



NEWS

MARKET INTELLIGENCE ON HEALTH CARE VENTURE CAPITAL, M&A, PRIVATE EQUITY AND IPOs

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IPO Window Slightly Open

One specialty health care services company has completed an initial and a follow-on public offering this year, while another has just filed for its IPO. **See page 1**



Two Funds Close

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IPO Withdrawals

Several private health care companies have shelved plans for initial public offerings this year; we track their most recent transactional events. **See page 4**



Mergers and Acquisitions

The health care merger and acquisition market continues to exhibit relatively robust performance, primarily in the technology sectors. **See page 7**



Monthly Venture Capital

July holds the record for most funding in one month so far in 2008. Also, we talked with the CFO of a company that announced its Series A financing in July and already has a product on the market. **See page 10**



Private Placements

Private placements in health care continue to be announced at a fairly steady pace and in July, two deals account for 46% of the monthly total. **See page 14**



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From our recent survey. **See page 16**

FOR SOME, PUBLIC EQUITY A BUYER'S MARKET: *IPO Window Opens Just A Bit, For Specialty Health Care Services*

In spite of the current down-cycle in the public equity markets, now is a good time for some companies to make an initial public offering. This year, one specialty health care services company has already proven that even in tough times, an initial public offering can be so successful that a follow-on offering is a natural (and profitable) choice.

The case in point is **IPC-The Hospitalist Company** (NASDAQ: IPCM), a leading provider of hospitalist services in the United States. Hospitalist medicine is organized around inpatient care, is prima-

rily delivered in hospitals, and is focused on providing, managing and coordinating the care of hospitalized patients. While normally we might not draw much attention to secondary public offerings, there are reasons other than the fact that not much at all has been going on in the public equity market. First, IPC's IPO was just in January and its secondary offering got priced 15% above the IPO price of \$16.00 per share—and, as we were going to press, the company's stock closed the day at \$22.70 per share. Second, one of the two companies that filed in July for

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TWO HEALTH CARE INVESTMENT FUNDS CLOSE: *New Firms Receive Capital Commitments Totaling \$825 Million*

LONGITUDE CAPITAL

Several years ago, Juliet Tammenoms Bakker founded the health care group at **Pequot Ventures**, but in 2006 she and four other individuals from Pequot spun off a new firm, **Longitude Capital**, to focus exclusively on certain areas of health care. Together with Ms. Bakker at the new firm are Patrick Enright and Marc Galletti, both managing directors, as well as Doug Foster and David Hirsch, both principals. Jeff Gold, a senior executive in the medical device industry, joined the firm as a venture partner in January 2007. As for the history behind the new firm's name, Ms. Bakker said, "We liked the analogy of

a determined person solving an important scientific and economic problem, and in the end, getting a prize." On the firm's Web site is an image of John Harrison's H4 marine chronometer, which—back in the late 1700's—earned him the award of the Longitude Prize, for devising a method of measuring longitude.

Longitude Capital recently closed its first fund, with \$325 million in capital commitments from endowments, corporate, state and municipal pension plans, sovereign entities and select funds of funds. Although a small number of limited

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an IPO is another specialty health care services provider, and it too is one we would not be surprised to see priced this year. We recently talked with Wyatt Ritchie, a managing director at **Jefferies & Company**, which together with **Credit Suisse** co-led IPC's secondary offering, and is one of the underwriters participating in the initial public offering of **Select Medical**, an operator of specialty hospitals and outpatient rehabilitation clinics.

Select Medical filed in July to go public for the second time in about a decade, and with the same management team, in an IPO of up to \$100 million. "Select Medical was previously taken public 2001, but it was taken private by **Welsh Carson** and **Thoma Cressey**," stated Mr. Ritchie. That transaction occurred in October 2004 and was valued at \$2.3 billion. He explained, "They were taken private primarily because, at the time, there was a negative reimbursement environment for long-term acute care (LTAC) hospitals and the company needed to be restructured." Select Medical operates through two distinct business segments: one for specialty hospitals and the other for

outpatient rehabilitation. The Mechanicsburg, Pennsylvania-based company began operations in 1997 under the leadership of its current management team, which includes co-founders Rocco A. Ortenzio and Robert A. Ortenzio, who have a combined 66 years of experience in the health care industry. For the year ended December 31, 2007, Select Medical generated net operating revenue of \$1.99 billion.

Merrill Lynch and **JPMorgan** both were underwriters in the 2001 initial public offering and are also among the banks slated to underwrite Select Medical's upcoming IPO. Based on our conversation with Mr. Ritchie, the bankers on this deal are excited about the upcoming offering. Jefferies & Company didn't get in on the action for Select Medical's first IPO, which was in April 2001, but it is on the team this time. In April 2006, Jefferies expanded its investment banking practice in health care with the addition of Mr. Ritchie and two other bankers, M. Roderick Rivera and David J. Price, all with extensive experience in health care investment banking.

Historically, long-term acute care hospitals have struggled somewhat as an industry, presented with challenges such as rules on patient admission census and lack of adequate reimbursement criteria. But, in January 2007, a bill was introduced in the House of Representatives—H.R. 562: Medicare Long-Term Care Hospital Improvement Act of 2007—to amend title XVIII of the Social Security Act to ensure and foster continued patient quality of care by establishing facility and patient criteria for long-term care hospitals and related improvements under the Medicare Program. According to Mr. Ritchie, "More recently, reimbursement has improved and more clarity has been established for LTACs, and also, Select Medical completed its restructuring." From another source, we understand that reimbursement is improved because there is a moratorium on building new LTACs.

In its first IPO, Select Medical sold 10,147,500 shares of its common stock, including the over-allotment option, at a price of \$9 per share, for gross proceeds of \$85.5 million. Entities affiliated with Welsh Carson, **GTCR Golder Rauner** and Thoma Cressey were among the shareholders with the most significant percentages of Select Medical's stock at the time of the first IPO. At that point, Select Medical had 54 hospitals, including 49 that were Medicare-certified, and for the year ended December 31, 2000, the company derived about one-third of its net operating revenues from Medicare. By the time of the 2004 take-private deal, Select Medical was operating 83 long-term acute care hospitals in 25 states and four acute medical

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PUBLIC EQUITY MARKET (FILINGS LISTED BY DATE)

DATE	COMPANY	SYMBOL	SECTOR	NUMBER OF SHARES	PRICE PER SHARE	COMMENTS
7/1	Alimera Sciences	ALIM	Biopharm	TBA	TBA	IPO filed, up to \$75 million; to be led by Credit Suisse.
7/1	Health Care REIT	HCN	REIT	4,600,000	\$42.50	Secondary priced, led by UBS Investment Bank.
7/3	ZONARE Medical Systems	ZONE	Imaging	TBA	TBA	IPO filed, \$86 million; to be led by Citi and Piper Jaffray.
7/16	IPC-The Hospitalist Co.	IPCM	Services	3,725,000	\$18.50	Secondary priced, led by Credit Suisse and Jefferies.
7/24	AutoGenomics	AGMX	Biotech	TBA	TBA	IPO filed, up to \$86.3 million; to be led by JPMorgan.
7/24	Select Medical Holdings	SLC	Services	TBA	TBA	IPO filed, up to \$100 million; to be led by Morgan Stanley.
7/30	Marshall Edwards	MSHL	Biopharm	4,608,295	\$2.17	Registered public offering to investors priced.

rehabilitation hospitals in New Jersey, as well as outpatient rehabilitation clinics in the U.S. and Canada, with approximately 761 locations.

Now, Select Medical believes it is one of the largest operators of both specialty hospitals and outpatient rehabilitation clinics in the United States based on number of facilities, with 88 long term acute care hospitals and four inpatient rehabilitation facilities in 25 states, and 985 outpatient rehabilitation clinics in 37 states and the District of Columbia. The company also provides medical rehabilitation services on a contract basis at nursing homes, hospitals, assisted living and senior care centers, schools and worksites. “In the initial public offering,” stated Mr. Ritchie, “investors including Welsh Carson will be cashing out a little, but they will retain a significant stake.”

