



HEALTHCARE GROUP



INDUSTRY UPDATE

Healthcare
Information
Technology

INDUSTRY FOCUS	1
HCIT OVERVIEW	2
HCIT GROWTH TRENDS	3
HCIT OPPORTUNITIES	4
FUTURE OF HCIT	5
DEAL ACTIVITY	6
HCIT VALUATIONS	7
PRIVATE EQUITY INVESTMENTS	8

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INDUSTRY FOCUS
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BUSINESS SERVICES	CONSUMER	FINANCIAL SERVICES	FINANCIAL SPONSORS	HEALTHCARE	INDUSTRIALS & BUILDING PRODUCTS
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McColl Partners has served as an advisor to a diverse collection of companies operating in the healthcare space. Representative clients include information technology companies, managed care organizations, nuclear pharmacy operators, medical device manufacturers, laboratory product manufacturers, medical transcription training companies, contract research organizations, and dental practice management operators.

RECENT HCIT TRANSACTION

McColl Partners has active conversations with over 500 financing sources and is executing multiple active healthcare information technology engagements in market with both growth capital and sell-side mandates. McColl Partners has extensive experience within the healthcare information technology (“HCIT”) industry and is pleased to announce, most recently, the recapitalization of health information exchange (“HIE”) vendor, Integrated Healthcare Solutions, Inc. (“IHS”).



- Integrated Healthcare Solutions is a leading, rapidly-growing single-source provider of fully integrated healthcare information technology solutions headquartered in the Southeast.
- IHS recently released its patent-pending Integration Engine Platform, a HIE platform that allows electronic healthcare records (“EHR”) software makers to flawlessly pass data from one EHR system to another – solving medical record software incompatibility once and for all.
- McColl Partners provided significant value by soliciting interest from a variety of capital providers, ranging from equity to debt providers, to put in place the capital structure that best positions IHS for future growth.

SUB-SECTORS

BIOTECHNOLOGY AND PHARMACEUTICALS	HEALTHCARE INFORMATION TECHNOLOGY	HEALTHCARE SERVICES	LABORATORY SERVICES
LIFE SCIENCES	LONG TERM CARE AND ACUTE CARE FACILITIES	MEDICAL PRODUCTS AND DEVICES	MEDICAL SUPPLIES AND DISTRIBUTION

MCCOLL PARTNERS SECTOR SPOTLIGHT

Healthcare Information Technology

The global healthcare information technology market is estimated to grow to \$53.8 billion by 2014, generating a compound annual growth rate (“CAGR”) of 16.1% from \$25.5 billion in 2009. The increasing adoption of electronic health records, computerized physician order entry (“CPOE”) systems, personal health records (“PHR”), and health information exchanges will be among the primary drivers of such rapid growth. Recent government initiatives, such as the American Recovery and Reinvestment Act (“ARRA”), and the need to reduce healthcare costs through innovative technologies are stimulating investment in the market. HCIT investment will help reduce healthcare costs by optimizing labor, reducing adverse drug events, improving revenue cycle management, and lowering duplicate tests. As displayed in Figure 1, the HCIT market is comprised of predominately three sectors, including (i) clinical applications, (ii) administrative applications, and (iii) financial applications.

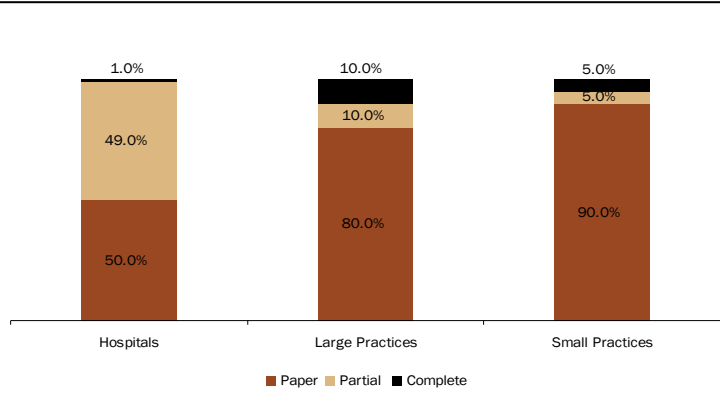
Figure 1: HCIT Market Overview

CLINICAL APPLICATIONS	ADMINISTRATIVE APPLICATIONS	FINANCIAL APPLICATIONS
<ul style="list-style-type: none"> Clinical Information Systems. Computerized Physician Order Entry Systems. Pharmacy Information Systems. Laboratory Information Systems. Radiology Information Systems. Picture Archival and Communications Systems. 	<ul style="list-style-type: none"> Electronic Health Records. Patient Management/Scheduling. Enterprise Master Patient Index. Admission-Discharge-Transfer Module. Managed Care Support. 	<ul style="list-style-type: none"> Claims Submission. Electronic Funds Transfer. Payroll Management. General Ledger Functions. Accounts Payable Management. Materials Purchasing and Inventory. Patient Billing.

