

Dear Clients and Friends,

In June, Farzad Mostashari, National Coordinator for Health IT at the US Department of Health and Human Services (HHS), reiterated that the ICD-10 implementation deadline (October 1, 2014) will not change and there are no more extensions in the offing. For those of us who were around to witness the grand effort to make all databases Y2K compliant, the magnitude of migrating to ICD-10 appears similar in scope and complexity.

Businesses and governments around the globe spent \$600Bn in anticipation of the Y2K problem and for the most part, it worked. We entered year 2000 with little disruption. Navigating the ICD-10 cliff will be more traumatic for both payors and providers, and it is the providers' core operation that will see the most drastic impact. We will not be surprised if this migration significantly cut productivity in the healthcare industry for some time before the benefits are fully realized.

We hold the opinion that despite the extreme challenges faced with the migration, this change is necessary and its long-term benefits will far outweigh the short term pains of adoption. After all, the U.S. is the only industrial nation that still uses ICD-9 which was developed in the 1970's. The practice of medicine has materially changed since then and many of the ICD-9 codes are now clinically inaccurate.

ICD-10 touches all aspects of clinical and administrative functions; over the long term, its granularity holds the promise of improving care, expediting payments for physicians and hospitals and providing better information and data opportunities. ICD-10 may be a regulatory requirement, but it is a giant step in the right direction.

Sincerely,



Afsaneh Naimollah

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IMPORTANT INDUSTRY NEWS

Cleveland Clinic providing patients with access to their Electronic Medical Records

Cleveland Clinic is taking steps to make their patients' electronic medical records (EMRs) more transparent and accessible. Starting in 2014, patients will be able to view nearly everything the doctors see in their EMR.

Currently, Cleveland Clinic patients can use the MyChart patient portal to view their after-visit summary, medications, allergies, lab results, radiology reports and other items. The new version of MyChart will also include pathology records, x-ray reports, physician notes and current health issues.

Cleveland Clinic hopes improved patient access to medical records will result in more active collaboration with their care teams. *With connectivity and interoperability improving throughout the healthcare system, full access to EMRs by patients might decrease the need for PHRs.*

Mostashari: No more delays to ICD-10; SNOWMED critical

Farzad Mostashari, MD, the National Coordinator for Health IT at HHS, announced in a recent speech that with regard to ICD-10 there were "no plans for anymore extensions". Despite industry pushback and the looming October 2014 deadline (which was already delayed a year in 2012), Dr. Mostashari has faith in the market to make the conversion smoother and added "there is a lot of money to be made in helping doctors get ready for ICD-10".

Dr. Mostashari stated that the delay has been used to develop a crosswalk from ICD-9 to ICD-10 via Systematized Nomenclature of Medicine Clinical Terms (SNOMED). *Bridging SNOMED, which is inherently more suitable for clinical documentation in the EMR with ICD-10, which is designed for coding professionals after the incidence of care, should bring many benefits including reducing billing errors and improving the quality of clinical and administrative data.*

NOTABLE TRANSACTIONS / INVESTMENTS

Harris acquires QuadraMed

Constellation Software, through its subsidiary N. Harris Computer Corp, completed the acquisition of QuadraMed, a leading provider of healthcare IT solutions (including EHR and RCM) primarily to hospitals. Harris plans to use QuadraMed's platform to support its entry into the U.S. HIT market. Recall, in 2009 Francisco Partners purchased QuadraMed for ~\$125 mil.

QuadraMed is an extension of Harris' existing software portfolio and complements its Canadian healthcare offering. QuadraMed's Access/Identity Management solutions have earned top rankings and may be the 'hidden jewel' in this deal.

Parallon (HCA subsidiary) buys The Outsource Group

Parallon, which provides healthcare business and operational services mainly to hospitals, announced it plans to acquire The Outsource Group (TOG). TOG is backed by ClearLight. TOG generates revenue greater than \$100 million annually.

Although some of TOG's solutions, such as Third Party Liability (TPL), are not necessarily technology driven, TOG's presence in more than 800 hospitals is an attractive footprint for HCA.

Vitera acquires SuccessEHS

Vitera, owned by Vista Equity Partners, is a leading provider of ambulatory-based EHR and practice management solutions. Vitera acquired SuccessEHS, which provides a number of healthcare technology solutions for physician practices and community hospitals. Terms were not disclosed.

Since Vista took over, Vitera (formerly a division of Sage Software) has taken steps to improve its product offering. This acquisition is an entrée into the community hospital market, a sector that has been slow to embrace the newer HIT technologies.



