

HealthTronics (Nasdaq/HTRN)

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BUY **Primed and Healthy**

HealthTronics manufactures and operates urological treatment systems

Investment Highlights

1) After making three major acquisitions last year: American Medical Products International (“AMPI”), a \$24 million operator of lithotripsy, cryosurgery and surgical laser systems; UroPath, which owns three clinical labs focusing on urology-oriented clinical pathology; and Ocean Radiation Therapy (“Ocean”), a provider of services to an IGRT oncology treatment facility in Florida, HealthTronics has followed up this year with the \$20 million purchase of medical device manufacturer Endocare. All three 2008 acquisitions are contributing to EBITDA growth, and Endocare is targeted to accomplish this within 12 months of the July 2009 closing.

2) Even with its active acquisition program, HealthTronics has not neglected its organic growth opportunities. The Company continues to grow its ClariPath clinical pathology start-up in this its third year of operation, and the UroPath acquisition has added valuable economies of scale. The TotalRad de novo IGRT initiative is expected to benefit from the expertise and showcase provided by the Ocean location in Florida and TotalRad just opened its first new center this summer and may open more next year. Finally, AMPI adds new experience in operating cryosurgery and laser partnerships, service offerings which can be expanded to HealthTronics’ large partnership network, already representing one-third of the practicing urologists in the US.

3) HealthTronics’ shares have bounced back nicely this year as the market has strengthened and investors have become more comfortable with the Company’s active acquisition program. A lessened fear of a radical health care system overhaul has also allowed investors to get back into healthcare services stocks. A solidly profitable year forecast for 2009 and further revenue and earnings growth next year as acquisition synergies are achieved and internal growth efforts move forward should keep share price momentum upwards, as more investors become aware of the benefits of HealthTronics’ business plan and market position.

Current Price \$2.56

Price Target \$3.75

Estimates	F2007A	F2008A	F2009E
Sales(\$000s)	\$140,418	\$165,942	\$184,768
1Q	32,751	33,954	43,612 A
2Q	35,563	42,580	44,156 A
3Q	35,955	44,771	47,500 E
4Q	36,149	44,637	49,500 E
Prev. Rev. Estimate (\$000s)			

EPS (non-GAAP)	(\$0.41)	\$0.10	\$0.10
1Q	(0.00)	0.01	0.03 A
2Q	0.01	0.02	0.03 A
3Q	0.02	0.04	0.02 E
4Q	(0.44)	0.03	0.02 E

Previous EPS Estimate			
P/E (x)	N/A	26.4	24.4

EBITDA/Share	\$0.43	\$0.47	\$0.48
EV/EBITDA (x)	7.4	6.8	6.7

Stock Data	
52-Week Range	\$1.01-\$3.85
Shares Outstanding (mil.)	43.2
Market Capitalization (mil.)	\$110.6
Enterprise Value (mil.)	\$138.8
Debt to Capital (6/09)	25.1%
Book Value/Share (6/09)	\$2.79
Price/Book	0.9 x
Average Trading Volume (3-Month)	123,000
Insider Ownership	9.8%
Institutional Ownership	46.2%
Short interest	68,000
Dividend / Yield	\$0.00/0.0%



Price target and ratings changes over the past 3 years:
Initiated - September 18, 2009 – Target \$3.75

Conclusion

We are initiating coverage of HealthTronics with a Buy rating and a 12-18 month price target of \$3.75, just 0.9x estimated 2009 revenues and 22x estimated 2010 earnings of \$0.17 per share. We believe HealthTronics is a misunderstood market leader in the health services space, and with solid earnings, exciting new growth initiatives, and a strong track record of successful acquisitions (and plenty of financial resources available to make more) value-oriented investors will be awarded with above-average appreciation potential as these shares rebound from lows.

