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HEALTHCARE IT: TRANSCRIPT FROM OUR CONFERENCE CALL WITH SHELDON DORENFEST ON MARCH 28TH - HEALTHCARE IT IN CHINA

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Current: **Favorable**
Prior:

All important disclosures and Regulation AC disclosure can be found at the end of this report, starting at page 10, under the sections entitled Important Disclosures and Regulation AC Disclosure, respectively.

HIGHLIGHTS

- This report contains the transcript from our conference call held Wednesday, March 28, 2007 with Sheldon Dorenfest of The Dorenfest China Healthcare Group. The focus of the call was Healthcare IT in China. Prudential Equity Group, LLC's Senior Healthcare IT Analyst Leo Carpio hosted the call.

DISCUSSION

LEO CARPIO, SENIOR HEALTHCARE IT ANALYST PRUDENTIAL EQUITY GROUP:

Thank you. Good morning, my name is Leo Carpio, I'm the senior healthcare IT analyst at Prudential, and I want to thank everyone for joining us on our conference call. Today our special guest speaker is Sheldon Dorenfest, healthcare IT industry legend, and recent investor into the China healthcare market. From his experience, Sheldon will provide us today with a ground level prospective on the rapidly emerging China healthcare market. While today's conference call will focus on the healthcare IT opportunity in China, Sheldon will also shed some light on the China healthcare market in general. By understanding the differences and similarities between the China and the U.S. healthcare markets, we'll have a better perspective on how U.S. healthcare companies can benefit from this new market opportunity. Now, I'd like to turn over our call to Sheldon Dorenfest, president of the Dorenfest China Healthcare Group.

SHELDON DORENFEST, PRESIDENT OF DORENFEST CHINA HEALTHCARE GROUP:

Thank you, Leo, I appreciate being on this conference call and I appreciate talking with all of you. I will spend just a few minutes or so on my background. I formed my first company in the healthcare industry in 1970. It was a hospital computer software company at the time that hospitals in the United States were still all manual. A company called COMPUCARE, it's now a division of a company called QuadraMed. I sold that company in the late 70's and formed another company called Dorenfest & Associates that had three businesses. The first was hospital operations improvement where we help hospital clients to improve their work processes, management systems, services to patients, and all the activities around direct patient care; and we did that for 300 plus hospitals in the U.S. and Europe, Latin America and Australia. The second business was helping technology vendors to do better in the healthcare marketplace, to understand the market better, to create new products, to buy companies, to sell companies, et cetera. The third business was an information source called the Dorenfest Integrated Healthcare delivery system database, now owned by HIMSS Analytics; it profiled the IT efforts of every hospital in America. That profile was updated every year, and it became the sales, marketing, and prospecting tool for all of the technology suppliers in health.



I sold those businesses in the past few years, the most recent sale was in 2004, and my decision to sell was because I became dis-enamored with the American health care industry. It was a great place to make money but not such a good place to offer improvement services, because the industry kept getting worse and worse in my eyes, and I became too cynical to provide these services. So when I sold those businesses, I decided I would work in another country, and bring our skills over to another country, and to see if we can help that country to do better, since many of these countries were in an earlier stage of development in their healthcare industry. So, China and India became my areas of focus in 2004, and we made a detailed study of both of those countries. We selected China. Our investigation in China involved visiting 17 cities, seeing the health bureaus in every city we visited. We visited over 100 hospitals, visited with many of the healthcare companies operating in China, met with members of the ministries of health, and immersed ourselves in the healthcare industry and in the IT opportunity in China.

When we first came to China in early 2005, the healthcare industry was very primitive. China had a tremendous infrastructure throughout the country in every way possible, but their healthcare industry was still operating the way it used to operate. IT in their hospitals was also very primitive. They had a few IT systems. The IT systems didn't talk to each other, the presidents of the hospitals did not like the results of their IT efforts, and they were hesitant to spend any more money on IT. So, that was the situation at the beginning of our investigation. In the ensuing two-year period between then and now, the IT situation has changed tremendously. China now has a national goal similar to the U.S. goal to create electronic health records at all of their hospitals, and to share the patient information in regional health networks serving a city. We actually have a pilot project in Shenzhen, which is a city near Hong Kong, that is a pilot for the national goal of creating electronic health records. We were asked to help them develop a strategy for moving forward, which we have done, and are working with them in a follow-on relationship.

