Zacks Small-Cap Research

September 27, 2011

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OptimizeRx Corp (OPRX-OTC)

OPRX: Initiating At Outperform

Current Recommendation	**Outperform**
Prior Recommendation	N/A
Date of Last Change	09/26/2011
Current Price (09/26/11)	$1.13
Target Price	**$5.00**

OUTLOOK

OptimizeRx's SampleMD software, which was integrated into Allscripts' e-prescription system in late 2010, affords prescribers seamless access to a universe of sample vouchers and prescription co-pay coupons. Allscripts, with ~100k prescribers using its system, is the largest e-prescriber provider. SampleMD provides pharmaceutical companies a novel way to promote their drugs. OPRX receives revenue from manufacturers for every coupon that is printed or redeemed. With the launch still in its infancy, revenue has been modest but is expected to ramp as the user base expands and utilization grows. Business model is super scalable. OPRX runs very lean and should have sufficient cash/financing until reaching positive cash flow. We think OPRX could hit profitability by 2012. We are initiating with a $5.00 price target and Outperform rating.

SUMMARY DATA

52-Week High	**$1.60**
52-Week Low	**$0.60**
One-Year Return (%)	**N/A**
Beta	**N/A**
Average Daily Volume (sh)	**3,408**
Shares Outstanding (mil)	**14**
Market Capitalization ($mil)	**$16**
Short Interest Ratio (days)	**N/A**
Institutional Ownership (%)	**N/A**
Insider Ownership (%)	**N/A**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**N/A**
Earnings Per Share (%)	**N/A**
Dividend (%)	**N/A**
P/E using TTM EPS	**N/A**
P/E using 2011 Estimate	**N/A**
P/E using 2012 Estimate	**37.7**
Zacks Rank	**N/A**

Risk Level	**N/A**
Type of Stock	**N/A**
Industry	**Comp-Software**

ZACKS ESTIMATES

Revenue
(in '000)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2010	$1 A	$17 A	$41 A	$12 A	$71 A
2011	$394 E	$200 E	$294 E	$390 E	$1,278 E
2012					$4,883 E
2013					$18,152 E

Earnings per Share

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2010	-$0.02 A	-$0.07 A	-$0.04 A	-$0.03 A	-$0.15 A
2011	-$0.02 E	-$0.03 E	-$0.03 E	-$0.02 E	-$0.10 E
2012					$0.03 E
2013					$0.22 E

Zacks Projected EPS Growth Rate - Next 5 Years % **N/A**

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KEY POINTS

- OptimizeRx is looking to capitalize on several recent swift changes in healthcare including the rapid adoption of electronic prescriptions, increasingly burdensome consumer healthcare costs, and big-pharma's quest for more efficient marketing

- Electronic prescriptions (i.e. - e-prescriptions) are the fastest growing segment of all electronic health applications. In 2010, 25% of prescriptions were transmitted electronically - this is expected to grow to 90% of all prescriptions in just the next few years (estimated to exceed 2 billion annually)

- Drug companies' sales representatives are increasingly being shut out of face-time with physicians, reducing the opportunity for conventional "sampling" and, as a result, severely weakening big-pharma's marketing muscle

- Prescription drug prices have increased at about twice the rate of overall medical costs over the last four years. As a result, and coupled with a tough economy, high unemployment, adverse changes to health insurance benefit plans, and a growing elderly population (which are by far the largest consumers of medicine and generally have modest incomes) prescription drugs have become much less affordable

- OptimizeRx's flagship product, SampleMD, allows physicians to seamlessly provide drug manufacturer vouchers (i.e. - coupons) simultaneously with an electronic prescription

- OptimizeRx generates revenue from drug manufacturers every time a physician prints or a patient redeems a respective manufacturer's voucher. OptimizerRx currently has contracts with eleven major pharmaceutical companies, covering 45 brand name drugs. They expect to expand this to 100+ within the next 12 months

- OptimizeRx's partnership with Allscripts integrates SampleMD into the interface of the largest electronic prescription provider. Allscripts has almost 100k physicians using their service, offering tremendous distribution potential for SampleMD. The integrated system launched in December 2010 and currently reaches about 30k Allscripts users. OptimizeRx expects to be able to capture the majority of Allscripts' user base within the next 12 months. The company expects to announce other additional e-prescribe platforms that will further expand their physician reach

- In addition to the major e-prescription providers, OptimizerRx is also targeting large health care systems (i.e. - multi-hospital/clinic systems) for integration of SampleMD into their respective electronic medical records systems. SampleMD is currently being used at several large healthcare systems

- OptimizeRx's near-term strategy is to add additional functionality to the software, grow the share of the Allscripts user base and partner with additional e-prescribers, increase the number of installations at hospitals/clinics and significantly grow the number of drugs eligible for vouchers through SampleMD. The company is also in the midst of ironing out legal and compliance hurdles which have slowed the initial launch of SampleMD

- OptimizeRx's business model is highly scalable. Revenue and profitability could accelerate very rapidly

- September 2011 financing deal significantly reduces any liquidity risk

BUSINESS

Electronic prescriptions, or e-prescriptions (eRx), accounted for just 6% of all drug prescriptions written in 2008. By 2010 that number had grown to approximately 25%, equal to roughly 326 million prescriptions. e-prescriptions are expected to be at the top of the list in terms of growth of all electronic health applications (the broader healthcare IT market is forecasted to grow at a CAGR of 11% through at least 2015) and, according to some estimates, could account for over 90% of all drug prescriptions in just the next few years.

Fueled by recent healthcare reform legislation, the rapid growth in healthcare information technology has created new markets, facilitated growth of others and sprouted a slew of novel technologies and new companies. Allscripts, the largest electronic prescribing provider with almost 100k U.S. physicians using their service, is expected to be a direct beneficiary, as are the handful of other major e-prescribers and complementary service providers. OptimizeRx Corporation (OPRX) is one such complementary service that hopes to capitalize on the swift trend towards e-prescriptions, largely through partnerships with these major e-prescribers and agreements with large drug manufacturers.

OptimizeRx's SampleMD software, which can be integrated into these major e-prescription systems, allows physicians to seamlessly provide drug manufacturer vouchers (i.e. - coupons) simultaneously with an electronic prescription. In addition to the major e-prescription providers, OptimizerRx is also targeting large health care systems (i.e. - multi-hospital/clinic systems) for integration of SampleMD into their respective electronic medical records systems. OptimizeRx generates revenue from drug manufacturers every time a physician prints a respective manufacturer's voucher as well as for every (printed) voucher that is redeemed by the patient. If generated through Allscripts, OptimizerRx passes approximately 40% on to the e-prescription provider. OptimizerRx also receives a one-time set-up fee for every drug that is promoted through SampleMD.

SampleMD may be a win-win for all participating stakeholders. Drug companies' sales representatives are increasingly being shut out of face-time with physicians (especially in closed hospital networks), reducing the opportunity for conventional "sampling" (i.e. - providing free drug samples, drug reps' ace-in-the-hole) and, as a result, severely weakening big-pharma's marketing muscle. SampleMD, essentially allows drug companies to continue to sample (i.e. - a coupon in lieu of a physical sample) to physicians without the rep face-time - the cost of SampleMD can also be significantly less than conventional sampling, an added bonus for drug companies. The patient benefits from prescription cost savings when they redeem the vouchers at their pharmacy. SampleMD gives e-prescribers (i.e. - Allscripts, et al.) a high-margin source of revenue with the added kicker of an enhancement to their product. And finally, hospitals and physician practices benefit with SampleMD as a result of helping patients lower their out-of-pocket healthcare costs without the time, hassle and expense associated with their physicians heeding drug reps' sales calls.