Getting back to IPC-The Hospitalist Company, “IPC was able to successfully pull off an IPO in January, when the market was already difficult. Investors are always interested in companies that are creating efficiencies in the health care market.” Part of the attraction is that, “IPC’s story is a growth story. The company has leverage, and by that I mean their overhead structure is such that they can create growth over time and add more doctors to their network without increasing their overhead.” In addition, Mr. Ritchie said, “The hospitalist movement in health care enables greater efficiency and better advocacy for patients. Compared to other specialties, the hospitalist specialty is the fastest-growing, ever. I think it’s fair to say that almost every hospital in the country probably has at least one hospitalist on staff.”

We wondered just how many companies are considered competitors of IPC. Mr. Ritchie told us, “There’s probably a handful to half a dozen private, smaller compa-

nies that are trying to do the same thing as IPC-The Hospitalist Company. Many of the hospitalists practicing today are individual, private doctors. **Emergency Medical Services** (NASDAQ: EMS) is an example of another company in this space—although they primarily concentrate on emergency room doctors, they also have a division of just hospitalists.”

Mr. Ritchie noted that IPC’s shareholders, including, “**Scale Ventures, Morgenthaler, Bessemer** and **CB Healthcare** are all cashing out a little in the public offerings, but they are all still invested in IPC.” The company has been expanding, too. “IPC did actually complete two acquisitions just prior to the follow-on offering,” **Hospitalists of America** and **Texas Inpatient Services**. Also, as we were going to press, IPC announced that it entered the Ohio and Pennsylvania markets, expanding its national presence to 18 states.

Mr. Ritchie had a few sage words for other health care companies that may currently be seeking to access the public equity markets. For one, “Right now it’s a buyer’s market, from an investor’s point of view.” He continued, “Good candidates for raising public equity include companies in home care, and particularly, services companies that can show they have profits coming in, that they have good management teams, and those that are exploiting opportunities to create efficiencies, reduce costs and exhibit growth potential.”

For example, “Another public offering we did recently was a small follow-on, for **Almost Family** (NASDAQ: AFAM), a home care company. That was very successful for investors and for the company.” Almost Family raised \$43.5 million in gross proceeds, to be used to repay indebtedness, to fund contemplated and possible

future acquisitions and for other general corporate purposes. Subsequently, on August 1, AFAM closed its acquisition of **Patient Care, Inc.** for \$47 million.

Mr. Ritchie commented, "Seniors housing stocks had probably got ahead of themselves for a while." Now that they're back down to earth, "We think it's a good time to be invested in the space given the aging demographic and the drop in valuations," he said. "For the most part, right now is definitely a better time for health care services companies, than for health care technology companies, to access the public markets. The health care technology companies that would have the most difficulty accessing the markets are biotechnology and medical device technology."



PUBLIC EQUITY MARKET

Including the IPO filing submitted by Select Medical and the secondary priced by IPC-The Hospitalist Company, a total of four initial public offerings were filed and a total of two secondaries were priced by health care companies during July. In addition, **Marshall Edwards** (NASDAQ: MSHL) priced a registered public offering to investors. At the beginning of the month, **Alimera Sciences**, a biopharmaceutical company, and **ZONARE Medical Systems**, an imaging company, submitted IPO filings. Near the end of the month, **AutoGenomics**, a biotechnology company, filed for its IPO.

Alpharetta, Georgia-based Alimera Sciences is specializing in the research, development and commercialization of prescription ophthalmic products. Its most advanced product candidate is an intravitreal insert, being developed to provide a sustained therapeutic effect for up to 36 months in the treatment of diabetic macular edema; enrollment of 956 patients has been completed for two phase III clinical trials in the United States.

The proceeds from the IPO are to be used, in part, to complete clinical registration and development of the lead product candidate. Alimera also intends to use a portion of the proceeds to repay debt to **pSivida US Inc.**, to fund other clinical trials, to help fund commercial launch expenses and for general corporate purposes.

Mountain View, California-based ZONARE Medical Systems develops, manufactures and commercializes premium compact ultrasound systems that are used for diagnostic imaging across a range of clinical applications and settings. The company's proprietary technology is supported by an intellectual property portfolio of 32

issued U.S. and foreign patents. ZONARE shipped its first commercial ultrasound system, the *z.one* system, in March 2005 and subsequently launched its *z.one mini* system in November 2006 and *z.one ultra* system in March 2007. The products are marketed by a direct sales force.

Carlsbad, California-based AutoGenomics is the designer, developer, manufacturer and marketer of a fully integrated molecular diagnostics system that automates the discrete processes of genetic testing performed by clinical laboratories. Its system, called the INFINITI, is capable of running a broad menu of tests, the results of which assist in detecting the predisposition to and presence of disease, monitoring disease progression and/or guiding appropriate therapy. AutoGenomics anticipates using the proceeds from the IPO to expand its commercial infrastructure and to fund research and development activities, as well as for additional working capital and general corporate purposes.

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IPO WITHDRAWALS

In the past several months, there has been a noticeable uptick in the number of IPO filings withdrawn by health care companies. We had been wondering just how many of these companies later turned to private equity or venture financing, debt, a merger or acquisition, and we recently received a few inquiries regarding what happened to the companies that withdrew IPO filings in the past few years.

On the following page is a table listing the companies that withdrew IPO filings from January 1, 2006 through July 31, 2008. Several of the companies listed have announced a variety of clinical and regulatory events in that time period, but have not revealed any transactional news. Others have completed financings, received grants or loans, and some have announced collaborative agreements with major pharmaceutical companies.

HEALTH CARE IPO WITHDRAWALS, 1/1/2006 THROUGH 7/31/2008

2008 IPO Withdrawals through 7/31/08

<u>W/D Date</u>	<u>Company</u>	<u>Sector</u>	<u>Reason(s) Cited For Withdrawal</u>	<u>Select Transactional Events</u>
6/27/08	Bayhill Therapeutics	Pharma	Current public market conditions	N/A
6/20/08	Broncus Technologies	MedDev	Current public market conditions	N/A
6/18/08	eyeonics	MedDev	Merger	Acquired by Bausch & Lomb 1/20/08
6/9/08	CCS Medical	Services	Current public market conditions	N/A
6/9/08	Peplin	Pharma	Unfavorable market conditions	Acquired Neosil for \$6.7 million 6/10/08
6/3/08	Accuro Healthcare Solutions	eHealth	Company was acquired	Acquired by MedAssets for \$350 million 4/29/08
5/12/08	Emphasys Medical	MedDev	Current public market conditions	N/A
5/9/08	Elixir Pharmaceuticals	Pharma	Current public market conditions	License agreement with Boston University 7/1/08
3/27/08	MonoSol Rx	Pharma	Market not sufficiently attractive	Closed \$10 million debt financing 6/12/08
3/19/08	LifeWatch	Services	Not in company's best interests	Launched first-to-market program 5/14/08
3/19/08	Vision-Ease Lens	MedDev	Public interest, investor protection	Expanded technology and product line
2/21/08	Transoma Medical	MedDev	Unfavorable market conditions	N/A
2/14/08	Concentric Medical	MedDev	Unfavorable market conditions	Established \$15 million line of credit 2/15/08
2/14/08	Critical Homecare Solutions	HHC	Stock purchase agreement	MBF Healthcare seeking alternate financing 8/1/08
2/7/08	Light Sciences Oncology	Pharma	Unfavorable market conditions	Raised \$41 million in Series C financing 7/15/08
2/6/08	Archemix	Biotech	Unfavorable market conditions	Earned a milestone payment 2/19/08
2/1/08	Biolex Therapeutics	Pharma	Unfavorable market conditions	Secured \$10.5 million growth capital loan 7/28/08
1/23/08	BG Medicine	Labs	Unfavorable market conditions	Raised \$40 million Series D financing 7/17/08

