

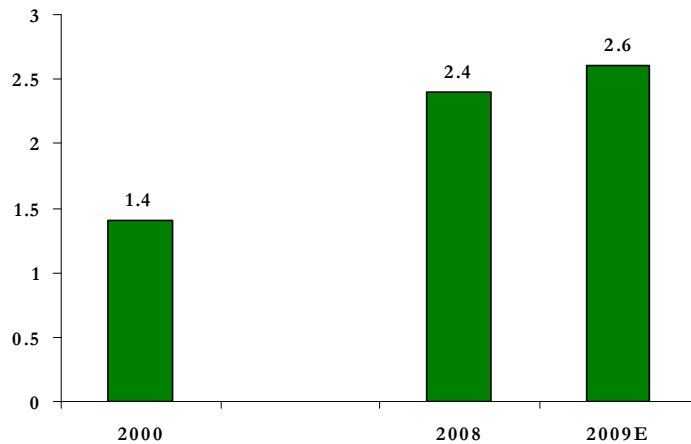


M&A UPDATE

With the looming changes of healthcare reform ahead of us, the M&A market for health plans has hit a brief lull. The proposed sweeping changes of the Democrats versus the status-quo focused GOP have led to a full battle on Capitol Hill, leaving the general public (as well as industry experts) in the dark as to what will ACTUALLY come from all the talk. In terms of Medicare Advantage, bids were due on June 1st and the strategies implemented by the largest industry players suggest that while the sector will experience some depression, overall it is still a strong investment for growth. United has been especially aggressive, igniting criticism for their bid strategies based on physician costs dropping over 20%. Many consider this as a statistic that is highly unlikely due to Congress' hints at reversing this cut. No matter what comes of the healthcare reform bills, industry drivers continue to point towards growth opportunities due to an aging population and U.S. healthcare spending expected to grow to \$2.6 trillion in 2009. Medicare Advantage continues to grow its market share amongst Medicare Beneficiaries, nearing 25%, and Medicare/Medicaid in terms of federal spending is expected to grow from its 5% level of GDP to a much more significant rate according to the Congressional Budget Office. While the M&A market has slowed for the first half of 2009, we expect the activity to heat up in two different arenas: 1) Amongst health plans themselves we expect to see movement by Medicare Advantage and Medicaid plans as smaller plans, especially those owned by multiple hospitals or systems, look to partner with larger players to decrease their vulnerability to potential rate and policy changes. Along with this group, we expect some hospitals/systems to begin exiting the health plan sector altogether due to the turbulent nature of the industry and its unforeseeable future. 2) We expect the major plans to begin making acquisitions in areas outside of their core insurance competencies, such as in IT, software, RCM, etc. These are areas which will help companies to continue to tighten their belts and increase their efficiencies, which in turn will better position them to lobby in Washington for less severe cuts to areas such as Medicare Advantage.

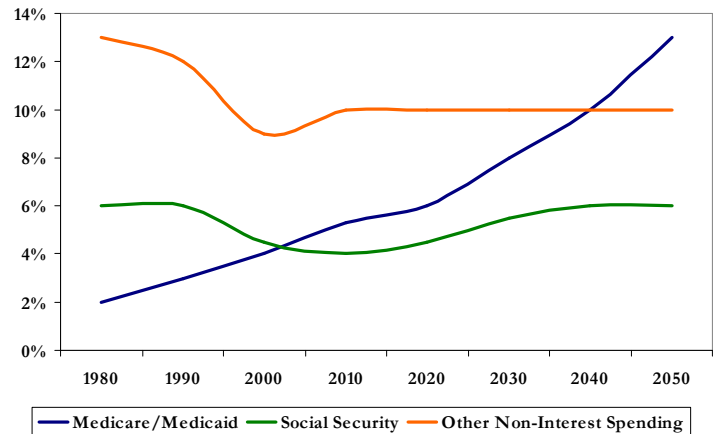
U.S. Health Care Spending

(In trillions)



Federal Spending

(As % of GDP)



Sources: CMS, CBO, Humana, UnitedHealth, AIS

NOTEWORTHY TRANSACTIONS

Month	Acquirer	Company Acquired	Details
April 2009	The Lifetime Healthcare Companies	ACE Group	MedAmerica, a part of The Lifetime Healthcare Companies, announced on April 14th that it has acquired a block of 11,000 long term care insurance contracts from Combined Insurance Company of America, part of the ACE Group of Companies, for \$75 million. The contracts are expected to generate \$12 million in revenue for 2009, making the deal valued at 6.25x revenues. The transaction shows a continued movement by many insurers into the long term care insurance industry.
May 2009	Emdeon Business Services	Trustmark Companies	Emdeon Business Services announced an agreement to acquire The Sentinel Group from Optimal Business Services, Inc., a subsidiary of the Trustmark Companies. The largely fraud-focused team is expected to greatly assist Emdeon as they continue to move forward with their IPO hopes. Financial terms of the transaction were not disclosed.
June 2009	Magellan Health Services, Inc.	Coventry Health Care, Inc.	Magellan Health Services, Inc. has agreed to purchase First Health Services Corp., the fee-based Medicaid service business of Coventry Health Care, Inc., for \$110 million. First Health Services is expected to generate \$60 million in revenue and \$7 million in profit from an expected close date of July 31 st until year end.