

SEVEN HILLS

Healthcare Market Report

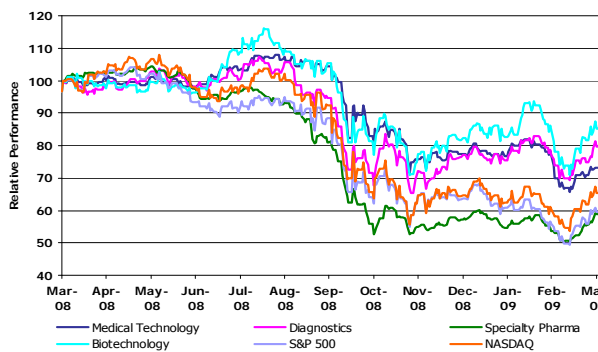
Seven Hills is pleased to present our Q1'09 Healthcare Market Report, which provides readers with information regarding the healthcare sector as a whole, information relating to the M&A market environment, as well as information related to capital raising for both public and private companies. Seven Hills actively covers biotechnology, diagnostics, medical technology, and specialty pharmaceutical companies.

Healthcare Market Overview

The healthcare market continues to be adversely affected by the deterioration of macroeconomic conditions. However, the medical technology, diagnostics, and biotechnology subsectors continue to outperform the broader market.

- There were only four completed healthcare IPOs in 2008 and 43 withdrawn healthcare IPOs; none in 2009
- Some cash returned to shareholders through mega mergers will likely be reinvested in large cap pharma and biotech
- Venture capital investors have increased participation in PIPEs

Industry Sub-Sector Performance (Relative %)



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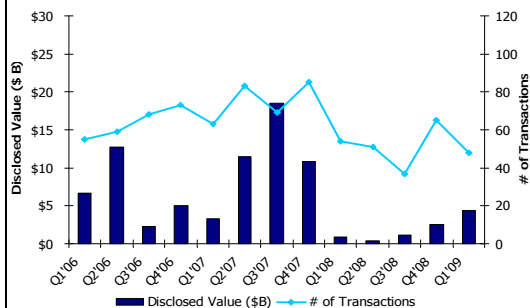
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M&A Environment

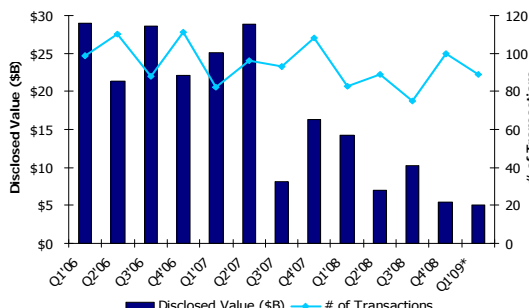
Recent market volatility has slowed M&A activity for both medical technology companies and pharmaceutical / biotechnology companies. However, lengthening time to liquidity events and the tightening financing environment may lead to increased activity. Buyers with strong balance sheets or access to capital may find attractive opportunities.

- Medtech M&A is traditionally dominated by larger players' demand for growth, as nearly two-thirds of a typical medtech company's revenues come from products launched in the last two years
- Several mega pharma / biotech deals have been announced in recent months driven by pipeline and generic concerns
- Reverse mergers have not been well received by investors, as many merged companies are still trading at negative enterprise values
- M&A transactions are increasingly structured as strategic partnerships with buyout options

Medical Technology M&A



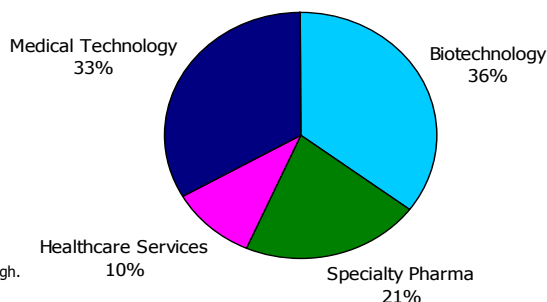
Pharma & Biotech M&A



Capital Raising Environment

- Although several VCs have recently raised significant funds, they remain focused on portfolio companies they cannot exit
- Anecdotally, VCs are still deploying capital but at lower valuations
- Venture capitalist firms demonstrating increased appetite for public companies
- Difficult PIPE market continues; biotechnology PIPEs were down 35% to \$3 billion in 2008