2007 IPO Withdrawals

<u>W/D Date</u>	<u>Company</u>	<u>Sector</u>	<u>Reason(s) Cited For Withdrawal</u>	<u>Select Transactional Events</u>
12/28/07	Merrion Pharmaceuticals	Pharma	Unfavorable market conditions	Debuted on Ireland's IEX 12/18/07
12/27/07	Devax	MedDev	Not in company's best interest	(Second time IPO withdrawn)
12/6/07	Precision Therapeutics	Biotech	Market not sufficiently attractive	Merger announced 12/4/07; terminated 3/4/08
11/21/07	Reliant Pharmaceuticals	Pharma	Decision to not make offering	Acquired by GlaxoSmithKline for \$1.7 billion 11/21/07
11/15/07	EyeTel Imaging	Imaging	Current public market conditions	Acquired by NeuroMetrix for \$10.1 million 12/26/07
11/5/07	Nimblegen Systems	MedDev	Acquisition	Acquired by Roche Holding for \$272.5 million 6/19/07
10/19/07	Adnexus Therapeutics	Pharma	Merger	Acquired by Bristol-Myers Sq. for \$505 million 9/24/07
10/5/07	ZARS Pharma	Pharma	Current public market conditions	Licensing deal with Galderma Pharma 3/10/08
9/5/07	NovaCardia	Pharma	Merger	Acquired by Merck for \$350 million 7/25/07
8/6/07	Amedica	MedDev	Public interest, investor protection	Raised \$13.2 million in Series D financing 5/15/07
8/2/07	Acologix	Biopharm	Market not sufficiently attractive	N/A
7/31/07	TotalMed Systems	eHealth	Possible private offerings	Acquired by Domark International 7/29/08
7/27/07	Quark Biotech	Biotech	Public interest, investor protection	Raised \$27 million in private financing 4/7/08
7/3/07	Picis	MedDev	Public interest, investor protection	Received financing to acquire LYNX Medical 7/24/07
6/26/07	EndoCeutics	Biopharm	Current public market conditions	N/A
6/15/07	Aegerion Pharmaceuticals	Pharma	Current public market conditions	Re-filed for initial public offering 11/20/07
5/4/07	CardioMEMS	MedDev	Market not sufficiently attractive	Raised \$33 million Series E financing 12/4/07
4/30/07	Perlegen Sciences	Biotech	Current public market conditions	Out-licensed diagnostic intellectual property 7/15/08
4/20/07	PTC Therapeutics	Biopharm	Sufficient capital on hand	Received \$20 million investment from Celgene 9/30/07
3/7/07	OncoGenex	Biopharm	Current public market conditions	Merged with Sonus Pharmaceut. for \$20.5 million 5/28/08
1/19/07	St. Francis Medical	MedDev	Merger	Acquired by Kyphon Medical for \$725 million 12/4/06

2006 IPO Withdrawals

<u>W/D Date</u>	<u>Company</u>	<u>Sector</u>	<u>Reason(s) Cited For Withdrawal</u>	<u>Select Transactional Events</u>
12/7/06	ImaRx Therapeutics	Biotech	Unfavorable market conditions	Subsequently re-filed 5/5/07 for IPO and priced 7/26/07
11/27/06	Asthmatx	MedDev	Current market conditions	\$50 million investment from Olympus Medical 5/15/07
11/13/06	ActivBiotics	Biopharm	Market conditions	N/A
10/20/06	BioVex Group	Biotech	Decision to not make offering	\$35 million Series E financing, including debt 11/15/07
8/17/06	Tandem Healthcare	LTC	No longer pursuing offering	Acquired by JER Partners for \$620 million 7/12/06
8/2/06	Amicus Therapeutics	Biopharm	Market conditions	Subsequently re-filed 3/30/07 for IPO and priced 5/31/07
7/25/06	CHG Healthcare	Staffing	Investor and public interests	Promoted three individuals to facilitate growth 7/24/08
7/7/06	QuatRx Pharmaceuticals	Pharma	Unfavorable market conditions	Closed \$44 million Series E financing 5/22/07
6/8/06	BioNumerik	Pharma	Possible private offering	(Second time IPO withdrawn)
2/15/06	Corus Pharma	Biopharm	Possible private offering(s)	Acquired by Gilead Sciences for \$365 million 7/20/06
1/13/06	Large Scale Biology	Biotech	N/A	Subsequently entered Chapter 11

Two Funds Close, continued from page 1...

partners that had invested with Pequot also invested in Longitude, the new firm is working with a predominantly different set of LPs. **UBS Securities LLC** acted as the exclusive placement agent and financial advisor to Longitude Capital in the fundraising process. The new firm has already put some of the new funds to work, through two recent financings: the \$25.3 million private placement announced by **Corcept Therapeutics** (NASDAQ: CORT) in late March and the equity financing of up to \$60 million announced in mid-May by **Amarin Corporation** (NASDAQ: AMRN).

In identifying partners for the new firm, “We wanted a diverse and stable group of institutional investors that can grow with us over multiple funds,” stated Ms. Bakker. “It’s sort of our mantra that we are the same team, we have the same strategy and we are working with the same amount of capital as we did at Pequot.” Although exact figures were not discussed, Ms. Bakker did indicate that, “Historically, we have delivered returns faster than some funds that only invest in early-stage opportunities.” She explained, “The key for us is that any product candidate we invest in has the potential to address a significant unmet medical need in a large target market, and that certain value-creating milestones will be achieved in a relatively short period of time in a very capital-efficient manner.”

Longitude Capital is seeking to make investments of approximately \$15 million to \$30 million per company and anticipates holding companies in its portfolio for two to five years. Ms. Bakker commented, “We are stage-agnostic, but we do have a bias toward early-stage medical device and later-stage biotechnology opportunities.” In her opinion, medical device and biotechnology companies today face two specific, major challenges. First, “In recent years, the FDA has become increasingly more risk-averse. This has made it distinctly more difficult to navigate the approval process.” Second, “Reimbursement has also become more difficult, so companies need to be very careful in planning a strategy to obtain reimbursement both from Medicare and private payors.”

Although the IPO market has been remarkably quiet in the past several months, perhaps causing some venture capitalists to rethink the how and when of some anticipated exits, Ms. Bakker is not worried about finding ways to cash out in the future. “Our first exits will be about two years from now. The key is to have an attractive asset—with data that is robust, and a well-defined path to FDA approval and reimbursement. In addition we look for companies that

have top-tier management teams or the ability to attract that, and proprietary technology. And very importantly, you have to invest at a good price.” She continued, “It’s impossible to predict what the market is going to look like two years from now. But whether the exit is going to be through M&A or an IPO, our focus is always on building as much value as possible with as little capital as possible.”

Longitude Capital is keenly focused on investing in opportunities with quality fundamentals, such as attractive assets and prime leadership. “We aim to make the right investments based on inherent value,” summed up Ms. Bakker. The group employs a unique, research-based approach to investing in its target sectors. “Every year we select a number of research areas to focus on, which gives us a deep institutional understanding of what we are investing in. The research we do allows us to appropriately refine our areas of interest, and also enables us to assess and identify technologies within those areas that represent opportunities.” Right now, she said, “We are working on a series of deals. We have a very full pipeline.”

COWEN HEALTHCARE ROYALTY PARTNERS

Cowen Healthcare Royalty Partners (CHRP) announced in July that it closed its inaugural fund with a total of \$500 million—above its \$350 million target—making it one of the largest inaugural private equity funds devoted to health care. The firm is led by Gregory B. Brown, M.D., and Clarke B. Futch and Todd C. Davis, all formerly of **Paul Capital**. Recently we talked with Greg Brown, who specified, “Cowen Healthcare Royalty Partners’ first fund will likely be invested in about 70% biotechnology, biopharmaceuticals, pharmaceuticals and specialty pharmaceuticals, with the other 30% going into medical devices.”

“Going forward, we expect investment activity in health care will remain strong, in part because America is an aging nation—there’s demographic pressure. We also believe there will continue to be an increased need for flexible and less expensive sources of capital for companies to fund their pipelines. CHRP is uniquely positioned as there are certain barriers to entry for our type of financing as it requires a deep level of industry knowledge such as the need for regulatory approval and market acceptance, and financial expertise.” Dr. Brown explained that, “the barriers to entry, such as strong patent protection and the need for regulatory (e.g., FDA) approval, mean that when we invest in a drug we can develop a very cogent point of view on future competitive pressures, over a fairly long time frame.”