The U.S. healthcare system is composed of a fragmented group of providers that have historically under-invested in information technology. In fact, the healthcare industry has reported the lowest level of information technology (“IT”) penetration of any sector of the economy. Consequently, healthcare administration and financial processes are still largely manual and paper-based, which increases the number of errors, denials of claims, and resubmissions of claims. Nearly three-quarters of the 567,000 office-based physicians operate in small practices of six or fewer doctors, frequently leading to scant resources allocated toward HCIT investments.

Figure 2: State of HCIT Adoption

As displayed in Figure 2, small practices report the lowest level of HCIT adoption, with only 10% of practices reporting partial or complete HCIT adoption and the remaining 90% using paper-based systems. The large practice market demonstrates only marginally greater investment in HCIT. These market segments present a significant opportunity for HCIT companies to capture market share, accelerate revenue growth, and increase profitability, leading to attractive investment opportunities for prospective acquirors/investors.



Source: The Coker Group.

HCIT GROWTH TRENDS

The HCIT market is expanding rapidly and is characterized by multiple compelling investment merits. The HCIT market is expected to benefit from continued growth well into the foreseeable future due to favorable industry-specific macroeconomic trends, including recent legislative initiatives stimulating HCIT adoption. Specifically, the ARRA act passed by President Obama mandated conversion to ICD-10, and compliance with the Health Insurance Portability and Accountability Act (“HIPAA”) will spur HCIT spending in 2010 and beyond.

Electronic Health Records Will Drive IT Spending

President Obama’s ARRA allocated \$48.0 billion for HCIT, of which \$36.5 billion is allocated for healthcare providers that demonstrate “meaningful use” of EHRs. The act is intended to boost adoption of EHRs as a means of improving quality and reducing costs across the disjointed U.S. healthcare system. The legislation allocates \$19.0 billion (net of penalties) available in the form of loans, grants, and higher Medicare/Medicaid reimbursement. The U.S. Department of Health and Human Services (“HHS”)

Figure 3: Medicaid Incentive Payments for EHR Adoption

Year	Year Eligible				
	2011	2012	2013	2014	2015
2011	\$21,500	-	-	-	-
2012	8,500	\$21,500	-	-	-
2013	8,500	8,500	\$21,500	-	-
2014	8,500	8,500	8,500	\$21,500	-
2015	8,500	8,500	8,500	8,500	\$21,500
2016	8,500	8,500	8,500	8,500	8,500
2017	-	8,500	8,500	8,500	8,500
2018	-	-	8,500	8,500	8,500
2019	-	-	-	8,500	8,500
2020	-	-	-	-	8,500
Total	\$64,000	\$64,000	\$64,000	\$64,000	\$64,000

Source: Congressional Budget Office.

Figure 4: Medicare Incentive Payments for EHR Adoption

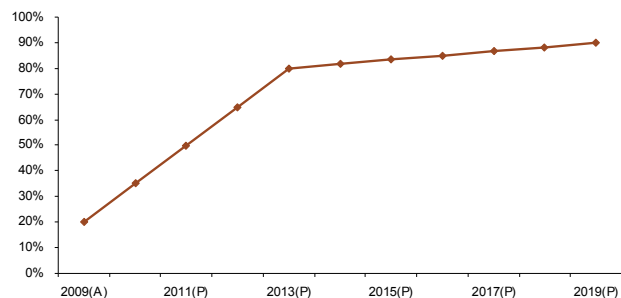
Year	Year Eligible				
	2011	2012	2013	2014	2015
2011	\$18,000	-	-	-	-
2012	12,000	\$18,000	-	-	-
2013	8,000	12,000	\$15,000	-	-
2014	4,000	8,000	12,000	\$12,000	-
2015	2,000	4,000	8,000	8,000	-
2016	-	2,000	4,000	4,000	-
Total	\$44,000	\$44,000	\$39,000	\$24,000	-

Source: Congressional Budget Office.

The opportunity to expand the use of EHRs is significant. The Congressional Budget Office (“CBO”) estimates that approximately 20% of physicians have adopted EHRs and anticipates that adoption rates will increase to 85% by 2014, and 90% by 2019, driven by the requirement for physicians to implement EHRs by 2012 to qualify for maximum stimulus benefits and avoid penalties. Assuming the CBO’s 2014 projection is achieved implies an additional 350,000 physicians would implement certified EHRs over the next five to six years. Figure 5 provides the expected adoption rate of EHRs through 2019.

released proposed guidelines for meeting meaningful use in July 2010, which are broken down into three stages. To qualify for federal funding, physicians and hospitals must demonstrate “meaningful use” of “certified” systems. EHR vendors can now start certifying their products through HHS-approved organizations recently announced in September 2010. Physicians must meet strict standards including coding of electronic health data, implementation of clinical decision support tools, reporting clinical quality measures and public health data, and using EHR data to track conditions and coordinate care. Physicians can earn from \$44,000 to \$64,000 over five years, beginning in 2011, with strong incentives to act sooner rather than later. Beginning in 2015, the incentives are replaced with penalties, as Medicare and Medicaid reimbursement will be cut if a physician cannot demonstrate meaningful use of a certified EHR system. Figures 3 and 4 provide an overview of the Medicare and Medicaid incentive payments for physicians.

