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Some health care companies are dedicated to improving care by using temperature, to either apply warming, cooling, extreme heat or extreme cold for specific therapeutic purposes. **See page 1**

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#### Private Placements

For the month of July, public health care companies announced a relatively average number of deals and a fairly decent amount of total funding through private placement transactions. **See page 14**

## INSTITUTIONAL FUNDING FLOWS TO HEALTH CARE

*Private Placements Offer Attractive Financing Option And Are On The Rise*

The last few years of data on private investments in public entities, or “PIPE deals” as they are often called, indicate that the market for these deals is booming. The strength of the national economy, the lush amounts of funding available through institutional investors like pension funds and equity firms, and the attractiveness of health care as an investment are all forces that have contributed to a swelling wave of private placement activity. Nearly as much private equity funding was raised by public health care companies during the first half of 2007 as in all of 2005.

The PIPEs that were publicly announced from January 1 to June 30, 2007 totaled approximately \$4.1 billion, representing an increase of 117%, compared with the first half of 2005, and an increase of 17.3%, compared with the first six months of 2006. Also in the past few years, the average deal size has been on the rise, from \$14.7 million for the year 2005, to \$20.2 million in 2006, to \$29.7 million in the first six months of 2007. Looking at the monthly totals, there have been three individual months in the past two and a half years that health care

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## TEMPERATURE MODULATION ENHANCES CARE

*A Look At Some Of The Coolest, And Hottest, New Therapeutic Technologies*

One therapeutic approach that a limited number of health care companies are currently focused on is the use of temperature as a means of delivering or enhancing medical care and improving outcomes for certain patients. Temperature management has traditionally been a major concern in some areas of medicine, such as organ harvesting, transportation and transplantation, but that is not the only area companies are looking at these days. Now the clinical trend includes the development and utilization of tools for the preservation of ischemic tissue and reduction of fever through cooling, the use of extreme cold for ablation, as well as other tools that employ heat or warmth to facilitate therapeutic activity—with applications that may target specific areas of the body or the entire patient. Temperature modulation therapies seem to be on the verge of becoming mainstream, with even *Newsweek* featuring **InnerCool Therapies**, an operating unit of **Cardium Therapeutics** (OTCBB: CDTP), in a cover story that examined how certain doctors are using mild hypothermia to treat sudden cardiac arrest patients. And among the companies appearing in our venture charts this month, two are involved in this space, including one that has a product on the market for ablation using extreme cold, and another focused on temperature modulation. Looking back at the past few years, several others working on

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companies have secured more than \$900 million through private placements: February 2007, with \$1.3 billion; June 2007, with \$967 million; and August 2005, with \$926 million. So does any of this suggest we are at a peak, or approaching one, for health care PIPE deals? None of the bankers we talked with seemed to believe that's the case, but they did offer insightful perspectives on the current deal-making environment for health care private placements.

Burk Lindsey, who is on the Health Care Investment Banking team at **Raymond James & Associates**, identified some of the factors influencing recent private placement activity. "Growth in the private placement market has been facilitated by growth in the number and type of investors seeking to put money to work, an increase in the amount of capital they have to invest, and additional structuring flexibility, given the profiles of some of the new investment pools." Mr. Lindsey also referred to the fact that new investors are entering this arena, including firms that have not targeted health care in the past. "Although the

same traditional players continue to target health care, a more diversified group of investment funds are now looking at middle market health care transactions. Private equity firms and hedge funds, among others, have become more active. Their appetite—and the volume that appetite is driving—has made pricing more efficient," for conventional private placements, PIPEs and registered direct offerings. In addition, we learned that a loosening of restrictions regarding the shelf registration filing requirements for well-known seasoned issuers ("WKSIs," in SEC parlance) has created new flexibility for issuers.

We also talked with Bob Cimasi, the president of **Health Capital Consultants, LLC**, (HCC) and a certified member of the **Alliance of Merger and Acquisition Advisors**, who has been in the health care corporate finance business since 1983 and focuses on deals in the health care services sectors. In Mr. Cimasi's opinion, "Health care services companies are a realistic target for growth financings right now, as the population ages and technology advances." He, too, has noticed that more investment banks and boutique firms are becoming more frequent players in the health care private equity arena, but voiced some concern, saying, "I'm curious to see how many of these new players will be able to sustain their businesses in the long run." As far as Health Capital Consultants is concerned, Mr. Cimasi surmises that, "This year will end with a bang, not just for the industry, but also for our firm." During the next few years, he expects to see ongoing changes in the market, as facilities and other health care companies try to ramp up their capital structures. "Right now, we are working on a few more solid deals in the services sectors," he divulged, although at this point the companies HCC is working with are not being disclosed. Headquartered in St. Louis, Missouri, Health Capital Consultants works with health care companies that are in the middle market or slightly larger.

Clare Bailhe, managing director and the head of Healthcare Leveraged Loans at **Merrill Lynch Capital Healthcare**, also offered some input. She commented that, "One reason health care remains a top industry for PIPEs is that PIPE investing is excellent for a smaller public company looking to raise approximately \$75 million to \$150 million in capital," and a fair number of health care and medical device companies fit this mold. Among the reasons health care attracts a high level of interest from private equity investors, Ms. Bailhe cited, "continued strong demographics, including an aging population," and that, "people are living longer, particularly those with chronic diseases—diabetics, COPD, etc.—requiring significant levels of care over very prolonged periods of time." Within health care,

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she noted, “Several sectors remain highly fragmented, and others have long product life cycles, attracting PE interest.” From the health care company’s perspective, “PIPEs are a fairly flexible financing alternative with greater confidentiality and liquidity than a traditional private placement security,” Ms. Bailhe observed, “which is often best for a publicly traded company,” instead of a public offering. Mr. Cimasi suggested that in addition, the perception that a company can work together with a private equity firm makes for an extremely attractive opportunity for many companies, because such deals generally do not require the company to restructure and assimilate as it would in the case of an acquisition.

Ms. Bailhe identified certain areas of health care where a strong demand exists for PIPE and other private equity investments. She indicated that in any sector, companies working to reduce costs or increase the efficiency of health care would be of interest, but cited specifically, “business processing services; electronic health records—a saturated but very fragmented sector with minimal commonality; billing, collection and coding companies—which attract many PE groups who only want to invest in “health care-lite” companies,” meaning those companies with little direct reimbursement or regulatory risk such as those oriented toward financial and business services. In addition, Ms. Bailhe also pointed out, “radiation and oncology—not many players are specializing in this sector; disease management—a huge area with many young companies and no clear leader; and diagnostic testing, not diagnostic imaging companies, but medical device and tools companies,” that help clinicians to make diagnoses early and cost effectively.

Among the primary forces driving the increase in private offerings by public health care companies, according to Mr. Cimasi, “There is an abundance of capital in the market right now. Most of the investors getting involved are savvy about health care. These and other factors are motivating companies to seek out private placements, which allow for a more flexible and often less costly transaction than a public offering.” He expounded, “Public offerings are typically costlier than a private deal, especially after Sarbanes-Oxley. Besides, public offerings follow a rigid structure, whereas in a private equity deal, there is the opportunity to really focus on the specific circumstances and needs surrounding a given company. As a result, I think private placement deal-making has become more sophisticated in recent years.” In some cases, milestone provisions are utilized, but as Mr. Lindsey noted, “Milestone provisions are much more prevalent in the medical device, biotech and pharmaceutical sectors,” than in health care services.

“Health care as an industry is currently undergoing substantial regulatory, political and other changes, which is also driving deal volume,” Mr. Cimasi continued, “Private equity firms are reacting by getting more involved now, becoming part of the structure of health care services business so they will benefit later.”

It may be a bit counterintuitive to wonder if there is any downside to the current availability of abundant capital for private investments, but we had to ask, and what we found out is that the increase in the amount of capital targeting health care has predictably led to declining return expectations. Mr. Lindsey told us that over the past several years, institutional investors have lowered their expectations in terms of returns. “Mid- to later-stage private investors used to be able to price their capital to return 20-25%, and in some cases more. That’s not possible today for attractive opportunities. The competition in today’s environment and the pricing efficiency that competition is creating has driven returns expectations down meaningfully—which, of course, is good news for issuers.”

As for the jitters currently coursing through the debt markets, Mr. Cimasi said, “These are unlikely to deter the efforts of private equity players trying to acquire stakes in companies, or whole companies. The current debt rates are not keeping the good deals from closing. Actually, the cost of debt may be overrated in terms of being a determinant for getting deals done.” Referring to the end of July, Ms. Bailhe stated that, “These past two weeks have wreaked havoc on certain of the credit markets, but particularly the larger market deals. The health care industry with its numerous sectors offers investors plenty of attractive opportunities during all economic cycles, so I believe private investment in private health care companies and private investment in public companies will only continue to grow over time.”