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MERGER & ACQUISITION ANNOUNCEMENTS

(GROUPED BY SECTOR, LISTED BY ANNOUNCEMENT DATE)

SERVICES SECTORS

DATE	BUYER	SELLER	SECTOR	PRICE	TERMS/COMMENTS
7/1	Providence Health & Svcs.	Tarzana campus	Hospital	\$89,000,000	Price to revenue multiple is 1.64x.
7/1	Prime Healthcare Svcs.	Two California hospitals	Hospital	\$41,000,000	Price to revenue multiple is 0.39x.
7/3	Baptist Health Care	West Florida Hospital	Hospital	\$245,000,000	Price to revenue multiple is 1.38x.
7/16	UNC Health Care System	Chatham Hospital	Hospital	\$11,300,000	Price to revenue multiple is 0.74x.
7/23	Montefiore Medical Center	Our Lady of Mercy Med. Ctr.	Hospital	\$38,000,000	Price to revenue multiple is 0.19x.
7/21	HealthTronics	UroPath	Labs	\$7,500,000	Target provides urology lab services.
7/23	RadNet	NeuroSciences Imaging Ctr.	Labs	\$4,500,000	Price to revenue multiple is 1.13x.
7/29	Alliance Imaging	Medical Outsourcing Svcs.	Labs	\$20,000,000	Price to revenue multiple is 0.91x.
7/1	LCNC	Gardner Nursing Home	LTC	\$4,000,000	Price to revenue multiple is 0.91x.
7/2	Five Star Quality Care	Three ALFs	LTC	\$21,400,000	Includes a combined total of 259 units.
7/22	Regional operator	Silver Oak on the Brazos	LTC	\$2,100,000	Price to revenue multiple is 2.84x.
7/31	Emeritus Assisted Living	Five snrs. hsg. communities	LTC	\$62,500,000	Target includes a combined total of 432 units.
7/22	Cross Country Healthcare	Medical Doctor Associates	PMG	\$112,300,000	Price to revenue multiple is 0.72x.
7/3	DDA Management Services	Claims Evaluation Div. (NY)	Other	\$5,000,000	Seller is Hooper Holmes.
7/21	sanofi-aventis	Symbion consumer health	Other	\$544,000,000	Price to revenue multiple is 2.95x.



MERGERS AND ACQUISITIONS

Health care mergers and acquisitions announced during July 2008 numbered 80, including 49 deals with disclosed prices totaling more than \$70.7 billion. The largest deal announced during the month was the \$43.7 billion offer made by **Roche Holding** (SWX: ROCZ.S) for the remaining 44% interest it does already own in **Genentech** (NYSE: DNA). Roche actually took its first stake in DNA about 18 years ago, so this is one mega-deal that (presuming consummation) has been many years in the making. On a trailing 12-month basis, Genentech generates revenue of \$12.2 billion, EBITDA of \$5.2 billion and net income of \$3.1 billion. Roche is also making another big deal announced in July: it is acquiring **Arius Research** (TSE: ARI), a Toronto, Canada-based biotech focused on cancer antibodies.

The deals announced by Roche, among others, highlight one trend that has been running through the M&A market recently, which is that due to the weakness of the U. S. dollar, it is now a good time for foreign buyers to make acquisitions. Other foreign buyers in the market during July include Germany-based **Fresenius** (FSE:

FRE), which is paying \$5.6 billion for Schaumburg, Illinois-based **APP Pharmaceuticals** (NASDAQ: APPX). On a trailing 12-month basis, APP Pharmaceuticals, a developer, manufacturer and marketer of injectable pharmaceutical products, generated revenue of \$655 million, EBITDA of \$253 million and net income of \$78 million. In another fairly large deal, Denmark-based **Nycomed** is acquiring the license for a monoclonal antibody-based product for autoimmune diseases and subcutaneous applications. Nycomed is paying Morris Plains, New Jersey-based **Immunomedics** (NASDAQ: IMMU) \$620 million for worldwide rights.

Lately, generic pharmaceutical and consumer health targets have been popular in the health care M&A market. For example, Israel-based **TEVA Pharmaceuticals** (NASDAQ: TEVA) is paying \$8.96 billion for Pomona, New Jersey-based **Barr Pharmaceuticals** (NYSE: BRL). On a trailing 12-month basis, Barr, which develops, manufactures and markets generic and branded prescription pharmaceuticals, generated revenue of \$2.51 billion, EBITDA of \$640.9 million and net income of \$152.1 million. The acquisition of Barr Laboratories, the fifth-largest generic pharmaceutical company in the world, expands TEVA's lead as the world's largest generic phar-

MERGER & ACQUISITION ANNOUNCEMENTS

(GROUPED BY SECTOR, LISTED BY ANNOUNCEMENT DATE)

TECHNOLOGY SECTORS

DATE	BUYER	SELLER	SECTOR	PRICE	TERMS/COMMENTS
7/2	Bayer	Maxygen hemophilia assets	Biotech	\$120,000,000	Includes upfront and milestone payments.
7/3	Shire	Jerini AG	Biotech	\$515,025,000	Price to revenue multiple is 1.37x.
7/7	Eli Lilly and Co.	SGX Pharmaceuticals	Biotech	\$64,000,000	Price to revenue multiple is 1.57x.
7/7	LinkMed AB	Olerup SSP AB	Biotech	\$35,992,000	Price to revenue multiple is 3.13x.
7/8	Daiichi Sankyo	License for cancer drug	Biotech	\$4,000,000	Includes upfront and milestone payments.
7/10	Novartis	Speedel Holding Ltd	Biotech	\$881,000,000	For the 90.3% interest it did not already own.
7/14	Nycomed	License for veltuzumab	Biotech	\$620,000,000	Includes upfront and milestone payments.
7/14	GlaxoSmithKline	License for almorexant	Biotech	\$3,280,000,000	Includes upfront and milestone payments.
7/21	Roche Holding	Genentech	Biotech	\$43,700,000,000	For 44% interest not owned. Price to rev. is 3.58x.
7/22	Roche Holding	Arius Research	Biotech	\$189,300,000	Adds to buyer's portfolio of cancer treatments.
7/22	Roche Holding	Mirus Bio	Biotech	\$125,000,000	Target is focused on RNAi (gene silencing).
7/24	GlaxoSmithKline	Stem cell technology	Biotech	\$25,000,000	Five-year agreement.
7/25	sanofi-aventis	Acambis plc	Biotech	\$547,800,000	For access to target's vaccine technology.
7/1	QIAGEN	Corbett Life Science	MedDev	\$135,000,000	Price to revenue multiple is 3.38x.
7/7	Thermage	Reliant Technologies	MedDev	\$94,540,000	Price to revenue multiple is 1.30x.
7/9	ULURU	Bio Med Sciences	MedDev	\$10,000,000	Subject to potential upward adjustment.
7/14	Innovative Health Sci.	HealthSonix Medical	MedDev	\$5,303,400	Issuance of 35,356,000 shares at \$0.15 per share.
7/16	Theragenics	NeedleTech Products	MedDev	\$47,800,000	Price to revenue multiple is 2.83x.
7/22	Illumina	Avantome	MedDev	\$60,000,000	Includes cash and contingent payments.
7/24	General Electric	Vital Signs	MedDev	\$860,000,000	Price to revenue multiple is 3.96x.
7/24	Integra LifeSciences	Theken Spine	MedDev	\$200,000,000	Price to revenue multiple is 5.88x.
7/25	Biocompatibles Intl.	BrachySciences	MedDev	\$21,600,000	Price to revenue multiple is 2.23x.
7/1	Sciele Pharma	Hypertension drug	Pharma	\$27,000,000	Development deal; includes milestones, royalties.
7/4	York Pharma	Wound care brands	Pharma	\$44,964,000	Price to revenue multiple is 2.66x.
7/7	Fresenius	APP Pharmaceuticals	Pharma	\$5,600,000,000	Price to revenue multiple is 8.55x.
7/10	Access Pharmaceuticals	MacroChem	Pharma	\$7,625,000	Issuance of 2,500,000 shares at \$3.05 per share.
7/11	sanofi-aventis	Zentiva	Pharma	\$2,700,000,000	Price to revenue multiple is 4.29x.
7/15	ViroPharma	Lev Pharmaceuticals	Pharma	\$617,500,000	Includes cash and stock up front.
7/16	Andreae-Noris Zahn	JSC Armila	Pharma	\$33,200,000	Price to revenue multiple is 0.34x.
7/16	BELLUS Health	Innodia	Pharma	\$1,300,000	Includes purchase of outstanding debt.
7/18	Teva Pharmaceutical	Barr Pharmaceuticals	Pharma	\$8,960,000,000	Price to revenue multiple is 3.57x.
7/18	BMP Sunstone	Shengda Pharmaceutical	Pharma	\$4,400,000	For a 75% interest.

maceutical company.

