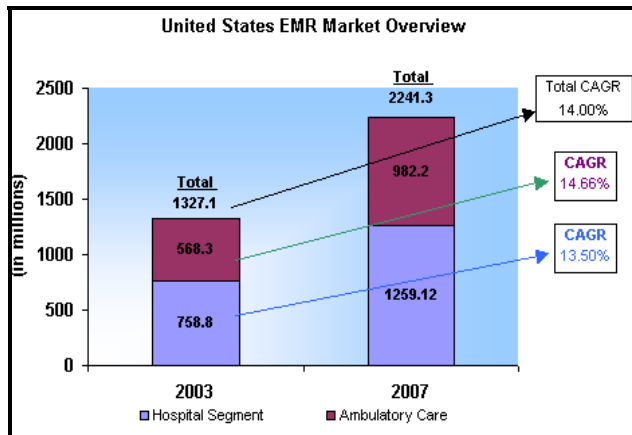


INTRODUCTION

Due to an overwhelming response to our recent research report in the medical practice management industry report, Victory Partners has continued its focus in other high growth opportunities in the healthcare field. The electronic medical records (“EMR”) industry, a natural companion to the practice management system, has also seen double-digit returns in the past five years, due to the inherent fundamental growth in the key drivers of the industry, along with a favorable regulatory environment. Victory Partners believes this industry will continue to sustain its historical and future growth trend. As a result, we view this market as a long-term buy opportunity.

INDUSTRY OVERVIEW

The overall U.S. EMR market has experienced double-digit growth in the last five years and is expected to continue this highly positive trend, based on the aforementioned drivers. The overall EMR market can be segmented into two divisions: the hospital and ambulatory care sectors. Frost & Sullivan reports that the total U.S. EMR market for the hospital sector was \$758.8M in 2003 and is estimated to reach \$1259.12M by 2007, a compounded annual growth rate (CAGR) of 13.5%. Furthermore, the ambulatory care sector reported sales of \$568.3M in 2003 and forecasts estimate this sector to reach \$982.2M by 2007, a CAGR of 14.7%. This results in the total U.S. EMR market representing \$1327.1M in 2003, forecasted to reach \$2241.3M by 2007.



Source: Frost & Sullivan

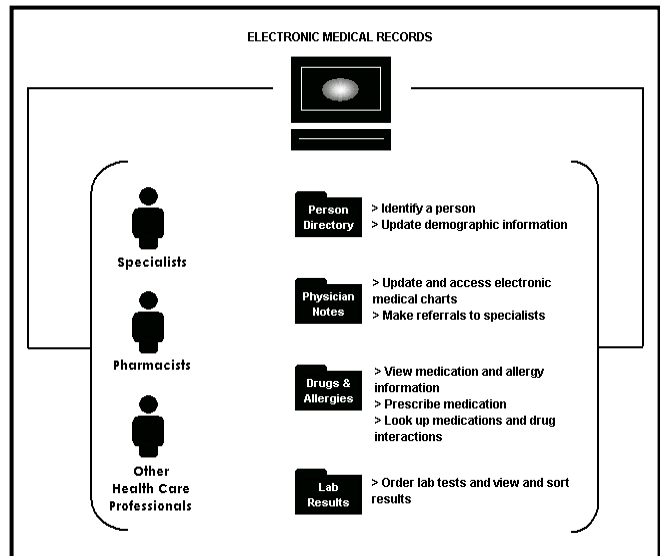
The recent shift towards computerized physician order entry (“CPOE”) has made the overall healthcare industry realize the need for a standardized, comprehensive EMR system. Frost & Sullivan states, “The future of EMR is in building a consolidated repository of care records with the patient being the main focus and all the care providers utilizing and updating this information on a real-time basis.

The recent developments from the various external factors like *technology and regulatory issues* have given this market the necessary focus.” As a result, healthcare IT providers and VARS that support and offer EMR services will be in great demand over the next five years.

THE FUNCTIONALITY OF AN EMR SYSTEM

Recognizing the importance of the cost savings and potential efficiency benefits, the federal government is in the process of ensuring that most Americans become registered in an EMR system in the next ten years. **An EMR system is a clinical information database that provides expedited data processing and decision management tools to various healthcare professionals.** Some of the inherent benefits that EMR’s provide include: 1) monitoring the health status of patients; 2) supporting health care decisions with evidence-based guidelines; 3) accelerating referrals to health care professional within a system; 4) automating ordering parameters such as prescription drugs, laboratory testing and x-ray imaging; and 5) collecting and retrieving patients’ health/medical records from various independent locations; among various other uses of functionality.