Venture Funding by Sector



Seven Hills Service Offering

- M&A Advisory
- Strategic Advisory
- Corporate Divestitures
- Cross-Border Transactions
- Private Equity Placements
- Private Debt Placements
- PIPE Financings
- Registered Direct Placements
- Recapitalizations
- Fairness Opinions

About Seven Hills

We are a leading provider of financial advisory and corporate finance services to growth companies. We deliver a combination of technical expertise gained at major Wall Street firms and an entrepreneurial drive developed during our years at growth company-focused investment banks. We concentrate our efforts in growth sectors of the economy in which our senior bankers have advised hundreds of companies and established a broad network of corporate and institutional investor relationships. We work with companies in the technology, healthcare, cleantech, and applied technology industries. Seven Hills is an independent firm owned by its Partners and a select group of private investors.

*Excludes Pfizer's acquisition of Wyeth and Merck's acquisition of Schering-Plough.

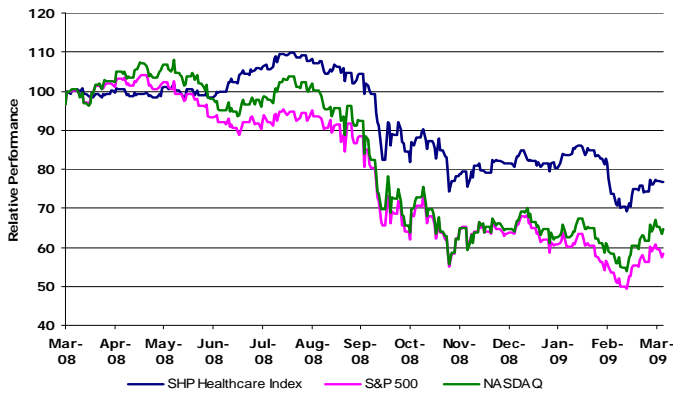
MARKET ENVIRONMENT

The SHP Healthcare Index declined significantly in 2008, though has remained at levels above the broader market. Industry sub-sectors experienced performance declines ranging from 13% to 42% since March 31, 2008. EV/LTM revenue and EV/LTM EBITDA trading multiples decreased by more than 50% and 44% respectively in 2008, though growth expectations remain positive for all sub-sectors.

INDEX PERFORMANCE

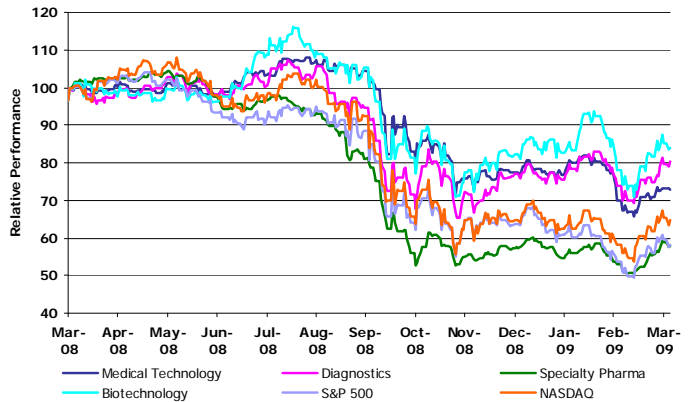
HEALTHCARE INDEX PERFORMANCE⁽¹⁾

The SHP Healthcare Index declined 23.3% during Q1'09. Broader market indices have declined at more drastic rates.



INDUSTRY SUB-SECTOR INDEX PERFORMANCE⁽¹⁾

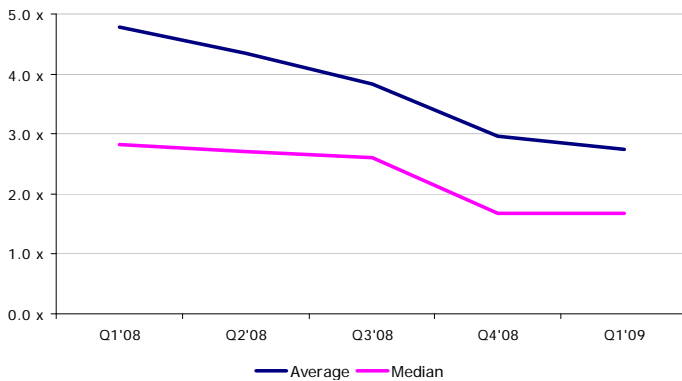
Healthcare sub-sector indices continued to decline over Q1'09, though have begun to level off. Of note, specialty pharma companies have declined the most precipitously over the past year.