OptimizerRx recently entered into an agreement with Allscripts for integration of SampleMD into the e-prescriber's system - the initial version of the integrated system launched in December 2010. In addition, the company has agreements with several health care systems to integrate SampleMD into their electronic medical record (EMR) systems. OptimizerRx currently has contracts with eleven major pharmaceutical companies, covering 45 brand name drugs. OptimizeRx's near-term strategy is to further refine the software, partner with additional e-prescribers, increase the number of installations at hospitals/clinics and significantly grow the number of drugs eligible for vouchers through SampleMD. The company is also in the midst of ironing out legal and compliance hurdles which have slowed the initial launch of SampleMD.

As the SampleMD launch is still in its infancy, revenue to-date has largely been from set-up fees (voucher printing and redemption revenue has been minimal). The expectation is that sales should significantly ramp as revenue is generated from voucher printing and redemptions - which should pick up once the integration with Allscripts is completed and the installed base expands. Sales will be handled by a small internal sales team. As OptimizeRx's cost base is relatively low and largely fixed, depending on the actual rate of revenue growth, profitability could materialize fairly rapidly.

SampleMD

OptimizeRx's proprietary SampleMD software can be delivered either via the desktop or integrated directly into e-prescription systems such as Allscripts. The software is also being refined for integration directly into hospitals / clinics / physician offices electronic medical records systems . These refinements are expected to be completed over the next 6 months. While e-prescription systems are considered an EMR, for the purposes of this report and in the interest of ease of readability, we use "EMR" to refer to the integration of SampleMD into hospitals/clinics/physician offices (i.e. - prescribers) electronic health care software and prescription systems and "e prescribers" to reference the integration of SampleMD into e-prescription services such as Allscripts.

SampleMD allows prescribers to access a universe of sample vouchers and prescription co-pay coupons. It can be seamlessly integrated into the physician's workflow, allowing doctors to search and print discount vouchers during the routine electronic prescription-writing process. For e-prescribers, when a prescription is entered, SampleMD automatically notifies the prescriber if a voucher or co-pay coupon is available for that particular prescription. The voucher/coupon is printed (and/or delivered electronically directly to the pharmacy) and given to the patient to redeem at the pharmacy (OptimizeRx is also developing functionality whereby the coupon can be sent directly to the patient's mobile phone). For e-prescriptions, SampleMD also electronically notifies the pharmacist is aware that the patient will be redeeming a voucher.

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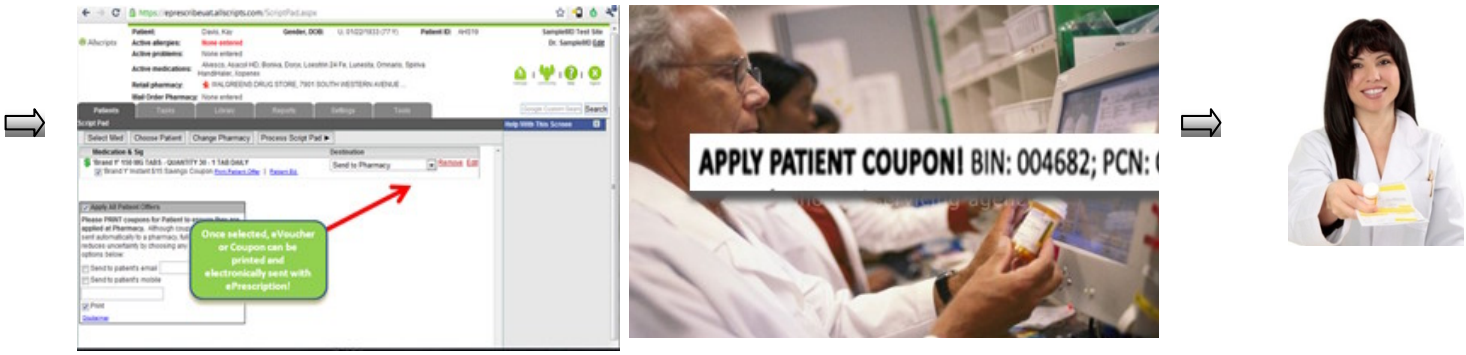


SOURCE: OptimizeRx

1) Physician can search for and print vouchers and prescription co-pay coupons with SampleMD. For e-prescribers, when a prescription is entered, SampleMD automatically notifies the prescriber if a voucher or co-pay coupon is available for that particular prescription. Process is easily integrated into the doctors' regular workflow

2) SampleMD automatically links to drug manufacturers' website where it accesses vouchers/coupons

3) SampleMD electronically notifies the pharmacy that patient will be redeeming a voucher/coupon

4) Patient redeems voucher/coupon and picks up prescription at the pharmacy

OptimizeRx Agreements With Drug Manufacturers…

Optimizer most recently reported that it had agreements with eleven major pharmaceutical companies to provide access to their drug vouchers/coupons through SampleMD. This includes, among others, Merck & Co., Abbott Labs, Bayer, Eli Lilly and Co., and Novartis. SampleMD provides drug companies a relatively low-cost two-way (i.e. - targeted marketing along with redemption metrics) marketing channel that is not affected by restrictions put in place by many health care systems prohibiting drug sales reps from sampling to their physicians.

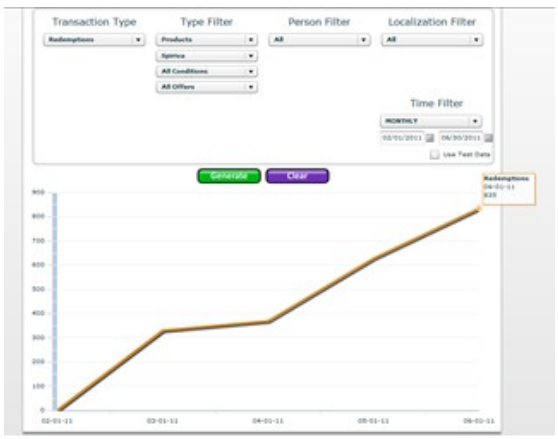
OPRX has agreements will all of the following pharmaceutical manufacturers

SOURCE: OptimizeRx

SampleMD also allows for a much more targeted marketing approach. Drug companies have the ability to promote certain drugs in certain regions during specific periods and can get timely feedback on voucher/coupon print/redemption rates for each promoted drug. Similar to grocery store membership discount cards, this allows the manufacturer to gain potentially valuable metrics which can then be used to tailor their marketing, distribution and manufacturing programs. This is in contrast to conventional sampling where free drug samples are left with the physician with no feedback relative to whether the samples were given to a patient, left to expire in the physicians' sample cabinet or if they actually facilitated a prescription purchase.

