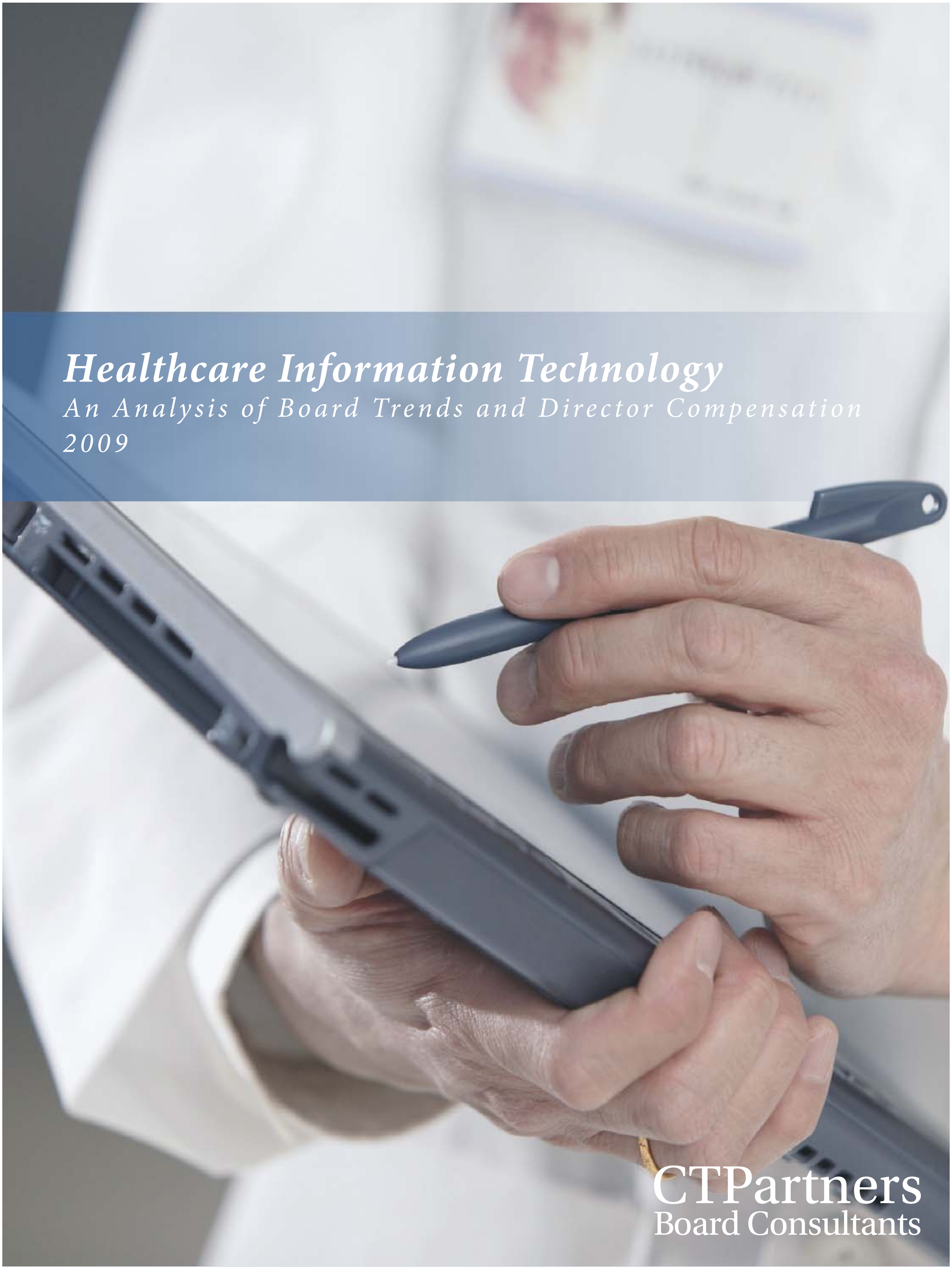
# Healthcare Information Technology

*An Analysis of Board Trends and Director Compensation*

*2009*



CTPartners
Board Consultants

# Vertical Market:
# Healthcare Information Technology

## Introduction

To provide information on governance trends in the Healthcare Information Technology industry, CTPartners conducted the following research based upon the most recent proxy statements* of ten selected companies that operate in the industry.

