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THE Health Care M&A MONTHLY

Inside the Health Care M&A Market

INSIDE THIS ISSUE

Second Quarter M&A Results

Steady As She Goes...But The Third Quarter Starts Slowly

As markets continue to react to the tremendous amount of changes occurring as a result of health care reform legislation, the consolidation of the health care industry continued on a fairly steady trajectory throughout the second quarter of 2012. Preliminary data indicates that the health-care M&A market posted strong gains in dollar volume during the period; in fact, it was the most active quarter in terms of dollar volume since the corresponding quarter in 2011. Based on current data, the $61.2 billion in announced deals for Q2:12 nearly doubled the $34.0 billion volume attributed to Q1:12 and approached the nearly $75 billion spent on health care M&A transactions in the year-ago quarter.

The overall number of transactions in Q2:12, however, declined compared to those announced in the previous quarter—251 announced deals compared to the 288 deals announced in Q1:12, a 13% decline—but the number virtually equals the 250 deals announced in the year-ago quarter. The contribution of each sector, along with comparisons to the previous and year-ago quarters, appears in the table on page 10.

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Managed Care Market

M&A Activity in Managed Care On The Rise Since 2009

The Great Recession, coupled with uncertainty regarding federal health-care reform, affected health-care merger and acquisition activity across the board over the last five years in terms of the number of transactions announced and, to a greater degree, their dollar value. As the economy has begun to pick up, though, corporations appear to be putting their cash to use. But they're not spending much; rather, they remain cautious.

The managed-care sector of the health-care industry includes managed-care organizations such as health maintenance organizations (HMOs), Medicaid HMOs, IPA-model HMOs, preferred provider organizations (PPOs), managed dental plans, behavioral plans, and others.

In the managed-care M&A market, the last few years have been pivotal. The population explosion of the over-65 age group expected over the next two decades clearly suggests that the federal government will be spending an increasing amount of money on

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As was the case last quarter, the nine health-care services sectors attracted 133 transactions, or 53% of the total, according to the preliminary data, while the four health-care technology sectors again represented the higher dollar volume—$38.1 billion, or 62% of the total dollar volume for the quarter and an 87% jump compared to the dollar volume in the previous quarter. The $23.1 billion in health care services acquisitions during the second quarter was almost triple the dollar volume in the first quarter.

Within the four health care technology sectors, the data indicates that Medical Devices accounted for the most transactions (43), followed by Pharmaceuticals (29), e-Health (24), and Biotechnology (22). Pharmaceuticals, however, garnered 34% of the total dollar volume among the technology sectors ($20.7 billion), followed by Medical Devices ($11.5 billion, or 19%), Biotechnology ($4.8 billion, or 8%), and e-Health ($1.0 billion, or 2%). This is based on disclosed prices.

Medical Devices was also the most active technology sector in both the previous and the year-ago quarters, while Biotechnology activity was down 31% from the first quarter. For e-Health, which logged slightly fewer deals compared to the previous quarter, Q2:12 activity was a whopping 50% higher than a year ago. It appears that e-Health is a growing category, as health care market participants ramp up for the influx of accountable care organizations and other health-reform requirements.

Within the nine health care services sectors, the data indicates that Long-Term Care accounted for the most transactions (35), followed by Hospitals (22), Physician Groups (21), Labs/MRI/Dialysis (10), Managed Care (9), Home Health Care (5), Behavioral Health Care (4), and Rehabilitation (2).

Hospitals and Physician Medical Groups each captured 7% ($4.5 billion and $4.2 billion, respectively) of the total dollar volume among the health-care services sectors, followed by Long-Term Care ($1.9 billion), Managed Care ($730 million), Behavioral Health Care ($517 million), Labs/MRI/Dialysis ($349 million), and Rehabilitation ($6 million). The value of the five announced deals in the Home Health Care sector was not made public.

Long-Term Care, Hospitals, and Physician Groups, in that order, were also the most active health care services sectors in both the previous and the year-ago quarters, although fewer deals were logged in those earlier time periods for both Long-Term Care and Hospitals. The number of announced deals for Physician Groups was the same in the first quarter but 25% less than a year ago.

For Labs/MRI/Dialysis and Managed Care, the number of announced deals doubled compared to both last quarter and the corresponding quarter last year, while those for the Home Health Care, Behavioral Health Care, and Rehabilitation sectors were roughly half the number announced in the previous quarter, except for Rehabilitation which remained the same, and half the number announced in the year-ago quarter.

Of the 133 announced deals in the health care services sectors, 25 did not fit any of the sector categories—a third fewer than in the last quarter but a third more than in the

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year-ago quarter. Interestingly, the dollar volume of those 25 "Other" announced deals ($10.8 billion) dwarfed the dollar volume for each of the other sectors and, in fact, amounted to 47% of the total dollar volume of $23.1 billion for the combined health-care services sectors. Nearly half of that was the result of one transaction, **SXC Health Solutions**' (NASDAQ: SXCI) acquisition of **Catalyst Health Solutions** (NASDAQ: CHSI) for $4.4 billion.

It's interesting to note, too, that a flurry of transaction announcements occurred just before the quarter closed (as well as at the start of the third quarter), following the Supreme Court's June 25 validation of most aspects of the Affordable Care Act. We expect that third quarter 2012 health-care M&A data will reflect that increased activity, as well.

July's Health Technology Deals

Despite the flurry of transactions in late June and early July, M&A activity for the full month of July seemed to taper off. The one exception, however, was in the e-Health market, which seems to continue on at a near record-breaking pace of acquisitions. In May there were eight announced e-Health transactions, increasing to 10 in June and then nine in July. While most deals in this sector tend to be small, with many of these small acquisitions coming without a disclosed price, in July there was one very large deal. **One Equity Partners**, the private investment arm of **JP Morgan Chase & Co.**, with $10 billion under management, entered into an agreement to purchase **M*Modal Inc.** (NASDAQ: MODL), a leading provider of clinical transcription services, clinical documentation workflow solutions and advanced cloud-based Speech Understanding™ technology. One Equity is paying $14.00 per share, representing an 8.3% premium over the prior-day closing price. Investment funds affiliated with **S.A.C Private Capital Group**, which controlled 31% of MODL's shares outstanding, have agreed to tender their shares. **Macquarie Capital** and **RBC Capital Markets** advised M*Modal, and **Bank of America Merrill Lynch** and RBC Capital Markets will be providing the financing to One Equity.

Only two of the other eight e-Health transactions came with prices, but both were under $5.0 million each. These were involved in medical claims, transcription services, patient flow and bed management software, among other areas. One interesting deal without a disclosed price involved a Massachusetts-based company, **Care.com, Inc.**, purchasing a German counterpart that helps families find the care they need online in 15 European countries. Care.com has been doing this in the U.S. market since 2006 and had already expanded into Canada and the UK, so this was a natural fit. Care.com has 5 million members and the German company, **Besser Betreut GmbH**, has 2 million members. The acquisition closed in July but no financial details have been disclosed.

