



Moody's Investors Service

Rating Action: **Moody's stabilizes Rotech's outlook**

Global Credit Research - 13 Aug 2009

\$300 million (face amount) in rated debt affected

New York, August 13, 2009 -- Moody's Investors Service changed the ratings outlook on Rotech Healthcare, Inc. ("Rotech") to stable from negative. At the same time, Moody's affirmed the Caa2 Corporate Family Rating and the Caa2 Probability of Default Rating.

The stabilization of the outlook reflects Rotech's ability to offset the impact of the 2009 Medicare reimbursement cuts with changes to the business model, cost cutting initiatives and increased volumes. As such, Moody's believes that Rotech should have adequate liquidity over the next twelve months to maintain operations and service its debt.

The Caa2 rating reflects Moody's concerns about the potential for debt impairment and refinancing risk (the first maturity is September 2011). Further, the company operates in an industry which has faced significant Medicare reimbursement cuts in the past and there is continued uncertainty around the impact that healthcare reform could have on oxygen equipment providers.

For further details, refer to Moody's Credit Opinion for Rotech, available on Moodys.com.

Ratings Affirmed:

Corporate Family Rating, Caa2

Probability of Default Rating, Caa2

\$300 million face amount senior subordinated notes, due 2012, to Caa3 (LGD5, 79%) from Caa3 (LGD4, 67%)

The outlook is stable.

Moody's last rating action on Rotech was on September 29, 2006 when Moody's affirmed the CFR and withdrew the bank loan ratings.

Rotech's ratings were assigned by evaluating factors we believe are relevant to the credit profile of the issuer, such as i) the business risk and competitive position of the company versus others within its industry, ii) the capital structure and financial risk of the company, iii) the projected performance of the company over the near to intermediate term, and iv) management's track record of tolerance for risk. These attributes were compared against other issuers both within and outside of Rotech's core industry and Rotech's ratings are believed to be comparable to those other issuers of similar credit risk.

Rotech, headquartered in Orlando, Florida, is one of the largest providers of home medical equipment and related products and services in the US, with a comprehensive offering of respiratory therapy and durable home medical equipment and related services. Rotech provides equipment and services in 48 states through approximately 450 operating centers located primarily in non-urban markets. For the twelve months ended June 30, 2009 Rotech reported revenue of approximately \$496 million.

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