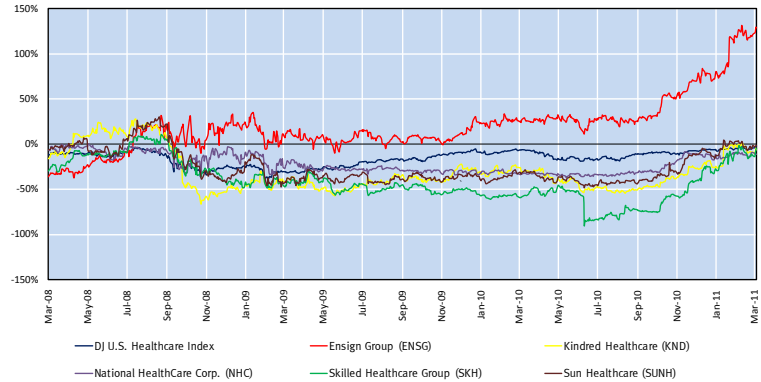


Healthcare Services - First Quarter 2011 Review

SECTOR SPOTLIGHT – Skilled Nursing

EUREKA CAPITAL MARKETS LLC, MEMBER FINRA/SIPC

- In 1Q 2011, public market valuations as measured by EV/EBITDAR multiples were up 10.6% versus 1Q 2010 and essentially flat compared to 1Q 2008.
- The strong public company valuations were primarily a result of the better-than-expected 1Q profits attributable to the introduction of RUG-IV (CMS repealed the RUG-IV delay at year-end 2010).
 - RUG-IV was expected to be “Budget Neutral” with significant re-shuffling of the payments among categories, but, with six months under the new reimbursement system, RUG-IV has proved to have significantly more upside.
 - Medicare days in the upper nine RUG categories dramatically declined due to the elimination of the look-back period while rehab RUG days as a % of total RUG days was flat. However, through higher therapy productivity and increased use of group therapy, providers replaced minutes expected to be lost as a result of the new concurrent therapy rules and patients were grouped into higher than expected RUG-IV categories which paid higher rates (and under the new system, the rates on these categories were actually higher than those under RUG-III).
 - In a surprise move, but clearly a result of increasing Medicare expenditures, CMS proposed an 11.3% rate cut for FY2012 (one of two proposals released in late April; the other option was a 1.5% rate increase).



Company	Ticker	Market Cap (\$M)	Enterprise Value as a Multiple of EBITDA / EBITDAR		
			3/31/2011	3/31/2010	3/31/2009
Ensign Group	ENSG	665.6	8.0x / 8.0x	5.9x / 6.3x	5.8x / 6.3x
Kindred Healthcare	KND	943.1	5.9x / 7.2x	3.3x / 6.2x	2.8x / 6.0x
National HealthCare Corp.	NHC	634.0	7.7x / 7.8x	7.2x / 7.4x	10.6x / 9.7x
Skilled Healthcare Group	SKH	543.8	9.0x / 8.8x	6.4x / 6.6x	7.2x / 7.3x
Sun Healthcare	SUNH	351.5	2.8x / 4.7x	5.8x / 6.4x	6.9x / 7.3x
Mean			6.7x / 7.3x	5.7x / 6.6x	6.7x / 7.3x

M&A TRANSACTIONS

Overall Healthcare Market

- In the first quarter of 2011, transaction volume remained constant with 4Q 2010 levels as 128 transactions were announced in both quarters while total value increased 26.6% from \$18.5 billion to \$23.4 billion.
- 1Q 2011 showed significant improvement over 1Q 2010 in both transaction volume and value.
 - There was a 19.6% increase in transaction volume from 107 transactions in 1Q 2010 and dollars spent almost quadrupled from \$6.6 billion.
 - The 1Q 2011 value was largely driven by Health Care REIT's five acquisitions totaling \$4.5 billion and Ventas's \$7.4 billion acquisition of Nationwide Health Properties.