## Key Findings

**Performance:** The market performance of the ten companies surveyed indicates that the Healthcare Information Technology industry as a whole has enjoyed a decade of impressive growth; indeed, for most of the companies surveyed, this growth has not stopped during the past year despite record downturns in the market overall. Of the five companies for which performance data since 2000 was available, all but one beat the performance of their corresponding indices.

**Share Ownership:** Alignment between the interests of directors and shareholders is strong, with non-executive directors holding sizeable stakes (average: $6.6 MM) in the companies on whose boards they serve. Including executive board members in the analysis raises the average director's equity stake to over $23 MM.

**Overboarding:** Only three of the companies surveyed had any directors who served on four or more public boards: Eclipsys (13%), Phase Forward (13%), and MedCo Health (11%).

**Rotation:** There is little indication that the next few years will see a higher-than-average service rotation. Current board members have an average age of 60 and an average length of board service of eight years; only three non-executive directors are over the age of 70.

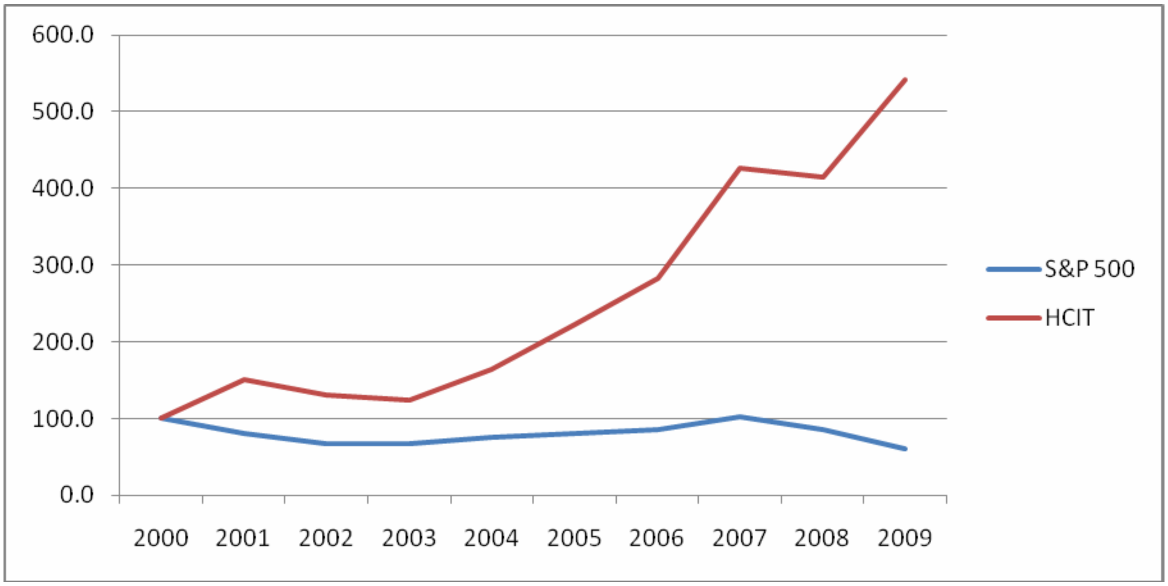
**Composition:** Boards are relatively uniform in composition. The average board has nine directors, with a range from seven to thirteen, and is 72% independent. Selection of directors by industry or functional background appears to be of paramount concern, with boards exhibiting similar percentages of directors with specific functional experience.

**Diversity:** Efforts to increase board diversity by gender and ethnicity appear to have taken a backseat to attempts to balance boards by industry function and functional expertise. There is no statistical indication that any effort to increase diversity is present across the industry as a whole.

**Compensation:** Non-executive director compensation is heavily comprised of equity grants. Of the ten companies surveyed, nine compensated non-executive directors in cash, six in stock grants, and four in options grants. Average annual director compensation was $57,472 in cash, $105,370 in equity securities, and $94,402 in options.

*All information contained within this report regarding TriZetto (TZIX) is from fiscal year 2007, due to merger.