SampleMD provides valuable feedback to drug manufacturers including metrics on the number of vouchers/coupons printed and redeemed





SOURCE: OptimizeRx

Agreements with these drug companies currently cover only a limited number (45) of drugs, although OptimizerRx expects both the number of manufacturers as well as the number of covered drugs to continue to expand. When a physician prints a voucher/coupon for one of the drugs covered by these agreements, the respective manufacturer pays OptimizeRx $5. If that coupon/voucher is ultimately redeemed by the patient at a pharmacy, the drug manufacturer pays OptimizeRx a total of $25. The manufacturers also pay OptimizeRx a one-time set-up, installation and training fee (~ $25k) for every new drug that they promote through SampleMD. To-date the vast majority of OptimizeRx's revenue has come from these set-up fees, although voucher/coupon-related revenue is expected to be the driver of sales going forward.

OptimizerRx Agreements with ePrescribers…

OptimizeRx currently has an agreement with Allscripts for the integration of SampleMD into their e-prescription system. Allscripts, which serves about 100k prescribers, holds approximately 55% market share of the e-prescription market. Allscripts and other major corporations recently launched an initiative called NEPSI (discussed below) focused on increasing patient safety through reducing prescription errors which includes offering a version of Allscripts' e-prescription software for free to (mostly) small physician practices. NEPSI launched in January 2011 and could help to significantly grow Allscripts' user base. OptimizeRx hopes to also come to terms with the handful of other e-prescription providers which, combined, control the vast majority of the remaining ~45% share of the market.

Terms of the deal with Allscripts call for OptimizerRx to pay Allscripts of 40% of the revenue (revenue from printed and redeemed vouchers/coupons) generated through their e-prescription system. We view e-prescription services, which already have a large, dedicated, rapidly growing and low-churn customer base, as holding the bulk of the opportunity for OptimizeRx. Hitching a ride on these e-prescribers' systems also means no potential conflicts or compatibility issues with the integration of SampleMD into stand-alone ERM systems (i.e. - no customization required).

Other Agreements / Partnerships….

- **Walgreens:** In July 2010 OptimizeRx entered into a Master Services Agreement with Walgreens Health Initiatives in order to promote Walgreens product savings and special offers within the SampleMD platform. In return, Walgreens will make payments to OptimizeRx based on the number physician transactions related to Walgreens offers.

- **Healthcare Providers:** Advocate Health Partners, a joint venture between the Advocate Health Care system and 3,600 physicians on the medical staffs of Advocate hospitals signed an agreement to use SampleMD and launched a beta version through its network of clinics in November 2010.
  Beta modules were also launched in late 2010 at NuHealth System, a Long Island healthcare organization, Carillion Health, a Virginia health care provider, Dreyer Medical Clinics, Emory Health System, the largest healthcare system in Georgia, Oschner Health Systems and St. Barnabas Healthcare System .

- **Physicians Interactive Holding** (terminated on September 16th)**:** In October 2010 OptimizeRx announced a sales/marketing partnership with Physicians Interactive Holding (PI) whereby SampleMD would be integrated into PI's Sample On-Demand software. The deal with PI, which provides digital sales and marketing services for life sciences companies, (per OPRX's 10/2010 press release) called for each party to distribute each other's products and services via web, desktop and mobile applications as well as to develop a joint solution that will combine each of the industry leading technologies for a "one-stop-shop" for clinicians to access numerous pharmaceutical samples, vouchers, co-pay programs and other patient support. In addition to the partnership, PI made a financial investment in OptimizeRx through the purchase of a $1 million promissory note. PI also received seven-year warrants to purchase up to 1MM shares of OPRX common stock at an initial strike price of $2.25/share as well as contingent seven-year warrants to purchase up to 1MM shares at an initial $2.00 strike. This agreement with PI was subsequently terminated - on September 16, 2011 both parties agreed to dissolve the partnership. Per terms of the termination agreement, OptimizeRx will pay PI $1.06 million (representing the note's principal plus interest) by September 30, 2011. OptimizeRx will fund this repayment with the sale of preferred stock - the sale of which has already been arranged - OptimizeRx will receive proceeds from the preferred stock sale within 5 days of the execution of the termination agreement.

MARKET DYNAMICS

From 1999 to 2009 the number of prescriptions purchased in the U.S. rose by 39% - while much of this growth has been driven by an influx of generic competition as a result of patent expirations of branded drugs, there's no sign that growth in the overall number of prescriptions written and filled will significantly decline. And despite slightly slower recent growth in spending on prescription drugs due to the weak economy and lower priced generics accounting for an ever larger portion of total prescriptions (~80% are now generics), branded pharmaceuticals will remain a humongous market for the foreseeable future. Annual domestic spending on brand name prescription drugs, which pharmaceutical companies spend billions of dollars to market/sell/advertise and which is OptimizeRx's target market area (as opposed to generic drugs), is in the multi $100 billions.

And while branded drugs will continue to be a huge industry, according to healthcare analytics company, IMS Health, spending on branded drugs will remain flat from 2010 to 2015 (this, again due to generics). Big-pharma has been scrambling to implement strategies to try and offset the threat that generics pose to their profitability. Accused by some in the recent past as more marketing / advertising firms than drug development companies, major pharmaceutical companies have begun to scrutinize sales / marketing budgets and practices to help appease Wall Street and stave off falling earnings.

OptimizeRx hopes to capitalize on big-pharma's quest for more efficient and lower cost marketing methods along with the major transformation in healthcare delivery / management, which has just recently begun. OptimizeRx is looking to hitch a ride on the rapid growth in novel services such as e-prescriptions and electronic medical records which is being fueled by efficiency initiatives, the quest for better / safer patient care and federal legislation aimed at improved recordkeeping and curbing skyrocketing healthcare costs.

E-prescription Growth

e-prescribing growth has been rampant over the last decade. While demand for better and safer patient care is partially responsible, another major catalyst to this growth has to do with healthcare economics. Relative to patient care, e-prescribing can reduce medication errors (studies have shown ~40% of paper prescriptions contain errors versus only 7% of eprescriptions) and reduce out-of-pocket costs by providing information to providers / pharmacies about formulary coverage, co-pay information and available medication discounts / coupons / vouchers. On the economics front, providers benefit from greater operational efficiencies afforded with e-prescribing as well as government incentives. Federal incentives provided under the Health Information Technology for Economic and Clinical Health (HITECH) Act and Centers for Medicare and Medicaid Services (CMS) Medicare Improvements for Patients and Providers Act (MIPPA) should help to continue to drive further adoption of e-prescribing. Under these acts, providers can receive incentive payouts for adopting and using e-prescribing for Medicaid / Medicare related prescriptions.

According to Surescripts, which was founded by the pharmacy industry and operates the largest U.S. health information network (including the largest e-prescription network, of which Allscripts is a member), e-prescribing was used by just 0.4% (~2,500) of all office-based prescribers in 2004 - this grew to 34% (~234k) in 2010. 25% of prescriptions were transmitted electronically by the end of 2010. For the last four years Surescripts has published an annual report on the status of the adoption of electronic prescribing called, *The National Progress Report on E-Prescribing and Interoperable Healthcare*.