Figure 5: EHR adoption Projections

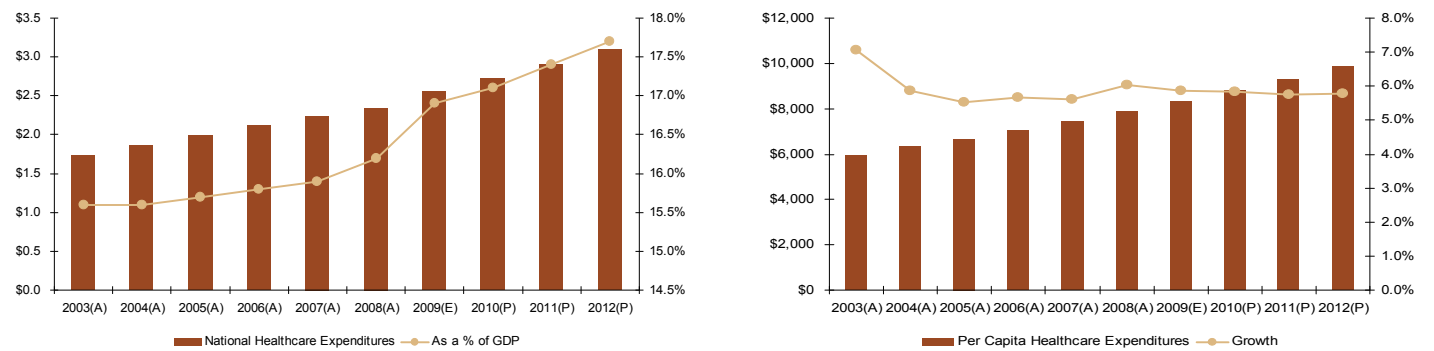


Source: CBO and Think Equity, LLC estimates.

DRIVE TO REDUCE COSTS AND IMPROVE EFFICIENCY CREATES OPPORTUNITY FOR HCIT COMPANIES

According to the CBO, spending on healthcare and related activities is estimated at approximately \$2.5 trillion, or about 17% of GDP in 2009. Without government incentives or other policies to stimulate cost reductions, that share could be greater than 20% in 2018. Longer term, the CBO believes that rising costs of healthcare represent the single greatest challenge to balancing the federal budget. The U.S. Department of Health and Human Sciences estimates that widespread adoption of HCIT would lead to savings of: (i) \$80 to \$100 billion in efficiencies from automating care, (ii) \$100 billion in benefits from estimated variance and error and waste, (iii) \$80 to \$100 billion from better coordination of care, and (iv) \$200 billion from new healthcare commerce.

Figure 6: Increasing Costs for National Healthcare



Source: Centers for Medicare & Medicaid Services, Office of the Actuary.

Source: Centers for Medicare & Medicaid Services, Office of the Actuary.

In an effort to reduce costs and streamline the national healthcare system, the U.S. government has implemented several policies over the past few years that position HCIT companies to prosper, including:

- **ICD-10:** ICD-9 codes are used by healthcare organizations to classify health diagnoses and offer nearly 18,000 diagnostic and procedure codes for billing and coding of medical procedures. In January 2009, the Centers for Medicare and Medicaid Services published a final rule that requires healthcare providers to conform to new HIPAA coding formats and transition to ICD-10. The greater specificity of clinical diagnostic codes under ICD-10 will facilitate more accurate reimbursement, eventually resulting in fewer rejected claims. However, the greater specificity comes at the cost of transitioning nearly 18,000 ICD-9 codes to over 140,600 ICD-10 codes. As a result, providers will incur significant costs to transition to the new coding system.
- **HIPAA:** HIPAA was enacted by the U.S. Congress in 1996 to ensure the privacy of healthcare information. HIPAA also creates standards meant to improve the efficiency and effectiveness of the nation’s healthcare system through the Administration Simplification provisions. According to HIPAA regulations set forth in the Electronic Data Interchange Healthcare Claim Transaction Set (“Section 837”), all healthcare payment claims must meet HIPAA-compliant standards before being passed on to payers. Section 837, among other regulations, positions HCIT companies to benefit from the government’s initiatives to streamline the U.S. healthcare system.

In addition to the ICD-10, HIPAA, and ARRA initiatives, the government also instituted other initiatives such as the Certification of Healthcare Information Technology and Pay for Play initiatives to facilitate the adoption of HCIT in an effort to streamline the national healthcare system and reduce costs. HCIT companies will prosper as healthcare providers invest to address federal initiatives and policy changes.