In the Chinese healthcare industry, spending is about a little less than six percent of gross national product on healthcare right now, so that would be around \$125 to \$130 billion dollars in American dollars. It's a relatively small expenditure right now, but they have lots of problems in the healthcare industry. In the year 2000, they created healthcare reform for China, and in the healthcare reform, the cornerstone was offering the ability to privatize the industry. The government was hoping they could unload the investment to private investors, and that the private investors would fix up the healthcare industry. In the ensuing few years, a number of Chinese entrepreneurs bought hospitals. There were relatively few foreign investors, but some bought hospitals as well. The Chinese entrepreneurs were typically real estate entrepreneurs who knew nothing about hospitals, and they were able to make money off the free land they got with the purchase of the hospital. They typically ran the hospital as a stepchild, so they didn't really improve, and sometimes they made the hospital worse. By 2005, five percent of the hospitals in China were privatized, and were mostly small. The Chinese government, in the middle of our investigation in 2005, pronounced the privatization effort a failure, and they also pronounced some other things a failure. They decided back then that they needed to offer more services to the poor, because in China, different than many of you may expect, the people pay for their own healthcare. Over 60 percent of the healthcare costs in China are paid right out of pocket by the people, so poor people have trouble getting healthcare if they don't have any money. So, when they pronounced the policy of failure, they said they would come up with a new policy fairly quickly. But as of now, the new policy isn't in place, and there's lots of debate going on. So, at the present time, there's not a safe environment for hospital investment. This is why I came over in the first place, because we wanted to implement what we call the model hospital concept to make some simpler, easier improvements in a typical Chinese hospital. We did this to help improve services to patients which were very bad, and to bring smiles to the faces of the people who use the hospitals. By doing that once, and then replicating it again, we thought we could build a hospital

ownership company. And we thought there was a big opportunity for that. There still is that opportunity, but there is the uncertainty of healthcare reform, and what the policy is really going to say. We believe the policy will encourage privatization of a different sort than was encouraged in the previous policy. We decided to delay our investments and form a first-phase company with consulting, education, and training for Chinese hospitals. We have several IT projects going on. So, our forecasts are that the healthcare industry is probably going to rise to seven to nine percent of gross national product in China over the next five years, and that IT will move into the second generation, and there will be lots of investment in IT. The IT market right now is relatively small; western companies don't really participate. Siemens, GE, and Phillips participate because they have big businesses in imaging, but the rest of the western companies that you're familiar with, specialists at HCIT, are looking at the market but not participating yet. I believe I've used up the time that Leo had provided to me for the introduction, so I'll turn it back to Leo.

LEO CARPIO: Thanks Sheldon. In terms of the healthcare IT that you highlighted in China, what do you think is going to be the greatest challenge for its adoption? Is it the finances, or is it just the uncertainty over the Chinese central government policy?

SHELDON DORENFEST: Well, the greatest challenge is that they do not know how to manage change very well in Chinese hospitals. The Chinese hospital has remained very much the same for many years. So, the things that are happening with the new healthcare policy, as well as IT, will require a lot of changes. There's a great hesitancy on the part of hospital leaders to take the big step. They do have money budgeted, but they're very hesitant to spend that money now.

LEO CARPIO: Is there any possibility that the Chinese central government might put together a plan similar to what they've done with the power industry and in transportation, where they define goals and provide financing for adopting technology?

SHELDON DORENFEST: It's probably not a high enough priority. They may provide a plan that provides some financing for just improving healthcare in China, and IT might become a subpart of it. The ministry of health is a relatively weak ministry. The provinces in the cities finance their own healthcare, and the richer cities do a better job than the poorer cities. The ministry of health sets a lot of policies, but sometimes the policies may be avoided and not followed, so the chances of doing what they did in the power industry, in the near future, do not seem very high.

LEO CARPIO: Instead of waiting for a national initiative, it sounds like the initiatives are going to be on the states and the local municipalities or cities to push healthcare reform and IT adoption.

