THE
Health Care M&A MONTHLY
INSIDE THE HEALTH CARE M&A MARKET

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Behavioral Health Care M&A in 2013

The sector may be poised for strong growth this year and next, through M&A and organic growth. If the Affordable Care Act brings in as many new insured patients as anticipated, there may still be capacity issues.

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January Deal Activity Fell off Its Own Fiscal Cliff

After the holidays, you can expect things to get a little quiet. But last month, health care M&A almost went to sleep, thanks to the dearth of big deals.

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BEHAVIORAL HEALTH CARE

THE SECTOR GEARS UP FOR GROWTH IN 2013

Dealmaking in the behavioral health care sector has picked up in recent years, thanks to a number of factors and despite a few others. Last year, we recorded 17 transactions, up slightly from 15 deals announced in 2011. Four deals have already been announced in 2013, perhaps a signal of growing interest from the private equity community and the realization of the opportunities to be had.

In fact, many acquisitions may go unannounced because there are so many small private players in this sector. "There are a lot of mom-and-pop facilities out there, whether they're family-owned hospitals or a variety of settings," says Jim Shaheen, president of **Strategic Behavioral Health** (SBH) in Memphis, Tennessee, a portfolio company of **Dobbs Management Service**. "We think there's great opportunity this next year. There's so much upside."

Other factors that could make 2013 a break-out year in behavioral health care M&A are:

- Demand far exceeds supply, as most everyone from public companies to private equity investors

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WHERE DID ALL THE DEALS GO?

M&A ACTIVITY GOES OFF THE FISCAL CLIFF IN JANAUARY

The equity markets are staging their own version of a mid-winter comeback, with the Dow dancing around the 14,000 mark for the first time in five years. That would certainly seem to presage a similar rise in health care mergers and acquisitions, but then, that would make life simple.

Last year at this time, we were crowing that health care deals in January were breaking records. Looking back, there were a total of 110 deals announced in January 2012, with a combined dollar value of nearly $12.3 billion. The year ended on a more disappointing note, however, with deal activity at a near-record level, but deal prices at a near-record low. (See *Health Care M&A Monthly*, January 2013.)

Flash forward to January 2013. Deal volume totaled just 74 deals, down 32.7% compared with the year-ago period. The combined dollar volume of $3.9 billion was 68.5% below last year's level. Granted, any month that didn't represent a new record would show declines in comparison

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agrees. That fact is fueling acquisitions as well as organic growth, as beds are added to existing hospitals and even small companies are rushing to build new facilities around the country.

- The Mental Health Parity Act of 2008 raised mental health coverage to the level of physical health coverage. Now that mental illness is part of the national conversation in 2013, more positive attention is being paid to behavioral health care programs and facilities.

- The Affordable Care Act is expected to bring many new patients into the system, along with more Medicaid funding. Some governors have made noises about the deficiencies in state-run mental health systems, but few states are ready to spend their own money. Most are looking to Medicaid expansion to help restore some of the $1.8 billion in cuts that the National Alliance on Mental Illness says were made during the recent recession.

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info@healthcaremanda.com
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"It's a market that's been traditionally underserved, so there is more demand for services that are sorely needed than there have been providers to provide them. In that respect, it looked to us like a good place to invest," said James Andersen, co-founder and managing partner at **Clearview Capital**, owner of **Pyramid Healthcare** in Altoona, Pennsylvania. "From a long-term perspective, I think there's going to be a lot of demand for these services, which allows a company like ours to grow both organically and through acquisitions."

Through **Clearview Capital Fund II**, Pyramid acquired Ashville, North Carolina-based **October Road**, a provider of outpatient mental health and substance abuse programs, in May 2012, and then **High Focus Centers**, New Jersey's largest provider of structured outpatient substance abuse and psychiatric treatment programs, in October. Andersen says the fund is looking hard at further acquisitions in North Carolina, and is currently constructing an inpatient psychiatric hospital in Stroudsburg, Pennsylvania, scheduled to open this May.