Mr. Cimasi also observed that recently, driven by certain harbingers for change, “There has been more focus on the quality of deals, and to some extent, how to craft these deals creatively. Investors want more sustainably-structured deals, with better risk-protection built into the terms.” He pointed out that controversy is stirring for a variety of reasons, including the release of Michael Moore’s “Sicko” film, which brings into focus many aspects of the American health care system that require attention and healing. “Health care is the most highly regulated industry in the United States today, and it is also full of change,” according to Mr. Cimasi, “and right now, reimbursement issues, charity requirements and the extent to which physicians may own stakes in hospitals are all

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*Private Placements, continued from page 3*

concerns for people in the business.” In parallel, Mr. Lindsey stated, “Regulatory and reimbursement risks are a constant in health care investing. But there are new risks as well—risks unique to evolving and highly liquid financing markets.”

For example, with investors seeking to put so much capital to work, and the number of quality opportunities not always keeping pace, he said that, “in some instances we’re seeing valuations driven to levels not supported by the fundamentals and growth profiles of the target businesses.” Mr. Lindsey continued, “This dynamic can create an interesting dilemma for both issuers and traditional health care investors,” in part because the most aggressive investors may have nontraditional profiles and investment criteria. “The investor candidates willing to provide the most attractive terms may or may not be long-term fundamental, buy-and-hold investors and they may or may not have experience in the health care sector or historical perspective regarding funding and regulatory cycles,” he explained. “And traditional industry investors, wary of sector turns that can be rapid—and in some cases severe—are at times opting out of highly competitive situations, citing valuation as too significant a hurdle.”

So, are we near a funding cycle peak? “I don’t attempt to call peaks and troughs in market cycles,” Mr. Lindsey demurred, “but it is difficult to imagine a forward environment more favorable than the one we’re in now. At the same time it’s difficult to point to one or two fundamental factors as the ones most likely to cause the market to turn near-term or weaken dramatically. We will continue to experience ebbs and flows in the appetite of private health care investors,” he said, also noting that, “there has been a positive and perhaps permanent fundamental shift in the number of investors targeting the sector and the financing flexibility their structures and profiles create.”

Ms. Bailhe concurred that PIPEs and general PE investing in private companies remains very active, stating, “I do not believe we are at a peak for this investing. While PE appetite has experienced ebbs and flows over the years, the downturns are generally not severe. In my opinion, today’s investing [environment] is similar to the mid-to-late 1990s, as far as investor appetite for health care investing.”

Mr. Cimasi agreed. “Looking at private placements in health care, I do not think we are at a peak for these kinds of deals, and we are not likely to reach a peak any time this year.” But 2007 could very well end with more total annual private placement funding than we’ve seen in some time.



## PUBLIC EQUITY

The month of July ended with a week of relatively dismal news from the financial markets, with credit markets crying the blues, stock prices weakening and indexes sliding—including the Dow Industrials, which experienced their biggest three-day point drop in five years, with roughly 1,300, or nearly 17%, of the 7,800 or so stocks that trade on United States exchanges hitting their lowest price of the past 12 months. Three health care companies withdrew IPO filings, but at least one did so in favor of a better deal.

At the beginning of the month, **Picis**, a global provider of high-acuity care information systems, pulled its IPO. But by the end of the month, Picis announced it had raised an undisclosed amount of equity financing from **Goldman Sachs** (NYSE: GS) and that it would acquire **LYNX Medical Systems**. LYNX provides revenue cycle management solutions to hospital emergency departments, a fine complement to Picis’ market-leading clinical information system for emergency care; the combined companies will offer a powerful solution that provides a comprehensive end-to-end system for managing, automating and optimizing both the clinical information and financial functions of hospital emergency departments.

Of the other health care companies that pulled an IPO during July, **Quark Biotech** cited market conditions and **TotalMed Systems** intimated that it might rely on private offerings. One more withdrawal we expected to see but haven’t, yet, is **NovaCardia**, which we learned in July would be acquired by **Merck & Co.** (NYSE: MRK). NovaCardia is a clinical-stage pharmaceutical company focused on developing drugs to treat major cardiovascular diseases that are underserved by existing therapies, with two compounds in clinical development, each with potential for use in both the acute and chronic settings. However, there’s a slight chance that the IPO filing will stand, because we hear that Merck is primarily interested in only one of NovaCardia’s two development programs and it may spin off the rest of the company—i.e., the other program—into a separate entity.

There was only one health care company, **ImaRx Therapeutics** (NASDAQ: IMRX), that got its initial public offering priced during July, and we wish we could say something more exciting than, well, it got priced. Perhaps ImaRx would have been better off withdrawing its IPO filing once again (for a second time), given that in the few days after being priced at \$5.00 per share, the company’s stock has been hovering near the four-dollar mark. Not

## PUBLIC EQUITY MARKET

DATE	COMPANY	SYMBOL	SECTOR	NUMBER OF SHARES	PRICE PER SHARE	COMMENTS
7/3	Picis	N/A	MedDev	N/A	N/A	IPO withdrawn; merger cited.
7/2	Oragenics	ONI	Biotech	4,109,689	TBA	Secondary filed, all by selling shareholders.
7/2	Redpoint Bio	RPBC	Biotech	55,851,515	TBA	Secondary filed, all by selling shareholders.
7/5	ISTA Pharmaceuticals	ISTA	Pharma	5,250,000	TBA	Secondary filed, all by selling shareholders.
7/5	HepaLife Technologies	HPLF	Biotech	5,181,444	TBA	Secondary filed, all by selling shareholders.
7/5	Alexza Pharmaceuticals	ALXA	Pharma	2,000,000	TBA	Secondary filed, all by selling shareholders.
7/10	Cardica	CRDC	MedDev	2,876,684	TBA	Secondary filed, all by selling shareholders.
7/11	Targeted Genetics	TGEN	Biotech	13,734,575	TBA	Secondary filed, all by selling shareholders.
7/11	Applied Neurosolutions	APNS	Biopharm	42,940,714	TBA	Secondary filed, all by selling shareholders.
7/11	Human BioSystems	HBSC	Biotech	20,000,000	TBA	Secondary filed, all by selling shareholders.
7/12	Dyax	DYAX	Biotech	10,500,000	\$3.67	Secondary priced, led by UBS Investment Bank.
7/17	Sucampo	SCMP	Pharma	3,750,000	\$14-\$15	IPO range filed, to be led by Cowen & Co. and CIBC.
7/17	BioSante Pharmaceuticals	BPA	Biopharm	3,818,749	TBA	Secondary filed, all by selling shareholders.
7/18	Amedica	AMCA	MedDev	4,650,000	\$13-\$15	IPO range filed, to be led by Morgan Stanley and Jefferies.
7/18	Quest Group International	QSTG	Biotech	67,300,000	TBA	Secondary filed, all by selling shareholders.
7/19	KBL Healthcare Acq. III	N/A	SPAC	15,375,000	\$8.00	IPO size increased; to be led by Citigroup.
7/19	Golden Pond Healthcare	TBA	SPAC	15,625,000	\$8.00	IPO filed, to be led by Deutsche Bank and Lazard.
7/19	Micromet	MITI	Biopharm	13,825,065	TBA	Secondary filed, all by selling shareholders.
7/20	Cougar Biotechnology	CGRB	Biopharm	3,984,573	TBA	Secondary filed, all by selling shareholders.
7/20	Masimo	MASI	MedDev	11,916,626	\$16-\$18	IPO range filed, to be led by Piper Jaffray and Deutsche Bk.
7/20		AIS	Pharma	13,800,000	TBA	Secondary filed, all by selling shareholders.
7/23	Cumberland Pharmaceut.	CPIX	Pharma	6,250,000	\$14-\$16	IPO range filed, to be led by UBS, Jefferies and Wachovia.
7/23	Cytogen	CYTO	Pharma	9,070,777	TBA	Secondary filed, all by selling shareholders.
7/24	Archemix	ARCH	Biotech	TBA	TBA	IPO filed, up to \$69 million; to be led by Banc of America.
7/24	Trans1	TSON	MedDev	TBA	TBA	IPO filed, to be led by Lehman Bros. and Piper Jaffray.
7/24	WuXi PharmaTech	WX	Pharma	13,188,979	\$11-\$13	IPO of ADSs filed, to be led by Credit Suisse and JPMorg.
7/26	ImaRx	IMRX	Biopharm	3,000,000	\$5.00	IPO priced below range, led by Maxim Group.
7/26	Lpath	LPTN	Biotech	17,733,737	TBA	Secondary filed, all by selling shareholders.
7/26	Talecris Biotherapeutics	TLCR	Biopharm	TBA	TBA	IPO filed, to be led by Morgan Stanley and Goldman.
7/27	Eyeonics	EYON	MedDev	TBA	TBA	IPO filed, up \$86.2 million, to be led by Piper Jaffray.
7/27	Lexicon Pharmaceuticals	LXRX	Biopharm	7,650,622	TBA	Secondary filed, all by selling shareholders.
7/27	ATS Medical	ATSI	MedDev	11,760,000	TBA	Secondary filed, all by selling shareholders.
7/27	Quark Biotech	N/A	Biotech	N/A	N/A	IPO withdrawn; market conditions cited.
7/31	Genoptix Medical Labor.	GXDX	Labs	TBA	TBA	IPO filed, up to \$86.3 million, to be led by Lehman Bros.
7/31	TotalMed Systems	N/A	eHealth	N/A	N/A	IPO withdrawn; reliance on private offerings cited.