CareCloud raises \$20 million in Series B financing

CareCloud, a cloud-based EHR vendor, announced that it has received an investment led by Tenaya Capital, and returning investors Norwest Venture Partners and Intel Capital. CareCloud, which targets physicians in small group practices, plans to use the funds to develop its products and hire more software engineers.

CareCloud has now raised \$44 million in total and is expected to generate over \$10 million in revenue. Companies resembling the athena model are attracting many investors. Kareo, another cloud-based medical office software and services company, raised \$20 million in November 2012.

Medivo raises \$15M, led by Merck GHIF

Medivo, a NY-based online health monitoring platform connecting doctors, consumers and clinical labs, announced that it has raised \$15 million in Series B financing. This investment was led by Merck Global Health Innovation Fund (GHIF) with participation from existing investors Safeguard Scientifics and MentorTech Ventures.

To date, Medvio has raised \$22 million for its platform that leverages diagnostic tests into better patient outcomes. Analytics technologies that can integrate clinical and patient information are attractive sectors for many investors. Merck's participation in this round is an endorsement for the quality and usefulness of Medivo's data.

Vitals raises \$22M in Series C funding

Lyndhurst, NJ-based Vitals (a consumer brand of MDx Medical) said that it closed a \$22 million Series C investment. Vitals helps consumers find the right doctors and understand their care options / costs before an appointment, in a manner similar to online reviews and ratings of restaurants and hotels.

A number of players, including ZocDoc, are attempting to provide healthcare consumers with more information related to their treatment and physician options. This type of information is clearly valuable to all of us, including millions of newly insured individuals many of whom have rarely used doctors in an ambulatory environment.

ZocDoc intends to raise \$55 million in debt

ZocDoc, a NYC-based company which helps patients find and review doctors (and book appointments), is in the market to raise \$55 million of debt. To date, the company has raised over \$170 million in equity.

The consumer search, appointment booking and reviews of physicians space is a bit crowded. Companies such as Vitals, have also raised over \$35 million of capital. We struggle to see a viable long term strategy for these companies as stand alone businesses unless they move up the value chain and offer services such as providing patient payment portals.

Mediware acquires Fastrack

Mediware Information Systems, a Thoma Bravo company, acquired Fastrack Healthcare Systems, which provides software solutions for the home medical equipment and infusion therapy markets. Mediware plans to combine Fastrack with its existing Alternate Care Solutions business.

Mediware software will now support over 700 customers in the homecare market, an area with favorable growth prospects. This is the second acquisition by Mediware since it was acquired in November 2012.

Ascension Health Ventures makes strategic investment in GetWellNetwork

GetWellNetwork, backed by Welsh, Carson, Anderson & Stowe, offers solutions to help providers engage, educate and empower patients through their Interactive Patient Care (IPC) delivery model. With more than 100 participating providers, this investment adds seven hospital systems to this KLAS-recognized IPC market leader.

Interactive patient care is a critical component of patient education and will play an increasing important role in the patient engagement model.

"If you want to be part of the future of health care, you must pay attention to how information technology is reshaping the way it will be delivered." - Bob Keaveney, Editorial Director of Physicians Practice



Health Catalyst signs deal with Partners HealthCare

Health Catalyst, the leader in healthcare data warehousing and analytics, and Partners Healthcare (a healthcare system founded by Brigham & Women's Hospital and Massachusetts General Hospital) signed a deal to implement Health Catalyst's warehousing capabilities across Partners' network of hospitals. Partners HealthCare will also make an investment in Health Catalyst.

In early 2013, Health Catalyst raised \$41 million in funding from Kaiser Permanente Ventures, Sequoia Capital and two others. We are excited about Health Catalyst's prospects and view them as one of the most visionary companies in the analytics space.

Emdeon acquires Goid Health Systems

Blackstone-backed Emdeon, a leading provider of healthcare revenue cycle management and clinical information exchange solutions acquired Goid Health Systems, an HMO specializing in pharmacy benefit services to State Medicaid agencies across the United States.

Goid expands Emdeon's presence in the government pharmacy benefit market at a time when Medicaid enrollment is expected to increase due to the Affordable Care Act.

Kareo teams up with Demandforce, a division of Intuit

Kareo, a cloud-based medical office software and services company to small physician practices, announced it was integrating its offerings with Demandforce. Kareo's clients can now have a more proactive engagement with patients by offering scheduling and reminders. In addition, the providers can perform their own marketing campaigns.

Solutions that help providers recruit patients and run marketing campaigns have gained in popularity. We foresee similar partnerships or even select M&A activity between marketing companies and other EHR providers.