History/Capitalization

HealthTronics was formed in November 2004 as the successor corporation to the merger of Prime Medical Services and HealthTronics Surgical Services (“HSS”). Prior to the merger, the primary business of both Prime and HSS for over twenty years had been the operation of mobile shockwave lithotripsy units for outpatient medical procedures. The Company also provides other services in the urology specialty medical area, including the treatment of benign and cancerous prostate conditions. In the medical products area, HealthTronics manufactures sells and maintains lithotripters and mobile patient management tables for urology procedures and is the exclusive US distributor for the RevoLix branded surgical laser. In 2006, HealthTronics sold its specialty vehicle manufacturing division. In 2007, HealthTronics entered the pathology laboratory business with the establishment of its ClariPath subsidiary, and that same year the Company entered the market for Image Guided Radiation Therapy (“IGRT”) cancer treatment centers through its TotalRad Radiation Therapy Solutions initiative. In July 2009, HealthTronics completed the acquisition of publicly-traded Endocare, a manufacturer of medical devices for tissue and tumor ablation, including prostate cancer. Prior to the 2004 merger, Prime Medical and HSS financed their operations through equity and debt offerings, and since 2004 the Company has financed its operations through operating cash flow and the sale of certain discontinued operations.

Primary Business/Competition

HealthTronics’ fleet of mobile lithotripters is the largest in the US, and combined with cryosurgery, pathology and surgical laser service offerings the Company is the leading provider of urological services and products in the US. The Company serves a network of over 3,000 physicians in the US in some capacity, representing an estimated one-third of the urologists in the country. Lithotripsy, used to treat kidney stones, is a \$600 million market (387,000 procedures annually) growing at approximately 2% per year, which has essentially replaced more invasive standard surgical procedures. Competition primarily includes smaller, local hospital-based or physician partnerships.



The market for benign prostatic hyperplasia (“BPH”) or enlarged prostate treatment is large with a number of other treatment options, including pharmaceuticals, but the laser surgery option has been growing in frequency (10%-12% per year) due to rapid symptom relief, greater safety and reduced recuperation time, and now represents an estimated \$650 million market in the US. HealthTronics competes with other providers of laser services and several well-established pharmaceutical brands in the BPH market.

In the much larger prostate cancer treatment area, the Company's cryosurgery (freezing) and IGRT modalities compete with a number of treatment alternatives, including brachytherapy (radioactive seeds), radical prostatectomy surgery, and other options such as external beam radiation. Prostate cancer is the second most common type of cancer in men, with an estimated 230,000 new cases per year. The number of cryosurgery procedures performed in 2008 was over 15,000, and over 145,000 prostate cancer patients were treated with radiation (such as IGRT) in 2008.



In the market for manufacturing lithotripters and other urological equipment, HealthTronics competes with several other equipment manufacturers, primarily European based, including Siemens AG, Dornier Medtech, Storz Medical, Richard Wolf and Direx.



With its ClariPath formation in 2006 and UroPath acquisition in 2008, HealthTronics entered the anatomic pathologic services market, specifically the non-hospital prostate and bladder cancer screening segment. This market segment comprised over \$1.8 billion in revenues in 2007, with independent labs averaging 12.2% revenue growth that year. In addition to large, national laboratory service providers such as Quest Diagnostics and LabCorp, HealthTronics competes with smaller, urologist owned co-op or "condo" labs

in the Urology specific lab market.

Management

James Whittenburg was appointed President and CEO of HealthTronics in August 2007 after previously serving as President of the Urology Division, President of the Specialty Vehicle Manufacturing Division and General Counsel. He is also a Director. Prior to joining the firm, Mr. Whittenburg was an attorney at Akin Gump Strauss Hauer and Feld. He is also a CPA. **Richard Rusk** is Interim Chief Financial Officer, Treasurer and Secretary. He joined the Company as Corporate Controller in 2000 after seventeen years experience with KPMG. He is also a CPA. **Bob Yonke** joined HealthTronics in July 2008 as President of the Urology Services division. Prior to joining the Company, Mr. Yonke was CEO and Co-founder of AMPI. Mr. Yonke has over twenty years experience in the healthcare services market. **Clayton Duncan** joined HealthTronics in August 2007 as Vice-President-Radiation Therapy. Mr. Duncan was employed at McKesson Provider Technologies prior to joining the Company and also has experience in the healthcare and technology industries and has practiced law at Strasburger & Price LLP. **Scott Herz** joined the Company in 2005 and was appointed Vice President-Corporate Development in December 2007. Prior to joining HealthTronics, Mr. Herz was an associate investment banker at RSM Equico and was employed as a mechanical engineer at Colorado MEDtech.