Skilled Nursing

- In 2010, the average price paid for SNFs jumped to a new record of \$62,500/bed, exceeding the previous record seen in 2007.
- The increase in prices in 2010 came despite uncertainty regarding Medicare and the impact of the various state budget deficits would have on Medicaid. These prices were primarily a result of the quality properties /portfolios being sold.
 - Despite the increase in prices, cap rates have remained constant (12%-14%), reflecting the inherent risk of the cash flow.
- Renewed interest at relatively high prices from the REITs (e.g. HCR ManorCare and Genesis) has helped accelerate a new period of consolidation.
- Deal activity is expected to gain momentum in 2011 as smaller operators look to cash out at higher prices and larger strategic acquirers and real estate and private equity firms become more active.

GOING FORWARD

- We were a bit surprised by CMS's proposal to cut rates so dramatically in FY2012 as we had expected CMS would want a full year of data to properly assess the impact of the new RUG-IV rates. We do believe the industry will lobby against this large rate reduction over the course of the next 60-day comment period.
- Depending on CMS's ultimate revision to FY2012 rates, we believe there may be further room for rate expansion as operators capture acuity by targeting clinically complex patients who would otherwise be cared for in a higher-acuity hospital (acute, LTAC or rehab).
- Bundling or site-neutral payments will benefit those providers that can move beyond the “silo” structure and operate across the continuum of care. We are already seeing larger providers expand their service offering (e.g. Kindred's acquisition of RehabCare).

SELECT FIRST QUARTER 2011 M&A TRANSACTIONS

Date Announced	Seller / Target	Target Business Description	Acquirer Name
Hospitals			
Jan-11	Ferrer Freeman & Co., Charlesbank Capital Partners and JPMorgan Asset / National Surgical Hospitals	Operates 14 hospitals and seven orthopedic surgery centers in nine states.	Irving Place Capital
Feb-11	Catholic Health Partners / Mercy Health Partners	313-bed, three hospital system in PA.	Community Health Systems, Inc.
Feb-11	Jackson Health System	2,250 bed, five hospital system in FL.	Steward Health Care System
Feb-11	Resurrection Health Care	Health system that includes six hospitals, 17 long-term care and senior residential facilities, 36 clinics and five home health agencies in IL.	Provena Health
Feb-11	Landmark Medical Center	203-bed, two hospital system specializing in acute care and rehabilitation in RI.	Warburg Pincus / RegionalCare Hospital Partners
Mar-11	St. Joseph Medical Center	792-bed acute care hospital in TX.	Iasis Healthcare, LLC
Mar-11	St. Mary's Hospital	175-bed acute care hospital in CT.	LHP Hospital Group, Inc.
Mar-11	The Hospital of Saint Raphael	591-bed acute care hospital in CT.	Yale-New Haven Hospital
Mar-11	Morton Hospital and Medical Center	153-bed acute care hospital in MA.	Steward Health Care System
Mar-11	Texas Regional Medical Center	70-bed acute care hospital in TX.	Sabra Health Care REIT
Mar-11	Loyola University Health System	820-bed, two facility health system in IL.	Trinity Health
Mar-11	Elkhart General Healthcare System	297-bed acute care hospital in IN.	Memorial Health System
Mar-11	Coast Plaza Hospital	117-bed acute care hospital in CA.	Avanti Hospitals, LLC
Long-Term Care (SNFs, ALFs, and ILFs, includes sale / leasebacks)			
Jan-11	Forestview Manor	69-unit ALF in NH.	Cornerstone Healthcare Plus REIT
Jan-11	HMR Advantage Health Systems	21 SNFs with approximately 2,000 beds in SC, NC and GA.	Behrman Capital / Ark Holdings, Inc.
Jan-11	Care Institute / Cypress Court	126-unit ALF in AZ.	Emeritus Corporation
Jan-11	Christus St. Joseph Villa, Marian Center	CCRC with 221 skilled nursing beds, 48 assisted living units, 60 independent living apartments and a 12-bed psychiatric facility in UT.	The Ensign Group, Inc.
Feb-11	Deaconess Long Term Care, Inc. / 11 senior housing facilities	11 senior housing facilities with 852 skilled nursing beds and 128 assisted living beds in MO.	Platinum Health Care, LLC
Feb-11	The GPT Group / Benchmark Senior Living	34 senior housing facilities with a combined 3,009 units.	Health Care REIT
Feb-11	Warburg Pincus / Brandywine Senior Living	19 senior housing facilities with a combined 1,845 units.	Health Care REIT
Feb-11	Senior Star Living / Senior housing facilities	Nine senior housing facilities with a combined 1,687 units.	Health Care REIT
Feb-11	Silverado Senior Living / Senior housing facilities	18 senior housing facilities with a combined 1,454 units.	Health Care REIT
Feb-11	JER Partners, Formation Capital / Genesis HealthCare Corporation real estate assets	147 SNFs and ALFs across 11 states.	Health Care REIT
Mar-11	Stephen D. Bell & Co. / 20 senior housing facilities	20 ILFs and ALFs with a combined 2,111 units in five states.	Senior Housing Properties Trust
Mar-11	Private seller / Five SNFs	Four SNFs with a combined 416 beds in AR and a 90-bed SNF in MO.	AdCare Health Systems, Inc.
Mar-11	Golden Living Centers of Kenosha	97-bed SNF in WI.	Platinum Health Care, LLC
Mar-11	A receiver / Mount Saint Francis Health Center	158-bed SNF in RI.	American Senior Living Communities
Mar-11	Brookdale Senior Living / Wynwood Mandeville	84-unit ALF LA.	Emeritus Corporation
Mar-11	The Lexington, Victoria Care Center	125-bed ALF in CA.	The Ensign Group, Inc.
Behavioral Health			
Mar-11	The Madison Center / Inpatient hospital and physician services assets	Three building facility with a combined 90 beds in IN.	Memorial Health System
Mar-11	Universal Health Services / MeadowWood Behavioral Health	58-bed acute care psychiatric hospital in DE.	Pioneer Behavioral Health

