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COMPANY ALERT

Lincare Holdings Inc.

Highlights from CC on competitive bidding design flaws

Company Update

Buy

Reuters:LNCR.OQ Exchange:NSM Ticker:LNCR

Price (USD)	25.54
Price target	35.00
52-week range	33.10 - 20.47
Market cap (USD)	2,488.3
Shares outstanding (m)	97.4
Volume (8 Oct 2010)	205,274
S&P 500 INDEX	1,165.15
Free float (%)	100

FYE 12/31	2009A	2010E	2011E
1Q EPS	-	-	-
2Q EPS	-	-	-
3Q EPS	-	-	-
4Q EPS	-	-	-
FY EPS (USD)	1.36	1.88	2.19
P/E (x)	13.1	13.6	11.6

* Includes the impact of FAS123R requiring the expensing of stock options.

We recently hosted a CC w/Univ. of Maryland Economics Prof. Peter Cramton, an expert in the design of market auctions. Recall Prof. Cramton was the lead author of a letter to Rep. Stark (D-CA); the letter was co-signed by nearly 170 other academics. We believe the Cramton letter may, in fact, be a real catalyst towards getting CMS to modify the bidding rules for the larger and more important CB Rd 2; this CC reinforces that view.

Take-aways from CC: **1) Background.** Prof. Cramton was asked by former Rep. Nancy Johnson (on behalf of diabetes supply industry) to evaluate CMS' bidding program. After assessing the program, Prof. Cramton then met w/Stark's staff to discuss his serious concerns. Stark's staff apparently suggested his opinion alone was not enough to influence Rep. Stark, so Prof. Cramton promptly compiled nearly 170 co-signatories comprised of experts (including Nobel Prize winners) – within 48 hours. This was enough to get Rep. Stark's attention and is what prompted the letter. **2) Impact.** There seems to be significant interest to get Prof. Cramton's input about the the design flaws of CB. Prof. Cramton indicated he has mtgs w/CMS leadership (10/18), as well as upcoming mtgs w/CBO and Obama admin econ advisors. The impact of these mtgs could influence the process for Rd 2. He noted CMS has the authority to make modifications w/o the need for legislation. **3) Other comments.** Prof. Cramton emphasized his concerns about CMS's bidding rules; he also suggested CMS' contract announcement could be delayed because suppliers may be reluctant to accept contracts. Prof. Cramton's due diligence further indicated that CMS has never consulted a market auction expert in the design of CB. **CC replay: U.S: (800) 642-1687 / Code: 16263981**

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