

EDG

PARTNERS, LLC

Dear Friends of EDG,

With 2010 underway we wanted to reach out to our friends and colleagues, share some early thoughts on health reform and provide an update on our firm's progress and prospects.

Health Reform creates a significant broadening of government's role in the healthcare economy through the medium term provision of coverage to a significant portion of the uninsured and underinsured – over 32 million by CBO estimates. From our perspective the impacts of health reform will be felt through the positive demand impact of increased coverage balanced against margin compression to, in part, pay for the increased coverage. At a fundamental level, we are confident that our key investment themes will endure and thrive, namely:

- Backing companies that reduce system costs while maintaining or improving quality
- Leveraging technology in targeted businesses to improve business processes and care delivery
- Responding to the impact of changing demographics to address unmet service, product or system needs

As we look back over the period since our last update, we remain pleased with the stability and progress of our portfolio companies and clear signs of the market's positive view toward the EDG model of building strong small and middle market businesses in the healthcare industry.

Our portfolio continues to progress nicely. As you know we've begun investing EDG Fund II while continuing to support our Fund I portfolio companies and their management teams. A couple highlights follow:



National Hospice MedEquip (NHME) the first investment in EDG Fund II, partnering with George and Josh Robertson and their team to become the leading provider of Medical Equipment and support services to the hospice segment. George and Josh launched the business in 2006 and we are delighted to be their partners. Despite only completing the investment in January 2010, George and his team have already achieved the following milestones:

- Launching a new east Texas location as well as expansions into the mid-Atlantic and Southwest geographies beyond the company's pre-close Texas footprint
- Significant interest by regional and national scale customers in working with NHME as they look to manage costs while improving services to their hospice patients.
- Recruiting key sales and finance executives to continue to support the company's growth
- Identifying attractive tuck-in and strategic acquisition opportunities, including one which will close this month



HealthPRO Management Services, a rehabilitation management company built on strong clinically oriented technology and leadership, launched in partnership with management, achieved the following milestones:

- Continuing its pattern of solid growth leveraging the strength of HealthPRO's operating model and clinical offering having expanded into 15 states currently with additional expansion planned for the remainder of 2010
- Identifying a number of acquisition opportunities to expand scope into attractive markets while accelerating the achievement of scale
- Strengthening the organization at all levels throughout the organization to better serve HealthPRO's customers and patients
- Improving HealthMAX's functionality while finalizing the rollout of the .Net version of the technology solution



Regency Healthcare Group, our growing hospice platform launched in partnership with management, achieved the following milestones:

- Strengthening the organization at all levels from field through executive leadership

- Leveraging the company's CONs in the Florida panhandle and across Tennessee in launching 9 new start locations in 2009
- Successfully completing Medicare claim edits in multiple locations without a second level review, a testament to the organization's operating and compliance execution

On the EDG side, Barry Somervell has been offered an exciting position as the SVP of Sales and Marketing for Kindred Healthcare's Health Services business. While we are sad to lose Barry this is a fantastic opportunity for him, leveraging all he's learned over his career and working with EDG. Barry will remain an advisor to EDG on select opportunities and will always remain a valued contributor to EDG's success. We continue to build out our relationships on the senior executive and advisory side to augment deal flow and enhance opportunity assessment and post-closing portfolio company development.

Given the current market environment with both capital market tightening and regulatory change, we continue to see more attractive opportunities than the pre-crisis markets. Entrepreneurs and executives better realize the value and benefit they receive from a team like ours; bringing to bear extensive operating experience, a deep understanding of the regulatory climate affecting their customers, and a successful track record of support in building their businesses. We are excited about the prospects of the Fund I portfolio as well as the new opportunities we are considering as we begin deploying EDG Fund II.

Mindful that success depends on the strength of our relationships, we remain committed to our investors, advisors and executives in building high quality businesses in the healthcare sector. We appreciate any introductions to new firms or individuals you meet in your travels that will benefit from partnering with the EDG team.