Some highlights of Surescripts' 2010 edition of the report include the following:

- The number of prescribers routing prescriptions electronically grew from 156k at the end of 2009 to 234k by the end of 2010, representing approximately 34% of all office-based prescribers
- Prescriptions routed electronically grew 72% from 191 million in 2009 to 326 million in 2010
- One in four prescriptions was delivered electronically at the end of 2010, up from just one in 18 prescriptions at the end of 2008

- 20% of eligible prescriptions were sent electronically in 2010 compared to just 12% in 2009. By December 2010, 25% of eligible prescriptions were being sent electronically

- Electronic responses to requests for prescription benefit information grew 125% from 188 million in 2009 to 423 million in 2010

- Federal legislation including programs incentivizing the adoption and use of EMR's and e-prescriptions has been a major force driving e-prescription growth

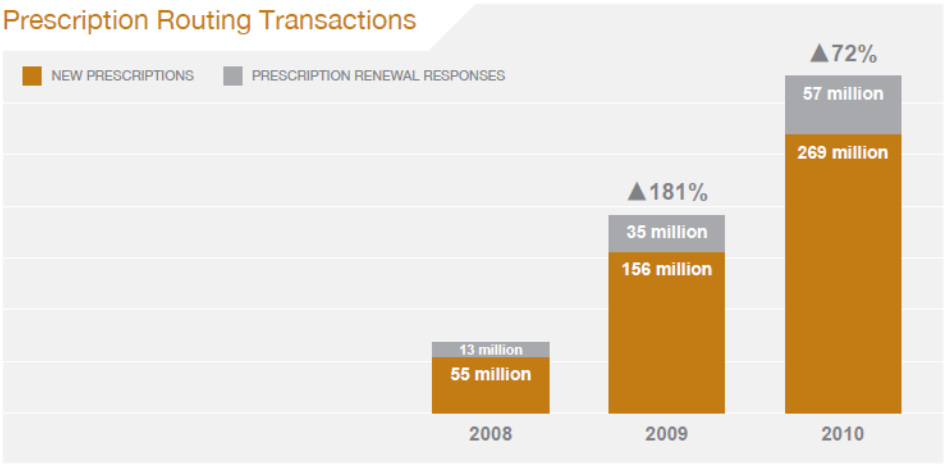
- U.S. DEA had previously forbid prescriptions for controlled medications (such as opioids) to be routed electronically. In 2010 the DEA softened its stance and there is now a pathway in place where controlled substances can be prescribed electronically. This will also facilitate continued growth of e-prescribing

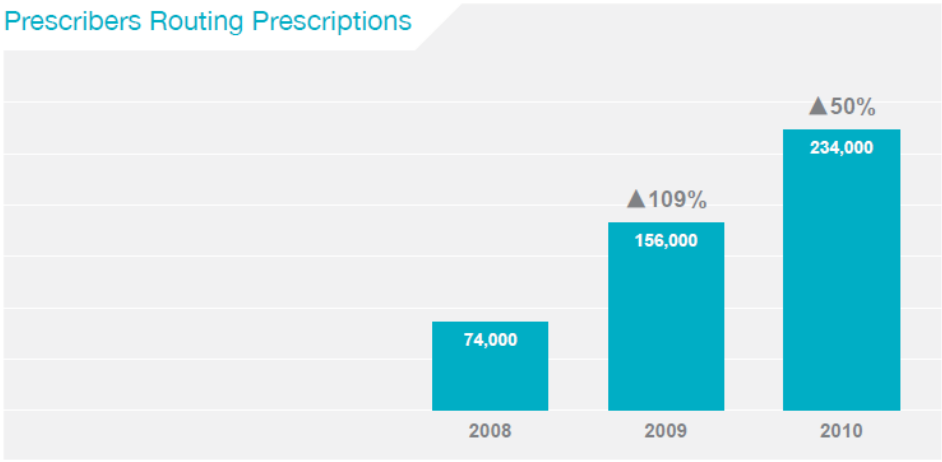
- Healthcare reform including the Protection and Affordable Care (PPAC) Act will help fuel future growth. This includes an estimated 30 million additional lives that will be covered under insurance over time

- Significant growth was seen between 2008 and 2010 in the adoption and use of 3 critical services that enable the e-prescribing process; prescription benefit (i.e. - options to help lower patient prescription cost), medication history and prescription routing

- Dr. Steve B. Miller, member of Surescripts' board of directors and Senior V.P. and Chief Medical Officer of Express Scripts, notes in the report that, "For what appears to be a compelling case (safer, more affordable and more convenient), the initial uptake (of e-prescriptions) was much slower than originally anticipated. However, the growth in the last two years has been astonishing. We have reached the proverbial tipping point."

E-prescriptions Have Experienced Rampant Recent Growth





SOURCE: Surescripts: "The National Progress Report on E-Prescribing and Interoperable Healthcare, 2010"

…Allscripts' Network Expanding Through National Safety Program

Adoption of e-prescribing will benefit further as a result of a focus on better patient safety and care. According to the Institute of Medicine, more than 1.5 million people are injured and over 7,000 people die as a result of medication errors (such as incorrect interpretation of illegible handwriting and ambiguous nomenclature) caused by handwritten prescriptions. The National ePrescribing Patient Safety Initiative (NEPSI) is a coalition of large technology companies, health benefit companies and healthcare providers which have come together to improve patient safety through reducing medication errors. Part of the goal is to accelerate the adoption of e-prescribing. To do this NEPSI, which launched in January 2011, is making available for free Allscripts' ePrescribe software (basically a bare-bones version of Allscripts' for-fee product) to all prescribers (targeting mostly small physician practices). NEPSI is made up of a number of large companies including Allscripts, Dell, Quest Diagnostics, Aetna, Wellpoint and SureScripts. Ongoing expenses for NEPSI are shared amongst the largest stakeholder that benefits from e-prescribing, the health plans.

- **Drug Marketing / Advertising**

Pharmaceutical companies use two major forms of advertising: direct-to-consumer (DTC) and office promotion. DTC channels include television commercials and print ads in magazines, both of which are primarily aimed at the patient. Office promotion is handled by drug company sales representatives whose job it is to meet with physicians and promote the benefits of their company's particular drugs. Pharmaceutical reps' favored schwag (recent industry regulations have largely barred certain promotional items such as pens, mugs, etc) are free drug samples. Despite studies which have shown that investments in both DTC and office promotion suffer significantly from the laws of diminishing returns, especially when it comes to influencing patient or physician preference for one brand of drug over another, pharmaceutical companies have continued to spend exorbitantly on both.

The true cost to pharmaceutical companies related to drug promotion is a hotly debated subject. According IMS Health data, promotional spending in 2010 was $4.1B for DTC and $6.1B for professional (95% of which is related to office promotion). Other sources contend a more realistic total estimate is $40B - $60B. What is not debated, however, is that, no matter the actual figure, drug promotion is expensive for pharmaceutical companies - and may not be overly efficient from an ROI perspective. In fact, according the IMS Health data, promotional spending has fallen every year since 2006 (see chart below) - a signal that big-pharma has been chasing lost revenue from generic competition with budget cuts to marketing / advertising.