R. Steven Hicks was appointed Chairman of the Board in March 2006 and has served on the Board since 2002. He is currently Chairman of Capstar Partners, a private equity firm based in Austin, Texas. Other Board members include **Kenneth Shifrin**, currently Chairman and CEO of American Physicians Service Group (Nasdaq/AMPH/NR) and former CEO of predecessor firm Prime Medical Services, **Dr. Argil Wheelock**, currently Chief Medical Officer of the Company and also a Board-certified urologist and founding director and former Chairman of predecessor HSS, **Donny R. Jackson**, former CEO of Netzee, Provesa and Bank Atlanta, and **Timothy Lindgren**, currently senior vice president for Hyatt Hotels & Resorts.

Currently, insiders hold approximately 10% of the outstanding shares and options, and there has been a steady amount of insider buying in the past twelve months. In addition, Prides Capital, which until recently had a representative on HealthTronics' Board, still holds 3.6 million shares or about 8% of total.

Recent Results

HealthTronics reported their second quarter financial results in early August, including revenues of \$44.2 million, up 4% from the prior year period, and net income of \$329,000, or \$0.01 per share. Earnings per share on a non-GAAP basis, which excludes stock compensation expense and acquisition-related charges, was \$0.02 per share in Q2/2009. GAAP earnings per share were \$0.02 in Q2/2008. Revenue growth during the quarter was led primarily by increases in laboratory fees, and to a lesser extent higher lithotripsy fees and contract service revenues, offset by small decreases in cryosurgery and manufacturing and consumable revenues. Lithotripsy volume growth was positive, if small, at 0.5% year-over-year. Cost of revenues increased 11% or \$2.1 million in the quarter, due primarily to the inclusion of IGRT center costs and higher laboratory costs, specifically from the July 2008 UroPath acquisition. Higher cost of revenues during the quarter, however, were partially offset by lower S, G & A costs of \$400,000, which included lower stock compensation expense but higher acquisition-related expenses. Depreciation and amortization and interest expenses were also higher during Q2/2009, while minority interest expense held level during the quarter.

Quarter ended (\$000s)	June 30th, 2008	June 30th, 2009
Revenues	\$42,580	\$44,156
Gross Profit	\$23,445	\$22,900
Operating expenses	\$8,338	\$8,258
Other income (expense)	(\$145)	(\$266)
Partnership minority interest	(\$13,781)	(\$13,741)
Net income	710	329
Earnings per share	\$0.02	\$0.01
Shares outstanding-diluted	37,165	36,161

Q2/2009 represents over a year since cryoblation services provider AMPI was acquired (April 2008), and about three quarters since completing the major acquisitions of UroPath (pathology lab) and the Ocean Radiation (IGRT) center. The second quarter also saw other one-time expenses such as Endocare-related acquisition costs. With the Q3/2009 closing of Endocare, whose largest account by far was the former AMPI (40% of revenues); HealthTronics will be able to draw additional synergies out of last year's AMPI acquisition.

Balance Sheet and Operating Cash Flow

HealthTronics maintains a solid balance sheet, with \$12.2 million in cash and equivalents on hand at June 30, 2009 and long-term debt of \$40.4 million, including approximately \$35 million drawn down on the Company's senior credit line. Following the Endocare acquisition after the end of the second quarter, HealthTronics had approximately \$44 million drawn down on this \$60 million line, which matures in March 2010 but which the Company intends to re-structure by the end of this year. HealthTronics also maintains a \$125 million senior secured term loan B (due 2011) which the Company has used before but is currently untapped. Accounts receivable increased slightly during the first half of this year, by \$1.0 million to \$28.7 million, primarily due to revenue growth in the pathology lab business, while inventories declined slightly (approximately \$150,000) to \$8.7 million at the end of June. The chart below depicts cash and equivalents, accounts receivable, inventories, long-term debt and shareholders' equity for HealthTronics for the year-ended December 31st, 2008, quarter ended June 30th, 2009, and an estimated pro forma for the combined HealthTronics/Endocare company:

(\$000s)	December 31st, 2008	June 30th, 2009	June 30th Pro Forma (Est)
Cash and equivalents	\$22,854	\$12,173	\$14,700
Accounts receivable	\$27,687	\$28,731	\$32,400
Inventory	\$8,843	\$8,689	\$13,400
Long-term debt	\$46,387	\$40,410	\$53,300
Stockholders' equity	\$167,095	\$162,214	\$168,400

Operating cash flow for the first six months of the year was approximately \$34.4 million versus \$34.1 million for the first half of last year. HealthTronics spent \$4.4 million for capital expenditures in the first half of 2009, primarily equipment and leasehold improvements, slightly less than the \$5.6 million spent for the same period last year. Other components of cash flow were similar for H1/2009 versus H1/2008, including net distributions/contributions from minority partnerships of \$34.4 million versus \$30.7 million and repayments of long-term debt of \$9.40 million as compared with \$9.35 million.

With expected operating cash flow positive and a positive outlook for EBITDA for the remainder of this year and into next, we do not anticipate that HealthTronics will need to dip into the equity markets in the near future, although a restructuring of the Company's existing credit line is a possibility, as is the potential for tapping into part of the Company's term loan B line should more acquisition opportunities arise.

Acquisition Activity

Following the 2004 Prime Medical/HSS merger, the combined companies took a breather from acquisitions to sell a specialty vehicle manufacturing subsidiary and undertake several de novo growth programs, including laboratory services and IGRT centers. Then, in 2008, using its enhanced urology market profile and improved balance sheet following the specialty vehicle manufacturing subsidiary sale, HealthTronics began an active 18-month acquisition program which has culminated in the Endocare purchase and may not be over yet. The primary acquisitions and key components of each deal, listed in chronological order, are as follows:

1) Advanced Medical Partners, Inc. (AMPI) – April 2008 – This urology-oriented management service provider specialized in cryosurgery (and remains the largest provider in the US), adding a new specialty to HealthTronics as well as 25 physician partnerships operating in 46 states with over 500 physician partners and users. The acquisition was completed for \$15 million in cash and stock, has been fully integrated, and played a key role in the acquisition of Endocare as its largest customer.

2) Uropath – July 2008 – Uropath added primary laboratory locations on the East Coast (Philadelphia) and Southwest (San Antonio) to HealthTronics' start-up lab ClariPath operation in the Southeast (Augusta, Georgia), begun in 2006. In addition to the added capacity and geographic diversity, Uropath added its experience with serving more than 50 urology practices and processing over 400,000 specimens annually. Uropath was acquired for \$7.5 million, primarily cash.

3) Ocean Radiation Therapy (Ocean) – October 2008 – Ocean managed a state-of-the art IGRT cancer treatment center in Daytona Beach, Florida for a large urology practice, Atlantic Radiological Associates. The center treated more than 250 cancer patients per year, historically, and bolstered HealthTronics' de novo IGRT center initiative, TotalRad, which began in 2007 and recently culminated with the opening in June 2009 of the Company's second (first internally-developed) IGRT center in the Philadelphia area. Ocean was purchased for \$35 million in cash.

4) Endocare – July 2009 – After rejecting an initial, much higher offer in 2008, shareholders of publicly-traded Endocare agreed to be acquired by HealthTronics in June 2009 for total compensation of \$20 million, mostly in cash but also including stock and assumed debt. Endocare was a vertical integration into manufacturing of cryoablation systems and more importantly cryosurgery-related consumables, and in addition to adding new physician relationships, HealthTronics is counting on synergies from the acquisition from eliminating redundant infrastructure and consolidating manufacturing operations from California to the Company's primary Austin, Texas campus.

In addition to the aforementioned large acquisitions, HealthTronics has continued a steady practice of purchasing lithotripsy partnerships, including two in 2007 and three in 2008, as well as re-purchasing blocks of common stock upon certain occasions.