PatientsLikeMe raises \$7M, hires first CEO

PatientsLikeMe raised \$7 million from existing investors as it continues to branch out to new patient disease communities, after starting with an initial focus on ALS. In late May, the company hired Martin Coulter (formerly Executive VP at The Advisory Board) as the new CEO.

PatientsLikeMe is evolving into a crowd-sourced data hub for a wide variety of diseases. We look forward to watching how the company eventually monetizes its user generated content.

iVantage Health Analytics raises \$11 million

iVantage, a provider of business intelligence solutions for healthcare providers, announced it received \$10.9 million in an equity round of funding from Great Point Partners.

iVantage solutions helps hospitals and other healthcare organizations strategically manage their businesses under the new healthcare regulations. Company's solutions range from market planning, population health planning to Medicare break-even, bundled payments and ACO planning.

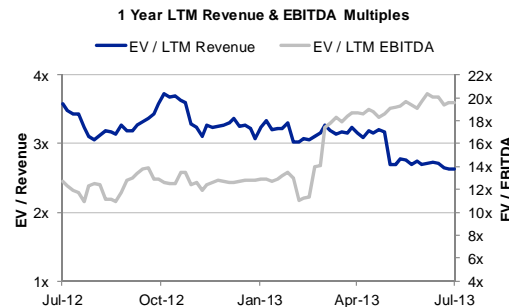
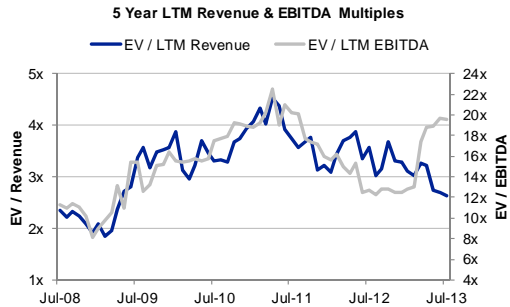
COMS Interactive raises \$21 million

COMS Interactive, a provider of solutions to enhance resident health in skilled nursing facilities, announced it received \$21 million in an equity round of financing from Summit Partners, a new investor.

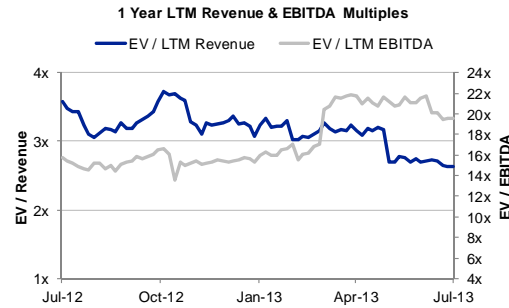
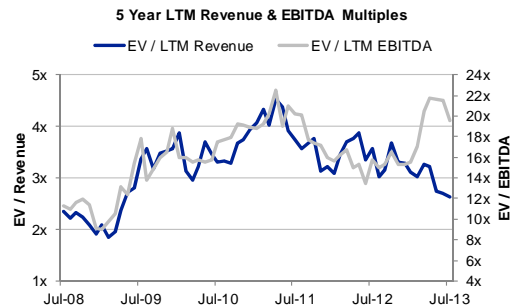
Over the past few years, skilled nursing facilities (SNFs) have been under significant reimbursement pressure. Notwithstanding the reimbursement pressures, the sector has favorable long term prospects due to aging population and the initiatives to keep patients out of hospitals.

"Patients are finally waking up to the idea every doc and every hospital doesn't perform every service equally well. The baby boomers are getting to their health need years and they're brutal consumers." Charles Baker, President & CEO of Harvard Pilgrim Health Care

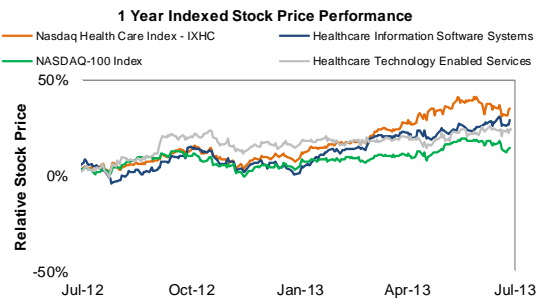
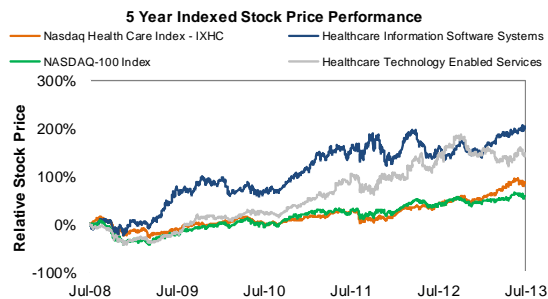
Healthcare Information Software Systems