TRADING MULTIPLES

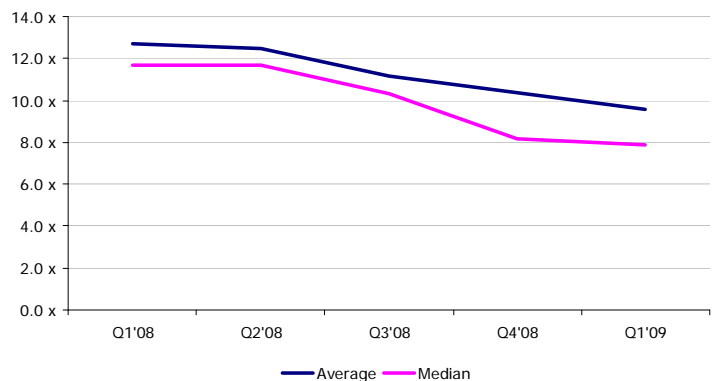
VALUATIONS: EV / LTM REVENUE⁽¹⁾

The average EV / LTM revenue multiple decreased 43% in Q1'09 from a year prior for companies in the SHP Healthcare Index.



VALUATIONS: EV / LTM EBITDA⁽¹⁾

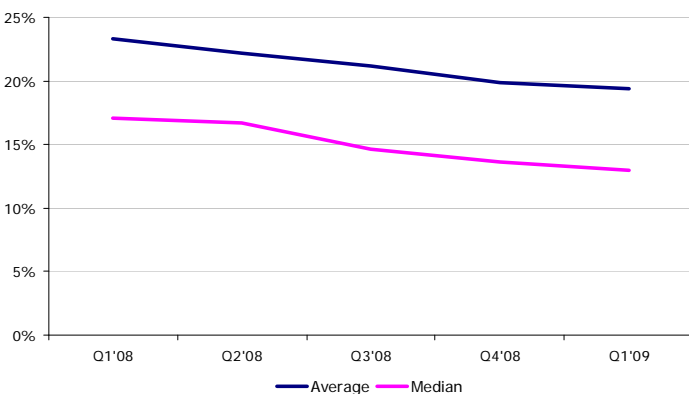
The average EV / LTM EBITDA multiple decreased 25% in Q1'09 from a year prior for companies in the SHP Healthcare Index.



GROWTH

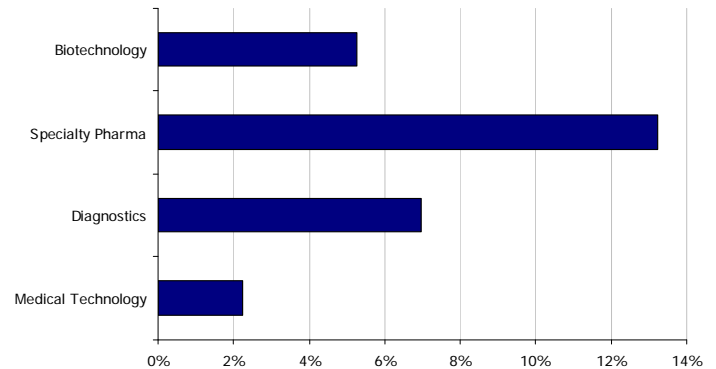
1 YEAR TRAILING REVENUE GROWTH⁽¹⁾

Trailing growth rates have decreased for companies in the SHP Healthcare Index, with growth rates beginning to fall in Q1'08, and flat by the end of Q1'09.



2009 GROWTH EXPECTATIONS⁽¹⁾

Revenue growth rates across all SHP Healthcare sub-sectors are expected to be positive in 2009, with specialty pharma expecting the largest year-over-year expansion.



