME rent to cap changes to 13 months from 15 months (remaining impact)
- Loss of Medicare maintenance/service revenue for HME
- Cap BiPAP-ST at 13 months (remaining 6 months impact)
- Competitive bidding in 10 large MSAs
- Power mobility devices: re-coding and new payment levels
- *Pending*: New O2 Modality Pricing, mixed modality assumption and nominal increase in allowable for contents

2009

- Oxygen rent to cap at 36 months for 36% of patients who were on service from 2006 and 36% for every year thereafter
- Loss of Medicare maintenance/service revenue
- Competitive bidding in 80 large MSAs
- Power mobility devices: re-coding and new payment levels
- *Pending*: New O2 Modality Pricing, mixed modality assumption and nominal increase in allowable for contents