HCIT: AN EVOLVING LANDSCAPE

Meaningful use certification under the ARRA and a rebounding economy will drive healthcare providers to increase IT operating budgets. According to the Healthcare Information and Management Systems Society (“HIMSS”) 2010 Leadership Survey, hospital Chief Information Officers are expected to invest heavily in CPOE systems, PHRs, and HIEs in an effort to facilitate data exchange, reduce costs, and comply with regulatory policies.

Computerized Physician Order Entry Systems

CPOE is an application that enables providers to enter medical orders into a computer system within an inpatient or ambulatory setting. As of 2009, CPOE had only been implemented in 17% of hospitals, according to the New England Board Journal of Medicine. CPOE replaces more traditional methods of placing medical orders, including paper prescriptions, verbal (in person or via telephone), and fax. CPOE decreases delay in order completion, reduces errors related to handwriting or transcription, allows order entry at point-of-care or off-site, provides error checking, and simplifies inventory. Under the current meaningful use criteria, eligible providers must use CPOE for all orders entered by an authorized provider by 2011 and for all order types by 2013.

Personal Health Records

As more clinical information becomes digitized through the adoption of CPOE and EHRs, adoption of PHRs, an electronic record of health-related information of an individual designed for consumers, is expected to increase dramatically. According to the Consumers and Health IT survey released by the California Health Care Foundation, current PHR usage is still low at only 7%, but it has doubled in the past two years and is expected to continue a rapid growth trajectory. PHRs enable adults to improve their own health by gaining access to their medical information, ensuring the accuracy of their information, reviewing past test results, scheduling doctors visits, and accessing doctors’ instructions. Under current meaningful use requirements, hospitals must provide an electronic copy of health information and discharge instructions within 48 hours of request; PHRs effectively complete the meaningful use requirement.

Health Information Exchange

HIE is defined as the mobilization of healthcare information electronically across organizations within a region, community, or hospital system. The exchange of healthcare data reduces healthcare costs by (i) reducing staff time handling lab results and performing administrative work, (ii) decreasing costs from redundant tests, (iii) decreasing cost of care for chronic care patients, and (iv) reducing medical errors. Starting in 2013, meaningful use will require HIE components, such as registry reporting to public health entities, electronic health ordering, health summaries for continuity of care, home monitoring, and PHRs. The ARRA established the State Health Information Exchange Grants and Beach Community Grants to facilitate the funding of HIE-related activities. The meaningful use requirements are designed to create an infrastructure that allows for the free and secure flow of clinical data throughout the healthcare sector.

Other Growth Opportunities

Following the digitization of medical records from EHRs, CPOEs, PHRs, and HIE systems, McColl Partners expects value added analytical tools to drive future growth in the HCIT marketplace. As large volumes of medical information become digitized, analytical tools such as decision support systems and targeted patient advertising will continue to drive cost efficiencies in the healthcare space. HCIT companies can leverage extensive access to information to profit from these opportunities.

HCIT DEAL ACTIVITY

The HCIT industry has seen robust consolidation over the past several years, as larger players have acquired smaller firms to increase their market presence and strengthen their firm's service offering. Consolidation continues in 2010 as vendors are responding with both reactive and proactive acquisitions. In addition, in order to capitalize on the upcoming requirements from the ARRA act imposed in 2011, acquirors are acting now, as demonstrated in Figure 7.