Similarly, Strategic Behavioral Health is buying and building. Last year it acquired two hospitals in the Las Vegas, Nevada area from **Universal Health Services, Inc.** (NYSE: UHS) for an undisclosed amount, bringing its total existing beds to more than 350 in North Carolina, Colorado and Nevada. The sale was a condition imposed by the Federal Trade Commission on UHS following its own $3.1 billion acquisition of **Psychiatric Solutions, Inc.** in May 2010. SBH is currently building a 72-bed psychiatric hospital in College Station, Texas, based on demand.

"There are 300,000 people there and zero psychiatric beds," Shaheen says. With an architect, a prototype facility design and a builder already on board, Shaheen is looking to build hospitals and centers in other communities, following the industry guidelines of around 30 beds per hundred thousand people. "I'll probably build three hospitals a year," he adds.

The seven-year-old company also has a good performance record with its banks, **Fifth Third Bancorp**, **First Tennessee Bank** and **Pinnacle Financial**, all of which helped finance the Las Vegas purchases. "We're very prudent with our leverage and we have a good bit of cash," Shaheen says.

Five Largest Behavioral Health Care Deals in 2012

Acquirer	Target	Price	Quarter
Universal Health Services, Inc.	Ascend Health Corporation	$517,000,000	Q2:12
Acadia Healthcare Company, Inc.	Behavioral Centers of America, LLC	$145,000,000	Q4:12
Acadia Healthcare Company, Inc.	AmiCare Behavorial Centers	$113,000,000	Q4:12
Acadia Healthcare Company, Inc.	Three inpatient behavioral hospitals	$91,000,000	Q1:12
Acadia Healthcare Company, Inc.	Timberline Knolls	$90,000,000	Q3:12

Source: Irving Levin Associates, Inc., January 2013

Medicaid and the Revenue Mix

Patient populations and the attending reimbursement structures may be off-putting to some investors, especially when so many patients rely on Medicaid coverage. Indeed, **Acadia Healthcare Co., Inc.** (NASDAQ: ACHC) the leading public pure-play in the behavioral health sector, reported in its 2011 annual report that 61% of its pro forma revenue that year came from Medicaid patients in resident treatment operations. Another 22% was from commercial payors, 12% from Medicare and 5%, other payors. (Acadia will report Q4:12 results on February 20, 2013.)

UHS, which has an acute-care segment as well as behavioral care, saw 45% of its 2011 revenue come from the behavioral health side. Of that revenue, 24% was from Medicaid and another 11% from managed Medicaid. Managed care payors contributed 27%, Medicare 17% and other payors made up the rest. (UHS will report 2012 earnings on February 28, 2013.)

In this market, that payment mix means "minimal bad debt issues," according to Frank Morgan, an analyst at **RBC Capital Markets**, which works with Acadia. "I think they're able to make money because it's not as much of a medical model, like a nursing home. A lot of it has to do with different cost structures and staffing patterns."

But not all Medicaid/Medicare payments are equal, as health care investors know. "Medicaid is still a state-by-state proposition," says Andersen. "Every state looks at it differently. Every state that we're in, we have Medicaid patients. We're comfortable that the outlook is very positive. That won't be true in every state."

Indeed, SBH president Shaheen notes that his company would probably avoid doing business in California and South Carolina. "Their Medicaids have taken pretty large hits in the past few years," he notes.

Growth Strategies

Two companies were responsible for the five largest acquisitions in the behavioral care sector in 2012—Universal Health and Acadia Healthcare. For UHS, the $517 million purchase of **Ascend Health Corporation** in June 2012 was its first since the PSI buy in 2010. As UHS CFO Steve Filton told executives at the 13th annual JP Morgan Healthcare Forum in January, "The PSI acquisition is just now nearing the full integration [and] has been quite successful for us. It more than doubled the size of our behavioral business."

The Ascend acquisition came with nine acute behavioral facilities, which made it more attractive to UHS. "They ran acute behavioral facilities, which is really the area in which we're trying to expand versus the residential part of the behavioral business," Filton said.

