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Biotech avoids fall out from tough quarter for capital markets

SAN FRANCISCO — April 1, 2008 — The biotech industry came through a very turbulent first quarter relatively unscathed with the **Burrill Biotech Select Index**, a price-weighted index tracking 20 of biotech's "blue chip" companies, finishing unchanged compared to the Dow, which closed down 7.5% and the Nasdaq, which dropped 14%.

"Despite a sea of red numbers for our other indices, the Burrill Biotech Select Index recorded a credible gain of close to 4% in the month of March," said G. Steven Burrill, CEO, Burrill & Company, a San Francisco based global leader in life sciences with activities in Venture Capital, Private Equity, Merchant Banking and Media. "This gain was in spite of the fact that the quarter was a bad one any way you sliced it. Investors have been shell shocked in the wake of not only surging oil prices (the declining dollar) and the housing slump but also near chaos in the financial markets with Wall Street almost imploding in the wake of a massive global liquidity crisis.

"While 'blue chip' companies such as Genentech and Gilead Sciences have so far weathered the market downturn, emerging companies have been less fortunate since they are perceived by investors as more risky," noted Burrill. "This is why companies with broader-based product portfolios are able to ride out uncertain markets. Interestingly enough, investors have been choosing biotech's elite companies over big Pharma companies. This is reflected in the fact that the **Amex Pharmaceutical Index** closed the quarter down 12% at 295.23, its lowest total since October 2004.

The **Burrill Mid Cap Biotech Index** dropped over 23% in Q1 08 (down 4% in March). BioMimetic Therapeutics headed the decliners with its shares losing half their value following the FDA raising concerns about Johnson & Johnson's Regranex, a gel used to treat diabetic leg and foot wounds, which may increase the risk of cancer and death. Regranex contains becaplermin, a substance naturally produced by the body that helps in wound healing that is also an ingredient in certain BioMimetic products. The company's share value did recover slightly before the month end after it said that the cancer concerns would not apply to their products containing becaplermin. Many other companies in the group saw their share values take a beating in the uncertain markets including: Affymax (-34%), Maxygen (-22%), Questcor Pharmaceuticals (-32%), and Sequenom (-30%).

BIOTECH AVOIDS FALL OUT.../2**Biotech IPOs on hold**

The prevailing tough economic environment also took its toll on biotech IPO “hopefuls” with Biolex, Light Sciences Oncology and Archemix cancelling their planned offerings because of the market conditions. Only one company braved the market - Bioheart, a biotechnology company focused on using cells derived from a patient's body for treatment of heart damage. It priced its 1.1 million shares offering at \$5.25 the midpoint of a revised range. The company had originally filed for an offering of 3.6 million shares at a range of \$14-\$16. The company's shares closed the month of March at \$4, down 24%.

The tough economic environment kept other biotech IPO “hopefuls” grounded on the runway. Several, however, did file for an IPO in order to get in line and respond rapidly to complete their IPO when the market improves:

- Bayhill Therapeutics a clinical stage biopharmaceutical company developing products to treat autoimmune diseases,
- CyDex Pharmaceuticals - a specialty pharmaceutical company focused on the development and commercialization of drugs specifically designed to address limitations of current therapies in selected established markets.
- Omeros – developing drugs to treat focused inflammation and disorders of the central nervous system
- Phenomix, a biopharmaceutical company focused on the development of novel small-molecule product candidates for treatment of Type 2 diabetes and hepatitis C.
- Zogenix developing treatments for central nervous system disorders and pain.

Market cap

The industry's market cap closed at \$442 billion, unchanged for March and down 2% for the quarter. Genentech's market cap closed the month at \$85B – the company's shares had a very good month (up 15.7%) and quarter (up 21%). Amgen shares slipped 10% in the quarter with the result that the company's market cap dropped to \$45B. As a result, the company slipped one place in company rankings by market cap with Gilead Sciences closing the quarter at \$47.8B. Shares of Gilead hit a new 52-week high by month end following news of strong sales of its HIV drugs Truvada and Atripla.