ims

Total US Promotional Spend by Type, 2010
US$ in Millions

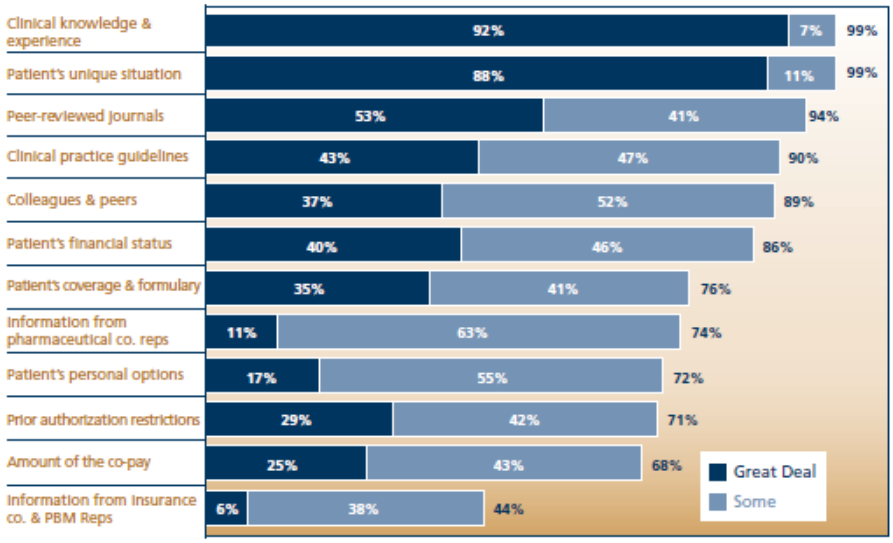
	2010	2009	2008	2007	2006
PROFESSIONAL PROMOTION	6,111	6,585	6,838	6,905	7,457
DIRECT TO CONSUMER ADVERTISING	4,070	4,361	4,429	4,907	4,898
TOTAL PROMOTION	10,181	10,946	11,267	11,812	12,355
PROFESSIONAL JOURNAL ADVERTISING	326	315	387	470	527
SALES REP DETAILS	5,785	6,270	6,451	6,435	6,930
PROFESSIONAL PROMOTION	6,111	6,585	6,838	6,905	7,457
DIRECT TO CONSUMER ADVERTISING	4,070	4,361	4,429	4,907	4,898

Copyright IMS HEALTH, a healthcare information company
Source: IMS Integrated Promotional Services™

A study by Tufts University titled *The Tufts Center for the Study of Drug Development* found that only 13% of physicians considered information from pharmaceutical companies "very important" in influencing their prescribing decisions. Results of a survey by KRC Research titled *Survey of Physicians' Opinions About Pharmaceutical and Biotech Research Company Activities and Information* supported the Tufts' findings and indicated just 11% of physicians are greatly influenced by drug reps' information when it comes to prescribing decisions. By contrast, the most important factors cited were the physicians' own knowledge and experience (92%) and the patients' unique situation (88%).

CHART 1: Factors Physicians Consider in Prescribing Medicines

Percent Saying Great Deal or Some Influence on Prescribing Decisions



Source: Pharmaceutical Research and Manufacturers or America, KRC Research: Survey of Physicians' Opinions About Pharmaceutical and Biotech Research Company Activities and Information, n=501, 2008.

Although physicians apparently do not find the information provided by the drug reps to be overly useful, the KRC study did find that doctors welcomed the free samples as they allowed patients to try a medicine before filling a prescription and helped make medicine more affordable for financially strapped patients. An inference that can be drawn from this is that pharmaceutical companies may be better off just providing the samples (or coupons for samples) instead of paying for the additional cost of having their sales reps meet with physicians.

This may be especially true when considering the high costs pharmaceutical companies incur supporting a sales force, coupled with the fact that many reps even fail to get in front of doctors to pitch their drugs. Part of the reason is that many healthcare practices have recently shut out drug reps from visiting with their doctors. While other practices do not have a specific policy against drug rep visits, this still does not necessarily mean doctors are always willing to see them. A report from McKinsey & Company titled *Making More of Pharma's Sales Force*

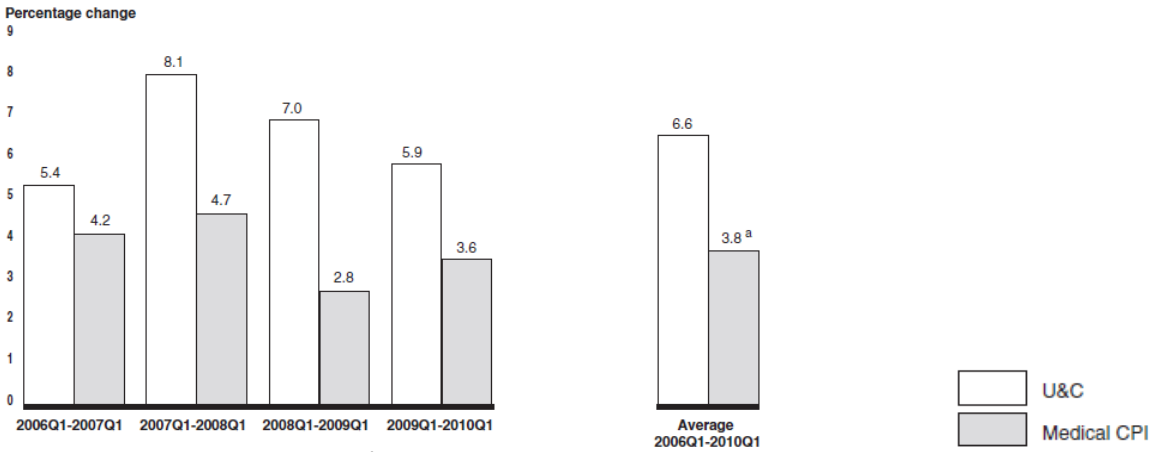
theorizes that drug reps' physician office promotion, while effective in selling drugs in the past, has become significantly less so. The authors cite several factors to support their conclusion including the increasing difficulty reps have in getting to see doctors. Their study found that "a rep gets an opportunity to speak with a physician in only one out of five office visits - and then for less than two minutes." Part of the reason, McKinsey reports, is that "physicians feel besieged" by drug reps, citing one doctor that said, the situation is "becoming unbearable" and reps "are less knowledgeable, more pushy." As of the date of the report (2002), McKinsey noted that 40% of doctors' offices were limiting the number of reps they admit each day. This figure is probably closer to 75% today. McKinsey concludes that "For pharmaceutical companies, the bottom line is that they now see a diminishing marginal return on every additional sales rep."

- **Rising Consumer Healthcare Costs**

The final piece of the puzzle that SampleMD addresses is rising consumer healthcare costs which, coupled with a tough economy, high unemployment, adverse changes to health insurance benefit plans, and a growing elderly population (which are by far the largest consumers of medicine and generally have modest incomes) has made prescriptions less affordable.

According to a February 2011 report by the U.S. Government Accountability Office (GAO), prescription drug prices increased at an annual rate of between 6% - 7% (depending on the criteria used) from 2006 through the first quarter of 2010, much faster than the rate of inflation or the 3.8% annual increase in the overall medical CPI.

Figure 1: Annual Change in the Usual and Customary (U&C) Price Index for a Basket of 100 Commonly Used Prescription Drugs and the Medical CPI, 2006 through the First Quarter of 2010



SOURCE: http://www.gao.gov/new.items/d11306r.pdf

Approximately 90% of seniors and 58% of non-elderly adults take prescription medicine on a regular basis. According to a 2009 Kaiser Foundation survey, 12% of seniors forgo prescription medications due to high costs. While recent healthcare legislation provides some relief to seniors, giving them a 50% discount for brand-name drugs when they reach the Medicare Part D (prescription benefit) "donut-hole", for many seniors which spend thousands of dollars per year of medication, this will provide only a relatively small benefit. In addition, these benefits are not guaranteed to last - public health insurance programs (i.e. - Medicare / Medicaid) are progressively becoming more overburdened and underfunded and Congress (as well as state governments) will need to make some tough choices relative to these entitlement programs.