UHS census is at 75%, down from an 85% occupancy level due to UHS's aggressive addition of new beds through its existing facilities. "As we get into 2014 and we find that behavioral demand increases in the way that we expect it will, you'll see that occupancy trend drift up again and expand as we absorb that new demand." UHS is also building and expects to open its second facility in Chicago in a matter of weeks.

Acadia is a younger company, and still on a "grow-fast-or-go-home" acquisition tear. Its executive management team learned that strategy at PSI, before the UHS purchase sent them looking for a new home. They found it when Acadia went public in 2011, when it spent $66.5 million to merge with PHC, Inc., then doing business as Pioneer Behavioral Health. At the time, Acadia operated 34 behavioral health facilities with approximately 1,950 licensed beds in 18 states.

What a difference a year and a few hundred million

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Deal Summaries—Technology — Biotechnology

TARGET	LISTING	ACQUIRER	LISTING	DATE	PRICE
Rights to Hemophilia compound Cambridge, Massachusetts	Private	**Baxter International, Inc.** Deerfield, Illinois	NYSE: BAX	1/25/2013	$50,000,000

In Brief: Inspiration Biopharmaceuticals Inc. is in bankruptcy and so is selling its rights to hemophelia compound OBI-1 as well as related assets. Baxter is paying $50 million in cash upfront, plus up to $20 million if regulatory milestones are met. Additional payments may be made if sales exceed $100 million.

Deal Summaries—Technology — eHealth

TARGET	LISTING	ACQUIRER	LISTING	DATE	PRICE
Epocrates, Inc. San Mateo, California	NASDAQ: EPOC	**athenahealth, Inc.** Watertown, Massachusetts	NASDAQ: ATHN	1/7/2013	$293,000,000

In Brief: athenahealth paid cash equivalent to $11.75 per share, representing a 22% premium over the prior day's closing, for mobile health provider Epocrates. The company's eponymous app was often touted by the late Apple Inc. CEO, Steve Jobs, during product demonstrations for the iPod, iPhone and iPad.

Deal Summaries—Technology — Medical Devices

TARGET	LISTING	ACQUIRER	LISTING	DATE	PRICE
Lifecodes unit Bedford, Massachusetts	NASDAQ: HOLX	**Immucor, Inc.** Norcross, Georgia	Private	1/4/2013	$85,000,000

In Brief: Immucor paid cash upfront and an additional $10 million in revenue milestones, for Hologic Inc.'s Lifecodes unit. Hologic acquired Lifecodes as part of last year's purchase of Gen-Probe.

Ultrasonix Medical Corp. Vancouver, British Columbia	Private	**Analogic Corporation** Peabody, Massachusetts	NASDAQ: ALOG	1/8/2013	$83,000,000

In Brief: The all cash deal helps Analogic grow its ultrasound business into the adjacent point-of-care ultrasound market, and gives it expanded distribution in emerging markets.

NDS Surgical Imaging San Jose, California	Private	**GSI Group Inc.** Bedford, Massachusetts	NASDAQ: GSIG	1/15/2013	$82,500,000

In Brief: GSI will gain market-leading positions in the medical and surgical arenas. The result will add more than $80 million in revenue and nearly $12 million of adjusted EBITDA to GSI's financial results in 2013.

Trauson Holdings Co. Changzhou City, China	HKSE: 325	**Stryker Corporation** Kalamazoo, Michigan	NYSE: SYK	1/17/2013	$98,500,000

In Brief: Trauson is the largest domestic producer of trauma products and in the top three producers of spine products by market share. Stryker offered HK$7.50 per share, which Trauson investor Luna Group took, tendering 61.7% of Trauson's stock.

Sound Surgical Technologies Louisville, Colorado	Private	**Solta Medical, Inc.** Hayward, California	NASDAQ: SLTM	1/29/2013	$30,500,000

In Brief: Sound Surgical markets surgical and non-invasive body shaping products using ultrasound technology. The deal is for $25.5 million in stock and $5.0 million in cash upfront, plus up to $9.5 million in contingent payments.