Healthcare Technology Enabled Services



HIT Stock Price Performance versus Nasdaq Healthcare Index



PUBLIC MARKET TRENDS

As a group, Healthcare Information Software Systems multiples are relatively higher than the Healthcare Technology Enabled Services sector. The former group benefits from high-flyers such as athenahealth and Medidata, which are expected to deliver best-in-class revenue growth in 2013. Both groups have seen EV/EBITDA multiples expand over the past 12 months but EV/Revenue multiples have been pressured recently. In our view, this speaks to the margin challenges these companies face as they continue to add new products and functionality, but the market seems more focused on top line prospects.

The performance of both sectors have substantially exceeded the NASDAQ Healthcare Index over the past five years; however, this trend has changed in the past 12 months with the NASDAQ Healthcare Index performing the best (+35%). The Healthcare Information Software Systems group appreciated +29% and Healthcare Technology Enabled Services sector returned +24% over the prior 12 months.



Marlin & Associates' Healthcare IT Indices include the following companies

Healthcare Information Software Systems

Company <i>USD millions</i>	Market Enterprise		EV / Revenue		EV / EBITDA		Revenue Growth		EBITDA Margin	
	Cap	Value	CY2013E	CY2014E	CY2013E	CY2014E	CY2013E	CY2014E	CY2013E	CY2014E
Cerner Corporation	17,075	16,252	5.4x	4.8x	16.7x	14.3x	15%	13%	32%	34%
athenahealth, Inc.	3,318	3,375	5.6x	4.4x	31.1x	22.5x	41%	28%	18%	20%
Allscripts Healthcare Solutions, Inc.	2,267	2,742	1.9x	1.8x	11.3x	9.3x	0%	5%	17%	19%
The Advisory Board Company	1,997	1,920	3.8x	3.3x	20.6x	17.8x	17%	16%	18%	19%
Medidata Solutions, Inc.	1,991	1,870	6.8x	5.7x	30.0x	23.4x	25%	20%	23%	24%
CompuGroup Medical AG	1,166	1,453	2.3x	2.2x	9.3x	8.4x	5%	5%	25%	26%
Quality Systems Inc.	1,122	1,004	2.2x	2.0x	9.5x	7.4x	2%	10%	23%	27%
Computer Programs & Systems Inc.	540	522	2.6x	2.5x	10.1x	9.5x	9%	4%	26%	27%
Greenway Medical Technologies, Inc.	371	358	2.6x	2.3x	nm	39.7x	3%	13%	3%	6%
Merge Healthcare Incorporated	335	540	2.0x	1.9x	9.0x	8.5x	6%	7%	23%	23%
Trim Mean	1,596	1,678	3.3x	2.9x	15.4x	14.2x	10%	11%	22%	23%
Median	1,579	1,662	2.6x	2.4x	11.3x	11.9x	8%	11%	23%	23%

Healthcare Technology Enabled Services

Company <i>USD millions</i>	Market Enterprise		EV / Revenue		EV / EBITDA		Revenue Growth		EBITDA Margin	
	Cap	Value	CY2013E	CY2014E	CY2013E	CY2014E	CY2013E	CY2014E	CY2013E	CY2014E
McKesson Corporation	27,390	29,807	0.2x	0.2x	9.1x	8.2x	5%	4%	3%	3%
WebMD Health Corp.	1,359	1,160	2.4x	2.3x	13.1x	11.3x	1%	6%	19%	20%
Accretive Health, Inc.	1,089	893	0.8x	0.7x	10.1x	7.5x	11%	15%	8%	10%
MedAssets, Inc.	1,083	1,950	2.9x	2.7x	8.9x	8.1x	6%	7%	32%	33%
Healthstream Inc.	697	602	4.8x	4.0x	25.6x	20.1x	22%	19%	19%	20%
EMIS Group PLC	683	673	4.5x	4.2x	13.1x	11.7x	14%	7%	34%	36%
Healthways Inc.	580	849	1.2x	1.0x	9.8x	7.8x	8%	12%	12%	13%
Vocera Communications, Inc.	363	237	2.3x	1.9x	nm	26.2x	3%	18%	2%	7%
Craneware plc	141	112	2.5x	2.3x	8.4x	7.4x	6%	11%	30%	31%
Trim Mean	836	909	2.4x	2.1x	10.7x	10.7x	7%	11%	17%	19%
Median	697	849	2.4x	2.3x	10.0x	8.2x	6%	11%	19%	20%

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