SHELDON DORENFEST: Well, the healthcare reform will come out of a national policy, the principles of healthcare reform. Then it will be up to the provinces and cities to fund those principles and to implement what the national government has said is the new policy. Then the more forward thinking cities will fund the IT program. So there's already a lot of funding budgeted as I said, it's just that it's not yet ready to be spent because they're still uncertain of whether they can succeed or not.

LEO CARPIO: I'm changing gears slightly. When you were meeting with hospital officials in China and local government officials, in terms of the hospitals, what were the services that you saw were in high demand in the hospitals? Was it more basic healthcare they were looking for? Or more advanced, like orthopedic medical devices they used? I just want to kind of get a sense of where the spending is on a hospital level.

SHELDON DORENFEST: Well, first, as China becomes more successful in its economy, it has picked up western diseases. It likes to model itself after the west as well, so it treats western diseases with western medicine. It has put a lot of money into medical devices and instrumentation. And so there are typically CT scanners and MRI's in every hospital in China, and certainly in every hospital over 100 beds. At 150 beds, they have a CT scan and a MRI, so there's probably more MRI's in China than there are in the U.S., but they don't sell for the same price they sell for in the U.S. So there's a lot of technology there. There's a lot of western medicine. The Chinese doctors are good mechanics, so they do the surgeries well and they're able to diagnose well. They're very, very busy. They see hundreds of patients a day, sometimes for 30 seconds, and so they're not very polite to the people who use their services. But they do practice western medicine.

LEO CARPIO: To highlight the differences between the U.S. and Chinese healthcare market, what are the differences that we're not aware of? Besides the fact that, as you said before, there was a significant share of out of pocket expense for healthcare on the individual.

SHELDON DORENFEST: Yes, in a country which we are taught to think of as communist and following Marxian principles, we would have thought that the government would be financing all healthcare. That's what I thought. But in actuality, the government finances very little. There's over 60 percent that is financed out of pocket, and maybe 20 percent is financed by something they call social insurance. This is where the urban employers have to pay for their employees, and then the government typically finances the rest. Most of their financing is to subsidize the hospitals that are losing money. So, with the hospitals that are making money, the presidents have a lot of autonomy and a lot of power. They possibly have as much autonomy as U.S. hospitals, maybe more, because the U.S. hospital leader has to answer to the board, and a lot of other constituencies within the hospital. The president in a Chinese hospital may have more autonomy as long as he's running a profitable activity. Regarding similarities, one is that they do practice in western medicine. There's growth in all of the western diseases: cardiovascular disease, orthopedic issues, and surgery. Surgery is used very heavily, and one of the biggest problems in China is drugs. Drugs are overused in China as they are in many places. They are really overused in China because the drug purchases by the hospitals get them rebates from the drug companies, and the drugs wind up financing half the healthcare industry. The price of services is very, very low, so if you go to see a physician for the initial call, you're coming to see the physician for some diagnostic checkup. The visit to the physician may cost as low as five or seven RMB, which is less than a dollar. There's always a prescription that comes out of that visit, and the drug purchases finance a substantial amount of healthcare industry. So those are some characteristics. The U.S. industry typically has a hospital where there are four or five employees per bed. In China, it's one to one and a quarter employees per bed, and that includes the physicians. Sometimes in the U.S. the physicians are not employees of the hospital, so there's a big difference in the number of people available to serve the patients. In China, the length of stay in the hospital is very long because the cost of service and the cost of the room are very inexpensive. They'll keep the person in the hospital longer, and get the room revenue, whereas in the U.S., they try to get the person out of the hospital as quickly as possible. Those are some major contrasting features.

LEO CARPIO: Has the length of stay been affected in terms of capacity, because of patients who are literally sitting in a bed longer than they should?

SHELDON DORENFEST: Well, they typically have their hospitals full of patients, and sometimes a thousand bed hospital may have 1,200 patients. They put them in the halls and anywhere else, and I think they're inclined to do that because they want to have a high utilization. And there isn't a long waiting list, it seems like people can get in when they need to get in. There may be a little waiting list for surgery, but because surgery is a good economic procedure, they get a person in fairly quick when a person needs surgery.