Functionality of an EMR system to various Healthcare Professionals



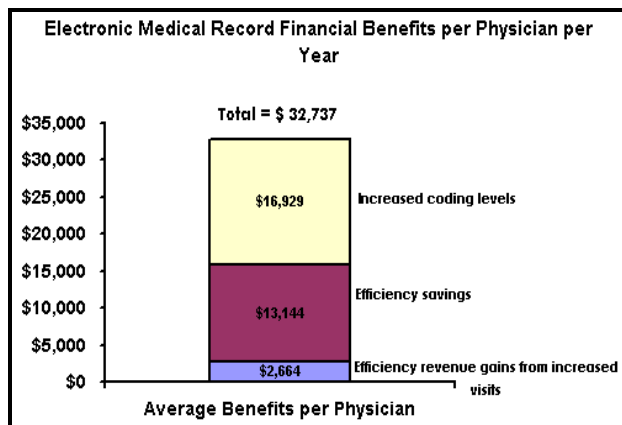
Source: Mathematica Policy Research, Inc.

The benefits associated with implementing an EMR system (the inherent cost savings, accelerated order processing, and the improved decision-making capabilities) far exceed the tangible initial capital costs, as the health industry continues to centralize its process and operations.

COST BENEFIT ANALYSIS OF IMPLEMENTING AN EMR SYSTEM

Although an EMR system provides increased efficiency, improved data collection/accuracy, and superior data decision assistance, the initial capital outlay to a clinical practice may become overwhelming, in some cases. In a research report from the American Journal of Medicine, data from several internal medicine clinics were analyzed to understand the cost benefit analysis of implementing an EMR system. **Using their base case model, the payback period of the average medical practice from their sample was 1.3 years from the initial capital outlay, which smaller practices may have a hard time dealing with, if they only look at payback and not longer-term productivity gains and ease of access and transfer.**

Based on the Commonwealth Fund-supported research by Robert Miller, Ph.D and colleagues at the University of California, their study found that the initial costs of implementing an EMR system to a medical practice ranged from \$37,056 to \$63,600 per physician (or nurse practitioner). Their study concluded that the increased revenue gains from additional increased visits, efficiency savings and increased coding levels, the average benefit per year for each physician is approximately \$33,000. **The authors found that despite the large startup costs, the payback model for the average medical practice is 2.5 years from the initial capital outlay.**



Source: The Commonwealth Fund

OTHER MARKET DRIVERS

Aside from the inherent cost savings, there are other fundamental factors that contribute to the growth in the demand for EMR and its usage. One of the primary drivers includes the potential for error reduction and increases in efficiency. As order routing (such as drug prescriptions) becomes automated, EMR's will play a vital factor in the importance of its growth.

Another factor comprises of a general consensus or trend towards a community-based patient records system. Frost & Sullivan reports that recent recognition from the federal government is expected to speed up EMR adoption, especially at the primary practice level. Senator Edward Kennedy, Office of Massachusetts, has introduced legislation that medical providers should be acquired to adopt EMR by 2011.

Finally, vendor recognition by physician organizations and payers will encourage better market penetration and EMR adoption. For example, the American Association for Family Physicians and Blue Cross Blue Shield have convinced various vendors to provide EMR solutions at discounted prices to their member physicians. **These are some of the fundamental factors that contribute to the double-digit growth that the EMR industry has recently experienced.**

RECENT M&A TRANSACTIONS IN THE EMR MARKET

As the year concludes its fourth quarter of 2005, the EMR industry has experienced increased M&A activity, due to a function of favorable market conditions and the high expectations for future industry growth. For example, in September, GE Healthcare ("GE") agreed to purchase IDX Systems Corp. ("IDXC"), a provider of health care information technology, for \$1.2 billion. This represents, based on IDXC's FY 2004 financials, transaction multiples of (price/revenue) of 2.31X and (price/EBITDA) of 18.5X. In October, Global Healthcare Exchange, LLC placed a bid to purchase Neoforma, Inc., a medical supply chain management company, for \$10 per share, representing a total transaction value of approximately \$207 million. More recently, in November, TriZetto Group, Inc., a health care information technology company has agreed to acquire a privately-held advanced care management software provider CareKey Inc. for \$60 million cash at closing. Also under the deal, another \$40 million may be paid upon achieving certain future financial and other milestones. Under a \$60M transaction valuation, TriZetto Group acquisition (price/revenue) multiple is 8.8X.

Victory Partners, LLC is actively involved in analyzing and representing companies in the electronic medical records industry, having provided financial advisory services, performed recapitalizations, and completed M&A transactions for middle market companies.

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