SELECT FIRST QUARTER 2011 M&A TRANSACTIONS

Date Announced	Seller / Target	Target Business Description	Acquirer Name
<i>Physician Medical Groups</i>			
Feb-11	Community Health Systems, Inc. / Oregon Medical Group	Multispecialty physician clinic in OR.	Oregon Healthcare Resources, LLC
Feb-11	Hammond Clinic	60-physician general practice in IL.	Franciscan Alliance, Inc.
Feb-11	Cardiology Associates, PC	Six-location specialty practice in D.C. and MD.	MedStar Health, Inc.
Mar-11	Sutter Emergency Medical Associates	Physician group with a patient base of 200,000.	CEP America
<i>Laboratories, MRI & Dialysis</i>			
Jan-11	Genoptix, Inc.	Provides cancer detection services in CA.	Novartis AG
Feb-11	DSI Renal, Inc.	Operates 106 dialysis centers serving approximately 8,000 patients.	DaVita, Inc.
Feb-11	Thermo Fisher Scientific / Athena Diagnostics	Provides diagnostic testing services for neurological diseases.	Quest Diagnostics, Inc.
Mar-11	Celera Corporation	Provides personalized disease management services.	Quest Diagnostics, Inc.
<i>Home Health/Hospice (Respiratory Therapy, Infusion Therapy, Nursing, Durable Medical Equipment and Staffing)</i>			
Jan-11	Hospice Complete / AL operations	Four hospice agencies in AL.	LHC Group
Feb-11	Praxair / U.S. health care division	Provides home health care services.	Apria Healthcare Group
Mar-11	Caregivers Health Network, Inc.	Provides home health care services.	Almost Family, Inc.
<i>Healthcare Information Technology & Outsourcing</i>			
Jan-11	AccelPath, LLC	Provides digital telepathology and other services to laboratories and hospitals.	Technest Holdings, Inc.
Jan-11	Medquist Holdings / AMSplus, Inc.	Provides billing and practice management services to health care providers.	AdvantEdge Healthcare Solutions
Feb-11	Carefx Corporation	Provides interoperability workflow solutions.	Harris Corporation
Feb-11	Oncology Care Home Health, Inc.	Consulting company working with home health providers focused on treating cancer patients.	WellDoc
Feb-11	Gateway EDI	Provides healthcare revenue cycle management services.	The TriZetto Group
Mar-11	Health Ware Concepts, Inc.	Provides consulting and revenue recovery services to the health care industry.	Med-Matrix, LLC
Mar-11	CareCentric assets	Provides home medical equipment, home health and home infusion services.	Mediware Information Systems, Inc.
<i>Other</i>			
Jan-11	MES Group, Inc.	Provides independent medical examinations, peer reviews and utilization reviews.	ExamWorks Group, Inc.
Jan-11	NovaMed, Inc.	Owner and operator of 37 outpatient surgery centers in 19 states.	H.I.G. Capital / Surgery Center Holdings, Inc.
Jan-11	Fairbanks Urgent Care Center	Provides urgent care, occupational medicine, and physical therapy services in AK.	U.S. HealthWorks
Jan-11	Sleep Management Solutions, LLC	Provides equipment and services for patients to conduct sleep diagnostic tests at home.	CareCentrix, Inc.
Feb-11	Emergency Medical Services Corp.	Operates American Medical Response, a medical transport business, and Emcare, an emergency room-focused PPM.	Clayton, Dubilier & Rice, LLC
Feb-11	Focused Health Solutions	National provider of population health management services.	HealthFitness
Feb-11	Nationwide Health Properties	Senior housing REIT.	Ventas, Inc.
Mar-11	America Service Group, Inc.	Provides managed health care services to correctional facilities.	Valitas Health Services
Mar-11	Rural/Metro Corporation	Provides medical transport and ambulance response services.	Warburg Pincus, LLC
<i>Rehabilitation</i>			
Jan-11	65% interest in PT practice	14-clinic physical therapy group in the Southeast region.	U. S. Physical Therapy, Inc.
Feb-11	RehabCare Group, Inc.	Provides rehabilitation program management services.	Kindred Healthcare Services, Inc.