The Month in M&A at a Glance: Health Care Technology, July 2012

Sector	Deal Volume	Combined Price
Pharmaceuticals	6	$ 5,500,000,000
e-Health	10	2,525,650,000
Medical Devices	5	30,300,000
Biotechnology	4	3,500,000
Total	25	$ 8,059,450,000

Pharmaceutical Market. In the largest transaction of the month, and one that certainly was not a surprise, **GlaxoSmithKline** (NYSE: GSK) finally prevailed in its pursuit of **Human Genome Sciences** (NASDAQ: HGSI), but it took them three months to secure the deal. GSK is paying $14.25 per share, or $3.6 billion, which represents a 99% premium to the closing price the day before GSK made its unsolicited bid on April 19 for $13.00 per share. Obviously, it was worth holding out for an extra $300 million or so, but we wonder how much was spent by both sides on legal and banking fees during the three months in search of another possible suitor at a higher price.

HGSI, a biopharmaceutical company based in Maryland, has several products, with principal ones including BENLYSTA for systemic lupus erythematosus and raxibacumab for inhalation anthrax. Annualized revenues are just $188.5 million. GSK is projecting cost synergies of up to $200 million, and somehow the deal will be accretive to 2013 earnings. **Lazard** and **Morgan Stanley** advised GSK; **Goldman Sachs** and **Credit Suisse Securities** advised HGSI.

The other significant transaction announced in mid-July was private equity firm **TPG's** agreement to purchase **Par Pharmaceutical Companies** (NYSE: PRX) for $1.9 billion. TPG is paying $50.00 per share, representing a 37% premium to the prior-day closing price. Par is the sixth largest generic drug company ranked by sales, which were $964.7 million on a trailing 12-month basis, and EBITDA was about $192 million.

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Deal Summaries—Technology — Biotechnology

TARGET	LISTING	ACQUIRER	LISTING	DATE	PRICE
Genmab A/S Copenhagen, Denmark	OMX: GEN	**Janssen Biotech, Inc.** New Brunswick, New Jersey	NYSE: JNJ	7/12/2012	$3,500,000

In Brief: Johnson & Johnson subsidiary Janssen Biotech has entered into a collaboration agreement with Genmab to create and develop biospecific antibodies using Genmab's Duobody technology platform. Under terms of the agreement they will collaborate on the research of up to 10 Duobody programs. Janssen will pay $3.5 million upfornt, with milestone and license payments up to $175 million per product.

Deal Summaries—Technology — e-Health

TARGET	LISTING	ACQUIRER	LISTING	DATE	PRICE
Sunquest Information Systems Tucson, Arizona	Private	**Roper Industries, Inc.** Sarasota, Florida	NYSE: ROP	7/30/2012	$1,415,000,000

In Brief: Roper has entered into an agreement to acquire Sunquest, a leading provider of diagnostic and laboratory software solutions to health care providers, in an all cash deal valued at $1.415 billion, including $25 million in cash tax benefits.

M*Modal Inc. Franklin, Tennessee	NASDAQ: MODL	**One Equity Partners** New York, New York	Private	7/2/12	$1,100,000,000

In Brief: One Equity Partners, the private invetsment arm of JP Morgan, is paying $14.00 per share, representing an 8.3% premium, to acquire M*Modal, a leading provider of transcription services, clinical documentation workflow solutions and advanced cloud-based Speech Understanding™. Of particular interest was the new generation of speech understanding solutions for health care.

Decision Critical, Inc. Austin, Texas	Private	**Healthstream, Inc.** Nashville, Tennessee	NASDAQ: HSTM	7/2/12	$4,300,000

In Brief: Decision Critical specializes in learning and competency management products for acute care hospitals. Healthstream is paying $3.5 million in cash, 22,124 shares of Healthstream common stock and a $300,000 contingent payment.

CollabRx, Inc. Palo Alto, California	Private	**Tegal Corporation** Petaluma, California	NASDAQ: TGAL	7/2/12	$1,350,000

In Brief: Founded in 2008, CollabRx works in the growing market of interpretive content and data analytics for genomics-based medicine. The purchase price is comprised of 236,433 shares of Tegal common stock, the assumption of $500,000 of debt, and 368,417 restricted stock units with vesting restrictions.

Deal Summaries—Technology — Medical Devices

TARGET	LISTING	ACQUIRER	LISTING	DATE	PRICE
California Medical Laboratories Costa Mesa, California	Private	**Sorin Group** Milan, Italy	MIL: SRN	7/2/2012	$14,000,000

In Brief: CalMed develops, manufactures and distributes a complex range of cannulae, catheters and accessories for cardiac surgery. Its products are sold in more than 45 countries, and revenues for its year ended 9/30/2011 were $8.0 million.

Rights to NIMBUS Technology Gainesville, Florida	Private	**Derma Sciences, Inc.** Princeton, New Jersey	NASDAQ: DSCI	7/13/2012	$1,300,000

In Brief: Quick-Med Technologies is selling the rights to its NIMBUS technology, a family of advanced polymers bioengineered for antimicrobial, hemostatic and other properties. The purchase price is $1.3 million upfront plus future milestones based on sales. The royalty paid to Quick-Med will be lowered from the current 20% to a sliding scale starting at 8.5% and declining as sales milestones are reached.

Hotspur Technologies, Inc. Mountain View, California	Private	**Teleflex Incorporated** Limerick, Pennsylvania	NYSE: TFX	7/18/2012	$15,000,000

In Brief: Hotspur, which developed the VisioValve Injection System, is a leading developer of innovative, catheter-based technologies aimed at restoring blood flow for patients with obstructed vessels. The price includes an upfront $15 million cash payment plus revenue milestones.

Deal Summaries—Technology Pharmaceuticals

TARGET	LISTING	ACQUIRER	LISTING	DATE	PRICE
Human Genome Sciences Rockville, Maryland	NASDAQ: HGSI	**GlaxoSmithKline plc** Brentford, England	NYSE: GSK	7/16/2012	$3,600,000,000

In Brief: On April 19, 2012, GlaxoSmithKline made an unsolicited offer to buy HGSI for $13.00 per share, which was turned down, and subsequently raised to $14.25 after HGSI tried to find another bidder. The final offer was $14.25 per share, or a 99% premium to the pre-bid price. HGSI is a biopharmaceutical company whose principal products include BENLYSTA for systemic lupus erythematosus and raxibacumab for inhalation anthrax.

Par Pharmaceutical Companies Woodcliff Lake, New Jersey	NYSE: PRX	**TPG** Fort Worth, Texas	Private	7/16/2012	$1,900,000,000

In Brief: Par is the sixth largest generic pharmaceutical company based on 2011 sales. It had been a takeover candidate for companies wanting to expand in the U.S. generic drug market. Its trailing 12-month revenues and EBITDA were $964 million and $192 million, respectively. TPG is a private equity firm with $51.5 billion under management. The purchase price of $50.00 per share represents a 37% premium over the closing price before the announcement.