Outlook/Growth Drivers

HealthTronics' management provided financial guidance for the upcoming third and fourth quarters, specifically relating to the recent Endocare acquisition, including:

- 1) A neutral to slightly negative impact during the third quarter of 2009 as the Endocare integration into existing HealthTronics operations is initiated. Third quarter is seasonally the strongest for the Company's lithotripsy business;
- 2) Positive EBITDA contribution of approximately \$1.0-\$1.5 million for the fourth quarter of 2009, the first full quarter of operations from Endocare, as this integration is continued; and
- 3) Positive adjusted EBITDA contribution of between \$6-\$7 million on an annualized basis by the end of the first quarter of 2010, as integration, including manufacturing operations, is more fully completed; and
- 4) Potential additional EBITDA contribution (on an annualized basis) in later quarters of 2010, especially if the Company is able to cross-sell additional services, such as maintenance or laboratory services, to new customers garnered from Endocare's cryoablation business.

We are estimating that HealthTronics will benefit from the recent Endocare acquisition on the top line for the upcoming two quarters, but bottom line results will be held back somewhat while this new purchase is integrated. Our estimates for revenue growth for Q3/2009 and Q4/2009 are healthy, at 6% and 11%, respectively, but earnings for both upcoming quarters are projected to come in at \$0.02 per share (non-GAAP, excluding stock compensation expense), down slightly from the prior year and prior quarters. As was experienced in the first part of the year, we foresee revenue growth in the coming quarters to be fueled by pathology lab services and to a lesser extent lithotripsy patient volume increases, with the added benefit of contribution from the new (and second) IGRT center opened in June. For the entire year, we are forecasting that revenues will be \$184.8 million (up 11.3% from 2008) and earnings per share of \$0.10 on a non-GAAP basis.

For 2010, we are forecasting that HealthTronics will see revenue growth of 13.7% to \$210 million, most but not all from acquisition-related new business, with earnings rebounding to \$0.17 per share on a non-GAAP basis, with gross margins and operating profit margins increasing to levels of 2008 or early 2009 as a heavy acquisition load is fully integrated as 2010 progresses. Our forecast does not assume additional acquisitions or share re-purchases next year for HealthTronics, although these could be a possibility, but does assume an additional IGRT center opening by the end of 2010. Our analysis also does not include any major impact, positively or negatively, from restructuring or re-payment of the Company's existing credit facility nor from the pending implementation of amended regulations for certain physician-owned ventures by CMS.

Stock Valuation/Comparables

Our eight-member group of comparable stocks to HealthTronics includes both large and small operators of outpatient surgery centers, including Amsurg (Nasdaq/AMSG/Not Rated), dialysis centers, such as Davita (NYSE/DVA/NR) and Dialysis Centers of America (Nasdaq/DCAI/NR), diagnostic imaging center operators including Allied Imaging (NYSE/AIQ/NR) and Radnet (Nasdaq/RDNT/NR), rehabilitation service providers HealthSouth (NYSE/HLS/NR) and US Physical Therapy (Nasdaq/USPH/NR) and lastly American Shared Hospital Services (ASE/AMS/NR) an owner and operator of Gamma Knife centers and other facilities in the US, including IGRT and IMRT centers. (See Table 1 below) After HTRN shares have rebounded this year, HealthTronics now trades at multiples very close to those of its peer group, at around 15x estimated earnings for next year and 60%-70% of annual revenues, although share prices and average multiples even with this year's rebound are well below those of headier times in 2007-2008. Thus, we are recommending that investors BUY shares of HTRN as acquisition synergies are seen and new growth initiatives take hold, with a 12-18 month price target of \$3.75, just 22X next year's estimated earnings of \$0.17 per share, or approximately 50% above current levels.

