

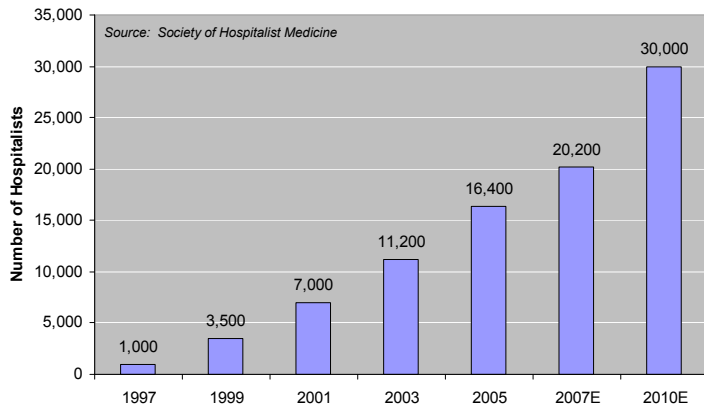


**EMERGENCY MEDICINE INDUSTRY UPDATE Q2-2009**

**INDUSTRY INSIGHT – HOSPITALIST MEDICINE**

Hospitalist medicine is the business of providing, managing, and coordinating the care of hospitalized patients, from the time of admission to discharge, and working in close consultation with primary care physicians. It is an emerging specialty and currently one of the fastest-growing medical disciplines in the United States, with the number of hospitalists having grown from under 1,000 in the mid-1990s to a projected 30,000 by 2010. According to the American Hospital Association, more than 50% of all hospitals currently have formal hospitalist programs, and industry providers have estimated the size of the market to be roughly \$50.8 billion.

**HOSPITALIST GROWTH, 1997-2010E**



The growing demand for hospitalists is being driven by changes in the healthcare delivery system, including the decreasing role of the primary care physician in hospital care, the hospitals greater need for consistent on-site physician availability, the desire among specialists to limit their practice to their medical specialty, the established limitations placed on the number of hours that resident physicians in training may practice, and the exploration of alternative mechanisms by health plans to control the increase in inpatient expenditures.

**TELERAD ATTRACTS CAPITAL**

Life as a public company has undoubtedly been tough on both NightHawk and Virtual Radiologic. Share prices have fallen sharply over the last year as pricing declines have eroded profit margins and both companies have been forced to undergo changes in leadership. Nonetheless, despite the challenges that the two companies have faced and the uncertainty surrounding the pricing environment, three teleradiology companies over the last six months have successfully raised additional capital to support future growth. They include Online Radiology Medical Group, Foundation Radiology Group, and Optimal Reading Services Group.

The venture capital and private equity firms behind these investments have a long-term investment horizon and, by making these investments, demonstrate confidence that teleradiology is a viable industry and a direction that the medical imaging industry will continue to move in. Health Evolution Partners, which has investments in both Optimal Readings and Foundation Radiology, acknowledged in a recent press release that there are attractive dynamics to the medical imaging field such as the rapid growth in the rate of utilization, but that this has come with increasing costs. The investment firm believes that over time this will trigger policy changes and actions from payors and policymakers. They believe the survivors will be companies that have models that can manage the imaging process more efficiently and can improve quality.

A common denominator regarding the investees is that each targets the final reads marketplace as a source of future growth. Health Evolution Partners also commented that teleradiology capabilities have become widespread across radiology groups and many groups offer some form of teleradiology services, which has dissolved historical geographic barriers to competition causing the market for preliminary imaging interpretations to become commoditized.

**RECENT TRANSACTIONS**

Acquirer	Target	Details
Health Evolution Partners	Optimal Reading Services Group	<i>June</i> – Optimal Reading Services Group, an Alabama-based provider of medical imaging optimization services for healthcare facilities, has raised an undisclosed amount of private equity funding from Health Evolution Partners. The investment will enable Optimal to accelerate its expansion throughout the U.S. and in select international markets. Optimal received its first round of institutional funding in 2007. Terms of the transaction were not disclosed.
IPC The Hospitalist Company	Affiliated Medical Associates of Morristown	<i>June</i> – IPC The Hospitalist Company has acquired the hospitalist division of Affiliated Medical Associates of Morristown. Based in Morristown, New Jersey, the acquisition establishes IPC's first practice in New Jersey and expands the Company's national presence to 19 states. IPC expects to add approximately 47,000 patient encounters annually from this acquisition. Terms of the transaction were not disclosed.
Sante Ventures	Hospitalists Now	<i>June</i> – Hospitalists Now has raised \$3.5 million in Series A equity financing from life sciences venture capital firm Sante Ventures. Hospitalists Now is a full-service physician group practice, management, and consulting company focused on hospitalist services. The Company current serves 14 hospitals and 42 providers. The funds are expected to be used to continue software development and begin beta testing of proprietary technology the Company has been developing.
Chrysalis Ventures and Health Evolution Partners	Foundation Radiology Group	<i>April</i> – Foundation Radiology Group (FRG) has raised \$10 million in first-round funding. Chrysalis Ventures led the deal and Health Evolution Partners co-invested. Founded in late 2006, FRG is a Pittsburgh-based provider of diagnostic imaging professional services to hospitals, outpatient imaging centers, urgent care centers, and long-term acute care institutions. The Company offers a hybrid model of both on-site radiology and teleradiology solutions. The funds are expected to be used to hire additional radiologists to support national growth plans. Terms of the transaction were not disclosed.
IPC The Hospitalist Company	Acclaimed Internal Medicine	<i>March</i> – IPC The Hospitalist Company has acquired Acclaimed Internal Medicine of Mesa, Arizona. The acquisition represents a continued expansion into the greater Phoenix market, where IPC has already established a significant presence. Many of AIM's clients are already being served by IPC in some capacity, so there is synergistic overlap. IPC expects to add approximately 55,000 patient encounters annually from the acquisition of AIM. Terms of the transaction were not disclosed.
Housatonic Partners	Online Radiology Medical Group	<i>February</i> – Online Radiology Medical Group (ONRAD) has raised an undisclosed amount of growth equity financing from Housatonic Partners, a private equity investment firm. Based in Riverside, California, ONRAD is a growing teleradiology company which offers remote reading capabilities to hospitals, radiology groups, and imaging centers. ONRAD, whose radiologists are all U.S.-based, focuses on delivering outsourced "final" interpretations.
IPC The Hospitalist Company	Midwest Acute Care Consultants	<i>January</i> – IPC The Hospitalist Company has acquired the hospitalist practice of Midwest Acute Care Consultants (MACC) in St. Louis, Missouri. The acquisition represents continued expansion in the St. Louis market, where IPC has established a significant presence. The MACC operations will complement IPC's existing practices at DePaul Health Center and Christian Hospital Northeast. MACC has an annualized volume run-rate of 14,000 patient encounters. Terms of the transaction were not disclosed.