

COVINGTON ASSOCIATES

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Dear Friend:

Two things are of note for 1996, we survived winter, and although the year is not over, the first three quarters were good and there are a few more things that could close yet this year (after all closing is everything).

The high point for the year was certainly the \$130 million sale of LBA Health Care Management to HCIA. LBA is an extremely profitable clinical database, Warburg Pincus company. There were some significantly challenging issues to work through and I immodestly think we did some really fine value added work.

In the we must be doing something right because we get repeat business category, is the \$45 million sale of Managed Health Network, a managed behavioral company, to Foundation Health. If you remember from our last letter we had previously helped MHN as a consolidator before they became a consolidatee. Similarly, we sold off the systems integration business for the publicly held Softech. Our avid readers may remember we had previously sold their government systems business.

We helped two clients go public this year, Verilink, a wide area networking company, and Selfcare, a home diagnostic company. This is the third time we have done this (the third being IBIS in 1993, a manufacturer of high performance, "Simox", semiconductor wafers). Although this is something we are very comfortable with doing (its a sad reflection on my misspent youth to think how many companies I've helped do underwritings), we don't consider it a real line of business because it isn't always apparent how high the value added is and whether it offers good leverage of our time. However, in all three cases we had been involved with them on other projects .

In the case of Selfcare, who we have been advising for several years, because the markets broke in July while we were in the market, our value added was extremely high. Additionally, because the proceeds were much less than anticipated, we subsequently helped them close on a small private placement to fund an acquisition. We are now working with them on several acquisitions and consequently will probably be seeking more private funds.

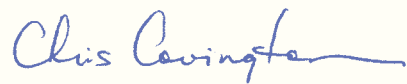
We continue to help Cambridge Technology Partners in their search for acquisitions in order to add capabilities and manpower. Similarly, we are assisting Vanstar, a \$2 billion, public, IT solutions provider in their mission of adding capabilities and consolidating a highly fragmented industry. We have signed our first letter of intent for Vanstar.

We are searching for a strategic partner for a high performance wireless LAN company. Finally, we are helping BBN (formerly Bolt, Beranek and Newman) to optimize their substantial and exciting portfolio of technologies.

Another data point that we must be at the top of the market is that we have added staff. Ben Dunn, who was introduced to us by our friend Dick Testa, will be joining us to give us support. As a result of this, and our early high yield, we have capacity. Please think of us when you have projects which on the one hand cannot command the attention of the "real " investment bankers because of their size or because they are advice intensive or have "issues", but on the other hand require the sort of expertise that comes with a combined 40+ years of experience.

We look forward to hearing from you in the future.

Best,



Christopher H. Covington