Recently, **sanofi-aventis** (NYSE: SNY) offered \$2.7 billion for Czech Republic-based **Zentiva** (LSE: ZEND), which develops, manufactures and markets generic drugs, but Zentiva's board has recommended that shareholders not accept the deal. In a recently announced consumer health deal, SNY is paying **Primary Health**

Care Ltd \$544 million for a consumer health care unit, focused on vitamins, that Primary Health Care acquired in its 2007 acquisition of Australia-based **Symbion Health**. Also in July, sanofi-aventis announced its acquisition of **Acambis plc**; only one other company, Roche Holding, announced three M&A deals during the month. **Glaxo-SmithKline** (NYSE: GSK) and **Thermo Fisher Scientific** (NYSE: TMO) each announced two deals in July.

CHRP, continued from page 6...

It seems the team has started off on the right note. “We finished raising the fund much faster than we anticipated—we really only started in earnest in November, because we had certain restrictions that limited our activities for a period of time,” said Dr. Brown. “We are a team that has been together for several years, so even though we are viewed as a first-time fund, we have many features of a second or third fund. Our experience and flexibility give us the ability to be very creative in challenging economic times.” CHRP expects it will be holding the investments in its portfolio for a period of about seven to ten years.

Like other venture capital investors who have talked with us recently, Dr. Brown seems unconcerned about the dearth of IPO activity in relation to the ability to successfully invest in health care opportunities. “Our fund doesn’t depend on stock prices and is not subject to fluctuations in the public market. We don’t have to wait for an exit event. Our deals are structured so that we get quarterly royalty checks. This is a very attractive way for our investors to hedge their venture capital investments, as it provides a steady cash flow.”

Even though the economy has faltered in the past year or so, that had no effect on CHRP’s ability to raise its first fund, which was significantly oversubscribed, because more investors wanted to participate than the firm had anticipated. The partners do not expect the deployment process to be prolonged either, because there is a clear need for flexible financing packages in today’s market, on all sides of the equation.

“The synthetic royalty structure enables biotechnology, pharmaceutical, medical device and other health care technology companies to gain access to milestone-driven sources of capital, while providing cash flow, as a percentage of revenue, to CHRP and venture investors,” Dr. Brown explained. “A synthetic royalty agreement is basically the same as a licensing agreement, except that rather than providing intellectual property or a technology in exchange for future royalties, we provide capital in return for a future royalties. Typically we are doing this to fund commercial support for products that are already on the market or very close to being on the market.”

The way it works is, “We take a defined percentage of sales for a specified period of time. Our investments are



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probably priced a bit higher than traditional debt, but our financing is still less costly than traditional equity.” More specifically, “We tend to be lighter on debt covenant terms to give companies more operating flexibility. Since we can use hybrid structures which combine debt or equity with royalty structures, our terms are a bit different and may be better than other options in the market. We really look for ways to align the interests of the companies we invest in with the interests of our firm.”

Only a few firms specifically concentrate on health care royalty agreements. In addition to CHRP, others include **DRI Capital, Royalty Pharma, Capital Royalty Partners**, and Paul Capital. Other investment firms do some royalty deals but don't specialize in them. “There seems to be a greater need now than ever before for the kind of deals we are doing, and we anticipate a growing need, given the state of the public market. One reason is that Wall Street not giving companies enough credit for their revenue royalty streams,” remarked Dr. Brown.

“The volume of deals we are evaluating has increased substantially since the public markets began to falter. In just the past six months, we've looked at more than 80 qualified opportunities to invest in FDA-approved products that have already been launched or are on the verge of being launched. That's more than we usually would expect to see in a whole year.” Dr. Brown continued, “What this means is that there are more companies looking for alternative means to raise capital to fund their commercialization efforts.” He added, “In a tight market, companies have to work a little harder to find flexible and less expensive sources of capital and we are one of those options for them.” One reason he noted for so many approved products being in the market with unlocked or neglected potential is that, “Health care is rife with situations where reality of product potential is discordant with the market's perception of that potential—and those inefficiencies exist even in robust capital markets.”

Dr. Brown also told us, “Cowen Healthcare Royalty Partners is ideally suited for providing acquisition funding. We are a small, nimble team, working with companies that are trying to acquire products. About 15% of the deals we're looking at right now involve an acquisition.” Furthermore, “All the financing components in our investments are provided by the CHRP fund. When we arrange a hybrid investment structure, which combines a royalty with either a piece of debt or a piece of equity—all of the capital comes out of our fund.”

The firm is already pleased to be receiving cash flow

from its first deal, he said. “Our first investment was in Artes Medical and it included a royalty component. They didn't raise as much in their IPO as they wanted to, so the deal with CHRP was right for them as it allowed them to raise additional capital by leveraging an existing asset, and to fund expansion of the sales force.”

Cowen Group, Inc. anchored CHRP's fund with a \$25 million investment and 11 other investors collectively account for more than \$470 million in commitments. These include affiliates of **OMERS Capital Partners, Crestline Management, Nordea, Strategic Investment Group, New York Life Insurance Company** and the **Travelers Companies**. During the fund-raising process, **Credit Suisse Securities (USA) LLC** acted as financial advisor and placement agent to CHRP, while **Goodwin Procter** acted as legal counsel to the firm.



VENTURE CAPITAL

The health care venture capital market has eased its pace in the past several months, but the investment game has not stopped. So far, for 2008 the average number of deals announced per month is about 35, while for 2007 and 2006, the average was 40 and 38 deals per month, respectively. For the first time this year, in July 2008 the amount of funding raised by health care companies actually approached \$1 billion. Health care companies raised a total of \$918.6 million in venture capital in 38 transactions announced during July 2008. For comparison, for the first six months of 2008, the median and average amounts of funding per month were \$581 million and \$595 million, respectively—but the July funding brought the median up to \$617 million and the average up to \$641 million.

The deals announced during July account for more than 20% the total funding raised in all health venture capital transactions announced from January 1 to July 31, 2008. In July, companies in the biotechnology sector raised \$331 million, the greatest amount of funding in one sector, including one deal for \$100 million, announced by **Pacific Biosciences**. The most deals in one sector were announced by medical device companies, with 14 venture capital investments in July, including one deal announced by a company working with technology that was developed over a period of ten years and designed to enable improved perioperative management of surgical disposables.

