

Arcadia HealthCare (AMEX: KAD)  
Management Presentation

## DISCLOSURE

Statements contained in this presentation which are not historical facts are forward-looking statements, such as statements about prospective earnings, revenues, operations, revenue and earnings growth and other financial projections. These forward-looking statements and all other statements that are not historical facts are based on management's expectations and available information and are subject to and qualified by a number of risks and uncertainties that could cause actual results to differ materially than those expressed or implied by such statements. These risks and uncertainties include competitive factors, the availability of financing, the ability of our affiliated agencies to effectively market and sell our services and products and customer demand, our ability to execute our growth strategy, our ability to recruit and retain key personnel, the impact of governmental regulations, and the other risks and uncertainties identified in our public filings made with the SEC, including Forms 8-K, 10-Q and 10-K. The forward looking statements contained herein, and other public statements of the Company or its management, should be considered in light of those factors. The Company claims all protections provided by law for all of its forward looking statements, which are made as of the date hereof, and the Company undertakes no duty to update any forward looking statements or this presentation to conform to actual results or changes in expectations.

## Strategic Market Focus

***One Vision: “Keeping People At Home And Healthier Longer”***  
***Two Complimentary Business Segments...***



HOME HEALTHCARE AND STAFFING



PHARMACY AND MEDICATION MANAGEMENT

## Target Market Audience/Customer

- “Sandwich Generation”
- 40 – 55+ year old female
- First born daughter in family
- Responsible for healthcare decisions
- Time constrained
- Seeking efficient, cost-effective solutions



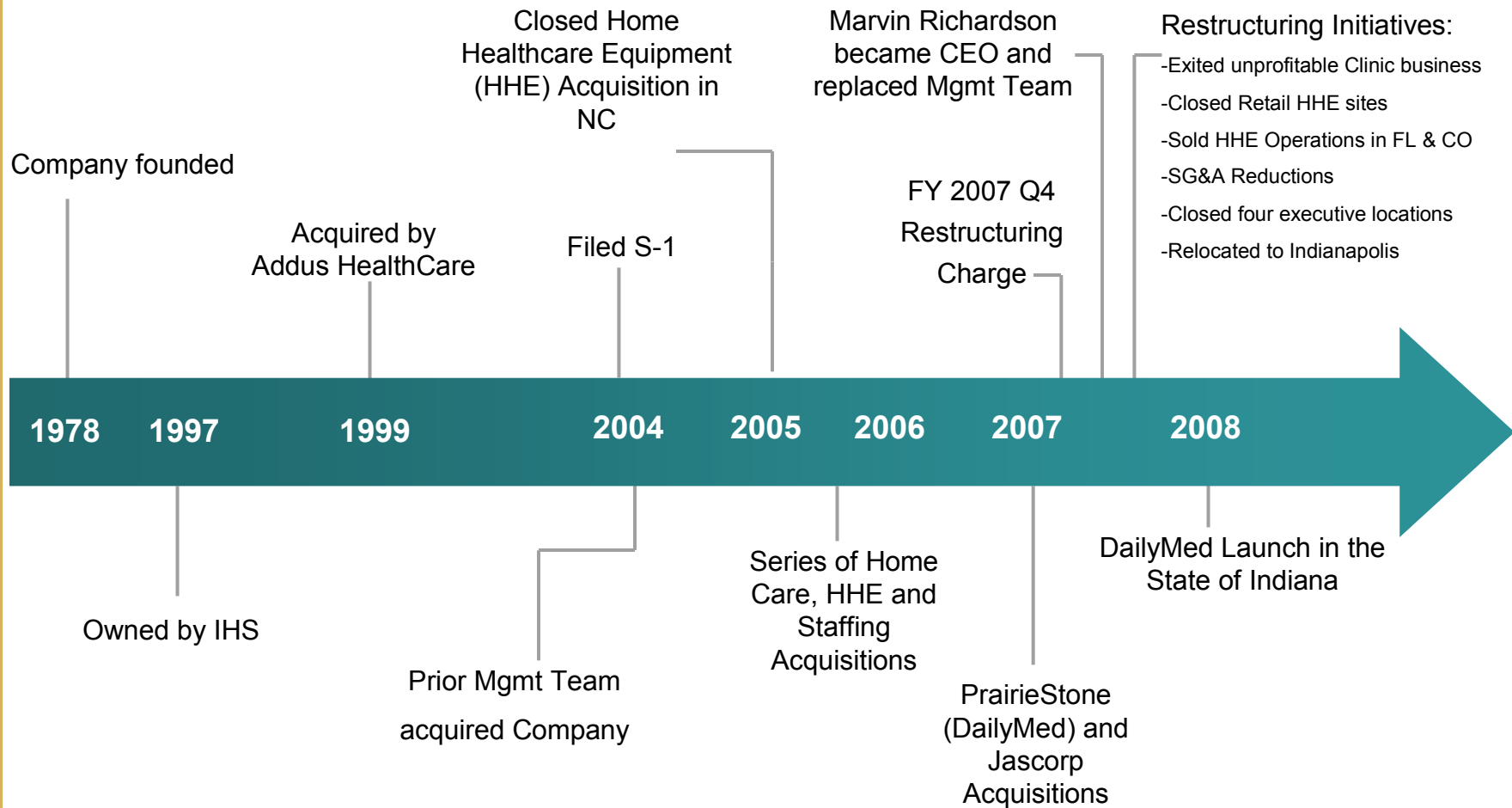
## Highlights

- Health Care Service and Product Solutions to individuals in the home
  - Home Care
  - Home Health Equipment (“HHE”)
  - DailyMed Pharmacy - Proprietary pharmacy dispensing system
- Diversified business and payor mix
- National footprint – 89 service locations; 5,000 active employees; serving approximately 50,000 homes annually
- Centralized back office support services – scaleable and efficient to handle significant growth without significant G&A cost increase
- Projected \$150.2mm Last Quarter Annualized Revenue and LQA EBITDA of \$0.9mm for FY 2008 ending March 31, 2008
- FY 2009 Targets: 30% Revenue Growth, Positive EBITDA and Cash Flow