Infinity Pharmaceuticals, Inc. Cambridge, Massachusetts	NASDAQ: INFI	**Purdue Pharma, L.P.** Stamford, Connecticut	Private	7/18/2012	$27,500,000

In Brief: Infinity develops drugs for treating cancer and related conditions. Basilea Pharmaceutica Ltd. is selling Toctino, a once-daily oral retinoid for treating severe chronic hand eczema. GSK is paying GBP 146 million upfront and up to GBP 50 million based on certain regulatory milestones.

Additional Transactions—Technology

Sector	Target	Acquirer	Date
BIOTECHNOLOGY	Neurocience Assets	AstraZeneca plc	7/12/2012
	Fenwal, Inc.	Fresenius Kabi AG	7/20/2012
	RhoGam Line of Products	The Kedrion Group	7/24/2012
	Novogen Limited	Kai Medical	7/27/2012
E-HEALTH	invivodata, Inc.	ERT	7/9/2012
	Besser Betreut GmbH	Care,com, Inc.	7/11/2012
	Electronic Medical Transcription Services	iMedX Inc.	7/12/2012
	Extramed Ltd.	Hospedia	7/16/2012
	ClaimLogic	The Trizetto Group	7/18/2012
	Medical Records Software Company	Epazz, Inc.	7/24/2012
MEDICAL DEVICES	Sandstone Medical Technologies	Ellman International, Inc.	7/19/2012
	HealthWatch Systems, Inc.	HWS Acquisition Corp.	7/20/2012
PHARMACEUTICALS	Rights for VS-6063	Verestem, Inc.	7/12/2012

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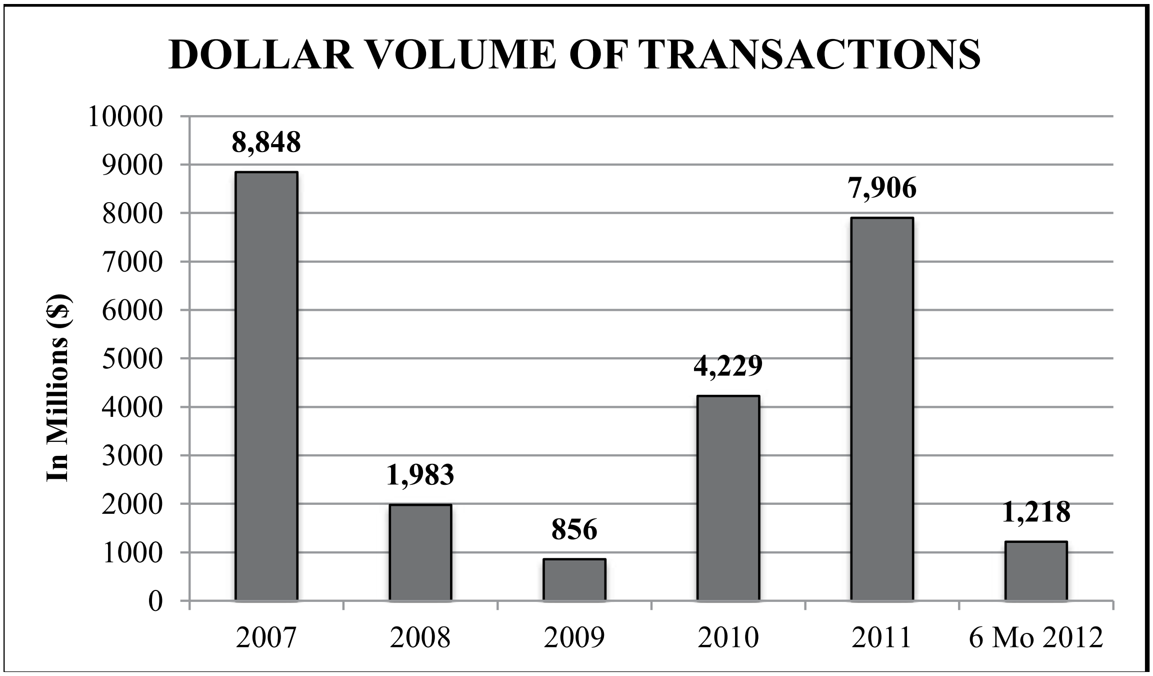
After the announcement, Par's shares traded as high as $52.33 as speculation mounted that higher bids would be forthcoming, given the desire of other companies to expand in the U.S. generic pharmaceuticals market. Looks like it was not to be. JP Morgan advised Par, while Bank of America Merrill Lynch, **Deutsche Bank** and Goldman Sachs advised TPG.

Medical Devices. There were a handful of medical device acquisitions in July, but all of them were relatively small. **Teleflex Incorporated** (NYSE: TFX) purchased **Hotspur Technologies**, a developer of innovative catheter-based technologies aimed at restoring blood flow for patients with obstructed vessels. Hotspur developed the VisioValve Injection System. The upfront payment was $15 million, plus regulatory and revenue milestones. The Hotspur technologies will broaden and strengthen Teleflex's portfolio of products.

In another small deal, Milan, Italy-based **Sorin Group** (MIL: SRN) purchased **California Medical Laboratories**, which manufactures and distributes a complex range of cannulae, catheters and accessories for cardiac surgery. Its products are sold in more than 45 countries, and it had revenues in 2011 of about $8 million.



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Medicare for the foreseeable future, thereby prompting companies to increase their product offerings to the senior market. That will most likely occur through mergers and acquisitions. Medicaid is also exploding as a budget item. For recently announced transactions for which prices were disclosed, however, the dollar value of those acquisitions appears to be considerably less than the billion-dollar deals that were not uncommon before the economic melt-down got underway in 2008.

According to preliminary data for the second quarter of 2012, eight companies announced nine acquisitions—a third more than the six acquisitions announced in the previous quarter and nearly reaching the total of 10 deals announced in the year-ago quarter, yet still only about 1% of the total health-care M&A deals announced during the quarter. Prices were disclosed for only two of the Q2:12 deals:

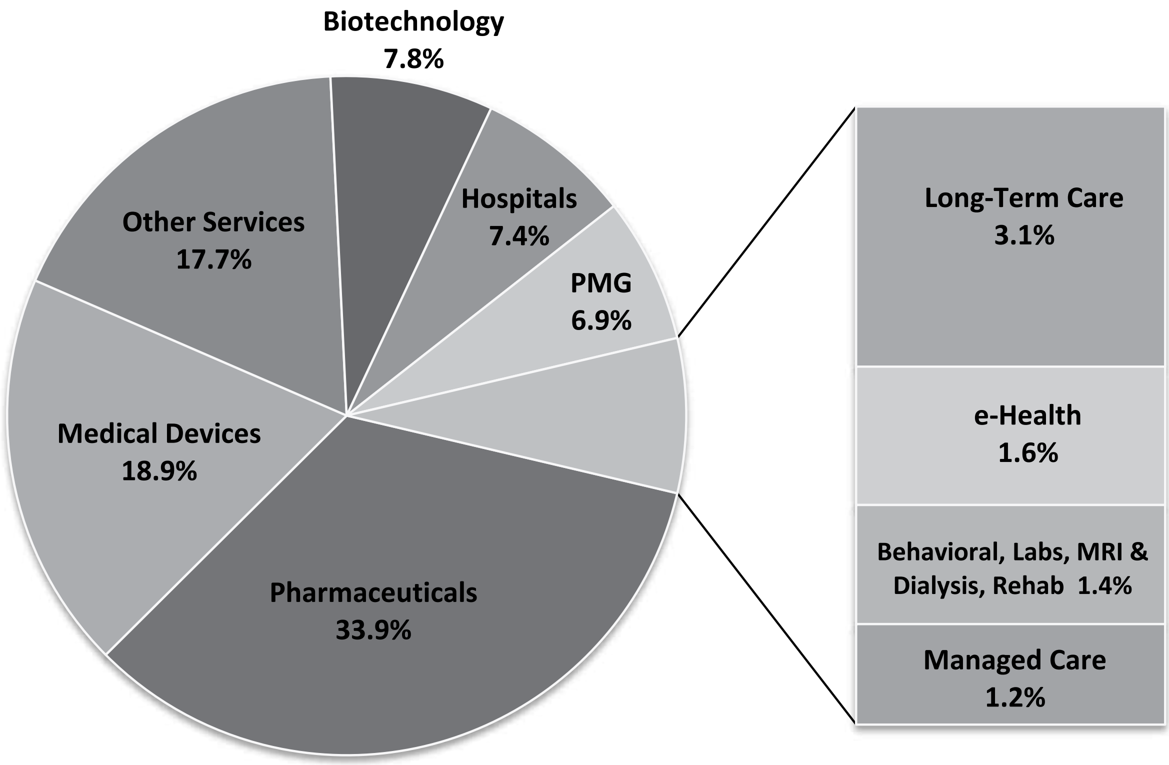
1) **Towers Watson & Co.** (NYSE: TW), New York City, increased its foothold in the all-important Medicare market by acquiring San Mateo, California-based **Extend Health**, the largest private Medicare exchange in the country, for $435 million. This was the fifth-largest deal disclosed in the past 12 months and added 200,000 retirees to Towers Watson's new, enlarged Medicare plan.

2) **CIGNA** (NYSE: CI), the managed-care giant, acquired **Great American Supplemental Benefits**, based in Austin, Texas, for $295 million. Demographics indicate an increasing number of seniors relocating to the southern half of the United States, so this acquisition will help New York City-based CIGNA capitalize on that southern migration and grow its Medicare division in the South.

CIGNA, along with **UnitedHealth Group** (NYSE: UNH), clearly has been a driving force in the managed-care market over the past five years. From January 2007 through June 2012, each company spent more than $6 billion on managed-care acquisitions. United Health Group, with more than 3.7 million enrollees acquired, spent $6.8 billion on eight deals since 2007; CIGNA, with more than 5.6 million enrollees acquired, spent $6.1 billion on five deals since 2007. In fact, CIGNA's acquisition of **HealthSpring Inc.** for $3.8 billion in October 2011 was the largest managed-care transaction since January 2007. Also, with two deals posted in Q2:12, CIGNA was the only company to announce multiple managed-care acquisitions during the current quarter.

Traditionally, managed-care plans have relied on economies of scale to effectively compete in the market. Adding more enrollees to the plan's membership lowers costs. Managed-care companies, therefore, generally pursued horizontal integration in order to grow in size. Today, however, the majority of companies are seeking vertical integration by adding new products to their health-care services: vision, dental, and behavioral services, for example. Thus, we have seen few multi-billion dollar deals since the dynamism of the pre-2007 markets. Instead, the

Where The Health Care Merger & Acquisition Dollars Went In Q2:12



trend today is toward medium-size deals that can provide the acquirer with new, ancillary service offerings.

Of the 104 managed-care transactions announced in the last five years, public companies were the acquirers in 62 of those deals, private companies in 29, and not-for-profit organizations in 13. The targets of those acquisitions, however, were 79 private, 16 public, and 9 not-for-profit companies. That breakdown reinforces the notion that public companies are more likely to have sufficient funds available to make acquisitions, although many of the private or not-for-profit targets were small.

Acquirers in Q2:12 included four managed-care organizations, one private equity group, two insurance companies, and one home health-care firm. Among the targets, four were private firms, two were public companies, and another two were not-for-profit organizations. In most cases, the acquiring company's purpose was either to reduce economic risk by diversifying its portfolios or to become involved (or more involved) in the growing Medicare/Medicaid market.

Given the fact that that seniors generally choose to retire in warmer climates—along with the impact that aging Baby Boomers will have on the health-care industry over the next few decades—it's perhaps not surprising that the majority of acquisition targets over the last several years were located in the southern half of the country. That trend is likely to continue at least through 2030, which is when the youngest Baby Boomers will reach age 65.

July's Health Services Deals

This discussion, of course, leads us to the largest managed care acquisition of the year, and for a few years. Just two weeks after the Supreme Court came down with its decision upholding most of the provisions of the Affordable Care Act, **WellPoint, Inc.** (NYSE: WLP) announced its agreement to purchase **Amerigroup Corporation** (NYSE: AGP) for approximately $4.9 billion. WellPoint is paying $92.00 per share, or a 43% premium, and the combination is expected to result in one of the largest health insurance companies serving the Medicaid and Medicare populations. Amerigroup serves approximately 2.7 million members in 13 states, and should be adding Kansas to that total as a result of a previously awarded state contract. AGP's annualized first quarter revenues and EBITDA were $7.07 billion and $302.8 million, respectively. This results in multiples of 0.69x revenues and 16.2x EBITDA before any cost synergies; the price also came to $1,815 per enrollee, which is within the range of industry norms. The acquisition is expected to be accretive to WellPoint in 2013, and it is expected to close in the first quarter of 2013. **Credit Suisse** was WLP's advisor on the deal, while **Goldman Sachs** and **Barclays** advised Amerigroup.

Home Health Care. In another sector where we have not seen many large transactions, with most acquisitions either having no disclosed price or under $25 million, **The Linde Group** (OTC: LNEGY) started the third quarter with one of the largest home health care deal ever. It agreed to purchase **Lincare Holdings Inc.** (NASDAQ: LNCR) for approximately $4.6 billion, which includes the assumption of about $727 million of debt. Based on annualized first quarter revenues and EBITDA of $2.0 billion and $475.8 million, respectively, that price results in a 2.3x revenue multiple and a 9.67x EBITDA multiple. At a price of $41.50 per share, the premium was about 64% over the last price on June 26 before press speculation about the potential deal.

This is a bit of a "coming home to papa" story, as Lincare was formerly known as **Linde Homecare Medical Systems** and had grown out of Linde's American business at the beginning of the 20th century before it was sold to **Union Carbide** in 1917. Lincare was subsequently spun out of Union Carbide in 1987 and became the largest home health care provider in the country with more than 800,000 customers in 48 states and Canada through 1,091 centers. It provides respiratory therapy, infusion therapy and rehab services, among others. The Linde Group, based in Munich, Germany, is a leading gases and engineering company, operating in more than 100 countries and generating revenues of EUR 13.787 billion. The acquisition is expected to close later in the third quarter.