Figure 7: Representative M&A Activity

Target	Acquiror	Closed	Target Description
American Healthcare Holdings, Inc.	CompuGroup Holding USA, Inc.	Pending	Provides healthcare technology and services that connect patients.
Goal Software, Inc.	Edge EHR Corporation	Pending	Provides eyecare practice management software for optometrists.
Axolotl Corporation	Ingenix, Inc.	Pending	Provides web-based tools and health information exchange solutions.
Executive Health Resources, Inc.	Ingenix, Inc.	Pending	Provides physician medical management solutions.
RealMed Corporation	Avality, LLC	Sep-10	Provides health care administration solutions to automate health care transactions.
Picis, Inc.	Ingenix, Inc.	Aug-10	Provides healthcare information technology solutions for high-acuity care.
MultiPlan, Inc.	BC Partners; Silver Lake Partners	Aug-10	Supplies network-based cost management solutions for healthcare payers and providers.
Eclipsys Corporation (NasdaqGS:ECLP)	Allscripts-Misys Healthcare Solutions, Inc. (NasdaqGS:MDRX)	Aug-10	Operates as a healthcare IT firm in North America, Asia, and the Middle East.
Phase Forward, Inc.	Oracle Corporation (NasdaqGS:ORCL)	Aug-10	Provides integrated clinical research suite of enterprise-level software products.
Healthcare Solutions Holding, LLC	Cardinal Health, Inc. (NYSE:CAH)	Jul-10	Provides health care management solutions that help patients' healthcare outcomes.
Allied Management Group	HMS Holdings Corp. (NasdaqGS:HMSY)	Jun-10	Provides medical claim evaluation services to detect fraud, waste, and abuse.
Lionis Software, LLC	Medical Education Technologies, Inc.	Jun-10	Designs and develops audio-visual training tools for medical students.
I-Many, Inc.	LLR Equity Partners III, L.P.	Jun-10	Develops and provides contract management software and services to enterprises.
Perceptive Software, Inc.	Lexmark International, Inc. (NYSE:LXK)	Jun-10	Develops enterprise content management software solutions.
Medfusion, Inc.	Intuit Inc. (NasdaqGS:INTU)	May-10	Provides patient-provider communication solutions for physician practices.
T-System, Inc.	Francisco Partners Management, LLC	Apr-10	Provides emergency department information system solutions.
Research Services Germany (CareFusion)	eResearchTechnology, Inc. (NasdaqGS:ERES)	Apr-10	Develops, produces, and sells medical diagnostic and therapeutic equipment.
AMICAS, Inc.	Merge Healthcare, Inc. (NasdaqGM:MRGE)	Apr-10	Provides radiology, medical image, and information management solutions.
Concuity, Inc.	Advisory Board Company (NasdaqGS:ABCO)	Apr-10	Provides revenue management software and services to healthcare providers.
Global Med Technologies, Inc.	Haemonetics Corporation (NYSE:HAE)	Mar-10	Designs, develops, markets, and supports information management software products.
QualityMetric, Inc.	Ingenix, Inc.	Mar-10	Provides health status and outcomes measurement products and services.
MedPlexus, Inc.	GE Healthcare Ltd.	Mar-10	Develops administrative, financial, and clinical software for medical practices.
Starlims Technologies Ltd.	Abbott Laboratories (NYSE:ABT)	Mar-10	Develops and sells laboratory information management systems software.
Quadrant Corporation	Francisco Partners Management LLC	Mar-10	Provides information technology solutions for healthcare enterprises.
Healthcare Technology Management Services	Emdeon, Inc. (NYSE:EM)	Mar-10	Provides revenue and payment cycle management solutions.
Viant, Inc.	MultiPlan, Inc.	Mar-10	Provides healthcare payment solutions to health insurance sectors.
Initiate Systems, Inc.	International Business Machines Corporation (NYSE:IBM)	Mar-10	Provides master data management software solutions.
eWebHealth, Inc.	Hyland Software, Inc.	Mar-10	Provides automated medical record workflow solutions.
NexCura, Inc.	US Oncology, Inc.	Feb-10	Provides patient education and market research services.
UltraGenda NV/SA	iSOFT Group Limited (ASX:ISF)	Feb-10	Provides IT solutions for the scheduling and management of appointments.
Opus Healthcare Solutions, Inc.	Quality Systems, Inc. (NasdaqGS:QSII)	Feb-10	Provides Web-based applications to medical practices and healthcare institutions.
AGDATA, Inc.	SFW Capital Partners, LLC	Feb-10	Provides outsourced database management, data collection, and data analysis services.
Affiliated Computer Services	Xerox Corporation (NYSE:XRX)	Feb-10	Provides business process outsourcing and information technology services.
IMS Health, Inc.	TPG Capital	Feb-10	Provides business intelligence to the pharmaceutical and healthcare industries worldwide.
Sentillion, Inc.	Microsoft Corporation (NasdaqGS:MSFT)	Feb-10	Offers identity and access management technology solutions for caregivers in hospitals.
MEDHOST, Inc.	HealthTech Holdings, Inc.	Feb-10	Provides risk management, clinical, patient safety, and revenue management solutions.
DNADirect, Inc.	MedcoHealth Solutions, Inc. (NYSE:MHS)	Jan-10	Provides genetic guidance and decision support solutions for genetics.
FutureVision Technologies, LLC	Emdeon, Inc. (NYSE:EM)	Jan-10	Provides document imaging, digital conversion, and workflow management services.
HealthVision, Inc.	Lawson Software, Inc. (NasdaqGS:LWSN)	Jan-10	Provides healthcare software and services for the healthcare organizations.