appearing in this month's chart, **Sucampo Pharmaceuticals** (NASDAQ: SCMP) priced its IPO on August 2, 23% below range at \$11.50 per share. SCMP's stock traded up to close at \$12.20 on its first day out, but was back to about \$11.50 by the time we were going to press. Incidentally, one more IPO was withdrawn on that same day, by **Acologix**, a biopharma that anticipates pursuing a private offering. Also during the first week of August, **Amedica** withdrew its IPO, citing the protection of investors.

The IPO pipeline does, however, continue to fill, with companies including biopharma, pharma and medical device and other health care companies. Medical devices is considered one of the hotter sectors for IPOs right now, so perhaps **Masimo Corporation**, a patient monitoring products company that filed its expected price range in July, will fare well on the Street. We hope that in our next issue, we have better news about the aftermarket performance of the health care companies that price IPOs during the month.

*What's Hot, What's Cool, continued from page 1...*

related technologies have also received funding. Among the July deals, Baltimore, Maryland-based **CSA Medical** raised \$8.3 million in its Series A financing, which was led by an undisclosed private investor and included participation from **New Markets Growth Fund** and other individual investors. "This round was led by existing investors—mainly management and angels," Steve Schaefer, the company's chief financial officer, told us recently. The company was founded about twelve years ago, but raised the new capital, he said, "to expand commercialization of the CryoSpray Ablation technology platform," which can be used by doctors to destroy unwanted tissue by means of extreme cold. Part of the appeal of CSA Medical as an investment is, as Mr. Schaefer said, "We have a one-of-a-kind product with a broad clearance from the FDA, and very broad potential for multiple indications. This is the only low-pressure, cryo-spray ablation technology available right now." He described CSA Medical's system as less complicated for the patient and the physician, and less costly and less damaging to healthy tissue, compared with other tissue ablation procedures.

More than eight years of development and clinical trials preceded the first FDA approval of a CSA Medical product, the CryoSpray Ablation System (CSA System), which allows physicians to store, regulate and transport liquid nitrogen to targeted lesions. The first generation system initially received FDA clearance in 2004, and the second generation, in 2006. The CSA System has been shown in clinical studies to ablate or remove precancerous and cancerous cells in the esophagus, with subsequent regrowth of normal esophageal epithelium. Although CSA Medical may also exploit its technology to create applications for use by the thoracic and ear/nose/throat physician communities, among others, "Initially we are targeting the upper gastrointestinal tract," Mr. Schaefer said.

The CSA System is currently being marketed as a tool for destroying unwanted tissue in patients with Barrett's esophagus, a condition that traditionally has been addressed with extreme heat, which can sometimes have less-than-desirable effects on the healthy tissue surrounding what is targeted for ablation. CSA Medical and its investors seem very confident in the CryoSpray product platform, in terms of both clinical and economic value. For one thing, Mr. Schaefer noted, "We don't anticipate needing any more funding." As he explained the medical benefits of the CryoSpray technology, we learned that, "it triggers a programmed cell death, then the healthy cells regenerate," and the unhealthy cells just perish. CSA Medical also received marketing clearance in late May 2007 for a new

accessory—a directional spray catheter—to the CSA System, which originally was marketed with a straight-tip spray catheter that was proven clinically effective and will continue to be available. The new directional catheter will enable clinicians to better and more easily target lesions for ablation, as well as increasing the coverage area with less chance of side effects.

Another company, Louisville, Colorado-based **Medivance**, founded in 1998, is developing therapeutic temperature management products to treat critically ill patients, such as those suffering from stroke, cardiac arrest, brain injury, high fevers, trauma and heat stroke. Medivance announced in July that it raised \$23 million in Series D funding, and will use the proceeds to support ongoing sales growth. The company already has general 501(k) clearance to market its products (the result of a premarket submission to the FDA demonstrating the device is at least as safe and effective as a legally marketed device that is not subject to premarket approval). **Cross Atlantic Partners, Camden Partners, Skyline Partners, Partisan Management** and **MDY Healthcare** provided Medivance with this most recent round of financing, joining previous investors including **Kimberly Clark** (NYSE: KMB) and **CS First Boston**. Medivance provides clinicians with safe, easy and precise methods for regulating body temperature, currently used to reduce high fevers and to induce mild hypothermia, because a growing body of clinical data indicates that lowering body temperature effectively limits neurologic damage in a wide range of critically ill patients. For example, studies reported in the *New England Journal of Medicine* and other top-tier medical journals suggest that therapeutic hypothermia may reduce damage from cardiac arrest, stroke, brain injury and other critical conditions. In addition, Medivance reports that the use of precise cooling methods to reduce high fevers appears to improve outcomes and shorten ICU stays.

Last year, a few other companies developing temperature management products received venture funding. In December 2006, Sweden-based **QuickCool** raised \$1.8 million to continue long-term development and launch clinical trials of its patented technology, which enables quick and easy cooling of the brain with the aid of a portable pump connected to balloon catheters. QuickCool's portable device is designed for use in the ambulance, emergency room and intensive care units, to reduce mortality and neurological sequelae in patients suffering from dangerous episodes of oxygen deprivation to the brain following stroke, cardiac arrest, brain trauma and neonatal asphyxia. Another company, **CoolSystems**, which provides sports injury treatment systems that deliver both compression and

cooling and have additional applications in orthopedics, neurology and other areas of health care, announced its \$8.6 million Series G financing in early 2006.

Although most of the companies in this space tend to be medical device makers, the potential ramifications of temperature fluctuation and control are not lost on the drug makers. For example, **Ception Therapeutics**, a Pennsylvania-based company that closed a \$77 million Series C financing in May, is concentrating on predicting the thermodynamic forces that govern structure-activity relationships, in an effort to significantly reduce the time required to optimize selectivity and affinity of drug candidates. Also recently, **ZARS, Inc.**, a company backed by about \$25 million in venture funding, announced the commencement of two phase III trials to evaluate the efficacy of its matrix transdermal ketoprofen patch with an integrated controlled heat assisted drug delivery unit. ZARS is measuring its product, ThermaProfen, against a ketoprofen patch without heat, and a patch that delivers just heat, without the drug.

**TransMedics**, another company in this space, closed a \$25.5 million Series D financing in April 2007, which brought its venture financing to date to approximately \$90 million since 2004. TransMedics has already developed a system designed to maintain the human heart in a warm, functioning state outside the body during transportation prior to a transplant. Currently the company is working to extend its technology to the living preservation of other organs. In June 2006, **Lifeblood Medical** announced the closing of its A and B rounds with \$2.2 million in funding. Lifeblood Medical is a biotech focused on enhancing organ preservation and cell culturing at room temperature, as well as through cryopreservation. Other companies are focusing on temperature management for applications such as biosample analysis and storage, with the intent of creating viable solutions for storing and working with samples at room temperature. **GenVault**, headquartered in California, has a proprietary platform for the extraction, preservation, recovery and distribution of DNA at room temperature. GenVault announced it had raised nearly \$20 million in just the past few months, and is using the funding to accelerate the commercialization of its technologies for the storage and transportation of biosamples at room temperature.

The basic idea of using heat or cold to produce or prohibit a certain result may be fairly simple, and it's not exactly a new idea, but the applications currently under development involve some complicated science. Since the temperature of our bodies and our environment is crucial to survival, it seems likely that as technology evolves, temperature management solutions will continue to come to

market. Therapeutic protocols involving heating, warming, cooling or freezing seem to be becoming more widespread, and the FDA is likely evaluating a number of new devices for specific new applications. In July, the FDA approved **Medcool's** RapidCool System to be used for temperature reduction in patients where clinically indicated and for monitoring patient temperature. Controlled heat, cold and temperature management may not have attracted as much venture funding as other areas of medical technology—all the deals we discussed in this article add up to just about \$246 million, which covers most of the publicly announced deals in this space since 2003. But, we would hazard to guess, these companies could achieve a good deal of success and profitability with approved and commercialized products. Sometimes, the simplest ideas are the best.