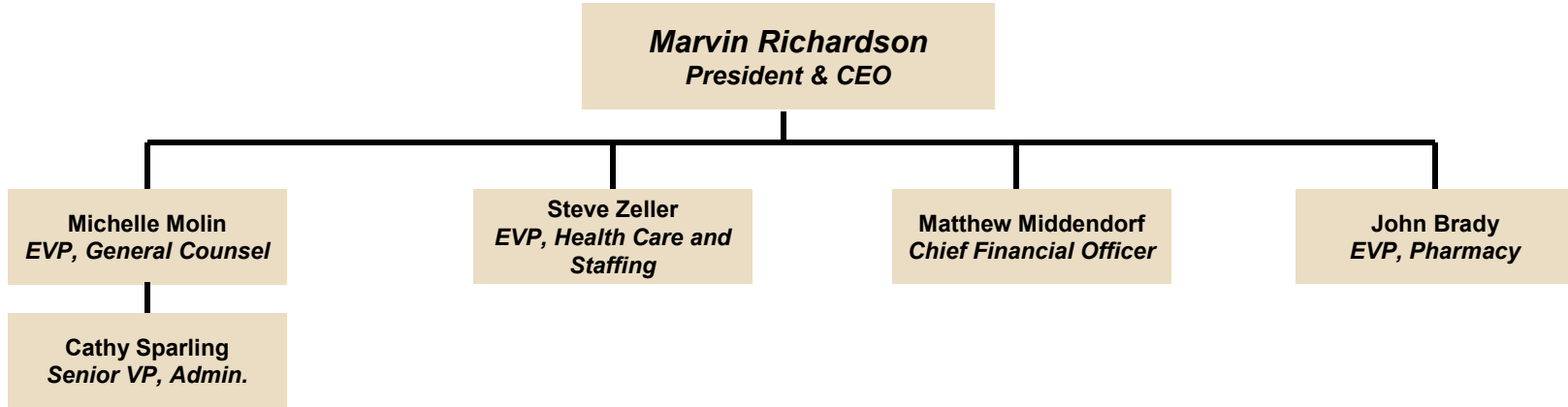
EBITDA is not considered as a measure of financial performance under U.S. generally accepted accounting principles (GAAP). EBITDA is commonly used by management and investors as a measure of leverage capacity, debt service and general liquidity.

# Arcadia History

# Arcadia History



# Experienced Senior Management Team



Name	Position	Experience	Healthcare Experience	Pharmacy Experience
Marvin Richardson, R.Ph.	President & CEO	Former co-founder, President and CEO of PrairieStone Pharmacy, President and CEO of Low Cost Health Care, Senior Vice-President of Pharmacy Operations for Rite Aid drug chain	34	34
Matthew Middendorf	CFO	Former consultant to Arcadia HealthCare, Corporate Controller and Director of Financial Reporting for Workstream, Inc.	2	2
John Brady	EVP, Pharmacy Business	Former co-founder of PrairieStone Pharmacy, Specialty Sales Manager for Novartis Pharmaceuticals, Vice President of Sales and Marketing for NCS HealthCare	14	14
Michelle Molin	EVP, General Counsel	Former legal counsel and partner at Ice Miller, LLP	< 1	< 1
Steve Zeller	EVP, Health Care and Staffing	Former President of BestCare Travel Staffing, LLC, an Arcadia Resources, Inc. affiliate; Vice President and Managing Director of Cummins European-based subsidiary	2	2
Cathy Sparling, R.N.	Senior VP, Admin.	Formerly served in various management positions for Arcadia Services, Inc.	25	4

## Experienced, Independent Board of Directors



Name	Experience
Marvin Richardson	President & CEO Arcadia HealthCare; Former co-founder, President and CEO of PrairieStone Pharmacy; President and CEO of Low Cost Health Care; Senior Vice-President of Pharmacy Operations for Rite Aid drug chain
Peter A. Brusca, MD	Retired physician from the Chicago, Illinois area; Certified by the American Board of Otolaryngology and a Fellow of the American College of Surgeons, American Academy of Otolaryngology Head and Neck Surgery and participates in numerous professional and not-for-profit organizations
Daniel Eisenstadt	Director of Private Equity at CMS Companies, an investment fund based in Philadelphia. Member of the Investment Committee of Quad Partners II; Serves on the Board of Directors of Beckfield College, LLC; Serves as an observer on the boards of HB&G Building Products and High Response Holdings, LLC
Tres Lund	Chairman & CEO of Lund Food Holdings, Inc. based in Minneapolis; Board Member of Food Marketing Institute
Joseph Mauriello	Retired 2006 as Deputy Chairman & COO of KPMG after 40 years with the firm. Currently serves on the following Boards of Directors: XL Capital, Ltd. (NYSE: XL), The Hamilton Funds of the Bank of New York, Overseers of the School of Risk Management, Insurance and Actuarial Sciences at St. John's University and The St. Barnabas Medical Center
John T. Thornton	Owns and manages J. T. Investments, Inc.; Board Member of XL Capital Ltd. (NYSE: XL); Formerly CFO of Norwest Corporation (Wells Fargo); Law degree from St. John's University and a Certified Public Accountant

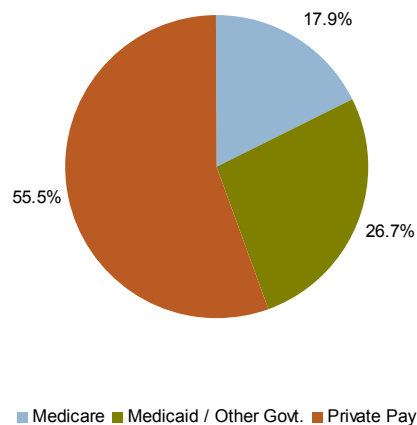
# Home Healthcare and Staffing Business

Services  
Stats  
Payor Mix

## Home Healthcare

- Skilled care
- Personal care
- Homemaker / companion
- HHE

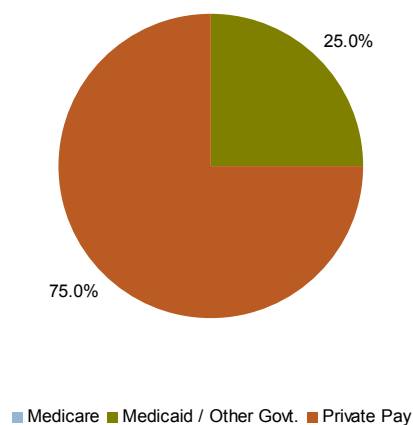
- \$73.1mm LQA Revenue
- 42% Gross Profit
- 3,000 employees serving over 45,000 clients annually