Deal Summaries—Technology Pharmaceuticals

TARGET	LISTING	ACQUIRER	LISTING	DATE	PRICE
Actinium Pharmaceuticals, Inc. New York, New York	Private	**Cactus Ventures, Inc.** New York, New York	OCTBB: CTVN	1/3/2013	$6,464,000

In Brief: Actinium Pharmaceuticals is a privately held biopharmaceutical company that specializes in the development of cancer drugs. This transaction was a reverse merger to take Actinium public. CTVN will be registered under its name until the intended name change to Actinium takes effect.

TARGET	LISTING	ACQUIRER	LISTING	DATE	PRICE
MAP Pharmaceuticals, Inc. Mountain View, California	NASDAQ: MAPP	**Allergan, Inc.** Irvine, California	NYSE: AGN	1/22/2013	$958,000,000

In Brief: The cash deal for MAP includes its lead product candidate, Levadex, an inhaled treatment for migraines, currently under review with the FDA. Allergan expects this transaction to be dilutive to 2013 earnings per share by $0.07, and accretive in the second half of 2014.

TARGET	LISTING	ACQUIRER	LISTING	DATE	PRICE
Uteron Pharma SA Liege, Belgium	Private	**Watson Pharmaceuticals, Inc.** Parsippany, New Jersey	NYSE: WPI	1/23/2013	$150,000,000

In Brief: This acquisition expands Watson's Women's Health development portfolio by adding two potential products for contraception and infertility.

TARGET	LISTING	ACQUIRER	LISTING	DATE	PRICE
Del Mar Pharmaceuticals (BC) Vancouver, British Columbia	Private	**Del Mar Pharmaceuticals, Inc.** Toronto, Ontario	OTCQB: BRRY	1/25/2013	$3,750,000

In Brief: DelMar Pharmaceuticals is essentially a shell company previously known as Berry Online Inc., before it was acquired by Del Mar Pharmaceuticals Inc., which plans to go public. The ticker symbol was changed to DMPI on or about Janaury 31, 2013.

Deal Summaries—Technology Other

TARGET	LISTING	ACQUIRER	LISTING	DATE	PRICE
AcariaHealth Orlando, Florida	Private	**Centene Corporation** St. Louis, Missouri	NYSE: CNC	1/14/2013	$152,000,000

In Brief: AcariaHealth is the business name for Specialty Therapeutic Care Holdings, Inc., one of the largest specialty pharmacy companies, with services for complex diseases such as hepatitis C, hemophilia, multiple sclerosis, rheumatoid arthritis and oncology. It will complement Centene's existing pharmacy benefits provider, U.S. Script.

Additional Transactions—Technology

Sector	Target	Acquirer	Date
BIOTECHNOLOGY	Lotus Tissue Repair, Inc.	Shire plc	1/8/2013
	BAC BV	Life Technologies Corporation	1/22/2013
	Rights to Trolovol	Imaxio	1/23/2013
EHEALTH	IDL Solutions	CACI International Inc.	1/2/2013
	Access FSA	Access	1/3/2013
	Intelimedix	Blue Health Intelligence	1/8/2013
	ALTA Systems, Inc.	ManTech International Corp.	1/9/2013
	ESi Acquisitions, Inc.	Intermedix Corporation	1/16/2013
	DRX	Connecture, Inc.	1/22/2013
MEDICAL DEVICES	Accellent Inc. facility	Utitec, Inc.	1/11/2013
	Source Scientific LLC	BIT Analytical Instruments GmbH	1/15/2013
PHARMACEUTICALS	Cytochroma	OPKO Health, Inc.	1/8/2013
	Patent rights to LDN	TNI BioTech, Inc.	1/8/2013

Behavioral Health Care

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dollars make. As a result of its $381.4 million in acquisitions in 2012, the company now owns 44 behavioral health facilities with more than 3,400 licensed beds in 21 states. Financing comes from public equity offerings, the most recent closing in December 2012 and raising approximately $173 million in net proceeds. Almost immediately afterward, Acadia announced the accretive acquisition of Greenleaf Center in Valdosta, Georgia on January 8 and that of Delta Medical Center, a 243-bed facility in Memphis, Tennessee. No prices were disclosed for those deals.