## MERGERS AND ACQUISITIONS

More than \$33.7 billion in financing was committed to fund the health care merger and acquisition deals with disclosed prices announced during July 2007, which had a total of 79 transactions. The pharmaceutical and medical device sectors were responsible for about half of all the deals announced, with a similar number in each sector—but the medical device deals accounted for the most capital committed to one sector, with about 47% of the total funding for the month. The long-term care sector came in second in terms of dollars committed during the month, pushed up significantly by the \$6.3 million acquisition of **Manor Care** (NYSE: HCR) by **The Carlyle Group**. Speaking of long-term care, this month we also learned that **Sunrise Senior Living** (NYSE: SRZ) is up for sale.

Among the medical device deals, the largest for July is the \$7 billion acquisition of **Dade Behring Holdings** (NASDAQ: DADE) by Munich, Germany-based **Siemens AG** (NYSE: SI). Headquartered in Deerfield, Illinois, Dade Behring develops, manufactures and sells clinical diagnostic instruments, reagents and consumable supplies and services to clinical laboratories. On a trailing 12-month basis, DADE generated revenue of \$1.78 billion, EBITDA of \$407.4 million and net income of \$126 million. The acquisition of DADE complements Siemens' 2006 acquisitions of **Bayer Diagnostics** and **Diagnostic Products Corporation**, and is expected to increase Siemens' Medical Solutions Group's margin from 2009 onwards. Upon closing, the deal puts SI in first place in the diagnostics market, extending its reach beyond the 12% share it already has. Right now, DADE and **Beckman Coulter** (NYSE: BEC) each have about 11% to 12% of the diagnostics market, while **Roche** (SWX: ROCZ) has about 18%.

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## MERGER & ACQUISITION ANNOUNCEMENTS

DATE	BUYER	SELLER	SECTOR	PRICE	TERMS/COMMENTS
7/27	GlaxoSmithKline plc	Nicotinic receptor therapeut.	Biotech	\$1,500,000,000	Cash, stock; possible contingent payments.
7/9	Roche Holding AG	License: RNAi therapeutics	Biotech	\$1,000,000,000	Non-exclusive. Upfront, other payments.
7/2	Novartis AG	Rights: vaccine technology	Biotech	\$363,000,000	For cash, stock and possible royalties.
7/2	Biogen Idec	Rights: Lixivaptan	Biotech	\$220,000,000	Co-development deal. Includes cash, stock.
7/25	Cell Therapeutics	Systems Medicine	Biotech	\$35,000,000	Stock-for-stock merger. Possible milestones.
7/11	Great Point Partners	Caprion Proteomics	Biotech	\$25,151,200	For an 80% stake. Debt and notes.
7/25	Genstar Capital	PRA International	CRO	\$790,000,000	For remaining 87.2%. Price to rev. is 2.22x.
7/12	ICON plc	DOCS International	CRO	\$40,000,000	Cash deal. Target operates in Europe.
7/22	QuadraMed Corp.	Misys CPR	eHealth	\$33,000,000	Cash, for computerized patient record assets.
7/2	Walgreen Co.	Option Care	HomeHealth	\$850,000,000	Cash deal. Price to revenue mult. is 1.19x.
7/25	Prospect Medical	Alta Healthcare System	Hospital	\$104,000,000	Price to revenue multiple is 0.97x.
7/1	Tenet Healthcare	Coastal Carolina Med. Ctr.	Hospital	\$35,000,000	For 41 beds. Price to revenue mult. is 1x.
7/6	Sonic Healthcare	Sunrise Medical Laborator.	Labs	\$168,000,000	Price to revenue multiple is 2.24x.
7/16	Nighthawk Radiology	Midwest Physician Svcs.	Labs	\$62,500,000	Price to revenue multiple is 3.68x.
7/2	The Carlyle Group	Manor Care	LTC	\$6,300,000,000	Cash, assumed debt. Price to rev. is 1.7x.
7/26	Atria Senior Living	12 assisted living properties	LTC	\$607,000,000	For \$372,850 per unit. Forest City is seller.
7/9	Brandywine Senior Lvg.	Two senior care communities	LTC	\$115,000,000	For \$340,237 per unit. Seller is Carlyle Group.
7/30	Skilled Healthcare Gp.	Ten New Mexico SNFs	LTC	\$51,500,000	Price to rev. is 0.68x. For \$43,600 per bed.
7/2	Assisted Lvg. Concepts	Dubuque Retirement Cmnty.	LTC	\$24,000,000	For \$129,730 per unit.
7/30	Advocat	Seven SNF leaseholds	LTC	\$10,100,000	Cash, assumed liabilities. \$9,000 per bed.
7/10	Canyon Creek Devel.	Legacy at Lehigh	LTC	\$9,375,000	Price to revenue mult. is 5.5x.
7/9	Coventry Health Care	Vista Health Plans	ManCare	\$685,000,000	Cash deal. Price to rev. mult. is 0.92x.
7/9	WellPoint	American Imaging Mgmt.	ManCare	\$300,000,000	Target represents over 20 million consumers.
7/25	Siemens AG	Dade Behring Holdings	MedDev	\$7,000,000,000	Cash for stock. Price to rev. mult. is 3.93x
7/27	Medtronic	Kyphon	MedDev	\$3,900,000,000	Cash, assumed debt. Price to rev. is 8.76x.
7/23	Teleflex Incorporated	Arrow International	MedDev	\$2,000,000,000	Cash for stock. Price to rev. mult. is 3.94x
7/16	ReAble Therapeutics	DJO, Inc.	MedDev	\$1,600,000,000	Cash for stock. Price to revenue is 3.6x.
7/22	ev3, Inc.	FoxHollow Technologies	MedDev	\$780,000,000	Merger. Price to revenue multiple is 3.98x.
7/16	Alcon	WaveLight AG	MedDev	\$90,300,000	Cash for stock. Price to revenue is 1.46x.
7/2	Dynatronics Corp.	Six distributors	MedDev	\$8,300,000	Cash and stock. Price to rev. mult. is 0.44x.
7/14	Novatrix Biomedical	Integrated Surgical Systems	MedDev	\$7,700,000	Cash, cancellation of debt. Pr. to rev. is 2x.
7/5	MEDOSMedizintechnik	Gish Biomedical	MedDev	\$7,500,000	All-stock deal. Price to rev. mult. is 0.5x.
7/24	Novator eignarhaldsf.	Actavis Group hf.	Pharma	\$3,084,520,000	For remaining 61.5% stake. Pr. to rev. is 1.46x.
7/20	Meda AB	MedPointe	Pharma	\$800,000,000	Cash and stock deal. Price to rev. is 3.17x.
7/25	Merck & Co.	NovaCardia	Pharma	\$350,000,000	All-stock transaction.
7/12	Atrium Biotechnologies	Mucos Emulsions GmbH	Pharma	\$175,000,000	Price to revenue multiple is 2.06x.
7/10	Noven Pharmaceutic.	JDS Pharmaceuticals	Pharma	\$135,000,000	Cash, assumed debt. Price to rev. is 4.82x.
7/16	JHP Pharmaceuticals	Manufacturing facility	Pharma	\$90,000,000	Price to revenue multiple is 1.38x.
7/17	Drug Royalty Corp.	Rights to Preotact	Pharma	\$75,000,000	Includes upfront and sales milestones.
7/3	Azur Pharma Limited	FazaClo	Pharma	\$54,000,000	Pr. to rev. is 3.27x. Some contingent payments.
7/19	Arpida Ltd.	TLT Medical Ltd.	Pharma	\$47,520,000	Cash and stock. Upfront and future payments.
7/2	The Medicines Co.	Rights: Angiox in Europe	Pharma	\$45,000,000	Upfront, plus future milestone payments.
7/9	Drug Royalty Corp.	Royalty rights to FluMist	Pharma	\$35,000,000	Seller of rights is University of Michigan.
7/31	Neuren Pharmaceutic.	Hamilton Pharmaceuticals	Pharma	\$11,400,000	For stock, equity investment and milestones.
7/13	Cross Country Hlthcr.	Assent Consulting	Staffing	\$24,500,000	Price to rev. is 1.86x. Cash, possible earnout.
7/16	Surgery Partners Hldg.	Lake Worth ASC	SurgCtr	\$12,300,000	For controlling interest. Cash plus earnout.