## Healthcare Staffing

- Nursing and Nurse Assistants
- Allied Health Professionals
- Per Diem and Travel
- Diverse Customer Base

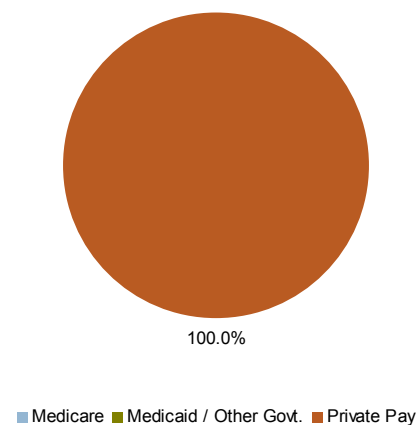
- \$41.5mm LQA Revenue
- 24% Gross Profit
- 1,000 employees serving over 2,500 facilities



## Other Staffing

- Light Industrial
- Clerical
- Technical
- Skilled Trades

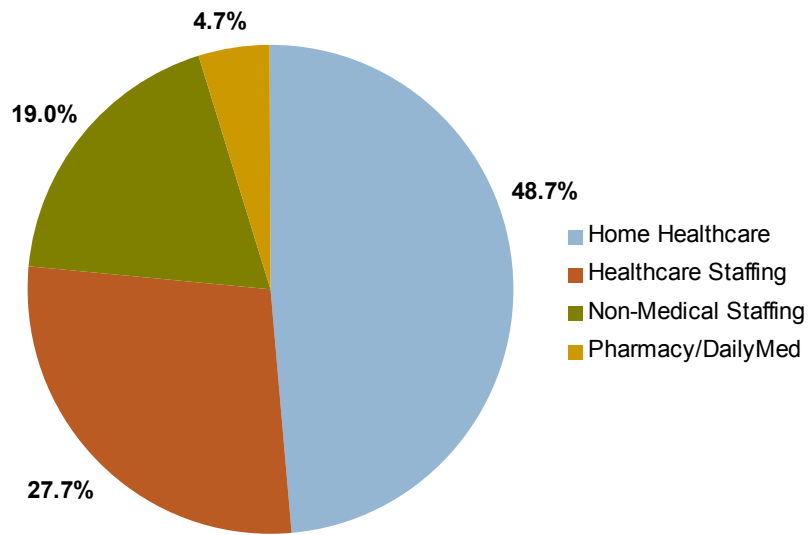
- \$28.5mm LQA Revenue
- 17% Gross Profit
- 900 employees serving over 350 clients annually



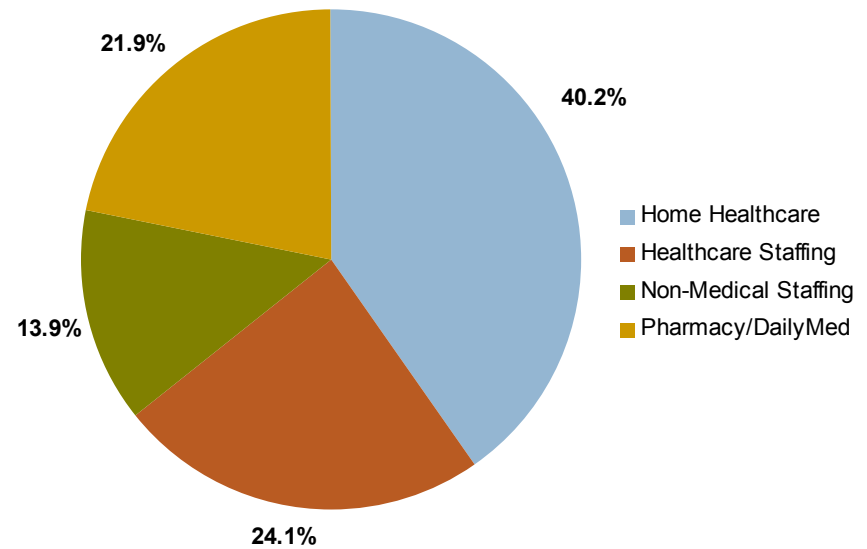
# Business Mix

FY 2008E Business Mix (LQA)