RF Surgical Systems was co-founded by Dr. Jeffrey Port, an associate professor of surgery in the Department of Cardiothoracic Surgery at the **Weill Cornell Medical College** and an attending surgeon within the Division of

VENTURE CAPITAL MARKET—LEADING DEALS

(LISTED BY TRANSACTION AMOUNT)

COMPANY	AMOUNT	DATE	COMMENTS/FUNDING SOURCES
Pacific Biosciences	\$100.0 million	7/14	Pacific Biosciences was founded with the goal of developing its SMRT (single molecule real time) DNA sequencing platform, which was designed to overcome two major challenges facing the field of DNA sequencing, as the new gold standard for genetic analysis. This was the biotechnology company's Series E financing. Investors: Deerfield Management, Intel Capital, Morgan Stanley, Redmile Group, T. Rowe Price, Mohr Davidow Ventures, Kleiner Perkins Caufield and Byers, Alloy Ventures, Maverick Capital, AllianceBernstein, DAG Ventures, Teachers' Private Capital
CVRx	\$84.0 million	7/30	CVRx developed an implantable device designed to control hypertension (high blood pressure) that already received the CE Mark in Europe and is currently being evaluated in a global pivotal trial designed to obtain FDA approval. CVRx is using the proceeds from this Series E financing to fund ongoing trials and development. Investors: New Enterprise Associates, Johnson & Johnson Development, BBT Fund, Thomas Weisel Healthcare Venture Partners, InterWest Partners, Frazier Healthcare Ventures, SightLine Partners
Portola Pharmaceuticals	\$60.0 million	7/9	Portola Pharmaceuticals is a biotechnology company focused on discovering and developing therapeutics for cardiovascular and inflammatory diseases, and secured this financing primarily to fund the advancement of its two lead clinical candidates, both antithrombotics, including one that completed phase II trials. Investors: D.E. Shaw Group, Adage Capital Management, BBT Capital Management/Apothecary Capital, Janus Capital Group, PAC-LINK Bioventures, others
MedeFinance	\$50.0 million	7/28	MedeFinance, an e-health company that is a leading provider of health care analytics and business intelligence services, is using the proceeds from this financing to support growth initiatives and acquisition opportunities, as well as to repurchase some stock from existing investors. Investors: Bain Capital, others
Cytochroma	\$43.4 million	7/30	Cytochroma raised this Series C funding to continue developing proprietary, clinical-stage pharmaceutical product candidates, to treat or prevent altered vitamin D metabolism in chronic kidney disease patients, for the treatment of secondary hyperparathyroidism and for the treatment of vitamin D insufficiency. Investors: Mitsubishi Tanabe Pharma Corporation, Caisse de Depot et Placement du Quebec, Novo A/S, Canadian Medical Discoveries Fund, T2C2/Bio 2000 Limited Partnership, GrowthWorks Canadian Fund, BDC Capital, VentureLink Brighter Future Fund
Light Sciences Oncology	\$40.1 million	7/15	With the proceeds from this Series C financing, Light Sciences Oncology is continuing the development of its light infusion therapy device, including two ongoing phase III clinical trials in patients with hepatocellular carcinoma and metastatic colorectal cancer, a planned phase III trial in brain cancer and early stage clinical trials in benign prostatic hyperplasia. Investors: Not disclosed
BG Medicine	\$40.0 million	7/17	BG Medicine is a biotechnology company focused on discovering, developing and commercializing molecular diagnostics based on biomarkers. This Series D funding is for the ongoing development and commercialization of its first two diagnostic products and clinical activity related to other potential product candidates. Investors: Legg Mason Capital Management, GE Asset Management, SMALLCAP World Fund, Flagship Ventures, Gilde Healthcare Partners, Humana, Stelios Papadopoulos
Enlight Biosciences	\$39.0 million	7/10	Enlight Biosciences intends to advance technologies that may fundamentally alter drug discovery and development, such as drug discovery, chemistry and synthesis platforms; predictive efficacy models, predictors of pharmacokinetics and toxicology; molecular imaging and biomarkers; and formulation and drug delivery technologies. Investors: PureTech Ventures, Pfizer, Merck, Eli Lilly & Co.
EBR Systems	\$35.0 million	7/28	EBR Systems is developing a leadless pacing system for cardiac stimulation applications. The proceeds from this C-round are to complete product development and to initiate clinical trials of an implantable pacing device for left ventricular stimulation for the treatment of heart failure. Investors: Delphi Ventures, SV Life Sciences, Split Rock Partners, De Novo Ventures, Frazier Healthcare
Agios	\$33.0 million	7/7	Biopharmaceutical company Agios Pharmaceuticals is focused on the discovery and development of drugs that target key metabolic pathways to disrupt the ability of cancer cells to grow and survive. The company is using this Series A funding to establish a product and biology platform. Investors: Third Rock Ventures, Flagship Ventures, ARCH Venture Partners

VENTURE CAPITAL MARKET—OTHER DEALS

(LISTED BY TRANSACTION AMOUNT)

COMPANY	AMOUNT	ROUND	DATE	LEAD INVESTOR(S)	SECTOR
NuPathe	\$30.0 million	B	7/24	Quaker BioVentures, SR One, Safeguard Scientifics	Pharma
Tyrell	\$28.0 million	E	7/11	Sante Ventures, Catterton Partners, Austin Ventures	MedDev
CoLucid Pharmaceuticals	\$25.0 million	B	7/1	Care Capital, Pappas Ventures, Domain Associates	Biotech
Intercept Pharmaceuticals	\$25.0 million		7/29	Genextra	Biopharm
SuppreMol	\$24.4 million	B	7/14	MIG AG, BioMedInvest AG, Santo Holding	Biopharm
Celator Pharmaceuticals	\$22.5 million	C	7/28	Domain Associates, Ventures West, Quaker BioVentures	Pharma
Sierra Neuropharmaceuticals	\$21.5 million	A	7/31	HealthCare Ventures, Morgenthaler, Sequel Venture	Pharma
CambridgeSoft	\$21.0 million		7/21	Goldman Sachs	E-Health
Fluxome Sciences	\$20.4 million		7/23	SEVENTURE Partners, INCUBA Venture, VECATA	Biotech
Collegium Pharmaceutical	\$20.0 million	D	7/15	Frazier Healthcare, Boston Millennia, Westfield Capital	Pharma
Pearl Therapeutics	\$18.0 million	A	7/2	Clarus Ventures, NLV Partners, 5AM Ventures	Biopharm
AlloCure	\$14.5 million	A	7/1	SV Life Sciences, Novo A/S	Biotech
Accuri Cytometers	\$13.0 million	C	7/8	Fidelity Biosciences, Flagship Ventures, Baird Venture	Biotech
Tandem Diabetes Care	\$13.0 million	B	7/1	Domain Associates, Texas Pacific Growth	MedDev
Cara Therapeutics	\$12.3 million	C	7/24	Devon Park Bioventures, Connecticut Innovations	Biotech
RF Surgical Systems	\$12.0 million	A	7/25	Menlo Ventures, Stanford University	MedDev
Vertos Medical	\$12.0 million	C	7/17	CHL Medical Partners, Foundation Medical Partners	MedDev
Integrated Healthcare Hldgs.	\$10.7 million		7/20	Dr. Kali P. Chaudhuri	Services
Peptimmune	\$8.9 million	D	7/16	New Enterprise Associates, MPM Capital, Hunt Ventures	Biotech
Dicerna Pharmaceuticals	\$8.4 million	A	7/15	Abingworth Management, Oxford Bioscience	Biopharm
UVaCide	\$6.0 million		7/25	Nexus Medical Partners	MedDev
Xenome	\$6.0 million		7/23	GBS Venture Partners	Biopharm
Dexela	\$5.2 million	B	7/19	Close Ventures, London Technology Fund	MedDev
Core Essence Orthopaedics	\$5.0 million		7/1	NewSpring Capital	MedDev
Arbel Medical	\$4.5 million	B	7/17	Giza Venture Capital, Docor, Ofer High Tech	MedDev
Pluromed	\$4.0 million	B	7/17	Not disclosed	MedDev
Adnavance	\$1.7 million	B	7/10	GrowthWorks Working Opportunity Fund, CMDF	MedDev
OrthoData	\$1.1 million	A	7/30	Kentucky Seed Capital Fund, Queen City Angels	MedDev

Thoracic Surgery at **New York Presbyterian-Weill Cornell Medical Center**, and William Blair, an electrical engineer who is the chief technology officer of RF Surgical Systems.