Like UHS, RBC Capital's Morgan says Acadia "will continue to morph their service-line mix, doing more acute psychiatric care. It has shorter lengths of stay, but has a higher Medicaid mix, a higher commercial/private-pay mix."

Industry consolidation will continue in the foreseeable future, following in Acadia's wake. "Acadia's management will do exactly what they did when they were Psych Solutions," adds Morgan. "They'll go out, find these opportunities and continue to consolidate. They have a very active acquisition backlog and I would not be surprised to see them make more acquisitions in the not-so-distant future."

For the sector's smaller players, that's just fine. "Our goal here is to build up the company, have it be profitable, have very nice growth and at some point in the future, sell it to somebody," said Clearview Capital's Andersen. And then start all over again?

HEALTH CARE TECHNOLOGY

Biotechnology

Inspiration Biopharmaceuticals Inc. is in bankruptcy proceedings, so it is selling its rights to hemophilia compound OBI-1 as well as related assets, to **Baxter International, Inc.** (NYSE: BAX). Paris-based **Ipsen Pharma S.A.S.** (Euronext: IPN; ADR; IPSEY) is selling other OBI-1 related assets, including manufacturing operations in Milford, Massachusetts, to Baxter. Ipsen provided Debtor-in-Possession financing to Inspiration for an amount up to $18.3 million in order to permit the sale to proceed. OBI-1 is a recombinant porcine factor (rpVIII) being investigated for the treatment of bleeding in people with acquired hemophilia A, a rare disorder. The product is currently in Phase 3 clinical studies in individuals with acquired hemophilia. It is a strong strategic fit with Baxter's current hemophilia portfolio. Baxter paid $50 million cash upfront plus up to $135 million in potential additional development and commercial milestones as well as tiered net sales payments ranging from 12.5% to 17.5% of OBI-1 annual net sales. As Inspiration's only senior secured creditor and owner of non-Inspiration assets that are included in this sale, Ipsen will receive approximately 60% of the upfront payments, and 80% of all payments up to a present value of $304 million and 50% of all proceeds thereafter. **Evercore Partners** served as exclusive financial advisor to Inspiration and Ipsen on the transaction.

eHealth

Epocrates Inc. (NASDAQ: EPOC), owner of the popular iPhone app voted "Most Important Mobile Health-Care App" last December by readers of ModernHealthcare.com, was acquired by **athenahealth, Inc.** (NASDAQ: ATHN) on January 7 for $293 million cash, equivalent to $11.25 per share, or a 22% premium. Athenahealth provides cloud-based practice management, electronic health records and care coordination services to medical practices, but trails larger rivals in name recognition. By purchasing Epocrates, a mobile iPhone app that lets physcians call up summaries on drugs, including side effects and interaction, athenahealth hopes to gain name recognition—and market share. As athenahealth CEO Jonathan Bush told Bloomberg, "Epocrates is to health care IT what Angry Birds is to games." The company plans to integrate the app with its own electronic records system, athenaClinicals, so doctors could look up drug information and then prescribe it. The software could automatically call the pharmacy, issue the insurance claim and handle other tasks. Further expansions, such as allowing a doctor to schedule an MRI and then see the results, are being considered. **Piper Jaffray & Co.** acted as exclusive financial advisor to Epocrates. **Goodwin Procter LLP** served as athenahealth's legal counsel and **Cooley LLP** served as counsel to Epocrates.

Medical Devices

Being profitable doesn't make a division all that valuable, it appears. In the wake of its $3.72 billion acquisition of **Gen-Probe** (NASDAQ: GPRO) last year, **Hologic, Inc.** (NASDAQ: HOLX) began cleaning house in order to pay its debts. One result: **Immucor, Inc.**

agreed to buy its **Lifecodes** unit for $85 million. The deal includes cash up front and an additional $10 million in revenue milestones. Immucor makes and sells reagents and automated systems for use in hospitals, clinical laboratories and blood banks. Its expected annual revenue is approximately $334.4 million, EBITDA of $100.7 million and net loss of $42 million. Lifecodes makes molecular and antibody-based assays for transplants and transfusion. Now Immucor can offer customers a single source for transplant and transfusion testing.