**\$150mm**



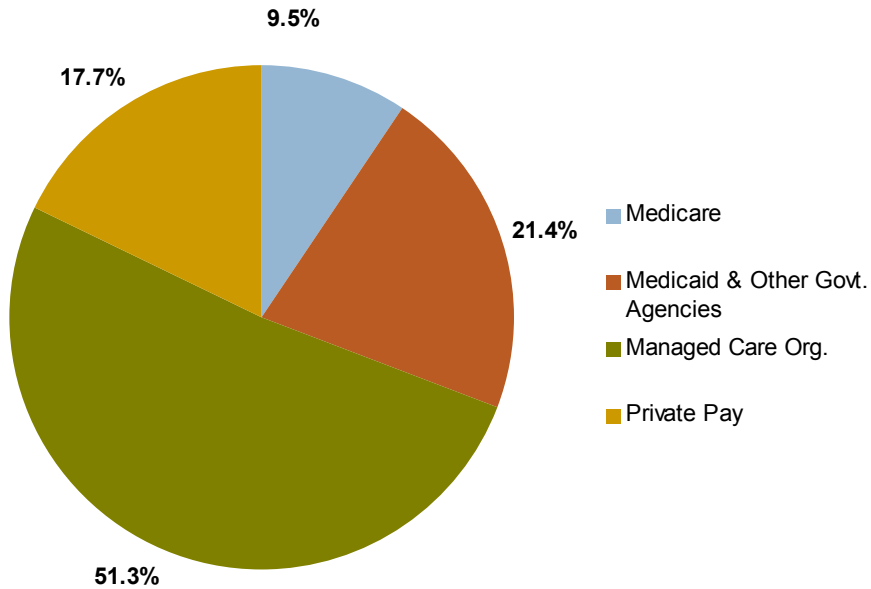
FY 2009E Business Mix



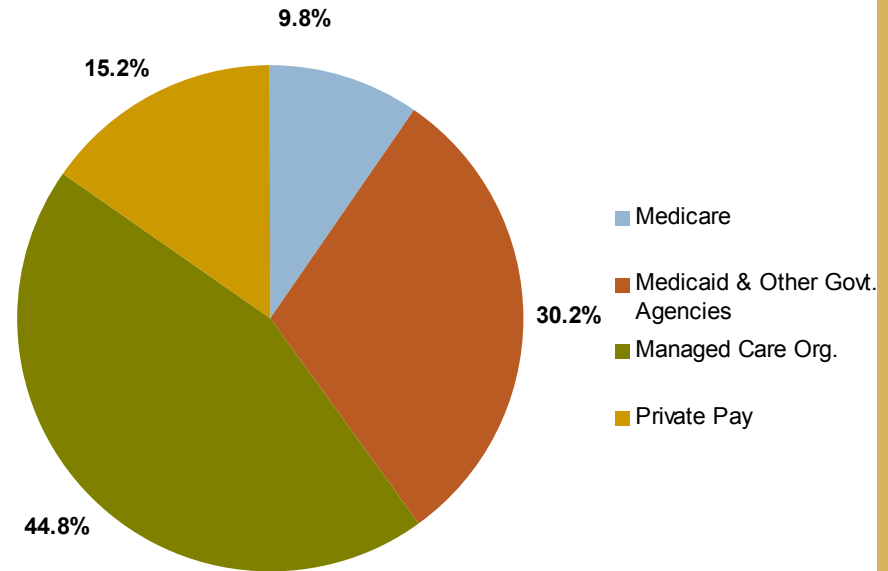
Source: Management projections and Company filings.

Payor Mix

FY 2008E Payor Mix



FY 2009E Payor Mix

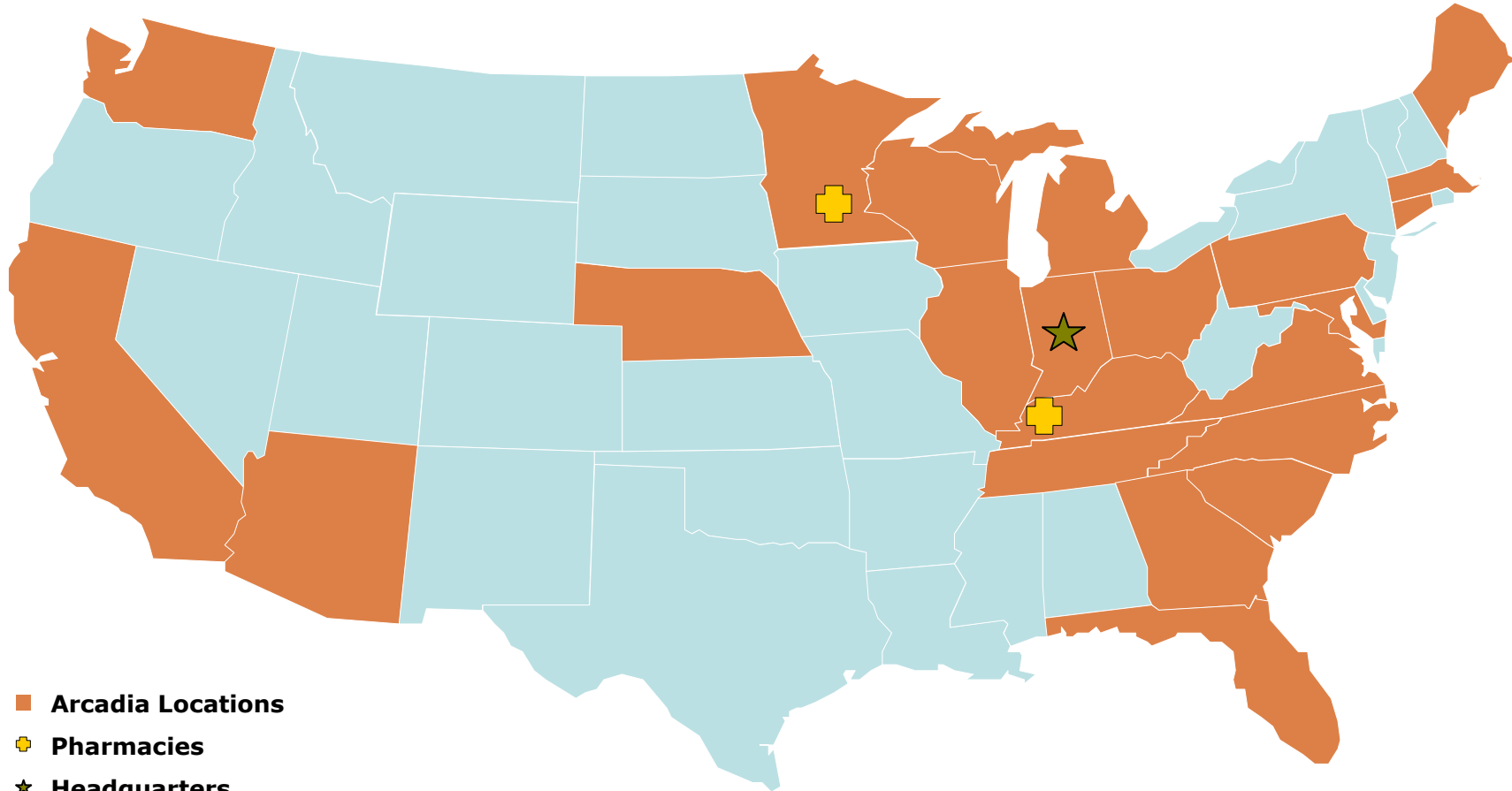


**Medicare reimbursement represents less than 10% of revenue**

Managed Care Org. includes institutions and commercial insurance.