Risk Factors

HealthTronics has been very active on the **acquisition** front, making three large and several smaller deals in 2008 in several different business segments and another major acquisition so far in 2009. Although the Company has made acquisitions before, the size and volume of recent acquisition activity may continue to pose an integration test for the Company's management team. In addition, the Company has dipped into its line of credit in 2008 to complete the most recent acquisition of Ocean and in 2009 for Endocare, and although HealthTronics has approximately \$15 million remaining on its \$60 million revolving line of credit and has all of its \$125 million senior secured term loan B untapped, Company management and its Board may not wish to expand indebtedness in the near-term even if an attractive acquisition opportunity arises. Finally, like many other healthcare service providers, HealthTronics is reliant on **government reimbursement programs** for its lithotripsy and prostate business revenues, and any changes to the amount or nature of this reimbursement could negatively impact future operating results. On October 1, 2009 a recently issued rule by the US Centers for Medicare & Medicaid Services (CMS) barring certain physician-owned ventures from contracting with hospitals under a per-procedure or per-click payment arrangement will become effective. CMS has acknowledged that lithotripsy services is exempt from the Stark Law described above, but other services provided by the Company under physician partnerships including cryoblation and laser BPH surgery have not yet been exempted, and should implementation of the Stark Law be actively pursued by the Federal CMS agency in the near future, HealthTronics could be required to re-structure many of its existing relationships in non-lithotripsy areas.

Healthtronics, Inc.
Consolidated Statement of Earnings
 (in \$000s, except EPS)