LEO CARPIO: From your experience in what you've seen, is there any possibility the hospitals are going to be changing the revenue model in the near term, like increasing the fees for services, or are they just going to pretty much stick to the existing model where drug and product sales seems to be the main financing engine?

SHELDON DORENFEST: They really need to change the model. The Chinese government would like to change the model; they know it's not producing good healthcare results because of the over prescription of drugs and the corruption surrounding the over prescription of drugs. In the past, although they've tightened up on this, there were huge illegal kickbacks from the physicians that were high prescribers. That wasn't a good thing for anybody, and if the physician had a higher salary, he wouldn't need the kickbacks. So they would like to change this. The difficulty is the Chinese people think the cost of healthcare is too high, and they think the cost of visiting a physician is too high, so there's lots of resistance. If they triple the price of visiting a physician, they'd have to find some offset, and trying to make all that work is so complicated and so difficult that I don't think it's going to happen too quickly. I think they're going to have to evolve into a more rational model.

LEO CARPIO: I'm just drawing a little bit on the drug usage. I don't know if you have the data points on this, but is it all brand name drugs? Is there some generics usage, or is it just across the board mix?

SHELDON DORENFEST: Well, it's a mix of different things. The brand name companies have big businesses in China. Their drugs are expensive. There's generic usage, and there's also traditional Chinese medicine. I didn't really mention that, but there is also traditional Chinese medicine like acupuncture and herbs. If a certain percentage of the Chinese people go directly to a traditional Chinese doctor, and that traditional doctor would prescribe herbs, that would be included in the drug purchases. So all of the above.

LEO CARPIO: A slight changing of gears again, back to healthcare IT. I think I read somewhere and I think you may have mentioned this before to me. In China in the hospitals, when a person is admitted and then discharged, is it true that the hospital literally gives you your medical records when you're discharged? Whereas here in the U.S., the hospital holds on to it and refuses to release it?

SHELDON DORENFEST: Right, so the outpatient carries their medical record with them. If they go from one doctor to another doctor in a different hospital, they bring their medical record with them. That's like gold to them. The doctor will write whatever he or she does to the patient on that visit into the medical record, and then give it back to the patient. For inpatients, they do keep medical records in the hospital, but they also give something to the patient. For the in-patient, it may just be a summary, but they do keep the medical records for the inpatients in the hospital. They typically don't have a very good locator system, so they'd like to change all of that. What they're thinking about is the leapfrog effect. Because of these very primitive work processes, they look a lot like U.S. hospitals looked in the 70's when I first entered the industry. The Chinese people are very smart; when they figure it out, they act

quickly. So with those two characteristics, they have a chance to move to an EHR more quickly than the U.S. hospitals, because of the U.S. having so many cumbersome work processes underlying the electronic health record. So China has an idea, and they could leapfrog the U.S. hospital. They could get the electronic health record, make the data available, and position the physician, without the patient carrying things around. That's why they have that national goal of creating an electronic health record.

LEO CARPIO: And regarding the national goal, is there any stated date they want to reach this goal, or any detail in terms of time tables or deadlines?

SHELDON DORENFEST: Well they said 2010, but they're definitely not going to make it by then. There's a fairly limited effort going on in the country right now. The Shenzhen project that we're working on is at the vision stage. They're just getting to the place where they're figuring out the components of how to implement it. Their concerns, and the country's concerns, is that the software available in China is in its infancy and it doesn't support an electronic medical record. Just like the hospitals in the 70s, they tried to get an electronic medical record in the U.S., but they couldn't do it because there was nothing that did it. One reason was that the software was in its infancy, and the second thing was that if the software existed, they were concerned about not knowing how to manage the change. I think that's where the opportunity for western software might exist. Now the software itself from the western companies won't transport easily to China because the work processes are very different, and the price of the software is too expensive for China. But the western experience in creating a China product could build a very substantial business in China right now.