# National Footprint

Arcadia operates out of 89 locations in 22 states  
Capable of handling FY '09 Business with no significant expense increase



# Industry Trends

## Home Health

- \$90 billion market growing 6-8% annually
- Aging population
- Trend from inpatient to home-based care:
  - Patient preference
  - Payor incentives
  - Technology advancements
- Increased prevalence of chronic and co-morbid conditions
- Cost benefit

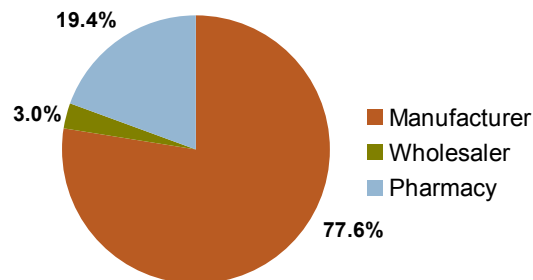
## Healthcare Staffing

- \$11 billion market growing 3-5% annually
  - Some segments growing at 10%+ annually
- Increased demand for health care due to aging population
- Greater utilization of outsourced labor
- State and Federal legislation
- Continued aging of nursing professionals
- Nursing supply shortage

## Outpatient (Retail) Pharmacy

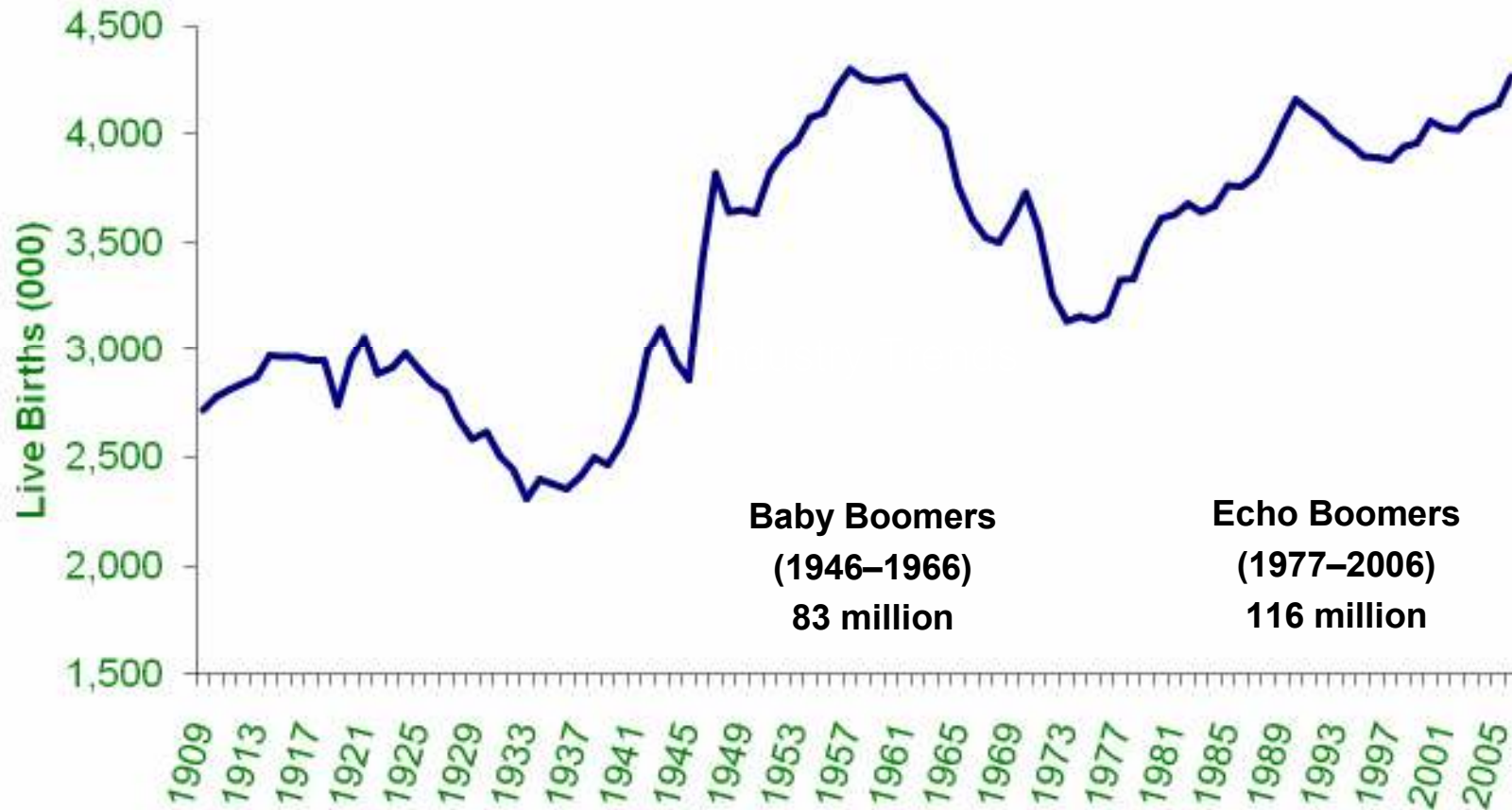
- \$250 billion of Rx sales growing 8% annually
- 3.4 billion scripts growing 4-5% annually
- Average Rx cost of \$68.26

### Breakdown of Retail Pharmacy Revenue



Source: Data from NACDS & IMS.

### U.S. Live Births 1909–2006



Source: 1909 to 2004: U.S. Census Bureau, The 2007 Statistical Abstract. 2005 to 2006: U.S. Department of Health and Human Services, National Center for Health Statistics, National Vital Statistics Reports, Dec. 5, 2007

# Medication Errors... A \$177B Healthcare Crisis for Consumers & Payors



“ Over 770,000 patients are injured because of medication errors every year. ”

“ The cost of medication errors is \$4,685 per preventable adverse drug event (1993 dollars) ”

“ Adverse drug reaction is estimated as the 4th largest cause of death amongst the elderly ”

“ In the US, 50% to 70% of patients do not properly take prescribed medication ”

“ 28% of geriatric hospitalizations are attributed to adverse reactions to prescription drugs ”

“ Medical errors are the eighth leading cause of death in the US, occur at a rate greater than motor vehicle accidents, breast cancer, or AIDS ”

“ Approximately 125,000 people with treatable ailments die each in the US because they do not take their medication properly ”



Your meds sorted into  
single dose packets.