Hospitals. The hospital acquisition market has been a little slow, and we are not sure if acute care operators are trying to figure out the impact of the Supreme Court ruling, are worried about the political climate and the November elections, or are just not finding the right opportunities. In one small deal, **MedCath Corporation** is selling its 53.3% interest in **Bakersfield Heart Hospital**, a 47-bed facility in Bakersfield, California. The price, $38.1 million, included some secured loans on the building. **Cardiovascular Care Group**, based in Nashville, Tennessee, was the buyer. This was the last of 10 hospitals that MedCath had to sell as part of its plan of dissolution.

The Month in M&A at a Glance: Health Care Services, July 2012

Sector	Deal Volume	Combined Price
Managed Care	2	$ 4,900,000,000
Home Health & Hospice	3	4,600,000,000
Labs, MRI & Dialysis	11	985,600,000
Long-Term Care	9	146,840,000
Hospitals	3	38,100,000
Physician Medical Groups	2	—
Rehabilitation	2	—
Behavioral Health	—	—
Other Services	5	89,700,000
Total	46	$10,760,240,000

With Medicare reimbursement levels still somewhat lucrative (at least for now), there has been some activity in the long-term acute care (LTAC) hospital side of the business. **Restora Healthcare Holdings**, which was recently formed and funded by private equity firm **HealthCap** of Dallas, Texas, just purchased **Trillium Specialty Hospitals**, which operates two LTACs in Arizona (Mesa and Sun City), together with two transitional care facilities, with a total of 240 beds. **GE Healthcare** provided the secured real estate financing and **Healthcare Finance Group** provided the unsecured senior debt. No other financial information was disclosed.

In another deal, privately owned **Aviv REIT** purchased a 30-bed LTAC in Indiana for $8.4 million and leased it to **Physician's Hospital, LLC**, which operates 12 LTACs and other health care facilities in Indiana. The triple net lease has a 15-year term, and the initial cash lease yield is 10.0% with annual escalators of 3.0%.

Labs, MRI & Dialysis. In addition to the e-Health sector, the Labs, Dialysis and MRI transaction activity was the most active of all the health service areas with 10 announced deals in July. The largest acquisition was the $925 million sale of privately-owned **One Lambda** to **Thermo Fisher Scientific Inc.** (NYSE: THO). Founded in 1984, One Lambda's diagnostic tests are used by transplant centers for tissue typing, primarily to determine the compatibility of donors and recipients pre-transplant.

The price will be paid in cash plus a three-year retention program and a one-year earn-out. TMO believes it will be a very profitable addition to its specialty diagnostics portfolio. One Lambda had revenues and EBITDA in 2011 of $182 million and $84.86 million, respectively, resulting in a price to revenue multiple of 5.08x and a price to EBITDA multiple of 10.9x. **J.P. Morgan Securities** advised TMO, while **Perella Weinberg Partners** advised One Lambda. The transaction is expected to close in the fourth quarter and should be accretive to TMO in 2013.

In a much smaller deal, **Luminex Corporation** (NASDAQ: LMNX) is acquiring **GenturaDx**, a California-based molecular diagnostics company focused on making nucleic acid testing both affordable and practical for any laboratory. The purchase price is $50 million in cash plus the potential for additional milestone payments. The intent of the combination is to have the combined technologies result in a market leading system for molecular diagnostic testing. Perella Weinberg Partners acted as financial advisor to Luminex and **UBS Investment Bank** advised GenturaDx.

In one of the two smallest deals with prices, **Accuray, Inc.** (NASDAQ: ARAY) is acquiring **Morphormics, Inc.**, which develops medical imaging software systems that automatically recognize and extract anatomical structures from medical images. It was founded by **University of North Carolina** faculty members, and in 2008 Accuray began licensing Morphormics' autocontouring technology, which automatically identifies and draws the boundaries of the prostate and surrounding critical structures. The purchase price is $5.7 million, and the licensing fees will disappear.

The final acquisition involves the purchase of **Great Southern Laboratories** (GSL) by **Pernix Therapeutics Holdings, Inc.** (NYSE: PTX) for $4.9 million, which includes the assumption of liabilities. Founded in 1980, GSL manufactures liquids, tablets, capsules, ointments and creams for pharmaceutical companies. In its last fiscal year it had revenues of $12 million. Pernix expects this acquisition to improve its gross margins on currently-marketed generic products and to provide manufacturing capabilities for the development of its potential OTC and prescription products.

The Health Care M&A Market - Deal Volume By Sector

	Q2:12	Q1:12		Q2:11	
Sector	**Deals**	**Deals**	**% Change**	**Deals**	**% Change**
Services Segment:					
Behavioral	4	7	-43%	3	33%
Long Term Care	35	41	-15%	45	-22%
Hospitals	22	26	-15%	32	-31%
Physician Groups	21	21	0%	28	-25%
Home Health Care	5	11	-55%	7	-29%
Managed Care	9	6	50%	4	125%
Labs, MRI, Dialysis	10	5	100%	4	150%
Rehabilitation	2	5	-60%	2	0%
Other	25	38	-34%	19	32%
Services Subtotal	133	160	-17%	144	-8%
Technology Segment:					
Medical Devices	43	45	-4%	36	19%
Biotechnology	22	32	-31%	20	10%
e-Health	24	28	-14%	16	50%
Pharmaceuticals	29	23	26%	34	-15%
Technology Subtotal	118	128	-8%	106	11%
Grand Total	**251**	**288**	**-13%**	**250**	**<1%**

In an unusual notification, **Laboratory Corporation of America** (NYSE: LH) issued a press release stating it was aware of rumors regarding possible plans by private equity firms to effect a leverage buyout of the company. The company, however, stated that it has no knowledge of such plans and is not having any current discussions. But as we all know, the company doesn't comment on market rumors, or do they, so stay tuned.

Skilled Nursing. There was a lot of activity in the skilled nursing facility market last month. In the largest deal, **JLM Financial Investments** purchased a portfolio of 10 nursing facilities with 1,553 beds, all located in Illinois, from **Granite Investment Group**. The good news is the average occupancy for the portfolio is about 90%; the bad news is that 93% of the census is Medicaid and not even half of the portfolio is certified for Medicare. The reason is that the census at the majority of the facilities is MI/MR residents, funded by Illinois' Medicaid program with rates below skilled nursing rates. The other problem is that all 10 properties are about 35 years old or older, which means they were mostly built in the 1970s, which is par for the course for the industry. We understand that the portfolio was reasonably profitable, which is surprising given the state and the make-up of the census. We have heard through the grapevine that the price was close to $65,000 per bed, helped by the assumption of a significant amount of HUD debt that will most likely get refinanced with today's low rates. We have estimated that the cap

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Deal Summaries—Services — Home Health & Hospice

TARGET	LISTING	ACQUIRER	LISTING	DATE	PRICE
Lincare Holdings Inc. Clearwater, Florida	NASDAQ: LNCR	**The Linde Group** Munich, Germany	OTC: LNEGY	7/2/2012	$4,600,000,000

In Brief: Linde is paying $41.50 per share, representing a 64% premium, and will assume $727 million of debt. Lincare is the largest provider of home health services with more than 800,000 customers in 48 states and Canada.