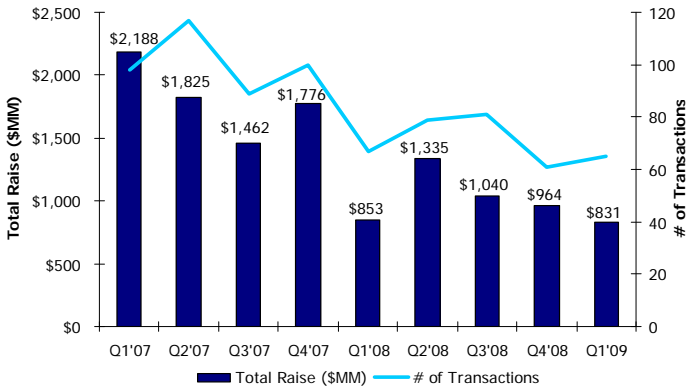
CAPITAL RAISING ENVIRONMENT

Given the weakness and volatility in the stock market over the past 12 months, healthcare PIPE proceeds raised in Q1'09 continued to decline from peak levels experienced in early 2007. In a notable shift from prior years, Q1'09 saw VC firms as the largest investor class in PIPEs. For non-VC investors, there is a strong bias toward registered direct financings. Financing is still the most pressing issue among biotechs, as the number of companies with less than six months of cash has spiked. SHP tracks healthcare PIPEs for issuers with market capitalizations of less than \$500MM raising between \$1MM - \$50MM.

VOLUME & PROFILE

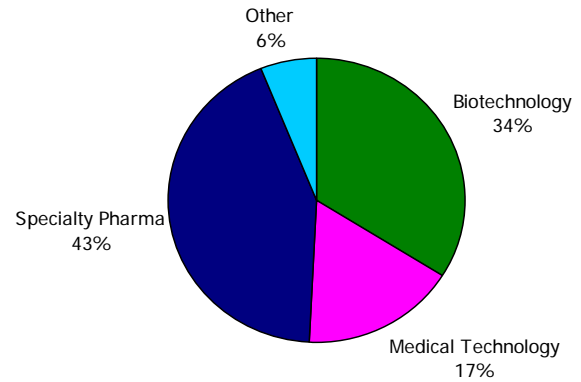
HEALTHCARE PIPE MARKET VOLUME⁽³⁾

Healthcare PIPE volumes and proceeds raised held relatively steady for Q1'09, though remain well below 2007 highs.



Q1 2009 PIPE INVESTMENTS BY HEALTHCARE SECTOR⁽³⁾

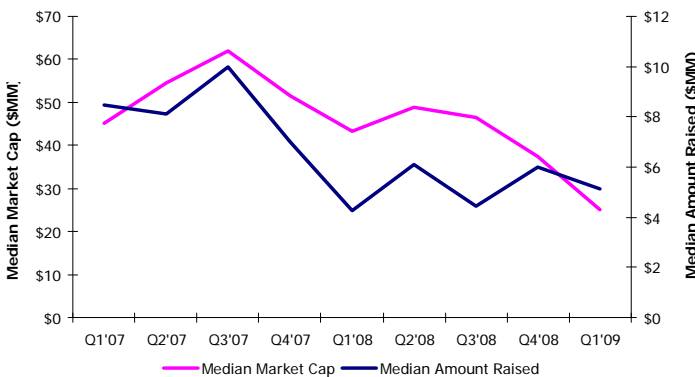
Specialty pharma and biotechnology companies remain the most active issuers in the healthcare industry with 43% and 34% of the market share respectively.



INDUSTRY & TYPE

TYPICAL HEALTHCARE PIPE PROFILE⁽³⁾

Median market capitalization of healthcare issuers decreased 33% in Q1'09. Median amount raised declined to approximately \$5MM, but remained relatively stable since the end of 2007.



Q1 2009 HEALTHCARE PIPES BY SECURITY TYPE⁽³⁾

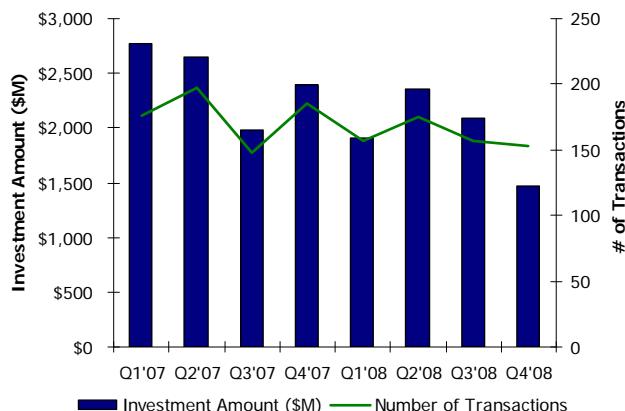
Common stock transactions accounted for 52% of activity in Q1'09, up from 45% in Q4'09.