Patent Pending

Improve Pharmaceutical Care  
Patient Compliance

Cross Sell to Existing Arcadia  
Customer Base of 15K Patients

Vertical Alliances  
Indiana Medicaid / EverCare

Direct to Consumer Campaign

DailyMed Patient  
7.8 Rx's/month  
\$6,000/year /Patient

# DailyMed™ Overview



- A pharmacy dispensing system that organizes monthly prescriptions, OTCs & vitamins into convenient, presorted packets
- A 30-day supply is delivered to a patient's home
- Pharmacy accepts most every prescription insurance plan and Medicare Part D programs
- Patients become more compliant & better manage their health conditions
- The value of DailyMed includes:
  - Access to a pharmacist
  - Access to drug review & formulary oversight
  - Pre-packed medication
  - Delivered to “door step”
  - Access to “auto” refill
  - Peace of mind for family members / caregivers
- Licensed to ship DailyMed to 49 states

## DailyMed™ Pilots and Results

Payor/Program	Description	Results
Evercare Minnesota Pilot A division of United Healthcare	125 Enrollees	<ul style="list-style-type: none"> <li>Annual drug savings per enrollee of \$512</li> <li>Polypharmacy instances reduced by 30%</li> <li>Agreed to expand 'pilot' to 8,000 lives in March '08</li> <li>Total opportunity represents ~\$48mm</li> </ul>
Indiana Medicaid	CareSelect Program of 70,000 lives	<ul style="list-style-type: none"> <li>Focus on high-risk patients</li> <li>Rollout begins in March '08</li> <li>Results to be presented to 'neighboring' States</li> <li>Total opportunity represents ~\$260mm</li> </ul>
Arcadia Cross Sell Pilot	120 Enrollees in IL / IN	<ul style="list-style-type: none"> <li>Arcadia "touches" 15,000 Home Healthcare clients</li> <li>HHE Pilot – Illinois / Indiana – Successfully cross sold 20% of existing patients in 90 days</li> <li>20% national conversion = \$17mm run rate</li> <li>Expanded 'pilot' to MI &amp; NC in February 2008</li> <li>Further expanding 'pilot' throughout Arcadia network</li> <li>Total opportunity represents ~\$84mm</li> </ul>
Direct-to-Consumer	769 Enrollees	<ul style="list-style-type: none"> <li>Expand 'learning' from MSP Campaign</li> <li>Achieved 0.14% penetration of 548,996 "Heathers", reaching 769 patients in six months</li> <li>Total opportunity represents ~\$175mm</li> <li>Total opportunity in Arcadia's current markets is ~\$92mm</li> </ul>



Division of United Health Group (NYSE: UNH)  
Managed Care Organization  
Provides coverage to dual eligible seniors  
Oversees 150k lives in 38 States  
Initial DailyMed pilot in Minnesota

- DailyMed Pilot consisted of 125 patients
  - \$343,759 of Drug Spend
  - \$64,033 of Drug Spend Savings
  - 446 Recommendations for Improved Drug Therapy
  - Presented to Physicians & Nurses
  - Armed Care Managers with DM information
- Profile – DailyMed Patient
  - Avg. Age is 73.8 years
  - 85% Female – 15% Male
  - 9.2 Rx's /Month
  - 10.56 Pills & Tabs/Day
  - Managing Multiple Disease States
  - Duplicate Therapies, Missed Fills, Limited “Oversight”
- Pilot Expanded to 8k Evercare Patients in Minnesota
  - \$48mm Opportunity

### **OBJECTIVE: Promote DailyMed to 600 Arcadia HHE patients**





- Goal
  - Cross sell 20% of 600 patients within 90 days
  - Estimated 120 patients @ 7.8 Rx's per month
- Results
  - In 90 days, 120 patients enrolled @ 9.2 Rx's/Patient
- Action Steps
  - Expand pilot to Michigan & North Carolina in Feb.'08
  - Continue to refine messaging and best practices
  - Identify next Arcadia states to cross sell
- Cross Selling Initiative
  - Arcadia serves 14k~ patients nationally
  - Represents \$84mm of DailyMed sales



- Initial Campaign in Minneapolis, MN – April '06
  - Combination of tactics including
    - Television commercials
    - Print media
    - Public relations
- Achieved 0.14% penetration of 548,996 “Heathers”, reaching 769 patients in six months
  - Significant book of revenue remained with PrairieStone Pharmacy
  - Arcadia acquired DailyMed in Feb. '07
- “Turn-key” approach being “re-deployed” in FY'09
  - First steps began in Oct. '08
  - New website and rebranded marketing materials
- To compliment Arcadia cross selling efforts in select markets
- Total opportunity represents ~\$175mm
  - Arcadia is in 14 markets representing ~\$92mm

## Case Managers Enrollment Criteria

- Aged
  - Seriously Mentally Ill
  - Physically Disabled
  - Mentally Disabled
  - Individuals on multiple medications
  - AIDs patients
  - Multiple diseased individuals
  - Chronic disease individuals
- 
- 
- 70,000 Home-bound Patients
  - State Views DailyMed as a “Savings” to Healthcare Spend
    - Reduction in hospitalizations, long-term care admissions and unnecessary drug spend
    - Inherent savings to State supports DailyMed enrollment
  - Purdue University School of Pharmacy research project
  - Statewide Rollout Begins in March '08
  - Total Opportunity of ~\$260mm

## Strategy

- Build / Invest in Arcadia HealthCare and DailyMed as leading brands
- Positive EBITDA and cash flow from operations in FY 2009
  - Reduce SG&A expense as % of sales to ~30% in FY 2009
  - Further reduce accounts receivable / DSOs
- >30% Revenue Growth in Fiscal 2009
  - ~\$40mm in Pharmacy / Medication Management
    - Evercare, Indiana Medicaid, cross sell and Direct-to-Consumer
  - Select acquisitions to expand Pharmacy Medication Management Segment
  - Invest in expanding Home Health business / national footprint
- Selective divestiture of non-core / unprofitable businesses – Redeploy capital into strategic business segments

## Goals – May 2007

### Business Goals

### Results

**Positive Cash Flow from Cont. Ops. by 3Q 08**

**Achieved – \$640k**

**Positive EBITDA from Cont. Ops. by 3Q 08**

**Achieved – \$232k**

**Stay out of equity markets for 6 months**

**Achieved – last PIPE was May 2007**

**Sell non-strategic assets**

**Achieved – Sold HHE locations in FL and CO**

**Close unprofitable operating units**

**Achieved – Closed Clinic and Retail HHE businesses, eliminating \$6mm annual cash drain**

**Strong organic growth - >10%**

**In progress**

**Financing for strategic acquisitions**

**In progress**

EBITDA is not considered as a measure of financial performance under U.S. generally accepted accounting principles (GAAP). EBITDA is commonly used by management and investors as a measure of leverage capacity, debt service and general liquidity.