A large number of private insurers have already either cut benefits or required their insured to share a greater burden of the cost of healthcare. Private insurance companies and employers have been especially quick to shift more of the cost to the insured when it comes to brand-name drugs. Tiered benefit packages, with higher co-pays for higher priced medication (brand name), have now become commonplace.

COMPETITION

SampleMD faces relatively few competitors. The most direct competition comes from MedManage's Samples On-Demand service which allows physicians to order drug samples from manufacturers from a web-based system. MedManage is owned by Physicians Interactive (PI) which (as discussed above) had a joint marketing / sales partnership with OptimizeRx. That agreement was subsequently terminated.

MedManage, which PI acquired in April 2009, is the leading provider of online drug samples. Similar to the way that SampleMD works, drug manufacturers choose which drugs they will promote through the service. Physicians access Samples-On Demand via a hyperlink on the websites of MedManage's network of business partners (at least one of which is Allscripts). Eligible users of Samples On-Demand (also selected by the manufacturers) can request samples, access prescribing information and check the status of their sample requests. The requested samples are delivered directly to the physicians' office.

FINANCIAL CONDITION

As of their most recent reporting period (6/30/2011) OptimizeRx had $970k in cash and equivalents. Cash used in operating activities was $92k and $225k through the first three and six months of 2011. The company has paid for some services with common shares in lieu of cash. In addition, interest expense is non-cash (and is almost entirely related to debt-discount amortization). OptimizeRx notes in their Q2 10-Q (6/30/11) that they have sufficient cash to operate their business for at least the next twelve months. As a result of the September 2011 financing deal with Vicis (discussed below) whereby OPRX has the option to sell up to $5 million in additional preferred shares to Vicis, OptimizeRx could have sufficient financing in place to fund operations until they begin to generate positive cash flow (which we think could come as early as 2012).

Debt
Debt at June 30, 2011 consisted of a $1 million secured promissory note which was issued to Physicians Interactive in October 2010, concurrent with consummation of the sales / marketing partnership between the two companies. The note was bearing annual interest at 6% and due in September 2012. PI also received two sets of seven-year warrants; warrants to purchase up to $1 million of common at $2.25 and contingent warrants to purchase up to $1 million of common at $2.00 but contingent on royalties received under the joint marketing agreement between OPRX and PI. From an accounting standpoint, the full face value ($1MM) of the non-contingent warrants was recorded as a debt discount which will be amortized to interest expense over the 2-year term of the promissory note (~ $500k in annual, non-cash interest expense). There was no debt discount related to the contingent warrants.

On September 16, 2011 OPRX and PI agreed to terminate their partnership agreement. Per terms of the termination agreement, OptimizeRx will pay PI $1.06 million (representing the note's principal plus interest) by September 30, 2011. While the contingent warrants will be cancelled, the non-contingent warrants will remain outstanding (and continue to amortize through September 2012). OptimizeRx will fund the $1.06 million repayment with the sale of preferred stock to Vicis - discussed below - OptimizeRx will receive proceeds from the preferred stock sale within 5 days of the execution of the termination agreement.

Convertible Preferred Stock
As of June 30, 2011 there were 35 Series A convertible preferred shares and 15 Series B convertible preferred shares outstanding. All shares of both series were issued to and are owned by Vicis Capital Series Master Trust which also owns (as of 12/31/2010) approximately 43% of OPRX's outstanding common stock (includes shares issuable upon conversion of preferred shares into common and exercise of warrants).

The Series A were issued in December 2008 (with warrants to purchase 6 million common shares @ $2 for 7 years) for an aggregate $3.5 million, bear a cumulative annual dividend of 10% (payable in common or in cash at OPRX's discretion) and are convertible into 3.5 million shares of common. The Series B were issued in 2010 (with warrants to purchase 2 million common shares @ $3 for 7 years) for an aggregate of $1.5 million. Similar to the Series A, they bear a cumulative annual dividend of 10% which is payable in common or in cash at OPRX's discretion. The Series B are convertible into 1.5 million shares of common. OPRX has been paying preferred dividends with common shares.

As a result of the PI termination agreement, OPRX entered into another financing agreement with Vicis whereby Vicis will purchase from OPRX up to another 50 shares ($5 million, multiple tranches) of Series B preferred stock and includes warrants to purchase up to 3.33 million shares of common with a $3 strike for 7 years. Each preferred share is convertible into common at $1.50. The first closing will happen prior to September 30, 2011 and is for 15 shares ($1.5 million) and warrants representing 1 million shares. Proceeds will pay off the $1.06 million owed to PI, with the remainder going to OPRX's balance sheet. At OPRX's option Vicis will be required to purchase the balance (35 shares, $3.5 million) of the preferred stock, including 15 shares after December 1, 2011 and 20 shares after May 1, 2012.

OUTLOOK

Revenue was $200k and $594k through the first three and six months of 2011. Revenue to-date has been largely from set-up fees (voucher printing and redemption revenue has been minimal). The expectation is that sales should significantly ramp with growth in revenue from voucher printing and redemptions - which should pick as SampleMD's distribution is further expanded, especially as it relates to Allscripts' user base. Sales will be handled by a small internal sales team. OptimizeRx's cost base is relatively low and largely fixed - this coupled with what we model to be quickly ramping revenue, means profitability could materialize in short order.

OptimizeRx continues to make enhancements to the software, with their 3.0 version expected to have capabilities such as simplified access to formulary information, greater search functionality and the ability to schedule meetings with drug reps. The 3.0 version is also expected to have the ability to integrate within electronic health record and electronic medical record systems (the current version only integrates with e-prescription systems and is available as a stand-alone desktop system). While these enhancements are currently under development and not expected to be fully functional for about 6 months, OptimizeRx expects the current version to be sufficient to continue to facilitate the further roll-out of SampleMD throughout the Allscripts user base - which is by far their greatest near-term opportunity.

Revenue

Our revenue model is based on certain assumptions including the rate of growth in the number of subscribers using SampleMD, the number of drugs promoted through SampleMD and their respective aggregate prescription volumes, the number of voucher prints per physician and the rate of voucher redemptions. As SampleMD is still very much on the front of its roll-out, there is little to anchor on relative to any of these metrics which presents significant challenges in forecasting revenue.

Relative to the drugs that are being promoted through SampleMD, as OptimizeRx has not disclosed the names of these drugs, it is impossible to comfortably gauge related prescription volumes (i.e. - we do not know how if these are top-20 drugs or top-200 drugs). This makes it that much more difficult to forecast potential physician coupon print and patient redemption volumes - revenue from which is expected to account for the majority of net sales in 2012 and beyond (we model it to account for almost 100% of revenue by 2014). And even if we did know which particular drugs were being promoted, until there's some available historical information related to print and redemption rates, revenue forecasting will be tricky.

With only limited information relative to revenue driver metrics and SampleMD still on the front end of commercialization we feel it is prudent to be conservative on our model inputs. The major inputs to our model along with our assumptions are:

- **SampleMD Users (i.e. - prescribers):** This currently stands at about 20k. Per our discussions with the company, management expects this to grow to 200k+ over the next 12 months, largely driven by deeper penetration of Allscripts' user base and agreements with other e-prescribers for integration of SampleMD into their respective systems. We more conservatively model ~ 100k users by the end of 2012. Our model assumes SampleMD does not hit the 200k users mark until the end of 2014.