Type	# of Deals	% of Deals	Median					
			Issuance	Market Cap	Prem/(Disc)	Dilution	Warrant Coverage	Warrant Prem/(Disc)
Common Stock	33	51.6%	\$6.0	\$39.2	(7.2%)	14.6%	100.0%	7.4%
Preferred Stock: Convertible	12	18.8%	\$3.9	\$16.0	21.0%	21.2%	180.0%	40.1%
Debt: Convertible	10	15.6%	\$5.8	\$16.1	(6.7%)	41.0%	45.0%	(6.7%)
Debt: non-Convertible	5	7.8%	\$2.5	\$18.5	N/A	38.2%	40.4%	(3.7%)
Equity Line	4	6.3%	\$15.5	\$36.8	(2.5%)	39.5%	N/A	N/A

VENTURE FUNDING ENVIRONMENT

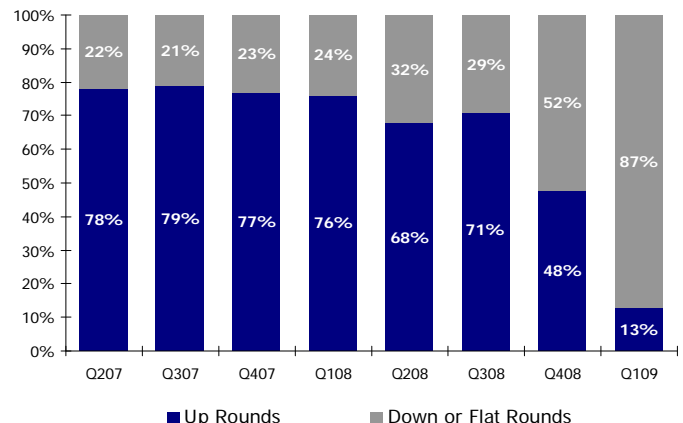
VENTURE FUNDING VOLUME⁽²⁾

Q4'08 venture funding was down 30% from the previous quarter; however transaction volume fell by just 3% as late stage companies are raising smaller rounds. Financing is still the most pressing issue among life sciences companies.



UP ROUNDS VS. DOWN ROUNDS⁽⁴⁾

Down or flat rounds exceeded up rounds by the largest margin in recorded history. Investors are still looking to deploy capital, but with lower valuation and aggressive terms.



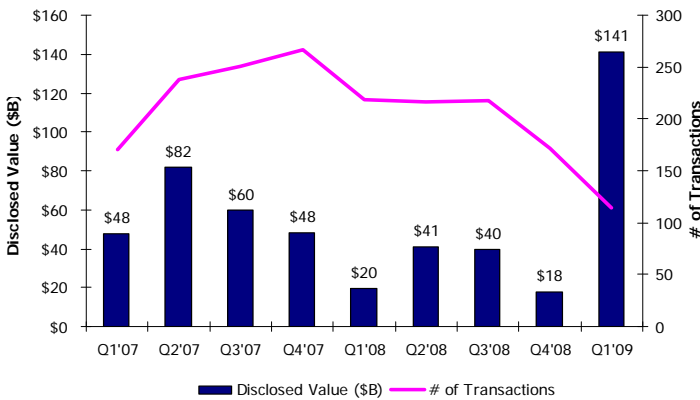
M&A ENVIRONMENT

While healthcare transaction volumes continued to decline in Q1'09, values increased dramatically skewed by the Pfizer/Wyeth (\$64B) and Merck/Schering-Plough (\$47B) transactions. These pharma mega mergers, along with the Roche/Genetech merger, were driven by near-term pipeline and generic concerns. Other large deals by GlaxoSmithKline, Sanofi-Aventis, and Novartis are rumored to be in the works. M&A remains the predominant exit as there have not been any VC-backed healthcare IPOs since Q1'08.