LEO CARPIO: So in terms of piloting that situation, could a possible outcome or model be where you have a U.S. company providing the intellectual capital and the know-how, yet a base of core programming would be done in a lower cost market? Let's say India, because it's from scratch, you can then have the best of both worlds: a low cost, efficient, lighter product that serves their needs. It's made in a low-cost market, yet in terms of the implementation and the rollout, there are the U.S. intellectual capital and consultants helping out. Would that be a possible situation?

SHELDON DORENFEST: Possible, except I wouldn't use India for China, I'd use China for China. There are lots of low cost programming talent in China. The reason why the U.S. companies don't outsource as much to China as India is because the Chinese speak Chinese, and the low cost programmers. There isn't enough English among them, whereas in India, the programmer more commonly uses English. It's easier to work and outsource a job to India. But in China, since you're going to want a China product for the Chinese market, you're going to want to use Chinese programmers. I do think that the right strategy for the western company is to either partner or form their own business in China. To Chinatize their product by using their intellectual capital and know-how and experience, and to work with either a Chinese company as a partner, developing a core of Chinese programmers to create the product, I think is the right strategy.

LEO CARPIO: You have mentioned that there's already some presence due to imaging devices by GE, Siemens and Phillips. Have they made any moves in terms of moving away from that technology into healthcare IT in China?

SHELDON DORENFEST: All three of them have made moves, and they haven't worked too well. The market for IT is very local right now. A company that's successful in Shanghai might not even be known in Beijing or Shenzhen. GE has a joint venture with a company whose English name is called King Star

Winning. Their idea would be to take that product and nationalize it, and take it all over the country. And I think GE had some other false-starts before that. Siemens tried to bring Soarian into a hospital in west China, it didn't work very well, and now they're bringing another product to China. So they're in an early stage. Phillips was looking at doing a joint venture, and they may have already done it. They're looking at duplicating the GE strategy. They're all seeing the opportunity, they all want to enter it, and they all have coverage that if they had a good product, it would allow them to be successful.

LEO CARPIO: Have any other U.S. healthcare IT companies, more mid-cap like the Cerners of the world, made overtures to China, or made any concrete moves yet?

SHELDON DORENFEST: There are lots of studies in China by all of these western companies. I don't know their current thinking company by company, but Cerner has made a long study of China. McKesson is studying China, and probably others are looking hard at China. But so far, there are no real entries. There is a lot of hesitancy because the model the U.S. companies like to use is to take their product and bring it to another country. And that model won't work in China.

LEO CARPIO: Right, its more of a different model of higher local programmers and customizing the systems total local market in this case.

SHELDON DORENFEST: Right.

LEO CARPIO: Regarding the local cities and municipalities, are there any particular municipalities we should focus our attention on who could to start making moves in healthcare IT adoption? Could this be as a sign for the rest of the country in terms of demand growth or acceleration of demand?

SHELDON DORENFEST: Well, when the westerners get off the boat, it's typically in Shanghai or Beijing, and so those are the places that the western people know the best. Shanghai and Beijing are leaders in the country and many western multinationals are based in those two cities, so they're cities that will get more notice, you know, when they do make a major change. And so when these things emerge in those two cities, they're likely to get more attention. But as regards to some other places, there may be a district in Shanghai that's moving forward, but Shenzhen is probably one of the leaders in thinking this through in the right way. Shenzhen is not as known a place as Shanghai or Beijing, but it'll certainly get a lot of attention.

LEO CARPIO: It sounds like Shenzhen's going to be a focus spot we should take a look at and keep our eyes on if they should develop a solution that's tailored for the market, then maybe we can see some acceleration from there going on.

SHELDON DORENFEST: Right.

LEO CARPIO: Is Shenzhen also pretty good concerning finances, because you mentioned that a lot of this financing is coming from the local markets and municipalities?

SHELDON DORENFEST: Well, it's a rich city, and Shenzhen wouldn't be thinking about doing this kind of a program if it didn't have money to support the program, and it has a fairly successful healthcare system. Shenzhen is a city that developed out of farmland in the last 25 years as a low-cost manufacturing site. It's near Hong Kong, and they brought low cost labor from the west to Shenzhen, to staff all of the

manufacturing facilities that were placed in Shenzhen. From that came a big city, with high rises and office buildings, and it's a great city, but there was nothing there 25 years ago.