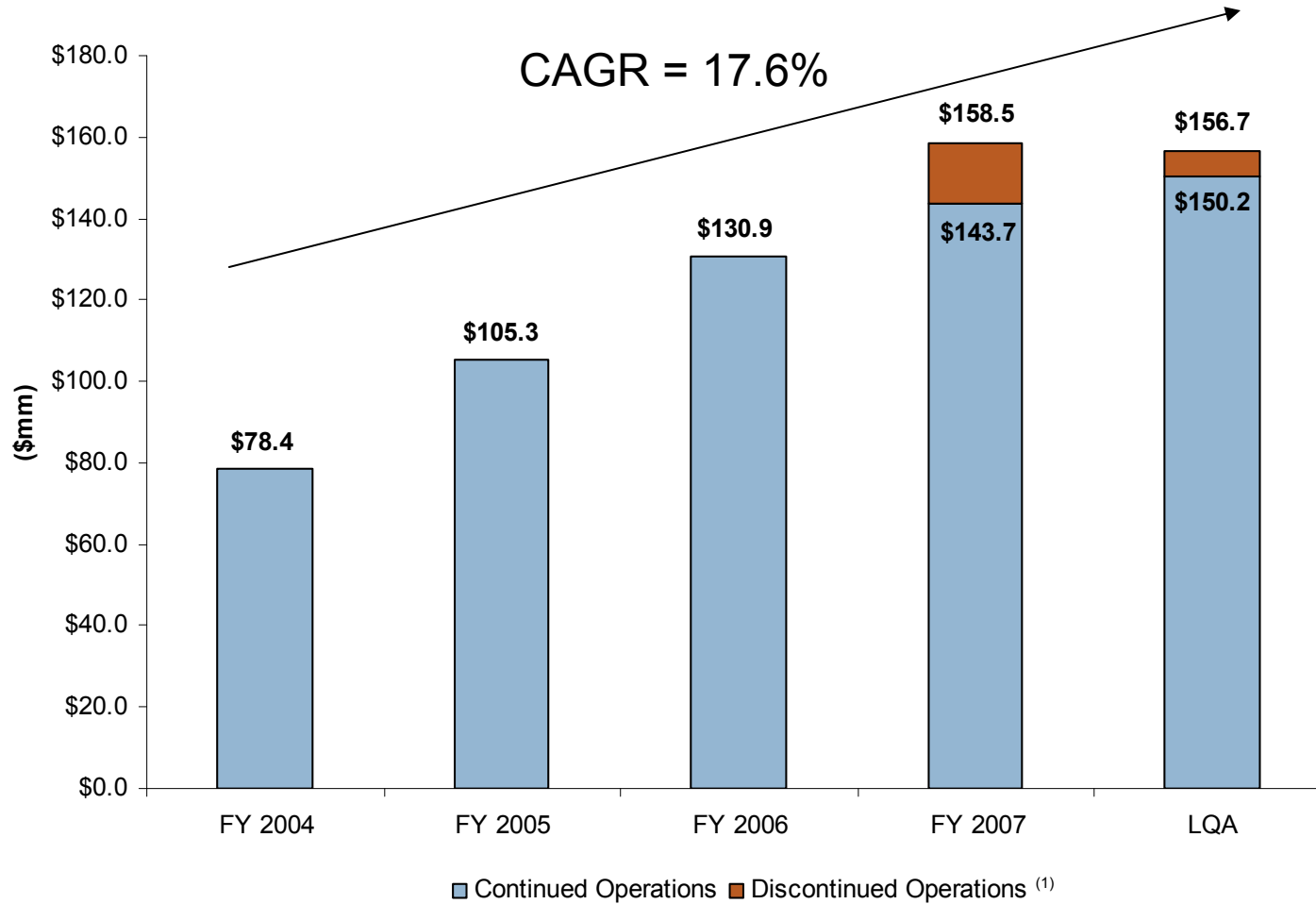
## FY 2008 Q3 vs. FY 2008 Q2 – Key Metrics

<b>\$000's</b>	<b>FY08 Q2</b>	<b>FY08 Q3</b>	<b>Change</b>	<b>% Change</b>
Cash Flow from Operations	(4,049)	640	4,690	115.8%
EBITDA - Continuing Operations	(1,688)	232	1,920	113.7%
EBITDA - Total	(4,082)	(936)	3,146	77.1%
Net Revenue - Continuing Operations	37,984	37,542	(442)	(1.2%)
Gross Profit - Cont. Ops.	11,991	12,380	389	3.2%
Gross Profit % - Cont. Ops.	31.6%	33.0%	1.4%	
SG&A Cont. Ops	14,342	12,680	(1,662)	(11.6%)
SG&A Total	17,348	13,600	(3,749)	(21.6%)
Salaries & Wages - Cont. Ops.	5,027	4,875	(152)	(3.0%)
Salaries & Wages - Total	6,202	5,087	(1,115)	(18.0%)
Professional Fees - Legal	311	183	(129)	(41.3%)
Telecom	341	237	(104)	(30.5%)
Auto	318	240	(78)	(24.7%)
Admin FTE's	484.5	364.5	(120)	(24.8%)
Net Revenue/Employee	78	103	25	31.4%
Net Accounts Receivable -Cont. Ops.	25,328	23,664	(1,664)	(6.6%)

EBITDA is not considered as a measure of financial performance under U.S. generally accepted accounting principles (GAAP). EBITDA is commonly used by management and investors as a measure of leverage capacity, debt service and general liquidity.

# Historical and Projected Revenue

## Revenues - Total



Source: Company filings.

(1) Includes \$14.7 million and \$6.5 million in revenue from discontinued operations for FY 2007 and Q3 FY 2008 YTD, respectively.