Another strategic move in the medical device sector came from **Analogic Corporation** (NASDAQ: ALOG), which purchased privately held **Ultrasonix Medical Corporation** for $83 million in cash, funded with cash on hand. The Vancouver, British Columbia-based company does just what its name implies, supplying advanced ultrasound systems for point-of-care and general imaging applications through more than 5,000 systems installed worldwide. Analogic designs, manufactures and sells high-precision data acquisition, and signal and image-based medical and security systems. On a trailing 12-month basis, Analogic generated revenue of $518 million, EBITDA of $58 million and net income of $43 million. The transaction is expected to close in late February 2013 and it will be neutral to EPS in fiscal year 2013 but turn accretive in 2014.

More medical device companies teamed up. **GSI Group Inc.** (NASDAQ: GSIG), a leading supplier of laser-based products, precision motion and optical technologies, announced the acquisition of **NDS Surgical Imaging**, maker of surgical and radiology displays and related peripherals. The purchase price of $82.5 million was financed using approximately $25 million of cash-on-hand with the remainder from the company's new credit facility. The acquisition closed on January 15, 2013 and is accretive to earnings, expected to add more than $80 million in revenue and nearly $12 million of adjusted EBITDA to GSI's 2013 financial results.

And **Stryker Corporation** (NYSE: SYK) raised its business relationship with **Trauson Holdings Company Limited** (SEHK: 0325.HK) to a new level with its general offer of $98.5 million. The U.S. medical technology company offered Trauson shareholders HK$7.50 per ordinary share, to which Trauson shareholder Luna Group tendered 61.7% of Trauson shares. Stryker will broaden its presence in the large and fast-growing Chinese orthopedic market, as Trauson is the largest domestic producer of trauma products and a top-three producer of spine products by market share. The deal is expected to close by the end of the second quarter and be neutral to Stryker's earnings this year. **Barclays Capital** served as Stryker's exclusive financial advisor and **Sullivan & Cromwell** served as outside legal counsel for Stryker in this transaction.

In the smallest and latest transaction in this sector, **Sound Surgical Technologies LLC** was purchased by **Solta Medical, Inc.** (NASDAQ: SLTM) for a total of $30.5 million, broken out as $25.5 million in stock and $5.0 million in cash up front, as well as up to $9.5 million in contingent payments. Sound Surgical markets surgical and non-invasive body shaping products using ultrasound technology. Solta Medical does the soup-to-nuts, design-through-distribution for its energy-based medical device systems for aesthetic applications. In combination with its rapidly growing Liposonix product line, Sound Surgical presents significant cross-selling opportunities to plastic surgeons and dermatologists.

Pharmaceuticals

Close but no cigar for **Allergan, Inc.** (NYSE: AGN), considering it missed the billion-dollar mark with its $958 million acquisition for **MAP Pharmaceuticals, Inc.** (NASDAQ: MAPP). Or perhaps the global health care giant deserves a cigar after all, for buying the biopharmaceutical company. MAP is developing and commercializing new therapies in neurology, including LEVADEX, an orally inhaled drug for the potential acute treatment of migraines in adults, a novel delivery system for a drug that has long been used to treat the condition. FDA approval is pending, but the agency's responses to clinical trials hasn't raised any red flags, and analysts expect the migraine drug could be the blockbuster that relieves some patent-cliff tension for Allergan. **Goldman Sachs & Company** is acting as financial advisor and **Gibson, Dunn & Crutcher LLP** as legal advisor to Allergan. **Centerview Partners LLC** is acting as exclusive financial advisor and provided a fairness opinion to MAP, and **Latham & Watkins LLP** is legal advisor to MAP.