PracticeONE, LLC	AdvancedMD Software, Inc.	Jan-10	Provides automation solutions to the healthcare industry.
Nursing Data Systems - NurseSquared	Elsevier B.V.	Jan-10	Provides electronic health record solutions for use in educational environment.
MedData, Inc.	TransUnion, LLC	Jan-10	Provides Web-based processing and data management services.
IMC Health Care, Inc.	Cerner Corporation (NasdaqGS:CERN)	Jan-10	Specializes in managing corporate sponsored on-site health and wellness centers.
Southwind Health Partners, LLC	Advisory Board Company (NasdaqGS:ABCO)	Dec-09	Provides physician practice management and consulting services.
CareMedic Systems, Inc.	Ingenix, Inc.	Dec-09	Provides revenue cycle management solutions to hospitals and healthcare providers.
AMICAS, Inc.	Thoma Bravo, LLC	Dec-09	Makes radiology and medical-imaging equipment.
Liquent, Inc. (Thomson-Reuters subsidiary)	Marlin Equity Partners, LLC	Dec-09	Designs software and service solutions that support the regulatory business processes.
ProSoft, Inc.	Thomson Reuters Corporation (TSX:TRI)	Dec-09	Provides software and services for clinical data analysis and reporting.
TheraDoc, Inc.	Hospira, Inc. (NYSE:HSP) >	Dec-09	Develops electronic surveillance systems for injury detection and prevention.
Accenx Technologies, Inc.	Initiate Systems, Inc.	Oct-09	Provides health information exchange and interoperability solutions.
Anodyne Health, Inc.	Athenahealth, Inc. (NasdaqGS:ATHN)	Oct-09	Provides revenue cycle management solutions to healthcare provider organizations.
FAIRPAY Solutions, Inc.	The Riverside Company	Oct-09	Provides medical bill review services for workers' compensation and auto/liability payers.
Confirma, Inc. (nka: Merge CAD, Inc.)	Merge Healthcare, Inc. (NasdaqGM:MRGE)	Sep-09	Develop web-based computer aided detection applications for medical imaging.
GoldenGate Software, Inc.	Oracle Corporation (NasdaqGS:ORCL)	Sep-09	Provides transactional data management software solutions.
ICPA, Inc.	Benton, Dickinson and Company	Aug-09	Develops, supplies, and supports software management solutions for healthcare professionals.
TIERMED SYSTEMS, LLC	Verisk, Inc.	Jul-09	Develops commercial healthcare software for the managed healthcare industry.
Physicians' Service Center, Inc.	Advantedge Healthcare Solutions, Inc.	Jul-09	Provides medical billing services.
Medem, Inc.	Medfusion, Inc.	Jul-09	Develops and provides online communications services to the healthcare industry.
etrials Worldwide, Inc. (nka:Merge eClinical Inc.)	Merge Healthcare, Inc. (NasdaqGM:MRGE)	Jul-09	Offers software to pharmaceutical, biotechnology, medical device, and research organizations.
Eklin Medical Systems, Inc.	Sound Technologies, Inc.	Jul-09	Provides digital radiology, digital imaging, and practice management software.
I-Many, Inc.	LLR Equity Partners III, L.P.	Jun-09	Develops and provides contract management software and services to enterprises.
Ubiquitech Software Corporation	Young Yuan, CEO	Jun-09	Develops proprietary specialized computer software to manage electronically stored data.
Informatics Laboratories Corporation	Document Storage Systems, Inc.	Jun-09	Designs and develops software used by the healthcare industry.
Medical Claim Corporation	MD On-Line, Inc.	Jun-09	Develops claim editing and transmission programs for various medical providers.
AIM Healthcare Services, Inc.	Ingenix, Inc.	Jun-09	Provides claims cost management services for payors of healthcare benefits.
FACTS Services, Inc.	Ebix Health (NasdaqGS:EBIX)	May-09	Designs and implements software and hardware solutions for healthcare payer organizations.
Waban Software, Inc.	Phase Forward, Inc. (NasdaqGS:PFWD)	Apr-09	Provides products that capture, integrate, manage, and analyze life-sciences and clinical trial data.
eko systems, Inc.	Merge Healthcare, Inc. (NasdaqGM:MRGE)	Apr-09	Develops and provides clinical information systems for perioperative care.
Emageon, Inc.	AMICAS, Inc.	Apr-09	Provides information technology systems for hospitals, healthcare networks, and imaging facilities.
Accentus, Inc.	High Road Capital Partners	Mar-09	Provides medical transcription and healthcare information management solutions.
HealthWare Solutions	Intermedix Technologies, Inc.	Mar-09	Develops and implements EMS Software and services for the EMS industry.
MDeverywhere, Inc.	Marlin Equity Partners, LLC	Mar-09	Provides practice management and medical billing service solutions to physicians.
Assessment Technologies Institute, LLC	Providence Equity Partners, LLC	Feb-09	Provides various assessment and remediation tools for the nursing students.
Argus Health Systems, Inc.	DST Systems, Inc. (NYSE:DST)	Feb-09	Provides healthcare information management services to healthcare providers.
Partners in Health Systems, LLC	Oleen Pinnacle	Jan-09	Provides IT solutions and support services to the healthcare industry.
National Electronic Attachment, Inc.	Polaris Venture Partners, Inc.	Jan-09	Provides electronic attachment solutions to payers and providers.
CapMed Corporation	Metavante Technologies, Inc. (NYSE:MV)	Jan-09	Provides personal health management solutions for the healthcare industry.
Novo Innovations, Inc.	Medicity, Inc.	Jan-09	Provides healthcare interoperability and exchange solutions.