Deal Summaries—Services — Hospitals

TARGET	LISTING	ACQUIRER	LISTING	DATE	PRICE
Bakersfield Heart Hospital Bakersfield, California	NASDAQ: MDTH	**Cardiovascular Care Group** Nashville, Tennessee	Private	7/2/2012	$38,100,000

In Brief: This is the last of 10 hospitals that MedCath Corporation had to sell as part of its plan of dissolution. The price was for the 53.31% interest owned by MedCath. The transaction closed effective June 30, and Navigant Capital Advisors advised MedCath.

Deal Summaries—Services — Laboratories, MRI & Dialysis

TARGET	LISTING	ACQUIRER	LISTING	DATE	PRICE
Great Southern Laboratories Houston, Texas	Private	**Pernix Therapeutics Holdings, Inc.** The Woodlands, Texas	NYSE: PTX	7/2/2012	$4,900,000

In Brief: Great Southern Labs was established in 1980 and manufactures liquids, tablets, capsules, ointments and creams for pharmaceutical companies. It posted 2011 revenues of $12 million. The price included the assumption of liabilities.

TARGET	LISTING	ACQUIRER	LISTING	DATE	PRICE
GenturaDx Hayward, California	Private	**Luminex Corporation** Austin, Texas	NASDAQ: LMNX	7/9/2012	$50,000,000

In Brief: GenturaDx is a molecular diagnostics company focused on making nucleic acid testing both affordable and practical for any laboratory. Luminex paid cash for all the shares outstanding with the potential for milestones.

TARGET	LISTING	ACQUIRER	LISTING	DATE	PRICE
Morphormics, Inc. Durham, North Carolina	Private	**Accuray, Inc.** Sunnyvale, California	NASDAQ: ARAY	7/16/2012	$5,700,000

In Brief: Morphormics develops medical imaging software systems that automatically recognize and extract anatomical structures from medical images. It was founded by **University of North Carolina** faculty members, and in 2008 Accuray began licensing Morphormics' autocontouring technology, which automatically identifies and draws the boundaries of the prostate and surrounding critical structures.

TARGET	LISTING	ACQUIRER	LISTING	DATE	PRICE
One Lambda Canoga Park, California	Private	**Thermo Fisher Scientific Inc.** Waltham, Massachusetts	NYSE: TMO	7/16/2012	$925,000,000

In Brief: Founded in 1984, One Lambda's diagnostic tests are used by transplant centers for tissue typing, primarily to determine the compatibility of donors and recipients pre-transplant. The purchase was paid in cash.

Deal Summaries—Services — Long-Term Care

TARGET	LISTING	ACQUIRER	LISTING	DATE	PRICE
Yorktowne Village York, South Carolina	Private	**Regional SC Operator** South Carolina	Private	7/1/2012	$3,100,000

In Brief: Yorktowne Village is a small campus with three buildings housing a toal of 57 assisted living units and 25 memory care units. Revenues in 2011 were about $ 1.73 million. Occupancy was close to 100%, but 50% of the census was Medicaid.

TARGET	LISTING	ACQUIRER	LISTING	DATE	PRICE
Quail Creek Nursing & Rehab Oklahoma City, Oklahoma	Private	**AdCare Health Systems, Inc.** Springfield, Ohio	AMEX: ADK	7/2/2012	$5,800,000

In Brief: Quail Creek is a 118-bed skilled nursing facility. The price was paid with $3.0 million in cash and $2.8 million of assumed debt.

Deal Summaries—Services Long-Term Care (cont.)

TARGET	LISTING	ACQUIRER	LISTING	DATE	PRICE
Glenvue Health & Rehabilitation Glennville, Georgia	Nonprofit	**AdCare Health Systems, Inc.** Springfield, Ohio	AMEX: ADK	7/2/2012	$8,240,000

In Brief: A local hospital authority sold this 160-bed skilled nursing facility. It was built in 1974 but was well maintained. Revenues were $6.28 million on low occupancy of 64%, and it was losing money.

TARGET	LISTING	ACQUIRER	LISTING	DATE	PRICE
Texas SNF Brownwood, Texas	Private	**LTC Properties Inc.** Westlake, California	NYSE: LTC	7/2/2012	$6,500,000

In Brief: This is a 90-bed skilled nursing facility that was built in 2011. It will be leased to Senior Care Centers with an initial cash yield of 9.0%.

TARGET	LISTING	ACQUIRER	LISTING	DATE	PRICE
3 Assisted Living Facilities Pennsylvania	Private	**IntegraCare Corporation** Wexford, Pennsylvania	Private	7/6/2012	$16,500,000

In Brief: Known as the Colonial Courtyard portfolio, these facilities were performing well but were part of a larger bankruptcy. The three properties are located in Clearfield, Tyrone and Bedford and total 164 units. Annual revenues were about $6.654 million.

TARGET	LISTING	ACQUIRER	LISTING	DATE	PRICE
10 Illinois Nursing Facilities Illinois	Private	**JLM Financial Investments** Austin, Texas	Private	7/6/2012	$102,000,000

In Brief: Granite Investment Group sold these 10 nursing facilities which had a heavy MI/MR census. Occupancy was about 90%, and the census was about 93% Medicaid. The price is approximate, and the buyer assumed about $90 million of HUD debt.

TARGET	LISTING	ACQUIRER	LISTING	DATE	PRICE
Cedar Ridge Manor Cedar Hills, Missouri	Private	**Private Illinois Operator** Illinois	Private	7/20/2012	$4,700,000

In Brief: Although licensed for 150 beds, this skilled nursing facility was operated as a 126-bed facility. Occupancy was just 61% and it was operating just below breakeven on revenues of $4.225 million. The seller was a Missouri-based operator.

Deal Summaries—Services Managed Care

TARGET	LISTING	ACQUIRER	LISTING	DATE	PRICE
Amerigroup Corporation Virginia Beach, Virginia	NYSE: AGP	**WellPoint, Inc.** Indianapolis, Indiana	NYSE: WLP	7/9/2012	$4,900,000,000

In Brief: Amerigroup is a Medicaid managed care company that focuses on publicly funded health care programs, including Medicaid, Childrens Health Insurance Program (CHIP) and Medicare. WellPoint is paying $92.00 per share, representing a 43% premium.