In July, the Bellevue, Washington-based company announced a \$12 million investment from **Menlo Ventures** and **Stanford University**. We talked with David Goesling, the company's vice president & CFO, who noted, "RF Surgical Systems is the first company to get a surgical sponge detection product into the marketplace for clinical use." Although this is RF Surgical's Series A financing, the company is far from being a start-up. Mr. Goesling said, "The proceeds from the equity investment are being used to support expansion, so we are building up our sales force and also working on some product development initiatives. We are hoping to achieve profitability

during 2009." RF Surgical Systems developed and is marketing an easy-to-use scanning system to accurately detect and prevent retained surgical objects in patients before closing procedures. According to one estimate cited by the company, surgical sponges may be retained inside up to one in every 1,500 patients who undergo intra-abdominal operations in the United States. While other companies competing in this space are focusing on automating sponge counts, using bar code or RFID technologies to determine whether the surgical count is correct, RF Surgical is taking a different approach. The company designed its system to expressly determine if there are still sponges inside a patient and is using a distinct technology.

Mr. Goesling stated, "What we found with RFID chips is that they are too expensive and do not have enough

...continued on page 15

PRIVATE PLACEMENT MARKET—LEADING DEALS

(LISTED BY TRANSACTION AMOUNT)

COMPANY	AMOUNT	DATE	COMMENTS/FUNDING SOURCES
American Oriental Bioengineering	\$115.0 million	7/10	American Oriental Bioengineering (NYSE: AOB) priced this private offering of \$115.0 million aggregate principal amount of convertible senior notes due 2015, which will pay interest semi-annually at a rate of five percent per annum. The notes will be convertible at an initial conversion rate of 107.6195 shares per \$1,000 principal amount of notes, which is equal to an initial conversion price of approximately \$9.29 per share. AOB is a pharmaceutical company dedicated to the development, manufacture and commercialization of a range of prescription and over-the-counter products in China. AOB intends to use approximately \$30.0 million of the proceeds to repurchase shares of its common stock in a transaction with an affiliate of the placement agent. The remaining proceeds are for general corporate purposes, including working capital and to fund possible acquisitions of and investments in complementary businesses and products.
MiddleBrook Pharmaceuticals	\$100.0 million	7/30	MiddleBrook Pharmaceuticals (NASDAQ: MBRK), a pharmaceutical company based in Germantown, Maryland and focused on the development of anti-infective drug products, secured this equity financing primarily to support the launch of MOXATAG, its once-daily amoxicillin formulation. The proceeds will also help to continue the development of its clinical pipeline. Equity Group Investments is making this \$100.0 million investment in MiddleBrook, which sold 30,303,030 shares of its common stock at \$3.30 per share together with a five-year warrant to purchase a total of 12,121,212 shares of common stock at an exercise price of \$3.90 per share. As part of the agreement, a new, commercially-focused senior management team has been appointed. Also in connection with the transaction, MiddleBrook has agreed to repurchase its Keflex assets previously sold to funds affiliated with Deerfield Management in November 2007.
Cell Therapeutics	\$44.5 million	7/24	Cell Therapeutics (NASDAQ: CTIC) sold newly issued 18.33% convertible senior notes due 2011, with a conversion price of \$0.79 per share, and a warrant to purchase approximately 28,200,000 shares of common stock at an exercise price of \$0.79 per share, to a single investor. This transaction constitutes an exercise of a previously granted warrant right for the investor to purchase up to \$67.5 million of such unit securities. Cell Therapeutics is receiving \$22.25 million up front, with the balance to be funded prior to August 25, 2008. Headquartered in Seattle, Washington, Cell Therapeutics currently has one oncology drug on the market and three product candidates in late-stage development. Rodman & Renshaw acted as the pharmaceutical company's placement agent in this transaction.
Jazz Pharmaceuticals	\$26.0 million	7/16	In this registered direct offering, specialty pharmaceutical company Jazz Pharmaceuticals (NASDAQ: JAZZ) sold a total of 3,848,289 units to investors at a price of approximately \$6.76 per unit. Each unit consists of one share of the company's common stock and one warrant to purchase 0.45 of a share of common stock. The warrants are exercisable at a price of \$7.37 per share for a period of six years. JAZZ is focused on the development of products for unmet medical needs in the neurology and psychiatry markets. This funding is primarily for commercial activities related to its once-daily LUVOX CR (fluvoxamine maleate) extended release capsules, approved by the FDA in February 2008 for the treatment of both obsessive compulsive disorder and social anxiety disorder, and for phase III clinical studies of its sodium oxybate product candidate for the treatment of fibromyalgia. Lazard Capital Markets and Leerink Swann acted as placement agents for the deal.
Pharmasset	\$25.9 million	7/22	Pharmasset (NASDAQ: VRUS), a pharmaceutical company, completed this registered direct offering, in which it sold 1,450,000 shares of its common stock at a price of \$17.85 per share. Pharmasset is committed to discovering, developing and commercializing drugs to treat viral infections, with a primary focus on the development of oral therapeutics for the treatment of hepatitis B virus, hepatitis C virus and human immunodeficiency virus. The proceeds from the offering are being used for general corporate purposes, which include, but are not limited to, the acquisition of assets or businesses that are complementary to its existing business, the funding of clinical trials and the funding of in-licensing agreements for product candidates, additional technologies or other forms of intellectual property. Morgan Stanley, Canaccord Adams, Cowen and Company and Leerink Swann served as placement agents for the offering.
Cardiome	\$25.0 million	7/23	CR Intrinsic Investments agreed to purchase Series A convertible preferred shares from Canada-based Cardiome (NASDAQ: CRME), resulting in gross proceeds to the company of \$25 million. CRME sold 2,272,727 Series A convertible preferred shares at a price of \$11.00 per share. Subject to certain timing restrictions, the preferred shares will be convertible into common shares of Cardiome's stock on a one-to-one basis. In the event of a change of control of the company, each preferred share will automatically convert immediately prior to the closing of the change of control event. No coupon or interest is payable on this series of preferred shares. Cardiome, a drug development company focused on disorders of the heart and circulatory system, is using the proceeds for general corporate purposes and clinical development.

PRIVATE PLACEMENT MARKET—OTHER DEALS

(LISTED BY TRANSACTION AMOUNT)

COMPANY	SYMBOL	AMOUNT	DATE	PLACEMENT AGENT/INVESTOR(S)	SECTOR
Novavax	NVAX	\$18.0 million	7/29	(registered direct equity financing)	Biotech
Threshold Pharmaceuticals	THLD	\$18.0 million	7/10	Lazard Freres; MTS Securities	Biotech
PolyMedix	PYMX	\$15.0 million	7/31	Emerging Growth Equities; Fordham Financial	Biotech
Optimer Pharmaceuticals	OPTR	\$12.2 million	7/21	Not disclosed	Biopharm
Electro-Optical Sciences	EOS	\$11.8 million	7/31	Not disclosed	MedDev
CombiMatrix	CBMX	\$10.0 million	7/11	(secured convertible notes)	Biotech
Dyax Corp.	DYAX	\$10.0 million	7/17	Dompe Farmaceutici	Biopharm
Senesco Technologies	SNT	\$10.0 million	7/7	YA Global Investments; Stanford Venture Cap.	Biotech
Oramed Pharmaceuticals	ORMP	\$5.0 million	7/15	Montaur Capital Partners	MedDev
MedaSorb Technologies	MSBT	\$4.5 million	7/2	NJTC Venture Fund	MedDev
OctoPlus	OCTO	\$3.2 million	7/11	Biolex Therapeutics	Biopharm
BioSyntech	BSY	\$3.0 million	7/15	Dundee Securities; Macquarie Capital	Biotech
Synergy Pharmaceuticals	PWFF	\$3.0 million	7/21	Callisto Pharmaceuticals	Biopharm
Bio-Bridge Science	BGES	\$2.8 million	7/3	Not disclosed	Biotech
Optimer Pharmaceuticals	OPTR	\$2.5 million	7/24	(registered direct offering)	Biopharm
Biopure Corporation	BPUR	\$2.3 million	7/2	Not disclosed	Pharma
MabCure	MBCI	\$1.3 million	7/7	Not disclosed	Biotech
Crdentia	CRDT	\$1.0 million	7/2	Not disclosed	Staffing



PRIVATE PLACEMENTS

After a major rebound in May, during June and July the private placement market for health care companies settled back down to earth a bit. As of April 30, 2008 the average total amount invested per month in health care private placements was about \$176 million, but now, for the first seven months of the year, the average amount has been lifted by 102% to \$356 million. For January 1 to July 31, 2008, the average number of deals announced per month is close to 19, also lifted from the average of 15 per month for the first four months of the year.