# Industry Performance



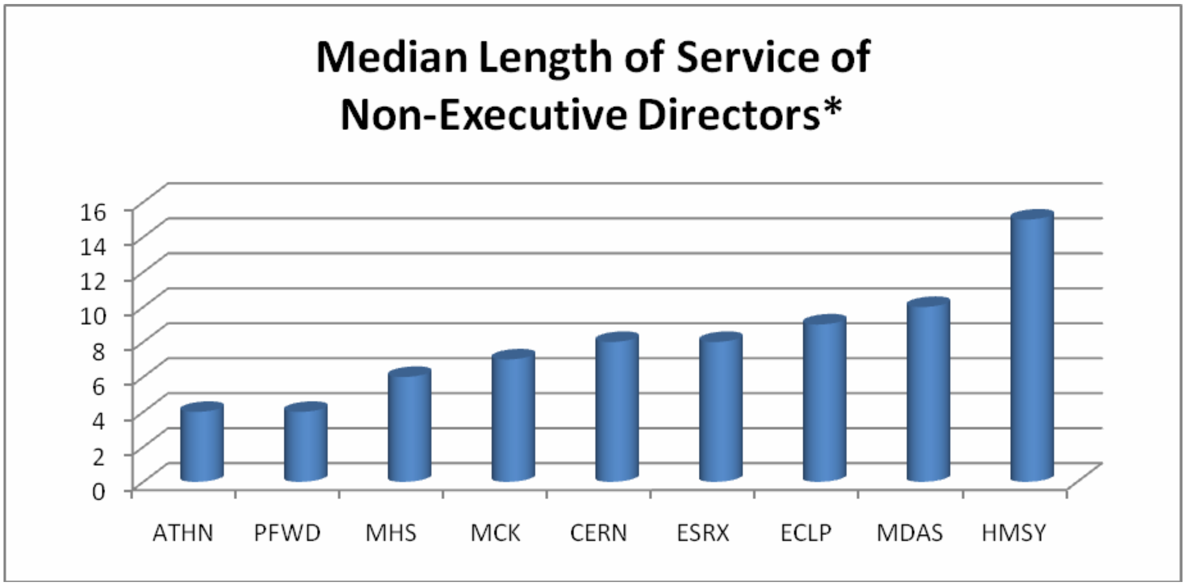

Indexed performance of the five HCIT equities that have been publicly traded since 2000 as compared to the performance of the S&P 500.

Stock performance data relative to the S&P 500 index over an extended period of time can often be useful in determining board performance. Five of the ten public companies surveyed have historical performance data since 2000: Cerner Corporation, Eclipsys, Express Scripts, HMS Holdings, and McKesson Corporation. This performance data was compared to S&P 500 index performance from the period of July, 2000 through July, 2009.

During this period, the NASDAQ lost 59%. All five of the Healthcare Information Technology companies analyzed beat the index performance, with an average gain of 442%. Further, all five companies exhibited a net positive performance. The high performer for the period was HMS Holdings Corporation (HMSY), whose stock has increased by 1307% over the past nine years.

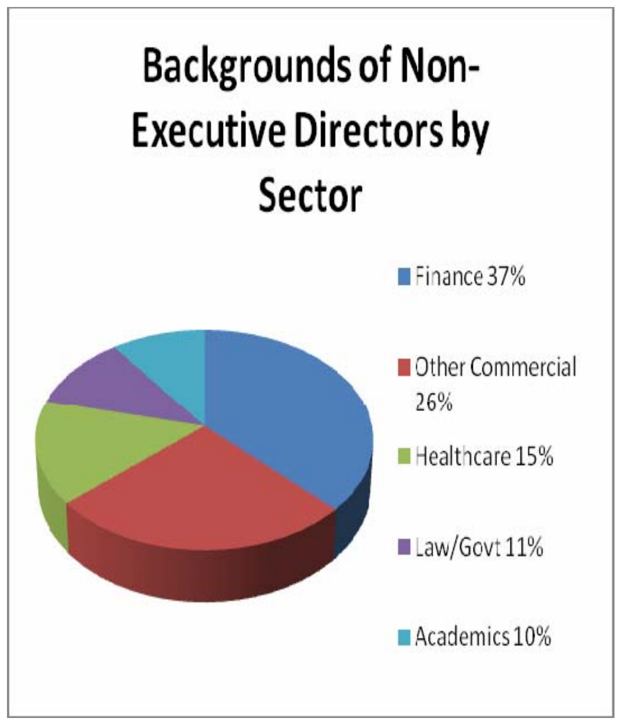
While such performance could be viewed as indicative of excellent governance, the consistently high gains across the industry suggest an increasing demand for Healthcare Information Technology services during the period examined. The companies surveyed appear to have capitalized on an exceptional market opportunity, and it is difficult to ascertain how much influence their past Directors had on these decisions.