Deal Summaries—Services Other

TARGET	LISTING	ACQUIRER	LISTING	DATE	PRICE
Five Star's Pharmacy Business Newton, Massachusetts	NYSE: FVE	**Omnicare, Inc.** Covington, Kentucky	NYSE: OCR	7/9/2012	$30,700,000

In Brief: Five Star Quality Care is selling its institutional pharmacy business which includes eight licensed pharmacies operating in 13 states that provide institutional pharmacy services to 247 senior living communities with 12,300 units. Omnicare is paying $30.7 million, plus up to $9.4 million for net working capital and inventory. The business had 2011 revenues of $76.6 million. There has been some pressure from investors to sell Five Star's non-seniors housing assets.

TARGET	LISTING	ACQUIRER	LISTING	DATE	PRICE
Conmed Healthcare Management Hanover, Maryland	AMEX: CONM	**Correct Care Solutions, LLC** Nashville, Tennessee	Private	7/16/2012	$59,000,000

In Brief: Conmed provides correctional health care services to county and municipal detention centers. On a trailing 12-month basis, it had revenues and EBITDA of $72 million and $2.23 million, respectively. Correct Care is paying $3.95 per share in cash. The acquisition will substantially increase the geographical footprint of the combined companies and open the door to new markets.

Additional Transactions—Services

Sector	Target	Acquirer	Date
BEHAVIORAL	South Oaks Hospital	Northshore-Long Island Jewish Health	7/23/2012
Home Health & Hospice	Hugeley Home Health Agency	LHC Group Inc.	7/5/2012
	Advocate Hospice	Gentiva Health Services, Inc.	7/26/2012
HOSPITALS	Trillium Specialty Hospitals	Restora Healthcare Holdings	7/10/2012
	Scarborough and North East Yorkshire	York Teaching Hospital/NHS Foundation	7/1/22012
LABS, MRI & DIALYSIS	DPT Laboratories	Renaissance Acquisition Holdings, LLC	7/5/2012
	Metametrix	Genova Diagnostics, Inc.	7/112012
	Milotyping Technologies, LLC	AlBiotech, LLC	7/16/2012
	Navigenics, Inc.	Life Technologies Corporation	7/16/2012
	The Integra Group	NAMSA	7/23/2012
	Pinpoint Genomics	Life Technologies Corporation	7/25/2012
	SensiQ Technologies, Inc.	TechVen Partners, LLC	7/24/2012
LONG-TERM CARE	LifeCare at Loftland Park	Genesis HealthCare	7/2/2012
	Broadlawn Manor Nursing & Rehab Center	Northshore-Long Island Jewish Health	7/23/2012
MANAGED CARE	Arcadian Health's Arizona Assets	WellCare Health Plans, Inc.	7/18/2012
PHYSICIAN MEDICAL	Anesthesia Medical Alliance of East TN	MEDNAX, Inc.	7/30/2012
GROUPS	Loudoun Anesthesia Associates	MEDNAX, Inc.	7/31/2012
REHABILITATION	U.S. HealthWorks	Dignity Health	7/2/2012
	Drayer Physical Therapy Institute, LLC	GS Capital Partners	7/2/2012
OTHER	Coagulife Pharmacy	BioRx	7/9/2012
	First Choice Staffing Solutions, LLC	Accountable Healthcare Holdings Corp.	7/30/2012

The Health Care M&A Monthly has a quarterly supplement which details all publicly announced health care services mergers and acquisitions. Because many companies do not reveal details of their acquisitions, especially price and terms, at the time of the announcement, those details, when available, and additional information about the target company and acquirer are provided in the quarterly report after researching SEC documents and other primary sources.

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rate was between 11.5% and 12%, but that doesn't tell the real story since with up to $90 million of assumed debt, this was more of a financial transaction with little equity. Apparently, Texas-based JLM, a private equity firm, wants to use this acquisition to expand its investments in the senior care space. We have also heard that **Healthcare Transactions Group** brokered the deal, but unfortunately they would not confirm any of the financial details.

AdCare Health Systems (NYSE: ADK) closed on its acquisition of a 160-bed skilled nursing facility in Georgia. The seller was a local not-for-profit hospital and while they maintained the 40-year old property, occupancy was just 64% and it was losing money as a result of high wages and benefits and over-staffing in general. Revenues were about $6.3 million, but this was before an expected Medicaid rate increase which, despite the national trends, was expected to be relatively large. The purchase price was $8.24 million, or $51,500 per bed, so AdCare obviously sees some upside in both the overall census as well as the quality mix. **Private Bank** provided a $6.6 million mortgage for the acquisition, which has an interest rate of either 6.0% or LIBOR plus 400 basis points, and is due in two years (HUD, here we come). Despite the fact that it was losing money and had a 64% occupancy rate, there were five offers at the relatively high asking price ($8.0 million) within seven days. And we thought that only happened with New Jersey nursing facilities losing money. **Senior Living Investment Brokerage** handled the transaction. Separately, AdCare closed on the purchase of a 118-bed skilled nursing facility in Oklahoma for $5.8 million, or $49,100 per bed. ADK paid $3.0 million in cash and assumed $2.8 million of debt that matures in August 2016 with an interest rate of 10.25%. We assume that will be refinanced as soon as possible.

Seniors Housing. The foreclosure sale of three assisted living communities in Pennsylvania, known as the **Colonial Courtyard** portfolio, finally did close, with Pennsylvania-based **IntegraCare Corporation** paying $16.5 million, or $100,600 per unit. They were all built in the past seven to12 years. The trustee had hired an outside management firm to operate these during bankruptcy, and it was estimated that an adjusted, post-receiver, EBITDA was close to $1.6 million, which yields a 10% cap rate. There are a total of 164 units and 175 licensed beds, and

overall occupancy was about 90%. The portfolio should be a good fit for IntegraCare, and post-bankruptcy we assume that they will be able to increase the census a bit. **The Prestige Group** represented the seller in the sale.

The Freshwater Group is making a major splash in Iowa, and when the entire process is done, it hopes to have four retirement communities in the state with well over 400 units. A local developer started building these communities about 10 years ago and opened the first one in 2002. This community has 52 independent living, 34 assisted living and seven memory care units. Occupancy has suffered and is only 77%, which is unusual since it has very little competition in its market. One of the problems has been that the seller has been "self-managing" these properties, and seniors housing management may not exactly be his forte. The second community is much larger, and opened in 2007 with 80 independent living, 40 assisted living and 17 Alzheimer's units, and it has a 48-bed skilled nursing unit. Occupancy at this community is a little better at 82%. Its major competitor is an entrance-fee CCRC which apparently is top notch, but on the rental side it is one of the better ones in the Des Moines market area and the only one with skilled beds on the campus.

The buyer paid about $40.85 million, or $148,000 per unit/bed, for the two communities. Based on in-place cash flow, that price comes to about a 6.1% cap rate. But there are a few things wrong with looking at the deal this way. First, the communities were not professionally managed, and we suspect that Freshwater will be able to work on costs and just plain operating efficiencies. Second, we don't believe the marketing was as focused as it could be. Our forecast is that by the end of the first year the cash flow run-rate will be at least $500,000 higher, and that could be understating it. Third, at the larger community the buyer plans to expand the number of units by another 40, which includes expanding the Alzheimer's wing, once the rest of the community is stabilized. Finally, as part of the deal, Freshwater has an option on two other communities, also in Iowa, which they will start managing this month. One of these was completed a year ago and is still leasing up, while the other one opened a few months ago. This basically represents a free look, since they will get an inside look at the operations and market and be able to determine whether the option price is really worth it. Not a bad situation to be in. **Marcus & Millichap** is representing the seller. One of the major health care REITs will be financing the acquisitions with a sale/leaseback.