Robert M. Wasserman

Calendar Year	2004	2005	2006	2007	1Q08	2Q08	3Q08	4Q08	2008	1Q09	2Q09	3Q09E	4Q09E	2009E	2010E
Revenues															
Urology Services	75,361	133,360	123,265	122,736	29,550	37,865	39,135	38,715	145,265						
Medical Products	10,846	18,202	19,080	17,101	4,247	4,584	5,636	5,922	20,389						
Other	936	705	546	581	157	131	0	0	288						
Total	87,143	152,267	142,891	140,418	33,954	42,580	44,771	44,637	165,942	43,612	44,156	47,500	49,500	184,768	210,000
Costs and expenses:															
Urology services costs			51,262	53,490	12,991	17,399	16,899	17,896	65,185						
Medical products costs			16,797	11,225	2,177	1,736	3,055	3,526	10,494						
Total cost of services			68,059	64,715	15,168	19,135	19,954	21,422	75,679	21,307	21,256	23,000	24,500	90,063	102,900
Salaries, general & admin			20,298	15,884	4,317	5,269	4,600	5,820	20,006	4,556	4,860	5,940	6,440	21,796	26,250
Deprec. & amort.			11,275	11,107	2,628	3,069	3,073	3,593	12,363	3,478	3,398	3,850	4,350	15,076	17,000
Total	51,274	86,325	99,632	91,706	22,113	27,473	27,627	30,835	108,048	29,341	29,514	32,790	35,290	126,935	146,150
Operating income (loss)	35,869	65,942	43,259	48,712	11,841	15,107	17,144	13,802	57,894	14,271	14,642	14,710	14,210	57,833	63,850
Other income:															
Interest income	319	448	755	1,146	191	101	806	135	1,233	50	32	40	40	162	200
Interest expense	(650)	(1,139)	(1,146)	(829)	(163)	(246)	(182)	(486)	(1,077)	(290)	(298)	(400)	(500)	(1,488)	(1,600)
Income from cont. operations	35,538	65,251	42,868	49,029	11,869	14,962	17,768	13,451	58,050	14,031	14,376	14,350	13,750	56,507	62,450
Minority Interest	27,030	47,816	43,277	45,568	11,047	13,781	15,552	13,879	54,259	13,328	13,741	14,000	13,600	54,669	55,500
Income tax	3,247	6,502	(4,563)	(2,854)	370	471	889	(13,246)	(11,516)	313	306	140	60	819	2,640
Net income before ex. item	5,261	10,933	4,154	6,315	452	710	1,327	12,818	15,307	390	329	210	90	1,019	4,310
Extraordinary items	3,908	1,745	(4,529)	20,947	0	0	0	144,000	144,000	0	0	0	0	0	0
Net income	1,353	9,188	8,683	(14,632)	452	710	1,327	(131,182)	(128,693)	390	329	210	90	1,019	4,310
Basic earnings per share	\$0.06	\$0.27	\$0.25	(\$0.41)	\$0.01	\$0.02	\$0.04	(\$3.64)	(\$3.58)	\$0.01	\$0.01	\$0.01	\$0.00	\$0.03	\$0.10
Diluted earnings per share	\$0.06	\$0.26	\$0.25	(\$0.41)	\$0.01	\$0.02	\$0.04	(\$3.64)	(\$3.58)	\$0.01	\$0.01	\$0.01	\$0.00	\$0.03	\$0.10
Earnings per share - non-GAAP										\$0.03	\$0.03	\$0.02	\$0.02	\$0.10	\$0.17
Shares outstanding - basic	21,903	34,311	35,157	35,420	35,425	37,059	37,503	36,004	36,498	35,892	36,006	38,200	43,000	38,275	43,200
Shares outstanding - diluted	22,201	35,182	35,347	35,423	35,425	37,165	37,604	36,004	36,550	35,966	36,161	38,400	43,200	38,432	43,400
Key ratios:															
Revenue Growth	41.8%	74.7%	-6.2%	-1.7%	3.7%	19.7%	24.3%	23.3%	18.2%	28.4%	3.7%	6.1%	10.9%	11.3%	13.7%
Cost of Urology services			41.6%	43.6%	44.0%	46.0%	43.2%	46.2%	44.9%						
Cost of Medical products			88.0%	65.6%	51.3%	37.9%	54.2%	59.5%	51.5%						
Cost of services - total					44.7%	44.9%	44.6%	48.0%	45.6%	48.9%	48.1%	48.4%	49.5%	48.7%	49.0%
S, G&A/Revenues			14.2%	11.3%	12.7%	12.4%	10.3%	13.0%	12.1%	10.4%	14.0%	12.5%	13.0%	11.8%	12.5%
Tax Rate	38.2%	37.3%	N/A	N/A	45.0%	39.9%	40.1%	N/A	41.7%	44.5%	40.0%	40.0%	40.0%	41.1%	38.0%
Minority/Operating profit			60.1%	65.8%	66.7%	67.3%	69.9%	66.7%	67.8%	59.8%	60.0%	57.1%	54.4%	57.7%	51.8%
Adjusted EBITDA	\$20,602	\$30,018	\$17,868	\$17,309	\$4,142	\$5,841	\$6,230	\$5,792	\$22,005	\$5,471	\$5,531	\$5,400	\$5,800	\$22,202	\$29,050
Cash Flow/Share	\$0.24	\$0.31	\$0.44	\$0.49	\$0.09	\$0.10	\$0.12	\$0.46	\$0.76	\$0.11	\$0.10	\$0.11	\$0.10	\$0.42	\$0.49
EBITDA/Share	\$0.41	\$0.53	\$0.34	\$0.43	\$0.10	\$0.12	\$0.15	\$0.55	\$0.47	\$0.15	\$0.15	\$0.14	\$0.13	\$0.48	\$0.67

Quarterly Earnings Comparisons

Balance Sheets (S000)	Quarterly Earnings Comparisons							
	12/31/08	6/30/09	March	June	Sept	Decem	Total	
Assets:			Revenues (in \$000s)					
Cash and equivalents	22,854	12,173	2005	34,943	37,821	41,339	38,164	43,882
Accounts receivable	27,687	28,731	2006	37,106	36,474	35,863	33,448	87,192
Inventory	8,843	8,689	2007	32,751	35,563	35,955	36,149	140,418
Prepaid expenses & other	4,305	4,451	2008	33,954	42,580	44,771	44,637	165,942
Total current	63,689	54,044	2009E	43,612	44,156	47,500	49,500	184,768
Property & equip., net	32,769	30,281	Earnings per Share					
Goodwill & Intangibles	133,898	133,389	2005	0.04	0.07	0.09	0.06	0.28
Other	4,030	6,137	2006	0.04	0.04	0.88	(0.71)	0.25
TOTAL ASSETS	234,386	223,851	2007	(0.00)	0.01	0.02	(0.44)	(0.41)
Liabilities:			2008	0.01	0.02	0.04	(3.64)	(3.58)
Accounts payable	6,468	7,467	2009E	0.03	0.03	0.02	0.02	0.10
Accrued expenses	9,221	7,299						
Current portion of LTD	2,490	37,954						
Other	95	0						
Total current	18,274	52,720						
Long-term debt	43,897	2,456						
Deferred taxes & other long-term	5,120	6,461						
Minority interest	47,723	41,859						
Stockholders' equity	119,372	120,355						
TOTAL LIAB & EQ	234,386	223,851						