## Director Demographics




**Excludes TriZetto*

The typical Healthcare Information Technology company board consists of nine directors, 72% of whom are independent. Non-executive directors likely come from the finance and healthcare industries, and each board typically includes at least one director with a legal background or government experience. Other professional backgrounds represented on the boards of the companies surveyed include consulting, CPG, and academics.




Directors are overwhelmingly male and Caucasian, with an average age of 60 and an age range of 36 to 77. They have served for an average of eight years with a range of one to 29 years.

Most directors serve on at least one other public company board; of the 71 non-executive directors studied, only eight hold no other directorships.

## Board Diversity

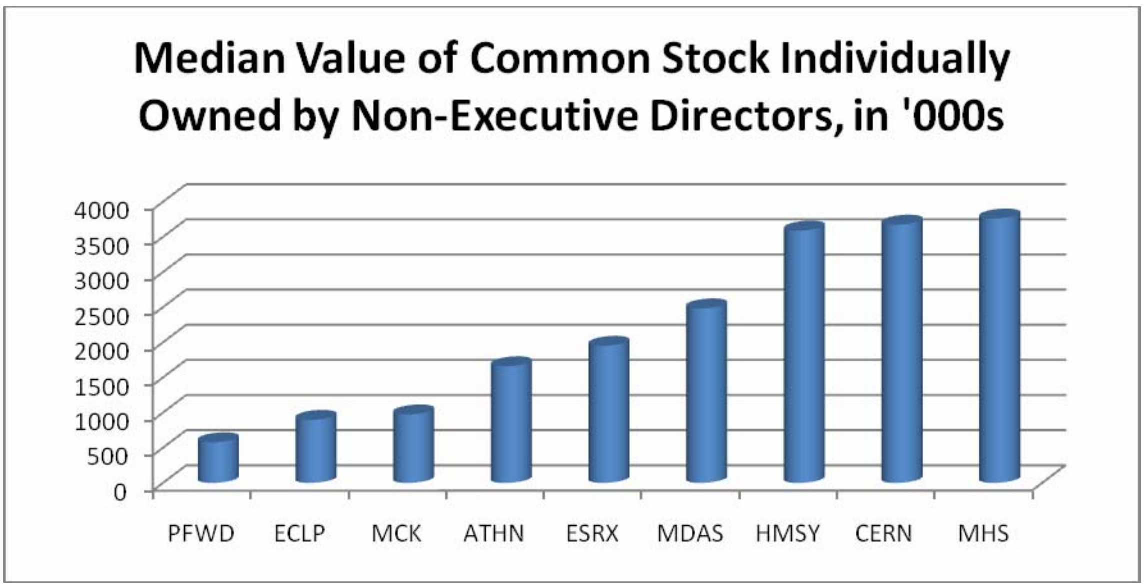
Though director diversity has been touted as a hot-button issue in the past few years, it appears that, in the case of the healthcare information technology industry, efforts to diversify boards by gender and ethnicity have taken a backseat to populating boards according to the industrial

## Board Diversity (continued)

and functional backgrounds of directors. Women currently hold ten of the 89 seats on the ten surveyed, or 11% as compared to the Fortune 500 average of 14.6%; of these, a majority were appointed in the late 1990's and early 2000's, a period during which the failure of some companies to appoint female directors garnered negative media attention. To date, three of the ten boards surveyed were exclusively male.

Board diversification by ethnicity, on the other hand, seems to be a more highly ranked priority: of the five African-American board members in this survey, all were appointed in 2003 or later. African-Americans, the only ethnic minority represented, held an average of 6% of directorships. Three of the five boards for which ethnic data was available had no minority representation.

## Equity Ownership




Equity ownership has historically been viewed as a metric by which director-shareholder alignment can be measured. In keeping with that philosophy, it can be derived from the data above that this alignment strongly exists among the major firms in the Healthcare Information Technology industry. The 65 non-executive directors of the nine companies for which data was available own a total of $432 MM in stock in the companies on whose boards they serve, or an average individual investment of $6,641,517.