Source: CapitalQ.

HCIT VALUATIONS

With clarity around healthcare reform and companies aggressively fighting for market position in a period of consolidation, HCIT mergers and acquisitions were very healthy in 2009 and thus far in 2010. Figure 8 presents valuations from select recent transactions, and Figure 9 presents the current valuations of select comparable public companies.

Figure 8: Select M&A Transaction Valuations

Target/Acquiror	Close Date	LTM Revenue	LTM EBITDA	EBITDA Margin	Enterprise Value ("EV") ⁽¹⁾	Latest Twelve Months	
						EV/Revenue	EV/EBITDA
American Healthcare Holdings Inc. CompuGroup Holding USA, Inc.	Pending	\$28.0	\$6.2	10.5 %	\$65.0	2.3 x	10.4 x
Eclipsys Corporation Allscripts-Misys Healthcare Solutions, Inc.	Aug-10	517.4	54.2	10.5	1,169.8	2.3	21.6
Phase Forward, Inc. Oracle Corporation	Aug-10	221.6	30.3	13.7	591.1	2.7	19.5
I-Many, Inc. LLR Equity Partners III, L.P.	Jun-10	37.0	NA	NM	41.2	1.1	NM
Research Services Germany (CareFusion) eResearch Technology, Inc.	Jun-10	49.6	8.5	17.1	80.8	1.6	9.5
AMICAS, Inc. Merge Healthcare, Inc.	Apr-10	89.1	6.6	7.4	174.7	2.0	26.5
Starlims Technologies Ltd. Abbott Laboratories	Mar-10	29.0	5.5	19.0	88.5	3.1	16.1
Quadramed Corporation Francisco Partners Management, LLC	Mar-10	145.3	14.2	9.8	109.9	0.8	7.7
IMS Health, Inc. TPG Capital	Feb-09	2,171.5	489.0	22.5	5,071.9	2.3	10.4
Perot Systems Corporation Dell Inc. (NasdaqGS:DELL)	Nov-09	2,643.0	278.0	10.5	3,772.3	1.4	13.6
Argus Health Systems, Inc. DST Systems, Inc.	Feb-09	127.7	NA	NM	95.6	0.7	NM
Median		\$127.7	\$14.2	10.5 %	\$109.9	2.0 x	13.6 x
Mean		\$550.8	\$99.2	13.4 %	\$1,023.7	1.8 x	15.0 x

HCIT publicly traded companies enjoyed a long rally over the past 18 months when the price of many HCIT stocks doubled. The HCIT valuations have settled into the 16.0x to 18.0x EV/EBITDA multiple range as more clarity around healthcare reform and the HITECH act have stabilized valuations.

Figure 9: Select Publicly Traded HCIT Company Valuations

Company (Ticker)	% of 52 Week High	LTM Revenue	LTM EBITDA	EBITDA Margin	Enterprise Value ("EV") ⁽¹⁾	Latest Twelve Months	
						EV/Revenue	EV/EBITDA
Allscripts Healthcare Solutions, Inc. (NasdaqGS:MDRX)	77.7 %	\$704.5	\$125.3	17.8 %	\$3,080.2	4.4 x	24.6 x
Athenahealth, Inc. (NasdaqGS:ATHN)	60.5	214.9	24.1	11.2	909.7	4.2	37.8
Cerner Corp. (NasdaqGS:CERN)	85.9	1,763.1	450.9	25.6	6,070.0	3.4	13.5
Computer Programs & Systems Inc. (NasdaqGS:CPSI)	82.9	136.0	24.9	18.3	439.6	3.2	17.7
Emdeon Inc. (NYSE:EM)	61.4	954.6	221.6	23.2	1,603.0	1.7	7.2
HMS Holdings Corp. (NasdaqGS:HMSY)	95.4	261.2	73.0	27.9	1,446.4	5.5	19.8
MedAssets, Inc. (NasdaqGS:MDAS)	78.5	366.6	101.5	27.7	1,331.6	3.6	13.1
Medidata Solutions, Inc. (NasdaqGM:MDSO)	98.4	150.7	23.3	15.5	338.6	2.2	14.5
Omniceil Inc. (NasdaqGS:OMCL)	74.4	217.5	15.9	7.3	189.1	0.9	11.9
Quality Systems Inc. (NasdaqGS:QSII)	89.7	308.1	83.9	27.2	1,686.4	5.5	20.1
Median	80.7 %	\$284.6	\$78.5	20.7 %	\$1,389.0	3.5 x	16.1 x
Mean	80.5 %	\$507.7	\$114.4	20.2 %	\$1,709.5	3.5 x	18.0 x

Source: CapitalIQ.