In total, during July 2008 there were 25 private placements announced by public health care companies, totaling just over \$470 million. Two of these deals together, the \$115 million financing announced by **American Oriental Bioengineering** (NYSE: AOB) and the \$100 million financing announced by **MiddleBrook Pharmaceuticals** (NASDAQ: MBRK), account for about 46% of the monthly total.

In the sector with the most funding for July, pharmaceuticals, just six deals were announced, but those deals add up to over \$294 million. Eight of the companies that

announced deals during the month are active in the biotechnology sector, which garnered over \$78 million. In five deals, biopharmaceutical companies raised over \$31 million.

Among the smaller deals, two of the investments in biopharmaceuticals were made by a corporate player. **Dompe Farmaceutici** is providing \$10 million to **Dyax Corp.** (NASDAQ: DYAX) as a condition for the exclusive negotiation rights to a European license to Dyax's phase III product candidate in angioedema indications, including hereditary angioedema. Milan, Italy-based Dompe agreed to purchase 2,008,032 million shares of Dyax's common stock in a private placement at \$4.98 per share. **Biolex Therapeutics** is providing \$3 million to **OctoPlus** (EURONEXT: OCTO) under the terms of a bridge financing agreement announced in March. The two companies are collaborating on the development of Locteron, a controlled release formulation of interferon alfa for the treatment of chronic hepatitis C, currently in phase II clinical development. Other participants in the bridge financing are OctoPlus' major shareholders **Life Sciences Partners** and **SR One**. The proceeds from the transaction enable OctoPlus to secure one of the longer term financing options it currently has under negotiation.

RF Surgical, continued from page 15...

range within the human body to be an efficient solution for this application.” With RF Surgical’s solution, he explained, “There actually is no chip in the sponge. There’s a very small ferrite and copper core, encapsulated in an inert material so the capsule can be placed in the surgical gauze or sponge. It’s a hybrid RF-magnetic coupling technology.” He continued, “The system also includes a console to display readings and a wand that is waved over areas such as the human body, or even around the surgical table,” enabling surgical staff to detect and account for items that have the capsule in them. “It only takes less than one minute to do a scan, so our system can save a lot of time searching and doing imaging to find a lost surgical item.”

Mr. Goesling continued, “We got FDA approval in November 2006 and marketing began in April 2007, with the first clinical use. Now, our system is being used in more than 30 hospitals in the U.S., including at the **University of Pennsylvania** and **University of Southern California**, as well as **Clarian Health Partners**, based in Indianapolis.” The company’s system was also recently implemented by **St. Vincent’s Medical Center** in Bridgeport, Connecticut and at **Virginia Commonwealth University Medical**

Center in Richmond. “It’s a pretty quick process for a hospital to implement our system. Currently we’re working with **Medline Industries** as our distributor,” he said. “The distributor puts the RF capsules into the appropriate sponge and gauze products, and hospitals have the option of switching out old supplies to get the RF supplies. We actually provide hospitals with the console for the system. The tagged gauze, sponges and the detection wand are really the main part of the cost for hospitals.” The wand is a single-use, disposable scanning device that has a retail cost of about \$50. The average cost to the hospital for the RF-tagged sponge and gauze is an additional \$5 to \$8 per surgery. “Right now, there is no reimbursement code,” he said. “But, there is ample opportunity for savings on legal costs related to patients who have an item left inside them, as well as saving the time it takes to remove an item, or to do a re-count of surgical supplies, which can take an hour if an x-ray is called for.” Decreasing the likelihood that a surgical item is left in a patient’s body is probably motivation enough for most hospitals to consider such a system. “We are also working on a way to get the RF capsules into surgical tools, but there are some engineering challenges to overcome. We need to be sure the capsule can withstand the same usage as the instruments.”

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SHOCKING RESULTS ON THE STATUS QUO?

According to a recent survey from **The Vitality Group**, 82% of Americans believe that they alone are responsible for their health. The vast majority also agree that lifestyle choices, such as smoking and exercise, have a direct impact on their health care costs. But, when asked who should pay these health care costs, nearly half (44%) of Americans surveyed said they believe they should not bear any part of the responsibility of paying for their health care. The majority of respondents to Vitality's survey (59%) believe their or their spouse's employer should have some responsibility for their health care costs, and nearly half (46%) think the government should have some responsibility. Vitality reported that only 56% of respondents think they should shoulder any part of the responsibility themselves.

Notes and Briefs

The Vitality Group points out that chronic diseases account for more than three-quarters of the nation's \$2.3 trillion medical care costs—and a significant share of those costs can be traced to lifestyle factors such as smoking, poor eating habits and the lack of physical activity. Vitality Group noted that 70% of all health care costs generated in the U.S. are attributable to preventable risks and unhealthy choices. For example, an estimated 66% of U.S. adults are overweight or obese, which costs U.S. companies an estimated \$13 billion per year. According to the CEO of The Vitality Group, Art Carlos, "The only way to stem these escalating health care costs is to help people take action to get healthier or insist they pay for the privilege of lifestyle choices that adversely affect the pocketbooks of others."

Vitality Group indicated that wellness programs are gaining popularity among employers, who are struggling with dramatic increases in the cost of health benefits, citing a study by **Hewitt Associates**, which found that two-thirds of employers were moving toward more aggressive wellness and disease management programs for employees, and almost half were offering or planned to offer incentives to participate in health initiatives, compared with just 38% a year earlier. Interestingly, when Vitality asked survey respondents about participating in an employer-sponsored wellness program, more than 95% said they would participate if they got something out of it, such as lower health care costs, incentives, better health or employer subsidies. But only four in ten said they would participate in a wellness program if they had to pay for the program themselves.

RESULTS OF THE TEN-SECOND SURVEY:

Recently we emailed a ten-second survey to health care investment bankers, venture capitalists and executives, to get a quick read on market sentiment among business professionals in the industry. The overwhelming majority of respondents must be glad to be in health care right now, based on the fact that 87% said yes, health care investments will outperform the general markets in the next two years. Furthermore, many appear to believe the window for health care IPOs may open a little bit further, at some point after the next six months.

We also asked, what is the best strategy for venture-backed health care companies considering an IPO? The choices were: try to go public in the next six months; wait six to 12 months; wait 12 to 24 months; or seek a buyer. Of course, each answer makes sense in certain scenarios, depending on the individual company and sector. For example, health care services and information technology companies, particularly those that offer a specialized or distinct solution, are perceived by some to be among the better IPO candidates in today's market.

Sixty-one people responded to the survey, including 42% who said these companies should wait six to 12 months. Another 31% said that such a company should seek a buyer. But, as we have pointed out before in this newsletter, there are times when an IPO filing triggers more buyer interest from the M&A side than from Wall Street—so, it's possible that some people who answered "seek a buyer" might have said the same thing even in different times. Just 23% of respondents said to wait 12 to 24 months. Interestingly, only 5% said to try to go public in the next 6 months.

For companies with strong fundamentals, such as actual revenues, management talent and products on the market, right now may still be a good time to make an initial public offering—and this description fits certain companies in medical technology, as well as in health care services. We have heard it said that this is probably not a good time for biotechnology companies to go public. But, biotech deals continue to figure prominently in the health care M&A market. Furthermore, pharmaceutical companies are doing plenty of licensing deals with biotechnology and biopharmaceutical companies, so companies with the right assets can obtain some financing through licensing and other types of agreements. In the long run, biotechnology companies that, over the next year or two, are able to establish or increase revenue streams, tighten efficiencies and build their businesses could end up in a better position to make sweeter deals down the road.