- **Drugs Promoted:** This currently stands at about 45 drugs. OptimizeRx hopes to have 100+ drugs onboard within the next 12 months. We more conservatively model 74 drugs at the end of 2012. Our model assumes the 100-drug mark is not reached until Q3 2014.

- **Voucher Prints Per Physician:** This, along with voucher redemption rates, are not only the most difficult to estimate, they are also likely the most influential driver of revenue (given that they have a significant multiplier / leverage effect). This metric could also be highly influenced by the number of drugs promoted and, more importantly, the prescription volumes (i.e. - popularity of the drug) of those particular drugs. Our model uses a potentially extremely conservative estimate relative to prints per physician. We assume initially this is only 1 coupon printed per day for every 50 physicians that have SampleMD - said another way, if 50 physicians have SampleMD, our model assumes only 1 coupon is printed among them each day. Even in later years our assumptions remain arguably very conservative. In 2014 we assume 1 coupon is printed per day for every 7 physicians. To emphasize how much leverage this metric has in our model, if we assume 1 coupon is printed per day for every 5 physicians in 2014 (instead of our currently modeled 1 for every 7), our estimated 2014 net revenue figure moves from $32.9MM to $48.3MM.

- **Redemption Rate:** Management has indicated that voucher redemption rates (i.e. - the % of printed vouchers that are ultimately redeemed by a patient) are running at about 20%. We more conservatively model a static (i.e. - no improvement in later years) 10% redemption rate.

…Near-Term Revenue Forecast

We model little in the way of print and redemption revenue through the remainder of the current year. We look for $684k in total revenue for the second half of 2011 ($294k in Q1, $389k in Q2), with 65% of that coming from new drug set/up fees.

In 2012, with assumed deeper penetration of Allscripts' user base, new deals with other e-prescribers, a moderate number of additional drugs being promoted and a slight uptick in the voucher print rate (to 1 coupon printed per day for every 22 prescribers using SampleMD), revenue from voucher prints and redemptions should begin to become more meaningful. We model net revenue of $4.9 million in 2012, with 90% ($4.4 million) of that coming from voucher prints and redemptions. All of our net revenue figures are net of an estimated 40% royalty to Allscripts for print / redemption revenue related to vouchers originating from Allscripts' system users.

…Mid-Term Revenue Forecast

In 2013 and 2014 we model revenue of $18.2 million and $32.9 million, reflecting only very modest assumptions relative to growth in the number of drugs promoted (from 74 at 2012 year end to 85 in 2013 and 105 in 2014) as well as prints per physician (from 1 for every 22 prescribers per day in 2012 to 1 for every 11 in 2013 to 1 for every 7 in 2014). We think it bears repeating that due to the leverage effect, if actual voucher print rates prove to be only very slightly better than our estimates, OptimizeRx's actual revenue (as well as net income and EPS) could be significantly greater than our estimates. We will update our model regularly as more information becomes available over the next several months.

EPS

The business model should be super scalable and as it relates to operating expenses, OptimizeRx runs fairly lean. SampleMD will continue to be enhanced with additional functionality and management indicated that they may slightly scale up marketing / sales. Slightly more capitalized web development costs will also begin to amortize going into 2012 (although amortization should remain relatively minimal as total capitalized intangibles was only about $1.4MM at 6/30/2011 with most amortizing straight-line over 17 years). While we think this may push SG&A up very modestly through 2012, based on our model, OptimizeRx could see positive net income by the end of next year. We see no reason why OptimizeRx could not continue to gain even greater operating leverage in the following years. We model EPS of ($0.10) in 2011, $0.03 in 2012, $0.22 in 2013 and $0.31 in 2014.

VALUATION

As the launch of SampleMD, OptimizeRx's flagship product, is still in its infancy, using P/E ratio based on a near-term EPS estimate would unfairly penalize valuation. Instead we think it is more appropriate to use our EPS estimate for 2014, at which time SampleMD should be fully commercialized and OptimizeRx's financials should more accurately reflect the earning power of the company.

As there are no publicly traded direct competitors to OptimizeRx to use for comparable P/E multiples, we think it is appropriate to use the average valuations of a handful of indirect competitors to price OPRX. Our comparable base is represented by MDRX, MDAS, QSII, ATHN and ESRX, all of which operate in the healthcare information technology space and most of which are involved to some extent in e-prescription services or EMR / EHR.

These five companies currently trade at an average of 16.1x analysts' estimated 2014 EPS. Applying this multiple to our 2014 EPS estimate of $0.31 values OptimizeRx at almost exactly $5.00 per share. Although our valuation could change based on potential future changes to our model, as it is now, we value OPRX at $5.00 / share. Based on the discrepancy between what we calculate as fair value and OPRX's current $1.13 market price, we feel the shares are significantly undervalued and are initiating coverage with an Outperform rating.

KEY PERSONNEL

David A. Harrell, *Founder & Chairman*

David has spent two decades leading company management, sales, marketing and business development within the pharmaceutical and advertising industries. Prior to founding OPTIMIZERx Corporation, David served as Vice President of Business Development for Meridian--a top 40 healthcare and retail advertising agency. Prior to that, David was Vice President of Sales and Marketing for Advance Graphic Systems.

Within his ten years at SmithKline Beecham, David specialized in the managed markets healthcare segment. As part of the Integrated Health Division, David was responsible for contracting and achieving revenue growth for SmithKline Beecham's four business units: Pharmaceuticals, Consumer Health, Clinical Labs and Diversified Pharmaceutical Services (PBM). David began his pharmaceutical career with Adria Laboratories in 1988 after graduating from Oakland University with a Bachelor of Science in Business Administration.

H. David Lester, *Chief Executive Officer*

Mr. Lester is a business veteran who has accumulated thirty years of executive experience in the areas of business, marketing, sales, operations and technology. Prior to accepting his new role with OptimizeRx, Mr. Lester held the title of Director, Consumer & Industrial Products Marketing for Deloitte LLP. During his tenure at Deloitte, he established Deloitte as a leader through innovative programs and strategic partnerships. Before Deloitte, he worked with Sun Microsystems as Global Director, Industry Strategy & Marketing, Manufacturing Industries. Mr. Lester's entrepreneurial and international experiences also include partnering in an engineering services company, co-founding a software development company and international expansion of new technology solutions within emerging markets. Throughout his career, Mr. Lester has also served on many associations as a proactive champion for building international technology standards, cyber security initiatives, trade policy, renewable energy, business tax reform, health care reform and sustainability.

Terence J. Hamilton, *Director and VP of Sales*

Mr. Hamilton spent the last 19 years working in the pharmaceutical and biotech arenas within various sales, marketing and managed markets management positions. Before joining OPTIMIZERx, he worked as a Manager in Managed Markets for MedImmune - one of the world's leading biotech companies. Prior to that, Mr. Hamilton was a National Account Manager for Glaxo SmithKline pharmaceuticals and has held many positions within the pharmaceutical and

biotech industries, including District Manager, Brand Manager, Managed Market Specialist, Contract Manager, Government Account Manager. He has vast expertise and leadership in helping clients expand awareness, access and adherence.