PRIVATE EQUITY INVESTMENTS

Figure 10: Select Private Equity Firms with HCIT Investments

Investment	Private Equity Investor	Investment Date	Description
		2008	AdvancedMD Software, Inc. provides web-based medical practice management solutions and medical billing software for physician offices, management services organizations, and medical billing services.
		2008	Capario provides revenue cycle management solutions connecting payers, providers and partners nationwide.
		2007	Carefx Corporation provides healthcare interoperability solutions, including identity and access management, and enterprise portals for hospitals and HIEs.
		2009	FAIRPAY Solutions, Inc. provides workers' compensation specialty medical bill review and auditing services.
		2008	Gateway EDI, Inc. provides electronic data interchange services to the healthcare and claims processing industry.
		2006	Greenway Medical Technologies, Inc. provides clinical and administrative software and services for physician practices and hospitals.
		2007	Healthcare Management Systems, Inc. provides integrated clinical and financial hospital information systems and services to community and specialty hospitals.
		2008	HEALTHCAREfirst, Inc. provides web-based software and services to the homecare and hospice industry.
		2006	HealthPort, Inc. provides outsourced information services and healthcare information systems for hospitals, physician practices, and community centers.
		2000	Healthx, Inc. provides internet-enabled healthcare claims information to middle-market employers and their employees, small insurance brokers, and third-party administrators.
		2009	Humedica, Inc. provides a data warehouse and analytics platform that enables healthcare providers to integrate patient-level clinical, financial, claims, and pharmacy data to generate a view of patient population.
		2009	IMS Health, Inc. provides business intelligence to the pharmaceutical and healthcare industries worldwide. Its business intelligence includes information, analytics, and consulting services.

PRIVATE EQUITY INVESTMENTS

Figure 10: Select Private Equity Firms with HCIT Investments

Investment	Private Equity Investor	Investment Date	Description
		2001	InSiteOne, Inc. provides medical data archiving, storage, and disaster-recovery solutions to the healthcare industry in the United States.
		2009	Liquent, Inc. designs software and service solutions that support the regulatory business processes of life sciences companies.
		2007	maxIT Healthcare assists hospitals in implementing enterprise-wide software systems.
		2004	MedeAnalytics, Inc. provides hospitals and insurance companies with on-demand analytics solutions for revenue cycle management.
		2003	Medical Information Technology, Inc. provides integrated software solutions to meet the information needs of healthcare organizations worldwide.
		2009	PharmMD provides medication therapy management to reduce costs by analyzing pharmacy and medical claims information and improving clinical decision making.
		2005	PHNS, Inc. offers strategic solutions in areas of information technology management, health information management, coding, auditing, consulting, EHR conversation, and interim management services.
		2010	QuadraMed Corporation provides clinical, financial, and health information management software solutions for hospitals and hospital networks.
		2008	SDI Health, LLC provides healthcare data products and analytical services to pharmaceutical, consumer products, and other healthcare companies.
		2010	Secure EDI, LLC integrates healthcare transactions, creating electronic interfaces between medical and dental providers and payors.
		2001	TeraMedica, Inc. provides digital warehousing for diagnostic images that allows hospitals to store and distribute information for radiology procedures in an in-house digital archive.
		2008	The TriZetto Group, Inc. provides core administration solutions, care and network management solutions, and a wide range of constituent web solutions to health plans and other healthcare payers.
		2010	T-System, Inc. provides emergency department information system solutions and offers physician and nurse paper documentation systems, document management, and order communication solutions.

McColl Partners provides investment banking services to owners and management of middle-market businesses and financial sponsors by combining experienced, dedicated professionals, unparalleled access to decision makers, and focused industry expertise.

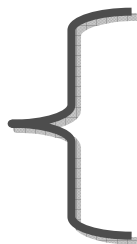
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McColl Partners' Healthcare Group provides unparalleled merger and acquisition, private capital raising, and financial advisory services to its clients. Led by Managing Director Dave Vorhoff, McColl Partners' senior investment banking professionals have an intimate understanding of the healthcare space and maintain strong, long-term relationships with many of the key participants within the industry. Through this industry leadership and experience, McColl Partners has consistently proven its ability to create shareholder value for clients in the healthcare space.

McColl Partners continually monitors trends and factors that influence the healthcare industry and related sectors.



- Demographic trends
- Economic developments
- Domestic and international market dynamics
- Performance of publicly traded comparable companies
- Notable mergers, acquisitions, and joint ventures

David C. Vorhoff, Managing Director
Healthcare Group
704.333.0519
dvorhoff@mccollpartners.com

Brian L. Davis, Managing Director
Financial Sponsors Group
704.333.0136
bdavis@mccollpartners.com

Justin D. Cunningham, Vice President
Healthcare Group
704.333.0469
jcunningham@mccollpartners.com

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100 NORTH TRYON STREET, 54TH FLOOR
2100 MCKINNEY AVENUE, SUITE 1410
3340 PEACHTREE ROAD N.E., SUITE 1828

CHARLOTTE, NORTH CAROLINA 28202
DALLAS, TEXAS 75201
ATLANTA, GEORGIA 30326

PHONE: 704.333.0525 / FAX: 704.333.0118
PHONE: 214.451.5200 / FAX: 214.451.5238
PHONE: 404.812.5327 / FAX: 404.812.5328