LEO CARPIO: Back to the whole 2010 goal, even though it's clear they're going to miss the 2010 goal for adopting electronic health records, could we instead seek 2010 as perhaps the goalpost in terms of when demand makes sell rate? Perhaps in two or three years from now, when a lot of the technical issues have been resolved, and there's more true efforts in terms of companies entering into the market upright, and local governments actually figure out what their strategies or directives are going to be, could we probably see demand starting to ramp up in 2010?

SHELDON DORENFEST: I think it's going to be before that. I think that the change I've seen between 2004 and now has been dramatic. You know, there wouldn't have been a hospital in China that would have spent any money on consulting in 2004 except for maybe a Chinese professor who would sell their service very, very low. But, in the two years that have passed by on IT consulting, not only do we have business in that area, but IBM has got a dozen or so assignments. Their first assignment came in 2005, so when they're spending money on consulting it's a major, major checkpoint for China, because they just don't like to spend money for professional services. And, the reason why they're spending money on consulting is because they're very uncertain on how to succeed, but they are so motivated to take a step that they decided to hire a consultant. So I think that 18 months from now, the situation will be different. Some people would have taken steps. If they are successful, I think that's going to create a tremendous momentum.

LEO CARPIO: In regards to checkpoints, what are checkpoints we should be looking for over the next 18 months in terms of China and the healthcare IT wave?

SHELDON DORENFEST: Well, there are investors on the IT side. I would follow what the companies are saying, and then to the degree that you can follow China, I would look to see who is making progress towards the national goals and how fast is the progress. Those are a couple of things. If you can follow China, I try to observe how the Chinese software companies are developing, because right now the Chinese software companies are fairly weak, but three years from now they may not be weak. If they make the transition, the opportunity for western companies would decrease tremendously, except to buy one of those Chinese companies, which could be very expensive. So, you know, the checkpoints are to watch the companies and to watch the progress of China on this goal.

LEO CARPIO: Thanks. All right, I think it's time for us to turn over the call and see if our audience has any questions. Operator?

OPERATOR: We'll pause for just a moment to compile the Q&A roster. Gentlemen, there appear to be no questions.

LEO CARPIO: I want to thank everybody for participating today, and I especially want to thank Sheldon for taking some time from his busy schedule. If I understand correctly Sheldon, you're headed back to China soon?

SHELDON DORENFEST: Yes, I'm going back April 1st to further our business there, and to start up a couple of the consulting assignments.

LEO CARPIO: Thanks for taking time out of your busy schedule, and good luck with your ventures in China.

SHELDON DORENFEST: Well, thank you very much, Leo, I appreciated being here today, and it was nice to talk with everybody. Take care.

OPERATOR: Thank you, this does conclude today's Prudential Equity Group conference call.

Companies Mentioned: Cerner Corp. (CERN, \$55.10, Overweight Rated), General Electric (GE, \$35.29, Overweight Rated by Prudential Equity Group's Senior Electrical/Consumer and Electrical Equipment analyst Nicholas Heymann), International Business Machines (IBM, \$95.21, Neutral Weight Rated by Prudential Equity Group's Senior Computer Services Analyst Bryan C. Keane), McKesson Corp. (MCK, \$59.00, Not Rated), Koninklijke Philips Electronics NV (PHG, \$38.05, Not Rated), Siemens (SI, \$107.26, Not Rated)

The risks to our investment thesis include: choppy Federal Government funding & commitment to HCIT development, entry of Microsoft and Google could alter competitive landscape, payor and employer funding, intensifying competition from faster EHR adoption, significant share supply overhang.

To view charts associated with those stocks mentioned in this report, please visit <http://cm1.prusec.com>.

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ANALYST UNIVERSE COVERAGE:

Leo F. Carpio: Allscripts Healthcare Solutions, Cerner Corp., Computer Programs and Systems, The TriZetto Group, Eclipsys Corp., VISICU, Inc. , Quality Systems

Nicholas P. Heymann: Cooper Industries, Honeywell International, SPX Corp., General Electric, Black & Decker, Rockwell Automation, Tyco International, 3M Corp., Emerson Electric, United Technologies, Danaher Corp., ITT Corporation, American Standard Companies, Roper Industries, The Stanley Works, WESCO International, ABB Ltd.