*Mergers and Acquisitions, continued from page 7...*

Three of the other medical device deals announced during July also have a price tag that exceeds one billion dollars. **Medtronic** (NYSE: MDT) is paying \$3.9 billion in cash and assumed debt for **Kyphon** (NASDAQ: KYPH), a company that designs, manufactures and markets medical devices to treat and restore spinal anatomy using minimally invasive technology. On a trailing 12-month basis, KYPH generated revenue of \$444.5 million, EBITDA of \$111.2 million and net income of \$8.6 million.

**Teleflex Incorporated** (NYSE: TFX), an engineering company currently operating in the commercial, aerospace and medical industries, is paying \$2 billion in a deal to acquire **Arrow International** (NASDAQ: ARRO), which will transform the medical segment of TFX into its largest source of revenue and profitability. Both companies are located in Pennsylvania, with Arrow based in Reading and Teleflex in Limerick. Arrow develops, manufactures and markets disposable catheters, heart assist devices and related products for critical and cardiac care applications. On a trailing 12-month basis, it generated revenue of \$508 million, EBITDA of \$128 million and net income of \$61 million. Teleflex has also hired Goldman Sachs to explore strategic alternatives for a division.

Austin, Texas-based **ReAble Therapeutics** acquired **DJO, Inc.** (NYSE: DJO), a manufacturer and marketer of rehabilitation and regeneration products for the non-operative orthopedic, spine and vascular markets, for \$1.6 billion. On a trailing 12-month basis, DJO generated revenue of \$445 million, EBITDA of \$101 million and net income of \$11 million. ReAble Therapeutics, formerly known as **Encore Medical Corp.** and backed by **The Blackstone Group**, develops, manufactures and distributes orthopedic devices and related products. DJO's orthopedic rehabilitation and pain management products complement ReAble's existing offerings.

The largest deal announced in the pharmaceutical sector during July is noteworthy for its size and also because it has had an unusual consequence. **Actavis Group hf.** is being acquired by private equity firm **Novator**, for the equivalent of about \$3.1 billion. Both Actavis and Novator are based in Iceland, where Actavis is among the largest employers in the country. Apparently, the deal was so large and had such a sweeping impact on the economy that the value of Iceland's currency has been affected. Actavis, a generic pharma, generated revenue of Eur 383 million, EBITDA of Eur 79.3 million and net income of Eur 32 million the three months ended March 31, 2007.



## VENTURE CAPITAL

Biotechnology companies announced more venture capital deals in July than any other sector, with 12 transactions totaling \$153 million. Medical device companies, however, with just 10 deals announced during the month, accounted for the greatest share of capital raised in one sector, a total of \$228 million. In an unusual turn, health care services companies as a group raised the third-greatest amount of venture capital, announcing five deals, which amounted to more than \$174 million and are featured in the following paragraphs. Altogether, health care companies announced 41 deals totaling \$769.8 million during July 2007, with several that were late-stage financings. About two-thirds of the companies that announced a venture capital transaction disclosed the round; of these companies, about one-third were in a Series D or later round of financing.

The largest deal of the month fit two patterns we seem to have been seeing more of lately—in that it was announced by a health care services company, and it was provided entirely by one private equity investor. **Solantic**, a Florida-based operator of walk-in urgent care centers staffed by physicians, secured \$100 million in funding from **Welsh, Carson, Anderson & Stowe**, to be used for expansion, which will practically double its presence in the state within a year, as it works to establish a national brand as the leading provider of urgent care and other health care services.

In the same vein but with a much smaller infusion of cash, other private equity firms are backing **QuickHealth**, an operator of convenient care clinics staffed by physicians and located inside retail stores. We became aware on the last day of July that QuickHealth had secured \$8.5 million from the **Westly Group, Draper Fisher Jurvetson** and other undisclosed investors. QuickHealth currently has nine locations open, with five more under development, and will continue growing its business to at least 30 locations.

If current market factors persist, including a correction in the debt markets that has been stalling some deals, and recent announcements that certain late-stage biotech and pharma trials or development agreements are being scrapped, health care investors may keep gravitating toward more services opportunities. The consumer-directed health care movement is gaining momentum, and the perceived risk is lower with emerging companies in this space, particularly those that do business by collecting full payment directly from patients, or those that are not reliant on government reimbursement. For example, QuickHealth

*...continued on page 11*

## VENTURE CAPITAL MARKET

### THE TOP DEALS

COMPANY	AMOUNT	DATE	COMMENTS/FUNDING SOURCES
<b>Solantic</b>	\$100.0million	7/30	Solantic, an operator of walk-in urgent care centers in Florida, secured this funding for expansion, which will practically double its presence in the state within a year, as it works to establish a national brand as the leading provider of urgent care and other health care services. <b>Investor:</b> Welsh, Carson, Anderson & Stowe
<b>Precision Dynamics</b>	\$75.0million	7/19	This funding enables Precision Dynamics, a global provider of patient identification wristband systems used for multiple applications in hospitals and other health care settings, to expand its market position as one of the world's leading patient safety companies by pursuing future acquisitions. <b>Investor:</b> Water Street Healthcare Partners
<b>Agensys</b>	\$41.0million	7/12	With the proceeds from this Series D financing, Agensys will advance its lead program through phase II and bring three more products into clinical development by the end of 2008. The biotechnology company is developing fully-human, therapeutic monoclonal antibodies to treat solid tumor cancers. <b>Investors:</b> Duquesne Capital Management, JAFCO, Innovis Investments, Nextech Venture, Bear Stearns Health Innoventures, Alta Partners, HBM BioVentures, Lombard Odier Hentsch & Cie, H&Q Life Science Investments, OrbiMed Advisors
<b>Behavioral Centers of America</b>	\$40.0million	7/17	Behavioral Centers of America, an owner and operator of inpatient and outpatient facilities in six locations in Ohio and Texas, primarily focused on adolescent and geriatric adult populations, will use this funding for ongoing expansion, including acquisitions and de novo development. <b>Investor:</b> Linden LLC
<b>TargeGen</b>	\$40.0million	7/12	TargeGen, which is focused on vascular biology and engaged in the development of small molecule kinase inhibitors that act on vascular permeability, vascular proliferation and inflammatory mechanisms common to many major diseases, closed its D-round. Its lead candidate is entering phase II trials for macular degeneration. <b>Investors:</b> VantagePoint Venture Partners, CTI Life Sciences Fund, Chicago Growth Partners, CDP Capital, BB Biotech, Hambrecht & Quist Capital Management, Pappas Ventures, others
<b>Horizon Therapeutics</b>	\$30.0million	7/23	Horizon Therapeutics secured this Series C funding to advance its lead candidate through to clinical data and, if successful, a new drug application filing, as well as to advance its second product candidate into phase III trials; both are "GI-friendly," non-steroidal, anti-inflammatory drug formulations. <b>Investors:</b> Essex Woodlands Health Ventures, Scale Venture Partners, Sutter Hill Ventures, Pequot Ventures
<b>Light Sciences Oncology</b>	\$30.0million	7/10	Light Sciences Oncology is developing its light infusion therapy product, a drug-device combination, to provide safer and more effective treatment to cancer patients, and will use this funding to advance five clinical programs, including two pivotal phase III clinical trials of patients with hepatocellular carcinoma. This was its Series B financing. <b>Investors:</b> Not disclosed
<b>Satiety</b>	\$30.0million	7/17	This was the Series D financing for Satiety, a company that has developed a procedure for weight loss involving transoral introduction of a stapling device to create a restrictive pouch at the opening of the stomach, which is designed to be less invasive, require less recovery time and have reduced complications, compared to existing surgical options. <b>Investors:</b> Skyline Ventures, HLM Venture Partners, Pinnacle Ventures, Venrock, Three Arch Partners, Morgenthaler Ventures, others
<b>Novocell</b>	\$25.0million	7/16	Stem cell engineering company Novocell secured this funding in its C round to support the preclinical development of its diabetes cell therapy, the enhancement of its cancer stem cell program, to create new therapies for cancer and for the development of additional cell therapies. <b>Investors:</b> Johnson & Johnson Development Corporation, Sanderling Ventures, Asset Management Company, Pacific Horizon Ventures
<b>Reata Pharmaceuticals</b>	\$25.0million	7/6	Reata Pharmaceuticals, a biopharma focused on cancer, inflammation and neurodegenerative diseases, secured this Series E financing to advance its pipeline, including multiple phase II studies of its two lead development candidates, which have achieved clinical proof of concept in high-value cancer indications. <b>Investors:</b> CPMG, Novo A/S