VOLUME & VALUATION

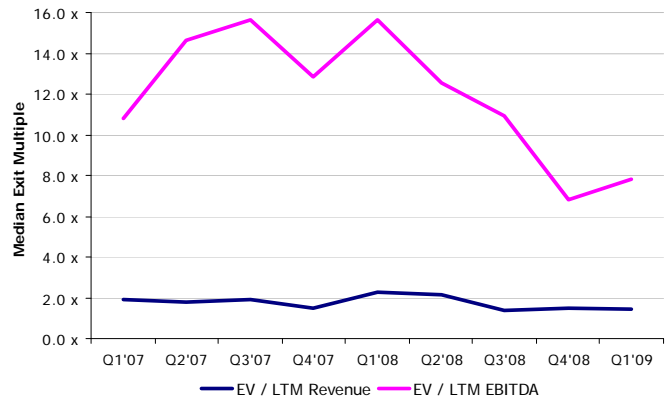
HEALTHCARE M&A VOLUME⁽¹⁾

Q1'09 healthcare M&A transaction volumes continued to decrease, while disclosed value increased significantly due to the Pfizer/Wyeth and Merck/Schering-Plough transactions, which represented a combined \$111B.



HEALTHCARE M&A VALUATION⁽¹⁾

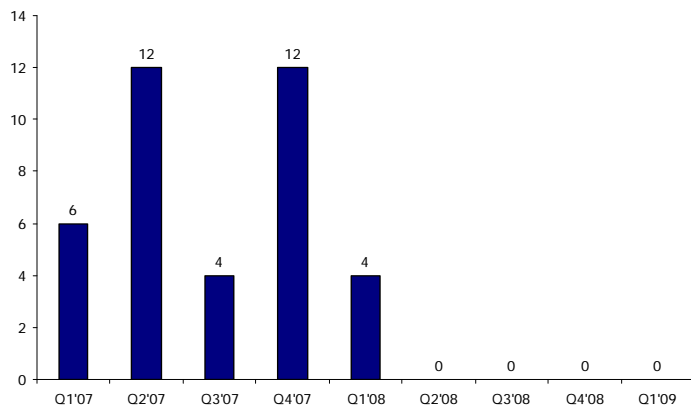
While revenue exit multiples have remained relatively stable, EBITDA exit multiples fell dramatically in 2008, showing slight improvement in Q1'09.



EXITS

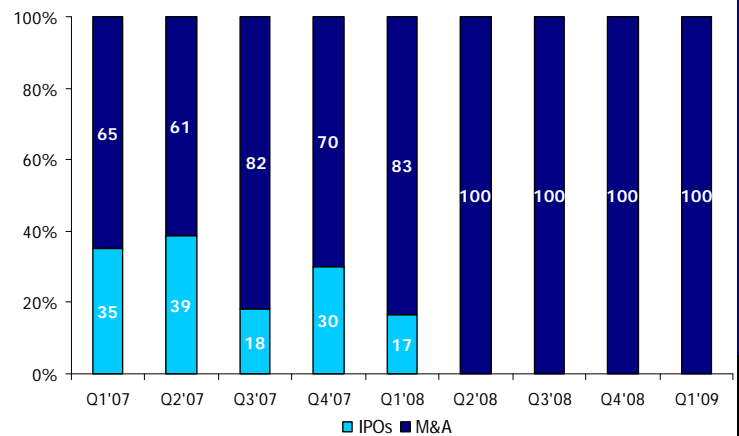
IPOs⁽²⁾

The 2008 global financial crisis created a historically volatile market with only four venture backed healthcare IPOs. There have been no venture backed healthcare IPOs since Q1'08 with no near term expectation of a receptive market.



VC EXITS⁽²⁾

Due to the inactive IPO market, M&A activity constituted 100% of the venture exits in the past four quarters.



ABOUT THIS REPORT

The Seven Hills Healthcare Index is comprised of healthcare companies across the following sectors: medical technology, diagnostics, biotechnology, and pharmaceuticals. The data for this report was compiled using data from the following sources: (1) Healthcare companies from the Seven Hills Healthcare Index as classified by Seven Hills from Capital IQ; (2) Healthcare companies as classified by Dow Jones VentureSource; (3) Healthcare companies as classified by PrivateRaise.; (4) Companies, not healthcare specific, as classified by Cooley Godward Kronish LLP Private Company Financing Report Q109. For more information regarding this report, please contact any of the Seven Hills partners, principals, or vice presidents.

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