Blake Whitney

Blake's long experience in the development of business opportunities in the healthcare industry. He was the co-founder, CEO and Chairman of MDdatacor (a GA corp.) a healthcare informatics company that remotely captures and centrally processes medical record data into a single searchable database for creation of web-based health records using proprietary and patented processes. He's raised more than $18 million in venture capital, executed significant contracts with medical device, pharmaceutical and health plan customers. Blake was also on the founding team and the first president of WebMD. He helped lead "WebMD, health's homepage" as it created the health information transformation from the bookshelf to the computer desktop. At WebMD he managed explosive company growth, merged with Healtheon (now WebMD Health Corp. NASDAQ: WBMD). Previously, Mr. Whitney was the President of Quality Diagnostic Services, Inc., (QDS).

Shad Stastney, *Director*

Shad Stastney is a founding partner of Vicis Capital LLC. He graduated from the University of North Dakota in 1990 with a B.A. in Political Theory and History, and from Yale Law School in 1994 with a J.D. focusing on corporate and tax law. From 1994 to 1997, he worked as an associate at Cravath, Swaine and Moore in New York, where he worked in the tax group and in the corporate group, focusing on derivatives. In 1997, he joined CSFB's then-combined convertible/equity derivative origination desk. From 1998 through 2001, he worked in CSFB's corporate equity derivatives origination group, eventually becoming a Director and Head of the Hedging and Monetization Group, a joint venture between derivatives and equity capital markets. In 2001, he jointly founded Victus Capital Management, LP, and in 2004, he jointly founded Vicis Capital LLC.

SOURCE: www.optimizerx.com

FINANCIAL MODEL

OptimizeRx Corporation

	2010 A	Q1A	Q2A	Q3E	Q4E	2011 E	2012 E	2013 E	2014 E
Revenue	$71.1	$393.8	$200.2	$294.2	$389.4	$1,277.6	$4,882.6	$18,152.1	$32,906.6
YOY Growth	*165.9%*	*30597.0%*	*1097.2%*	*623.2%*	*3044.2%*	*1697.8%*	*282.2%*	*271.8%*	*81.3%*
SG&A	$1,917.3	$469.3	$493.2	$579.5	$618.5	$2,160.4	$3,213.0	$9,080.0	$12,550.0
% SG&A	*2697.9%*	*119.2%*	*246.4%*	*50.8%*	*158.8%*	*169.1%*	*65.8%*	*50.0%*	*38.1%*
Operating Income	($1,846.2)	($75.4)	($293.0)	($285.3)	($229.1)	($882.8)	$1,669.6	$9,072.1	$20,356.6
Operating Margin	-	-	-	-	-	-	*34.2%*	*50.0%*	*61.9%*
Other income	($162.8)	($139.5)	($139.7)	($140.0)	($123.0)	($542.2)	($385.0)	$40.0	$75.0
Pre-Tax Income	($2,009.0)	($214.9)	($432.7)	($425.3)	($352.1)	($1,425.0)	$1,284.6	$9,112.1	$20,431.6
Taxes (benefit)	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$6,301.1
Tax Rate	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*30.8%*
Net Income	($2,009.0)	($214.9)	($432.7)	($425.3)	($352.1)	($1,425.0)	$1,284.6	$9,112.1	$14,130.4
Net Margin	-	-	-	-	-	-	*26.3%*	*50.2%*	*42.9%*
EPS	($0.15)	($0.02)	($0.03)	($0.03)	($0.02)	($0.10)	$0.03	$0.22	$0.31
YOY Growth	*-58.1%*	-	-	-	-	-	-	*541.8%*	*41.6%*
Diluted Shares O/S	13,231	13,628	13,869	14,020	14,550	14,017	38,000	42,000	46,000

Brian Marckx, CFA

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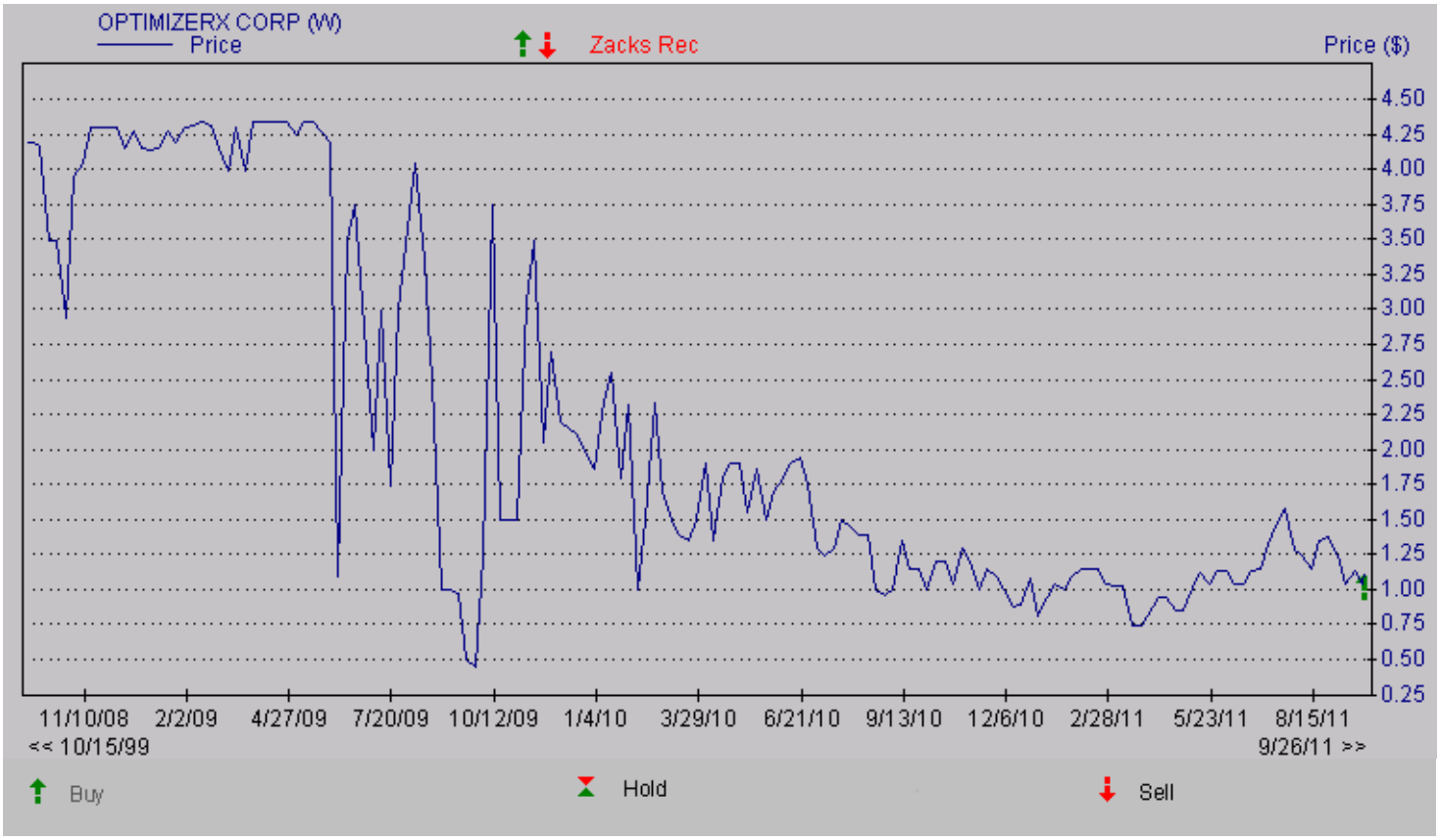

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