## VENTURE CAPITAL MARKET

### OTHER DEALS

COMPANY	AMOUNT	ROUND	DATE	LEAD INVESTOR(S)	SECTOR
<b>Accelerated Care Plus</b>	\$24.0million		7/24	<b>ComVest Group</b>	Services
<b>Medivance</b>	\$23.0million	D	7/26	<b>Cross Atlantic Partners, Camden Partners</b>	MedDev
<b>BioVex Group</b>	\$22.0million	E	7/9	<b>Triathlon Medical Ventures, New Science Ventures</b>	Biotech
<b>Ablation Frontiers</b>	\$21.8million	C	7/17	<b>Novartis Venture Fund, Affinity Ventures</b>	MedDev
<b>Healthline</b>	\$21.0million	B	7/16	<b>GE/NBC Universal's Peacock Equity Fund</b>	eHealth
<b>Serentis</b>	\$20.6million	A	7/3	<b>MVM Life Science Partners, Apposite Capital</b>	Biopharm
<b>TissueLink Medical</b>	\$20.0million	E	7/6	<b>Arnerich Massena &amp; Assoc., River Vest Venture</b>	MedDev
<b>KaloBios</b>	\$20.0million	C	7/23	<b>Lehman Brothers, MPM Capital, Sofinnova Ven.</b>	Biopharm
<b>Alchemia</b>	\$15.2million		7/19	<b>Not disclosed</b>	Pharma
<b>Cyntellect</b>	\$15.1million	D	7/25	<b>New River Management V</b>	Biotech
<b>Diatos</b>	\$12.8million	D	7/3	<b>GIMV, Credit Agricole Private Equity</b>	Biopharm
<b>Tikvah Therapeutics</b>	\$10.0million		7/12	<b>Paramount BioSciences</b>	Biopharm
<b>GlycoVaxyn</b>	\$9.3million	A	7/16	<b>Sofinnova Partners, Index Ventures</b>	Biotech
<b>Cellumen</b>	\$8.7million	B	7/10	<b>Safeguard Scientifics, PA Early Stage Partners</b>	MedDev
<b>QuickHealth</b>	\$8.5million	B	7/31	<b>Westly Group, Draper Fisher Jurvetson</b>	Services
<b>CSA Medical</b>	\$8.3million	A	7/31	<b>New Markets Growth Fund</b>	MedDev
<b>Aquapharm Biodiscovery</b>	\$8.2million		7/24	<b>Aescap Ventures, Tate &amp; Lyle Ventures</b>	Biotech
<b>CODA Genomics</b>	\$7.0million	C	7/11	<b>OVP Venture Partners, Monitor Ventures</b>	Biotech
<b>Immune Targeting Systems</b>	\$7.0million	A	7/16	<b>Novartis Venture Fund, Truffle Ventures</b>	Biotech
<b>DecisionView</b>	\$7.0million	C	7/30	<b>firstVentury, Partech International</b>	eHealth
<b>Diamics</b>	\$6.0million		7/19	<b>Inverness Medical Innovations</b>	Biotech
<b>TheraGenetics</b>	\$6.0million	A	7/10	<b>Swarraton Partners, Tudor Capital</b>	Biotech
<b>NeoMend</b>	\$6.0million	C	7/30	<b>Novo Ventures, Vivo Ventures</b>	MedDev
<b>Acrobot</b>	\$5.3million		7/30	<b>Imperial Innovations, London Technology Fund</b>	MedDev
<b>Nuon Therapeutics</b>	\$5.0million	A	7/20	<b>GBS Ventures</b>	Pharma
<b>NexGenix Pharmaceuticals</b>	\$3.9million	B	7/16	<b>Not disclosed</b>	Biotech
<b>Protiva Biotherapeutics</b>	\$3.3million	D	7/5	<b>GrowthWorks Capital's Working Opportunity Fund</b>	Pharma
<b>NeuroDerm</b>	\$2.5million	A	7/23	<b>Not disclosed</b>	Pharma
<b>Fusion Antibodies</b>	\$2.5million		7/25	<b>Crescent Capital, Viridian Growth Fund</b>	Biotech
<b>ConnectivHealth</b>	\$2.1million		7/20	<b>Chrysalis Ventures, Petra Capital Partners</b>	eHealth
<b>Ziqitza Healthcare</b>	\$1.5million		7/31	<b>Acumen Fund</b>	Services

*Venture Capital, continued from page 9...*

charges a flat rate per visit, without involving any third-party insurance, while Solantic accepts most insurance coverage, including Medicare and Medicaid HMOs, but derives less than 10% of its total revenues from Medicare and Medicaid combined.

But even if debt is becoming more expensive, private equity investors continue to find opportunities to play venture capitalist in the health care markets, as evidenced by the two of the largest venture capital deals announced during July 2007, including Solantic. The other example is **Behavioral Centers of America (BCA)**, a health care

services company that announced in July it had procured \$40 million in funding from **Linden LLC**. BCA is an owner and operator of inpatient and outpatient facilities in six locations in Ohio and Texas, primarily focused on adolescent and geriatric adult populations. The company is using the proceeds from the financing to fund ongoing expansion, including acquisitions and de novo development.

Also in health care services, **Accelerated Care Plus**, a leading provider of specialized rehabilitation programs for long-term care facility operators and other rehabilitation service providers, announced a funding round in July, with \$24 million from sole investor **ComVest Group**. Last but

not least, even though it's the smallest deal of the group, we can't omit **Ziqitza Healthcare Limited** from the list of health care services companies that announced a venture round during July. India-based Ziqitza, commonly referred to as "DIAL 1298 FOR AMBULANCE," operates a network of emergency medical and advanced life support ambulances in various cities in India. Ziqitza secured \$1.5 million in venture capital from **Acumen Fund**, and will use the proceeds to support a nationwide rollout of additional ambulances in the country.

In the second-largest deal of the month, **Precision Dynamics Corporation** (PDC) received a \$75 million equity commitment from **Water Street Healthcare Partners**. PDC is a leading provider of a quasi-medical device that is essential to the process of providing hospital and other facility-based care. Founded in 1956, Precision Dynamics Corporation developed the first bar code wristband system in 1984 and launched its first RFID wristband system in 2000. In the seventies, PDC had needed cash to grow, so the company was sold to a division of **W.R. Grace & Co.** But by July 1981, PDC's original founder, Dr. Walter W. Mosher, who is the current director of PDC's board, together with his childhood friend, Robert Kraemer, bought the company back in a leveraged buyout and moved it to a facility in San Fernando, California. PDC is now doing business in more than 100 countries.

Water Street Healthcare Partners (WSHP) focuses on investing in middle-market health care businesses that are poised for significant growth and ready to work with an equity partner. Founded in 2005, the firm specializes in health care transactions, particularly in the services sectors, and is currently investing a \$370 million fund. The WSHP team has plenty of experience in these sectors, given that they were previously the health care team at **JPMorgan's One Equity Partners**. Precision Dynamics Corporation is a good example of the kind of company that WSHP likes to invest in, since PDC has a strong platform technology and a leading position in the market it serves. In addition, PDC has experienced significant growth during the past five years. Although WSHP did not take a controlling stake in PDC, according to Chris Sweeney, a principal at Water Street Healthcare Partners, the firm is now a substantial shareholder in the company. "This was a good time for PDC to undertake a financing, because they acquired a division of **Hollister** in late 2006, in a deal funded by debt," he remarked, "and as PDC ramped up to scale the combined business, it became apparent that [equity] financing would be needed."

While some companies developing RFID and other

identification technology are targeting items in health care facilities, such as drugs, equipment, and other supplies, Precision Dynamics Corporation is keeping its focus on the identification of people. Recently we talked with Rick Ellis, PDC's vice president of business development, who has been with the company for nearly a year and a half, about partnering with WSHP.

"Water Street's experience in health care was a major factor in our decision to align with the firm as an equity partner," Mr. Ellis asserted, "We received very positive feedback from past and present partners of the Water Street team." Bolstered by the backing from WSHP, Precision Dynamics plans to build out its business, in the United States and other countries, and begin offering more patient safety devices, primarily disposable devices for use in hospitals and other facilities. Mr. Ellis predicts that, "In the coming months, we will focus on broadening our portfolio, possibly to include new applications for our current technology, as well as totally new products."

WSHP decided to invest in PDC in late June 2007, but the two companies have been talking since late 2005. Mr. Sweeney explained that, "The opportunity we have is to build out the business to include more patient safety products—primarily disposable devices for use in facilities, such hospitals. The focus of this partnership is to broaden PDC's portfolio, including the development of potentially new applications for their current technology, as well as totally new products."