In the instance of several of the companies surveyed, the median figure of the stakes of non-executive directors obscures a tremendous variation in individual investment. One director of MedAssets, for example, personally owns over $121 MM of common stock in the company, while three of his contemporaries own close to $1 MM each. The difference between the company median figures and the overall average illustrates the existence of several individual directors holding very significant stakes in their respective companies.

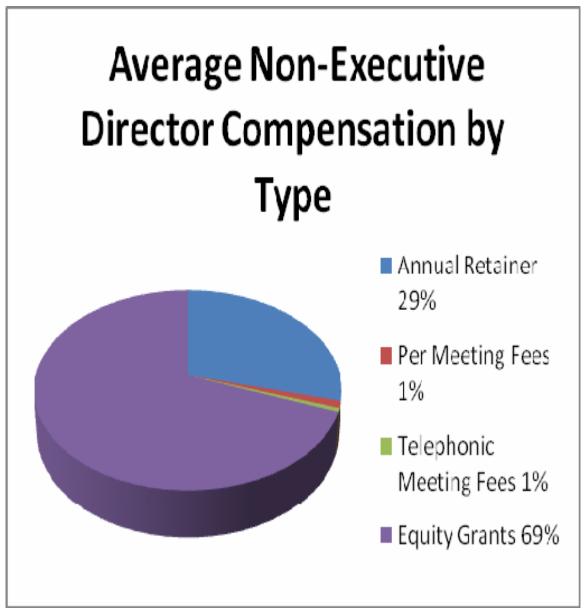
# Non-Executive Director Compensation

| Company | Market Cap as of 10/1/09 (in Bs)* | Data Year | Annual Retainer | Per Meeting Fee | Telephonic Meeting Fee | Equity Grants | # of Meetings |
|---|---|---|---|---|---|---|---|
| ATHENAHEALTH INC (ATHN) | $1.31 | 2008 | $30,000 | $2,500 | $1,500 | $0 | 7 |
| CERNER CORP (CERN) | $6.19 | 2008 | $63,500 | | | $150,000 | 4 |
| ECLIPSYS CORP (ECLP) | $1.13 | 2008 | $35,000 | $2,000 | $500 | $125,000 | 12 |
| EXPRESS SCRIPTS INC (ESRX) | $21.62 | 2008 | $30,000 | $2,000 | $1,000 | $199,920 | 6 |
| PHASE FORWARD INC (PFWD) | $0.59 | 2008 | $30,000 | $1,000 | $500 | $75,000 | 6 |
| HMS HOLDINGS CORP (HMSY) | $1.0 | 2008 | $32,500 | | | $40,000 | 5 |
| MCKESSON CORP (MCK) | $15.6 | 2009 | $75,000 | $1,500 | | $150,000 | 8 |
| MEDASSETS INC (MDAS) | $1.23 | 2007 | | | | $88,000 | 8 |
| MEDCO HEALTH SOLUTIONS INC (MHS) | $25.82 | 2008 | $50,000 | $2,000 | $1,000 | $181,906 | 8 |
| TRIZETTO GROUP INC (TZIX) | ** | 2007 | $40,000 | | | $0 | * |

*approximate as of August 1st, 2008*
***information unavailable due to merger*

Non-executive director compensation has historically been split between cash payments and equity grants. Among the companies surveyed in the Healthcare Information Technology industry, the ratio of this compensation division heavily favors equity grants. This may reflect a larger trend in corporate governance.

In this survey, eight out of the nine companies for which data was available compensated more heavily in equity than in cash; the median compensation split was 69% equity, 31% cash. Only two of the ten companies surveyed did not compensate directors with stock or option grants.