# Operating Financials

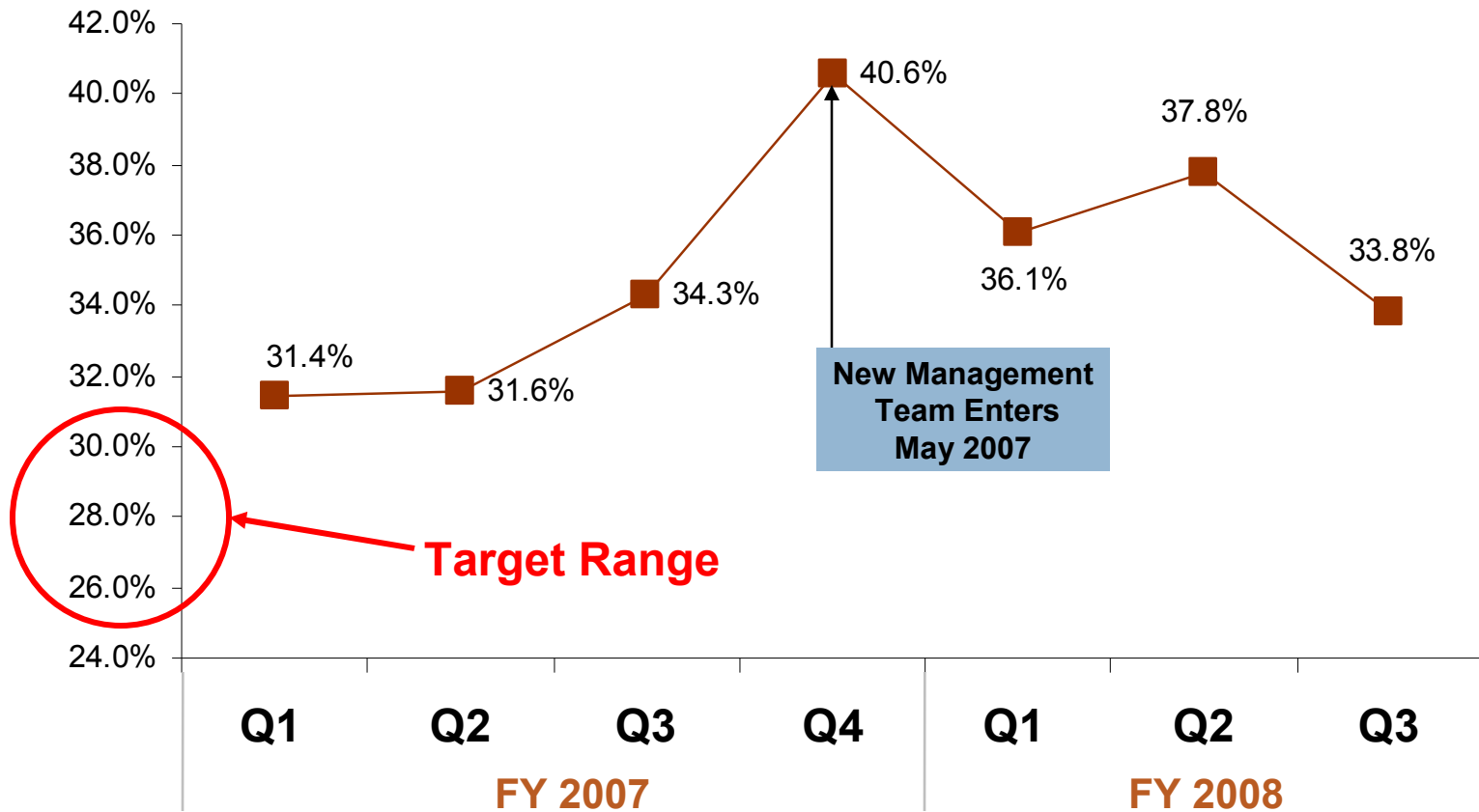
## Operating Financials from Continuing Operations

(\$mm)	FY2008 Q1	FY2008 Q2	FY2008 Q3
<b>Net Revenue</b>	<b>\$38.0</b>	<b>\$38.0</b>	<b>\$37.5</b>
Cost of Revenue	25.9	26.0	25.2
Gross Profit	12.1	12.0	12.4
<i>Gross Profit %</i>	<i>31.8%</i>	<i>31.6%</i>	<i>33.0%</i>
Selling, General & Administrative:			
Employee Costs	\$5.2	\$5.5	\$4.5
Equity Compensation (Employees)	0.1	1.0	0.3
Services Affiliate Commissions	3.6	3.4	3.2
Professional Fees	1.3	0.7	0.5
Bad Debt	0.4	0.5	0.6
Other	3.1	3.4	3.7
Selling, General & Administrative - Total	13.7	14.3	12.7
Depreciation/Amortization Total	0.8	0.9	0.9
<b>Operating Income / (Loss)</b>	<b>(\$2.5)</b>	<b>(\$3.3)</b>	<b>(\$1.2)</b>

Source: Company filings.

# SG&A On Downward Trajectory Toward Target Range

SG&A as a % of Revenue



Note: Above percentages reflect the SG&A as a percentage of revenue from continuing operations.

## Balance Sheet

(\$mm)	March 31, 2007	December 31, 2007
Cash	\$3.0	\$1.5
Accounts Receivable, Net	33.4	26.1
Other Current Assets	5.6	6.7
Fixed Assets, Net	12.6	6.7
Intangible Assets, Net	62.3	59.2
Other Assets	0.4	0.1
Total Assets	\$117.2	\$100.3
Current Liabilities	\$40.7	\$13.9
Long Term Liabilities	22.4	34.0
Total Liabilities	63.1	47.9
Common Stock	110.5	129.1
Accumulated Deficit	(56.4)	(76.7)
Total Equity	54.1	52.4
Total Liabilities and Equity	\$117.2	\$100.3
Current Ratio	1.03x	2.46x
Debt to Equity Ratio	0.87x	0.66x

Source: Company filings.

Cash excludes credit availability of \$1.4 mm.

## Long-Term Obligations and Lines of Credit

### Long-Term Obligations

(\$mm)	December 31, 2007
JANA Master Fund Notes Payable (due Oct 2009, 10%)	\$15.7
Notes Payable to two Executives (due Apr 2008, 4%)	0.4
Remedy Therapeutics Purchase Price Payable (due Jan 2009, 8%)	0.3
Other Long-Term Obligations (due date range until Nov 2011, from 4% to 8.5%)	0.5
<b>Total Long-Term Obligations</b>	<b>\$16.9</b>

### Lines of Credit

(\$mm)	December 31, 2007
Comerica Bank (due Oct 2009, Prime, \$15.5mm max)	\$15.0
Amerisource Bergen (due Sep 2010, Prime + 2.0%, \$2.5mm max)	2.5
Presidential Healthcare (due Sep 2010, Prime + 1.75%, \$0.9mm max)	0.0
<b>Total Drawn Lines of Credit</b>	<b>\$17.5</b>

Source: Company filings.  
Does not include additional purchase price payables valued at ~\$20K due March 2008.  
Note: Prime is currently 6.00%.

## Investment Highlights

- Leading home health provider
- Innovative DailyMed product addresses unmet market need
- Balanced business and payor mix
- National footprint with a platform ready to grow
- Strong cross-selling opportunities across business segments
- Addressing large markets
- Abundant growth potential
- Experienced management team