Sources:

Company Public Filings & Press Releases
Capital IQ

Irving Levin Associates, Inc. *Health Care M&A Monthly*, Volume 16, Issues 2-4

Irving Levin Associates, Inc. *SeniorCare Investor*, Volume 23, Issues 2-4

Public Company Research

EUREKA'S HEALTHCARE EXPERTISE

Eureka's professionals have both a thorough understanding of the industry and strong relationships with leading healthcare companies. Key recent transactions by Eureka include the following:

- National Home Health Care Corp. (NASDAQ: NHHO): Initiated and partnered with Angelo Gordon in an approximately \$75 million going private transaction
- Shield Healthcare, Inc.: Advised management on and assisted in raising financing for buyout of controlling interest from Kobayashi Pharmaceuticals Co., Ltd.
- Kindred Healthcare, Inc. (NYSE: KND): Advised on its acquisition for resale of eight skilled nursing facilities and two long-term acute care hospitals from Ventas, Inc. for a total consideration of approximately \$85 million. Advised on its acquisition for resale of 17 Florida and Texas skilled nursing facilities from Ventas, Inc. for a total consideration of approximately \$108 million
- Sunrise IV Senior Living Holdings, LLC (The Fountains): Advised the Senior Bank Group on out-of-court restructuring
- Pacific Pharmacy Group, Inc.: Raised growth equity and recapitalized debt
- Ultrabridge, Inc.: Advised on its sale to CareCentric, Inc.
- Home Health Company in the Northeast: Structured, raised capital and advised shareholders in an ESOP buyout

The following is a list of sectors in which we have extensive relationships and expertise:

- Ambulatory Surgical Centers
- Behavioral Health
- Diagnostic Imaging/Radiation Oncology
- Disease Management
- Home Health
- Hospice
- Hospitals
- Information Technology
- Laboratories
- Long-Term Acute Care Hospitals
- Long-Term Care
- Managed Care
- Medical Product Distribution
- Pharmacies
- Pharmacy Benefits Management
- Rehabilitation
- Senior Housing
- Staffing

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Eureka Capital is an independent financial advisory firm with offices in New York and California. Our firm was established to provide companies with impartial, thoughtful and sophisticated advice for mergers, acquisitions, valuations/fairness opinions, capital raising, ESOP buyouts, financial restructurings, and other financial advisory assignments. With over 120 years of combined experience, our professional team has developed a long and consistent track record. Collectively, we have completed more than 350 domestic and cross-border transactions during our careers. We are not a volume-based business. At Eureka, we are committed to providing value-added advice to a select group of clients on businesses we understand.

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