# Board Directors – Healthcare Information Technology

*Current as of 8.25.09 - Information for TriZetto Group is from 2007, prior to merger.*

**AthenaHealth Inc. (8)**
Nasdaq: ATHN

BRANDON H. HULL
JAMES L. MANN (C)
JOHN A. KANE (A)
JONATHAN BUSH×+
RICHARD N. FOSTER
RUBEN J. KING-SHAW
TODD Y. PARK
ANN H. LAMONT

**Cerner Corporation (7)**
Nasdaq: CERN

CLIFFORD W. ILLIG+
GERALD E. BISBEE (A)
JOHN C. DANFORTH
MICHAEL E. HERMAN (C)
NEAL L. PATTERSON×+
WILLIAM B. NEAVES
WILLIAM D. ZOLLARS

**Eclipsys Corporation (7)**
Nasdaq: ECLP

CRAIG MACNAB
DAN L. CRIPPEN
EDWARD A. KANGAS (C)
EUGENE V. FIFE×
JAY B. PIEPER (A)
JOHN T. CASEY
PHILIP M. PEAD+

**Express Scripts (13)**
Nasdaq: ESRX

BARRETT A. TOAN
FRANK BORELLI (A)
FRANK MERGENTHALER
GARY BENANAV (C)
GEORGE PAZ×
JOHN O. PARKER
MAURA BREEN◦
NICHOLAS LAHOWCHIC
SAMUEL K. SKINNER
SEYMOUR "SY" STERNBERG
THOMAS P. MACMAHON±
WOODROW A. MYERS

**Phase Forward Inc. (9)**
Nasdaq: PFWD

AXEL BICHARA
DENNIS R. SHAUGHNESSY (C)
GARY E. HAROIAN (A)
JAMES I. CASH±
KENNETH I. KAITIN†
PAUL A. BLEICHER+
PAUL G. JOUBERT
RICHARD A. D'AMORE
ROBERT K. WEILER×+

**HMS Holdings Corp. (10)**
Nasdaq: HMSY

ELLEN A. RUDNICK◦ (A)
GALEN D. POWERS
JAMES T. KELLY
MICHAEL A. STOCKER
RICHARD H. STOWE (C)
ROBERT M. HOLSTER×+
WILLIAM C. LUCIA+
WILLIAM F. MILLER
WILLIAM S. MOSAKOWSKI+
WILLIAM W. NEAL

**McKesson Corp. (10)**
NYSE: MCK

ALTON F. IRBY (C)
ANDY D. BRYANT
DAVID M. LAWRENCE
EDWARD A. MUELLER
JAMES V. NAPIER ±
JANE E. SHAW◦
JOHN H. HAMMERGREN×+
M. CHRISTINE JACOBS◦
MARIE L. KNOWLES◦ (A)

**MedAssets Inc. (9)**
Nasdaq: MDAS

BRUCE F. WESSON (A)
C.A. LANCE PICCOLO
HARRIS HYMAN IV
JOHN A. BARDIS×+
JOHN C. RUTHERFORD
RAND A. BALLARD+
SAMANTHA TROTMAN BURMAN◦
TERRENCE J. MULLIGAN (C)
VERNON R. LOUCKS, JR.

**MedCo Health Solutions (9)**
NYSE: MHS

BLENDA J. WILSON◦†
CHARLES M. LILLIS
DAVID B. SNOW×+
DAVID D. STEVENS+
HOWARD W. BARKER (A)
JOHN L. CASSIS (C)
MICHAEL GOLDSTIEN
MYRTLE S. POTTER◦†
WILLIAM L. ROPER

**TriZetto Group, Inc. (7)****
Nasdaq: TZIX

BILL SULLIVAN
BUDDY GUMINA
DONALD J. LOTHROP
JEFFREY H. MARGOLIS×+
MARK GANZ
NICO HANSEN
VICKY GREGG◦

× chair
± lead independent director
(A) audit committee chair
(C) comp committee chair
+ insider
◦ woman
† minority**

**director ethnicity data not available for all companies
*** some information could not be obtained due to merger

# Basis of the Research

The data in the survey was compiled from proxy statements from January 2008 through March 2009.

This study focuses on ten Healthcare Information Technology companies. Seven of the companies surveyed are traded on the NASDAQ: AthenaHealth Incorporated, Cerner Corporation, Eclipsys Corporation, Express Scripts Incorporated, Phase Forward Incorporated, HMS Holdings Corporation, and MedAssets Incorporated. Two of the companies surveyed, McKesson Corporation and MedCo Health Solutions Incorporated, trade on the New York Stock Exchange. All information contained within this report regarding TriZetto (TZIX) is from fiscal year 2007, due to a recent merger. More detailed information concerning the company boards discussed in this survey is available by contacting John Hawkins, Vice Chairman, at the address below.

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