Traditionally, WSHP prefers to exit its investments through the mergers and acquisitions market, which is no surprise in today's climate. Especially now, this may be a wise strategy, given the appealing multiples currently available in the M&A market. "Since PDC is a market leader, we have a really good opportunity to make a successful exit through a strategic deal," Mr. Sweeney stated, "but we plan to keep PDC in our portfolio for approximately three to five years." Mr. Ellis commented, "There is a fair amount of competition in the market for bar-coded patient identification devices, but we do not anticipate that our growth will be hindered by these newcomers. We expect to maintain a market-leading position."

WSHP engages in thorough due diligence before investing in a company—in the case of PDC, the firm first contacted the company in December 2005. At the time, PDC wasn't really looking to raise capital, but together with WSHP, took the time to develop a solid growth plan and design a suitable equity agreement that would propel PDC

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## PRIVATE PLACEMENT MARKET

### TOP DEALS

COMPANY	AMOUNT	DATE	COMMENTS/FUNDING SOURCES
<b>Inspire Pharmaceuticals</b>	\$75.0million	7/18	Inspire Pharmaceuticals (NASDAQ: ISPH) sold shares of exchangeable preferred stock to Warburg Pincus at a price of \$5.35 per share in a transaction totaling \$75 million. Each single share of exchangeable preferred stock that the investor receives, which automatically exchanges into shares of common stock upon shareholder approval, is exchangeable for 100 shares of Inspire's common stock. ISPH will use the proceeds from this financing to fund commercialization activities related to AzaSite, its azithromycin ophthalmic solution for bacterial conjunctivitis, to fund several phase III development programs, and for working capital and general corporate purposes.
<b>BioAlliance Pharma</b>	\$54.5million	7/26	France-based BioAlliance Pharma (Paris: BIO), a specialty pharma focused on the development and commercialization of therapeutic products that target drug resistance in cancer, HIV and opportunistic infections, secured this private placement from a syndicate of 32 investors. BIO sold 3,131,020 shares at a price of EUR12.79 per share, and will use the proceeds to continue developing its three phase III product candidates, to develop more products based on its validated adhesive technology, and to target product acquisitions in the areas of HIV and cancer. Bryan, Garnier & Company served as the placement agent.
<b>Orthovita</b>	\$32.5million	7/30	Orthovita, Inc. (NASDAQ :VITA) completed this registered direct offering by selling 12,317,066 shares at a price of \$2.64 per share to investors including Essex Woodlands Health Ventures Fund VII, Lehman Brothers, Magnetar Capital Master Fund and Panacea Fund. Malvern, Pennsylvania-based Orthovita is focused on developing and commercializing proprietary, synthetic, biologically-active tissue engineering products for spine surgery and other orthopedic applications. VITA's nearest term commercial opportunities are its bone graft substitute technology platforms, which address the non-structural bone graft market by offering synthetic alternatives to autograft or cadaver-based bone material, and its adherent matrix, which acts as an impermeable barrier to blood flow.
<b>OccuLogix</b>	\$30.0million	7/3	On this date, OccuLogix (NASDAQ: OCCX) announced the commencement of discussions with JEGC OCC Corp., a private equity firm, regarding an approximately \$30 million proposed private placement of OCCX's common stock, with the per-share price to be based upon the average trading price of the company's common stock at the time of purchase, subject to regulatory approval and to a minimum per-share price of \$1.05. If this deal and another proposed transaction—announced by TLC Vision Corporation (TLCV) and JEGC on May 30, 2007, whereby JEGC would purchase TLCV's ownership stake in OccuLogix—are both completed, JEGC gains a controlling position in OccuLogix. With offices in Massachusetts and Canada, OccuLogix is developing ophthalmic devices to diagnose and treat age-related eye diseases, with its current focus on dry AMD, glaucoma, and through its subsidiary, OcuSense, dry eye disease.
<b>Sangamo BioSciences</b>	\$30.0million	7/17	In this private placement, Sangamo BioSciences (NASDAQ: SGMO), a Richmond, California-based biopharma that is researching and developing DNA-binding proteins for therapeutic gene regulation and modification, sold an aggregate of 3,278,689 shares of common stock at a price of \$9.15 per share. The proceeds will be used for working capital and other general corporate purposes. SGMO's most advanced development program is currently in phase II clinical trials for diabetic neuropathy and phase I clinical trials for peripheral artery disease. Its other programs target HIV/AIDS, neuropathic pain, cancer, nerve regeneration, ischemic heart disease and monogenic diseases. JMP Securities and Piper Jaffray & Co. acted as joint lead placement agents for the deal.
<b>Dynavax Technologies</b>	\$30.0million	7/18	Dynavax Technologies (NASDAQ: DVAX) is discovering, developing and plans to commercialize therapeutics that treat and prevent infectious diseases, allergies and cancer. DVAX raised this financing from Deerfield Management to accelerate the development of its allergy franchise, including a late-stage ragweed allergy immunotherapeutic and preclinical programs for cat and peanut allergy. DVAX's pipeline also includes a hepatitis B vaccine in phase III clinical trials, a hepatitis B therapy in a phase I trial, and a cancer therapy in phase II for non-Hodgkin's lymphoma and phase I for metastatic colorectal cancer.

## PRIVATE PLACEMENT MARKET

### OTHER DEALS

COMPANY	SYMBOL	AMOUNT	DATE	PLACEMENT AGENT(S)/INVESTOR(S)	SECTOR
Via Pharmaceuticals	VIAP	\$25.0million	7/29	No placement agent named	Biotech
Cell Therapeutics	CTIC	\$20.3million	7/26	Rodman & Renshaw	Biotech
Southridge Technology Group	SOUT	\$19.6million	7/20	No placement agent named	Pharma
Antares Pharma	AIX	\$16.0million	7/10	Oppenheimer & Company	Pharma
Flagship Global Health	FGHH	\$15.0million	7/18	FrontPoint Partners	Services
MIV Therapeutics	MIVT	\$12.6million	7/6	BMO Capital Markets	MedDev
Response Biomedical	RPBIF	\$11.3million	7/10	Haywood Securities (bought deal)	Diagnost
Cytogen	CYTO	\$10.1million	7/2	No placement agent named	Pharma
GeoVax Labs	GOVX	\$7.5million	7/31	PURE Capital LLC	Biotech
Galapagos NV	GLPG	\$6.0million	7/2	GlaxoSmithKline	Pharma
BrainStorm Cell Therapeutics	BCLI	\$5.0million	7/3	ACCBT Corporation	Biotech
Sontra Medical	SONT	\$1.8million	7/19	No placement agent named	MedDev
Vein Associates of America	VNAA	\$1.5million	7/2	Westminster Securities	Services



#### PRIVATE PLACEMENTS

During the month of July 2007, nearly \$404 million in private placement financings were announced by 19 health care companies. Even though this is less than half the capital raised in private placements during the previous month, it's more than double the amount raised during July 2006 and almost double the amount raised in July 2005. The largest private placement of the month was announced **Inspire Pharmaceuticals** (NASDAQ: ISPH), a biopharmaceutical company dedicated to discovering, developing and commercializing prescription products in disease areas with significant commercial potential and unmet medical needs, in therapeutic areas including ophthalmology and respiratory and allergy, and is currently developing products for dry eye, cystic fibrosis, allergic rhinitis and glaucoma. Durham, North Carolina-based Inspire secured \$75 million from **Warburg Pincus**, and is using the proceeds from the financing primarily to support commercialization activities and several phase III development programs related to its treatment for bacterial conjunctivitis.

Some other big names in the investment banking and health care investment communities participated in private placements this month. **Lehman Brothers** and other investors, led by **Essex Woodlands Health Ventures**, committed \$32.5 million in financing to **Orthovita, Inc.** (NASDAQ: VITA), simultaneous with a \$45 million debt facility. VITA is developing synthetic, biologically-active tissue engineering products for use in spine surgery or other situations involving bone repair. **FrontPoint Partners**, a

subsidiary of **Morgan Stanley** (NYSE: MS), invested \$15 million in **Flagship Global Health, Inc.** (OTCBB: FGHH), an international health assurance company based in New York City. FGHH provides health management and emergency support resources that are not typically available through traditional health insurance—such as emergency air evacuation services for individuals who become ill or injured while traveling abroad—and will use the proceeds to support the consummation of several strategic relations, to introduce new products and boost its sales and marketing efforts. And as part of the expansion of a multi-year alliance focused on developing a disease-modifying drug for osteoarthritis, **GlaxoSmithKline** (NYSE: GSK) committed \$6 million to **Galapagos NV** (LSE: GLPG), a drug discovery company with clinical- and preclinical-stage programs in bone and joint diseases, among others.