Bryan C. Keane: The BISYS Group, Intuit Inc., First Data, Paychex Inc., Fiserv, Inc., DST Systems, CheckFree Corp., Jack Henry & Associates, Automatic Data Processing, Affiliated Computer Services, Computer Sciences, Electronic Data Systems, Accenture Ltd., Sapient Corp., Cognizant Technology Solutions, Infosys Technologies, Wipro Limited, Satyam Computer Services, Western Union, International Business Machines.

Rating Distribution

04/02/07	Firm	Firm's Investment Banking Clients	Sector	Sector's Investment Banking Clients
Overweight(Buy)*	37%	0%	39%	0%
Neutral Weight(Hold)*	42%	0%	48%	0%
Underweight(Sell)*	21%	0%	13%	0%

Excludes Closed End Funds				
03/30/07	Firm	Firm's Investment Banking Clients	Sector	Sector's Investment Banking Clients
Overweight(Buy)*	37%	0%	37%	0%
Neutral Weight(Hold)*	41%	0%	48%	0%
Underweight(Sell)*	21%	0%	15%	0%
Excludes Closed End Funds				
12/29/06	Firm	Firm's Investment Banking Clients	Sector	Sector's Investment Banking Clients
Overweight(Buy)*	36%	0%	35%	0%
Neutral Weight(Hold)*	41%	0%	46%	0%
Underweight(Sell)*	23%	0%	19%	0%
Excludes Closed End Funds				
09/29/06	Firm	Firm's Investment Banking Clients	Sector	Sector's Investment Banking Clients
Overweight(Buy)*	36%	0%	41%	0%
Neutral Weight(Hold)*	43%	0%	41%	0%
Underweight(Sell)*	21%	0%	17%	0%
Excludes Closed End Funds				

* In accordance with applicable rules and regulations, we note above parenthetically that our stock ratings of "Overweight," "Neutral Weight," and "Underweight" most closely correspond with the more traditional ratings of "Buy," "Hold," and "Sell," respectively; however, please note that their meanings are not the same. (See the definitions above.) We believe that an investor's decision to buy or sell a security should always take into account, among other things, that the investor's particular investment objectives and experience, risk tolerance, and financial circumstances. Rather than being based on an expected deviation from a given benchmark (as buy, hold and sell recommendations often are), our stock ratings are determined on a relative basis (see the foregoing definitions).

Prior to September 8, 2003 our rating definitions were Buy, Hold, Sell. They are defined as follows:

When we assign a **Buy** rating, we mean that we believe that a stock of average or below-average risk offers the potential for total return of 15% or more over the next 12 to 18 months. For higher-risk stocks, we may require a higher potential return to assign a Buy rating. When we reiterate a Buy rating, we are stating our belief that our price target is achievable over the next 12 to 18 months.

When we assign a **Sell** rating, we mean that we believe that a stock of average or above-average risk has the potential to decline 15% or more over the next 12 to 18 months. For lower-risk stocks, a lower potential decline may be sufficient to warrant a Sell rating. When we reiterate a Sell rating, we are stating our belief that our price target is achievable over the next 12 to 18 months.

A **Hold** rating signifies our belief that a stock does not present sufficient upside or downside potential to warrant a Buy or Sell rating, either because we view the stock as fairly valued or because we believe that there is too much uncertainty with regard to key variables for us to rate the stock a Buy or Sell.

When we assign an industry rating of Favorable, we mean that generally industry fundamentals/stock prospects are improving.

When we assign an industry rating of Neutral, we mean that generally industry fundamentals/stock prospects are stable.

When we assign an industry rating of Unfavorable, we mean that generally industry fundamentals/stock prospects are deteriorating.

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The methods used to determine the price target generally are based on future earning estimates, product performance expectations, cash flow methodology, historical and/or relative valuation multiples. The risks associated with achieving the price target generally include customer spending, industry competition and overall market conditions.

Additional risk factors as they pertain to the analyst's specific investment thesis can be found within the report.

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