BIOTECH AVOIDS FALL OUT.../3**Biotech Indices**

Index	12/31 2007	2/29 2008	3/31 2008	% change Month	% change Qtr
Burrill Biotech Select	331.52	318.05	330.24	3.83%	-0.39%
Burrill Large Cap Biotech	437.71	434.25	437.02	0.64%	-0.16%
Burrill Mid-Cap Biotech	201.89	161.7	155.2	-4.02%	-23.13%
Burrill Small Cap Biotech	137.6	150.15	146.74	-2.27%	6.64%
Burrill Genomics	104.29	86.83	88.3	1.69%	-15.33%
Burrill AgBio	198.83	197.08	185.94	-5.65%	-6.48%
Burrill Industrial	158.66	160.09	159.98	-0.07%	0.83%
Burrill Diagnostic	159.43	152.72	142.23	-6.87%	-10.79%
Burrill Nutraceutical	593.04	546.94	536.46	-1.92%	-9.54%
NASDAQ	2652.28	2271.48	2279.1	0.34%	-14.07%
DJIA	13264.82	12266.39	12262.89	-0.03%	-7.55%
Russell 2000	766.03	686.18	687.97	0.26%	-10.19%
Amex Biotech	786.5	721.95	737.41	2.14%	-6.24%
Amex Pharma	338.52	305.15	295.23	-3.25%	-12.79%

Partnering and financing still continue, but at a slower pace

Financings and partnering deals tracked by Burrill & Company collectively brought in approximately \$6.6 billion for US companies in Q1 '08 with over \$3.5 billion through financings and \$3 billion in partnering capital. This total was the lowest raised in any quarter period since 2004.

The largest announced partnering deal in the quarter belonged to Genzyme Corp. and Isis Pharmaceuticals, Inc. They entered a major strategic alliance in which Genzyme will develop and commercialize mipomersen, Isis' lipid-lowering treatment for high risk cardiovascular patients that utilizes novel antisense technology. Deal terms could add up to over \$1.1 billion. Genzyme will pay Isis \$150 million to purchase five million shares of Isis common stock for \$30 per share and a \$175 million up-front mipomersen license fee. In addition to this initial \$325 million, Isis has the potential to receive significant milestone payments for mipomersen, which is currently in phase III trials. Once the product is launched, the two companies will share profits.

"It was only a matter of time before the frantic pace of biotech financing and partnering that the industry has experienced for the past three years slowed down," commented Burrill. "It is unlikely that we will see a return any time soon because of the market concerns about the continuing credit crisis and its impact on the economy."

BIOTECH AVOIDS FALL OUT.../4

Selected Venture Capital Deals in Q1 2008

COMPANY	Amount Raised (\$M)
EKR Therapeutics	\$145
Alder Biopharmaceuticals	\$40
Ocera Therapeutics	\$35
Transave	\$35
Hydra Biosciences	\$30
Trius Therapeutics	\$30
BrainCells	\$30
Alimera Sciences	\$30
LigoCyte Pharmaceuticals	\$28
Vaccinex	\$25
Trevena	\$24

Although deal flow continued at roughly the same pace as the past several quarters, the total amount raised in the first quarter of 2008 was considerably lower. In fact, the \$837 million raised was the lowest since 2003. Topping the list of deals was EKR Therapeutics, Inc., (Cedar Knolls, N.J) a specialty pharmaceutical company focused on acquiring, commercializing and maximizing the potential of proprietary acute-care products, which completed a private placement of \$50 million in Series D equity and \$95 million in senior debt.

US Biotech Financings (\$M)

	2005	2006	2007	2008 Q1
Public				
IPO	\$819	\$920	\$2,041	\$6
Follow-ons	\$4,194	\$5,766	\$6,311	\$701
PIPEs	\$2,376	\$2,027	\$1,618	\$370
Debt	\$5,565	\$13,978	\$6,749	\$1,622
Private				
VC	\$3,518	\$4,236	\$4,425	\$837
Other	\$1,114	\$425	\$611	\$20
Total	\$17,586	\$27,352	\$21,975	\$3,556
Partnering	\$17,268	\$19,796	\$22,365	\$3,091
Total	\$34,854	\$47,148	\$44,340	\$6,647

About Burrill & Company

Founded in 1994, Burrill & Company is a San Francisco-based global leader in life sciences with activities in Venture Capital, Private Equity, Merchant Banking and Media. The Burrill family of venture capital funds has over \$950 million under management and its merchant banking business is one of the industry leaders in life sciences transactions. The company's 60 person scientific and business team, supported by its 40-person Advisory Boards, the strategic and financial network of its limited partners, and the close relationships developed with numerous life sciences companies and management, provide Burrill with unparalleled access and insight.

Burrill is the creator, sponsor and facilitator of over a dozen leading industry conferences worldwide and publishes a wide range of bio-intelligence reports including: The Personalized Medicine Report, The Stem Cell Report, and periodic newsletters covering Canada, China, Europe, India, Japan and Partnering/M&A. In association with the California Healthcare Institute, Burrill publishes The Journal of Life Sciences – a bimonthly magazine. Burrill's flagship publication is its annual "State of the Industry" report, the 22nd Edition is entitled Biotech 2008: Life Sciences – A 20/20 Vision to 2020.