Operating Statistics	2006	2007	2008	2009E	2010E
Installed units					
Lithotripters-operated		100	110	120	130
Lithotripters -under maintenance		30	100	140	155
RevoLix Lasers		25	55	55	56
Active Partnerships		85	90	92	92
Annual Procedures		51,000	70,000	75,000	77,500
Radiation Oncology (IGRT)				1	2
Pathology lab locations			1	4	3

Source: Dawson James Securities, Inc. estimates; Company documents

Table 1. Outpatient Health Services Industry Comparable Company Analysis

Company	Symbol	Price	Shares		Market Cap		Calendar Year		Revenues		Price/Revs		Earnings	
			(millions)	(\$Millions)	EPS '09E	EPS '10E	2009E	P/E '09E	P/E '10E	2009E	Growth	Notes		
Allied Imaging	AIQ	\$5.77	50.5	\$291.6	\$0.28	\$0.32	\$ 510.0	20.6	18.0	0.57	14.3%	Fixed and mobile imaging and radiation therapy systems		
American Shared Hospital Services	AMS	\$2.93	4.7	13.8	0.08	0.12	20.0	36.6	24.4	0.69	50.0%	19 Gamma knife centers in US, also IGRT and IMRT		
Amsurg	AMSG	\$22.22	30.7	682.2	1.71	1.82	670.0	13.0	12.2	1.02	6.4%	Leading operator of ambulatory surgery centers		
Dialysis Corp. of America	DCAI	\$5.56	9.6	53.4	0.28	0.38	99.0	19.9	14.6	0.54	35.7%	Operates 37 kidney dialysis centers in Eastern US		
Davita	DVA	\$55.88	104.0	5,811.5	3.95	4.28	6,050.0	14.1	13.1	0.96	8.4%	Operates 1,450 kidney dialysis centers in US		
HealthSouth	HLS	\$15.73	88.3	1,389.0	1.31	1.45	1,920.0	12.0	10.8	0.72	10.7%	Operates inpatient rehab and long-term care hospitals		
RadNet	RDNT	\$2.32	35.9	83.3	0.13	0.25	525.0	17.8	9.3	0.16	N/A	Operates 164 diagnostic imaging centers		
US Physical Therapy	USPH	\$16.16	11.5	185.8	0.99	1.10	200.0	16.3	14.7	0.93	11.1%	Operates 360 outpatient therapy clinics		
Average								18.8	14.6	0.70	19.5%			
Healthtronics	HTRN	\$2.58	43.2	111.5	0.10	0.17	184.8	24.6	15.5	0.60	58.4%	Completed acquisition of Endocare, adding mfg.		

Source: Dawson James Securities, Inc., Capital IQ

Important Disclosures:

Price Chart:



Price target and ratings changes over the past 3 years:

Initiated - September 18, 2009 – Target \$3.75

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Ratings Distribution	Company Coverage		Investment Banking	
	# of Companies	% of Total	# of Companies	% of Totals
Speculative Buy	6	40%	5	83%
Strong Buy	1	7%	0	0%
Buy	6	40%	1	17%
Neutral	2	13%	2	100%
Sell	0	0%	0	0%
Sell Short	0	0%	0	0%
Under Review	0	0%	0	0%
Restricted	0	0%	0	0%
Total	15	100%	8	53%

Information about valuation methods and risks can be found in the “STOCK VALUATION” and “RISKS” sections of this report.

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