Physician Medical Groups. After a robust market in physician medical groups in the first half of 2012, with nearly 50 announced acquisitions, the deal activity slowed down, at least in July. But that didn't stop **MEDNAX, Inc.** (NYSE: MD), which announced two transactions at the end of the month, but without prices. In its first deal, MD is purchasing **Anesthesia Medical Alliance of East Tennessee**, a physician practice with 45 physicians in 16 locations. In the second acquisition, MD is buying **Loudoun Anesthesia Associates**, a 12-physician practice that provides anesthesia services at two locations in Virginia. Both acquisitions are expected to be immediately accretive to earnings.

Rehabilitation. Often times when a price is not disclosed it is because the transaction is small or not material. In the rehab sector, most deals tend to be small and therefore there is little to report on with regard to valuations. In July, however, the two rehab transactions were quite big, but both came without prices. In the first one, **GS Capital Partners**, the private equity arm of Goldman Sachs, is buying **Drayer Physical Therapy, LLC**, which provides rehab, preventative and occupational therapy services through its base of 74 owned and 10 managed physical therapy clinics in 14 states. Drayer primarily treats sports-related injuries and orthopedic disorders. **Harris Williams & Co.** acted as financial advisor to Drayer.

In the other significant transaction, not-for-profit **Dignity Health** (formerly **Catholic Healthcare West**) purchased **U.S. HealthWorks**, a California-based company that operates 172 clinics and worksites in 15 states, primarily for occupational health care and urgent care. It is the largest such independent operator in the country. U.S. HealthWorks was a portfolio company of **Altaris Capital Partners** and **Three Arch Partners**.

Other Sectors. **Omnicare, Inc.** (NSE: OCR) announced an agreement to purchase the institutional pharmacy business of senior living provider **Five Star Quality Care** (AMEX: FVE). The business includes eight licensed pharmacies operating in 13 states that provide institutional pharmacy services to 247 senior living communities with 12,300 units. Revenues of the unit in 2011 were about $76.6 million. The purchase price includes $30.7 million in cash plus up to $9.4 million of additional payments for working capital and inventory. **Jefferies & Company** advised Five Star.

Correct Care Solutions, Inc., a Tennessee-based company that provides medical, mental health and care management services to municipal, state and federal correctional facilities, is purchasing **Conmed Healthcare Management, Inc.** (AMEX: CONM), which provides similar services to county and municipal detention centers. Conmed had trailing 12-month revenues and EBITDA of $72 million and $2.23 million, respectively. The price is $3.95 per share in cash, which comes to $59.0 million.

Venture Capital Deals

According to a report from **PricewaterhouseCoopers** and the **National Venture Capital Association**, in the first half of 2012 venture capital activity increased by 17% based on dollars invested and by 11% based on number of deals, compared with the first half of 2011. Another report by **Bloomberg** revealed that global venture capital investing in biotech companies dropped by 43% to $550 million in the second quarter from the first quarter of 2012. It reported that there were just 59 deals worth an average of $9.3 million per deal, and it was the lowest level of activity for any quarter since 2007.

Yet, in July activity seemed to pick up significantly with several biotech and biopharmaceutical investments made. In one of the larger investments, Cambridge, Massachusetts-based **bluebird bio**, a leader in the development of innovative gene therapies for severe genetic disorders, had an oversubscribed Series D round, raising $60 million. New investors included **Deerfield Partners**, **RA Capital**, **Ramius Capital Group** and two undisclosed blue chip public investment funds, plus **Shire PLC**, which joined as a "strategic investor." The proceeds will be used for some phase 2 and 3 clinical studies. The company is working on childhood genetic diseases as well as sickle cell disease. **The Cowen Group** served as the strategic advisor on the financing.

In another deal, San Diego, California-based **CoDa Therapeutics** raised an additional $20 million to complete its $40 million Series B financing round. It received the funds from **RusnanoMedInvest**, and it is the first investment under a joint investment agreement between its parent, **RUSNANO**, and **Domain Associates** reached last March. All current investors, including Domain, **GBS Ventures** and **BioPacific Ventures** participated in the round. A portion of the proceeds will be used to expand late stage clinical trials of its lead product candidate, Nexagon, to treat diabetic foot ulcers. The company plans to expand its clinical sites into Russia over the next several months. In its first phase 2 trial nearly one-third of the patients were completely healed after four weeks following just three applications of Nexagon, compared with 6% in the control group. This financing also involves a licensing of the intellectual property rights for Nexagon in Russia.

In a smaller financing, Stony Brook, New York-based **Coferon, Inc.** raised $12 million in a Series B round led by three new investors, including **Hatteras Venture Partners**, **MedImmune Ventures** (the corporate venture arm of **AstraZeneca**) and **Ascent Biomedical Ventures**. The biotech firm's technology involves delivering small molecules in component parts that are designed to self assemble on the target inside the cell, thus creating therapeutic molecules with enhanced size, potency and selectivity. Sounds pretty cool to us.

In the biopharma venture capital market, **Chiasma, Inc.** closed a $38.5 million financing co-led by new investor **Abingworth** and current investor **MPM Capital**; three existing investors, plus the company's CEO, also participated. Proceeds will be used to fund the completion of a phase 3 trial for acromegaly patients using the company's oral form of the peptide octreotide, which they expect to be completed in the second quarter of 2013.

Now, we would be remiss if we didn't mention that startup **Sprout Pharmaceuticals** has raised $20 million to develop a drug that they hope will become known as the female Viagra. Apparently, 43% of women suffer from some form of sexual dysfunction, and Sprout wants to develop a drug that increases sexual desire in women. The company acquired the compound flibanserin, developed to treat hypoactive sexual desire disorder, from a German pharmaceutical company last year, and is working with the FDA for approval of the drug. Needless to say, if successful, it would make a great IPO story.

IPO Market

And speaking of the IPO market, **Hyperion Therapeutics** (NASDAQ: HPTX) sold 5 million shares at $10.00 per share, which was a bit of a haircut from the $11.00 to $13.00 range it was expecting. The company is working on novel therapeutics to treat disorders in the areas of orphan diseases and hepatology. Since going public, the shares have traded between $9.25 and $11.00 per share, so it appears the underwriters made the right decision. The joint book-running managers were **Leerink Swann** and Cowen.

Durata Therapeutics has filed to go public to raise up to $86 million. The Morristown, New Jersey-based company is in late-stage development for an antibiotic for skin infections, which has been licensed from **Pfizer** (NYSE: PFE). But its been a tough IPO market for many biotechs and biopharmas.