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*Venture Capital, continued from page 12...*

into its next phase of growth. Prior to selecting PDC for its portfolio, WSHP took the time to canvass several existing patient safety device companies to ensure the firm would be betting on the best opportunity. Among the characteristics that made PDC a good fit, Mr. Sweeney said, "Precision Dynamics has a strong management team, a reputation for innovation and a presence across the United States, as well as in Europe."

Although we were told there are other companies selling patient wristbands, including **Cardinal Health** (NYSE: CAH) and **Hill-Rom Company**, WSHP chose to align itself with PDC because, among other reasons, "PDC's band is the most durable and features a better first time read rate, compared with others on the market," Mr. Sweeney stated. "There really is not enough competition in this market for PDC to lose ground. The company is active in all 50 states, has been around for about 50 years and has been profitable for most of those years." In addition, recent recommendations from **JCAHO**, **WHO** and other organizations are encouraging providers to implement bar-coded wristbands, which are only used in a minority of facilities at this time. The PDC investment is an opportunity for Water Street Healthcare Partners to get in on the crest of a trend toward better patient identification and safety products.

We couldn't quite discern just how much it would cost an average facility to utilize one of PDC's wristband solutions, but we did learn that certain hospitals are integrating PDC's technology as part of the process of implementing overall technology strategies. Reimbursement has no impact, because the wristband is not a reimbursable item. Initially transitioning from the basic identification band to PDC's more sophisticated bar-coded band, "may be incrementally more expensive for many facilities, but in the long run, money is saved and the benefit of enhanced safety far outweighs the added costs," Mr. Sweeney noted.

Currently, PDC is active in all 50 states, has a direct presence in Europe and also distributes products through third parties in certain parts of Asia. "There are a handful of other players in the patient safety arena, but those companies do not have the same breadth of offerings that PDC does." Prior to the July financing, WSHP already had relationships with some of PDC's customers. Even as they continue to evaluate applications for its products outside health care, another industry WSHP and PDC are working to enter is hospitality. For large gatherings at hotels, conventions and other venues, PDC's wristbands identify guests and help control guest access to specific areas.

Water Street Healthcare Partners' activity over the past several months is a testament to how quickly deals are getting done in certain areas of health care. WSHP concentrates on proprietarily sourced deals, and likes to be the sole investor in the companies it adds to its portfolio. "Right now we are working in a great environment. We've closed six transactions in the last 14 months and a seventh is in the works right now," Mr. Sweeney told us. As it becomes even more popular for investors to finance health care, more firms that aren't even focused on health care are entering the fray. He pointed out, however, "the best bet for a health care company is to work with a specialized firm," such as WSHP. "This is an exciting opportunity for us to participate in the implementation and improvement of patient identification and safety devices."

Recently, WSHP provided equity financing for deals including the acquisition of Medtronic's neurology diagnostic products unit by **Alpine Biomed**, the merger of **Physiotherapy Associates** and **Benchmark Medical**, and the acquisition of an outpatient physical therapy business from **Stryker Corp.** (NYSE: SYK). **Medex** is one example of an investment that WSHP successfully exited, in a transaction that closed in March 2005. It remains undisclosed just how much WSHP profited from that deal, but we were told that the exit resulted in a "market-leading return" for the firm. "It was a somewhat similar situation to what we are doing with PDC," Mr. Sweeney said. "We invested about \$100 million in Medex, which acquired a \$225 million business from **Johnson & Johnson** (NYSE: JNJ), with equity provided by Water Street. The combined entity was later sold for nearly \$1 billion."

Speaking of exits, recent activity in health care services reminded us of another health care services company that received a large venture capital investment to fund expansion. Many moons ago, we reported that **Take Care Health** had secured \$77 million, primarily from **Beecken Petty O'Keefe & Company**, which subsequently sold its stake in the company to **Walgreen Co.** (NYSE: WAG) for \$269.3 million. The deal increased the number of in-store clinics already operated by WAG, which intends to have 400 in-store clinics open with 18 months of the deal, which closed in May. This was probably a fortuitous time for Take Care Health to align itself within a larger organization, since retail health clinics staffed by nurse practitioners (NPs) have recently come under fire from the **American Medical Association**, competition is rising in the form of more quick care clinics staffed by physicians (like QuickHealth) and recently, one person told us the NP-staffed model has "hidden costs" the physician-staffed model does not have.

**HOSPITALITY IN THE HOSPITAL:** To help patients recover faster, better and more comfortably, **Scottsdale Healthcare** of Arizona, together with two California-based companies, **Computrition, Inc.** and **Sky-light Healthcare Systems**, is piloting a digital room service meal ordering application. The system allows patients who are identified as “room-service appropriate” to view meal choices on the televisions in their rooms and place orders

using the remote control, at any time during given hours. In addition to automatically monitoring physician-ordered dietary restrictions in real time—so patients can’t order food they’re allergic to or not supposed to eat—the system provides patients with on-screen nutrition facts, like

calorie count and fat, sodium and carbohydrate content. By utilizing the digital room service solution, Scottsdale Healthcare expects to improve patient and staff satisfaction, as well as enhance the efficiency of its staff and quality of care. Among other benefits, nutrition professionals at the hospital have easy access to quantitative data on patient food consumption, which can be used in teaching how to make healthy eating choices.

**NO NICOTINE FOR NEWBIES!** With the incremental rollout of a new policy, **The Cleveland Clinic** is offering free smoking cessation to certain job applicants. The clinic has already banned smoking from its campuses and launched a community-wide program to promote smoking cessation, but now it is actually testing job applicants for Cotinine, a nicotine metabolite. Any individual who tests positive will not be considered for employment and will be referred to a smoking cessation resources paid for by the Clinic. However, after 90 days, the Clinic says it will encourage applicants who are successful in quitting to re-apply for a job. The policy will not apply to current employees of the Clinic.

**STRENGTH IN NUMBERS:** According to a new report, The 2007 Review of Physician Recruiting Incentives, prepared by **Merritt, Hawkins & Associates**, a growing number of hospitals are employing physicians, indicating a shift from the traditional paradigm of physicians practicing as independent contractors, or employees of physician-owned medical groups. Suggested reasons for the trend include a desire on the part of physicians for the security and convenience associated with working directly for a hospital, as well as avoidance of the high malpractice premiums, struggles for reimbursement and other potential administrative hassles of

running a private practice. The 2007 Review, which examines more than 3,000 recruiting assignments that Merritt, Hawkins conducted during the twelve months ended March 31, 2007, indicates that hospitals offered positions to physicians in 43% of the searches the firm conducted, up from 23% in the prior twelve months. The firm’s report also highlights a steady increase in the demand for primary care physicians, including general internists, family practitioners and pediatricians, as well as an increase in the use of financial incentives to recruit physicians, particularly in certain medical specialties, such as cardiologists and orthopedic surgeons.

**THE YOUNGER GENERATION:** Okay, so maybe most young kids who “know” what they want to be when they grow up will change their mind several times before pursuing a career, but one Web-based company may be helping to motivate youngsters to enter the medical profession. Their solution sounds much more graphic than that good old “Operation” board game, but virtual reality could help show some of the realities of medicine to the children who will actually be our next generation of surgeons. Hilliard, Ohio-based **Edheads**, a nonprofit educational Web development company that’s online at [www.edheads.org](http://www.edheads.org), recently announced that eight- and nine-year-old kids across the country are participating in an interactive online program that allows them to make decisions about and take part in a virtual version of total knee replacement, total hip replacement or hip resurfacing surgery. The program was designed to provide kids, high school students and adults with a fun and interactive way to learn anatomy and explore different careers.

**STUDY SHOWS DRUG UNDER-USE:** The recently released results of a study of by **Putnam Associates** reveal that United States health insurance plans believe that “greater pharmacoeconomic value” can be unlocked by increasing patient use within certain drug categories. Plans are interested in increasing the appropriate use of drugs in certain patient populations, particularly those with hypertension, asthma, lipid management needs, anxiety, depression, schizophrenia, diabetes, smoking cessation and HIV/AIDS. Putnam suggests that pharmaceutical companies can develop strategies to target the categories where their interests are actually aligned with managed care organizations towards increasing the appropriate use of branded prescription drugs. On average, Putnam reports, managed care organizations estimate that up to 38% of total potential value is not being captured by available branded drugs. Putnam Associates is a Massachusetts-based strategy consulting firm serving the pharma, biotech, medical device and diagnostic industries.

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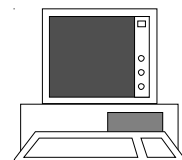
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