Well to the rear, **Watson Pharmaceuticals, Inc.** (NYSE: WPI) paid $150 million in cash up front for **Uteron Pharma SA** of Liege, Belgium. The private company is a spin-off of the University of Liege and develops products dedicated to female health care. The acquisition strengthens Watson's Womens Health development portfolio by adding two potential near-term opportunities in contraception and infertility, and one novel oral care contraceptive projected to launch in 2018. An additional $155 million in future milestone payments is part of the deal. On a trailing 12-month basis, Watson generated revenue of $4.6 billion, EBITDA of $1.1 billion and net income of $261 million. The transaction is expected to be minimally dilutive in 2013 and 2014, becoming accretive in 2015. **Jefferies** acted as sole financial advisor to Uteron.

HEALTH CARE SERVICES

For health care services investors, there was little relief in Congress's decision to push any real resolution on the fiscal cliff issues off for a couple of months. Mergers and acquisitions continued into January, although most of the deals came without prices announced.

Hospitals

The third time will hopefully be the charm for non-profit **Knapp Medical Center**, which saw two earlier deals fall through. **Prime Healthcare Foundation**, a non-profit health system in Ontario, California, gained a controlling interest in Knapp, located in Weslaco, Texas. Under terms announced by Prime Healthcare, it will pay $100 million to fund a new community foundation to support the 226-bed acute care center, and another $10 million on capital improvements. Knapp will continue to operate as a non-profit, community-based hospital but will benefit from the economies of scale gained through Prime Healthcare's purchasing power and shared intelligence on best practices in healthcare operations. The previous, unlucky suitors were **Valley Baptist Hospital** and **Universal Health Services**.

Laboratories, MRI & Dialysis

Verinata Health, Inc., which is focused on developing non-invasive tests for early identification of fetal chromosomal abnormalities, agreed to be acquired by **Illumina, Inc.** The deal includes the $350 million payment up front as well as up to $100 million in milestone payments through 2015. Together, Illumina and Verinata are well-suited to drive the adoption of the non-invasive prenatal testing marketing. Along with its recent acquisition of **BlueGenome**, Illumina will have a portfolio of reproductive health offerings. **Bank of America Merrill Lynch** acted as financial advisor to Illumina and **Covington & Burling LLP** acted as legal counsel.

The Month in M&A at a Glance: Health Care Technology, January 2013

Sector	Deal Volume	Combined Price
Pharmaceuticals	7	$1,805,490,789
Medical Devices	8	379,500,000
e-Health	6	293,000,000
Biotechnology	5	98,500,000
Total	26	$2,576,490,789

Private equity firm **JLL Partners, Inc.**, made a strong move into this sector with the dual purchase of **BioClinica, Inc.** (NASDAQ: BIOC) and **CoreLab Partners, Inc.** on January 30. The announced price of $123 million was for BioClinica. No price was disclosed for privately held CoreLabs. Following the acquisition, BioClinica and CoreLabs will merge to create a provider of medical imaging services and eClinical solutions for clinical trials.

Seniors Housing Acquisitions

In one of the largest and most interesting deals announced so far this year, **Senior Management Advisors, Inc.** (SMA) together with its financial partner, **ValStone Partners, LLC**, purchased two large communities in Delray Beach, Florida. If all goes according to plan, this could be one of those diamonds in the rough that offers a very tidy long-term payoff, even though the upfront dollars are large. SMA and ValStone have already worked on 10 senior living properties together.

The partners purchased one community that has 141 assisted living and memory care units that was built in 1988 and that had occupancy near 88%, which will be known as **Grand Villa of Delray East**. The second community, located just one mile away and built in 1985, has 196 independent living units with occupancy close to 50%. It will be known as **Grand Villa of Delray West**, and on this campus there is an empty 60-bed nursing facility which will be converted to a state-of-the art memory care facility. These will join SMA's growing portfolio of properties in Florida under the "Grand Villa" umbrella that are located in Largo, Ormond Beach, Melbourne and Altamonte Springs. **Senior Housing Investment Advisors** represented the seller. The price was $34.0 million.

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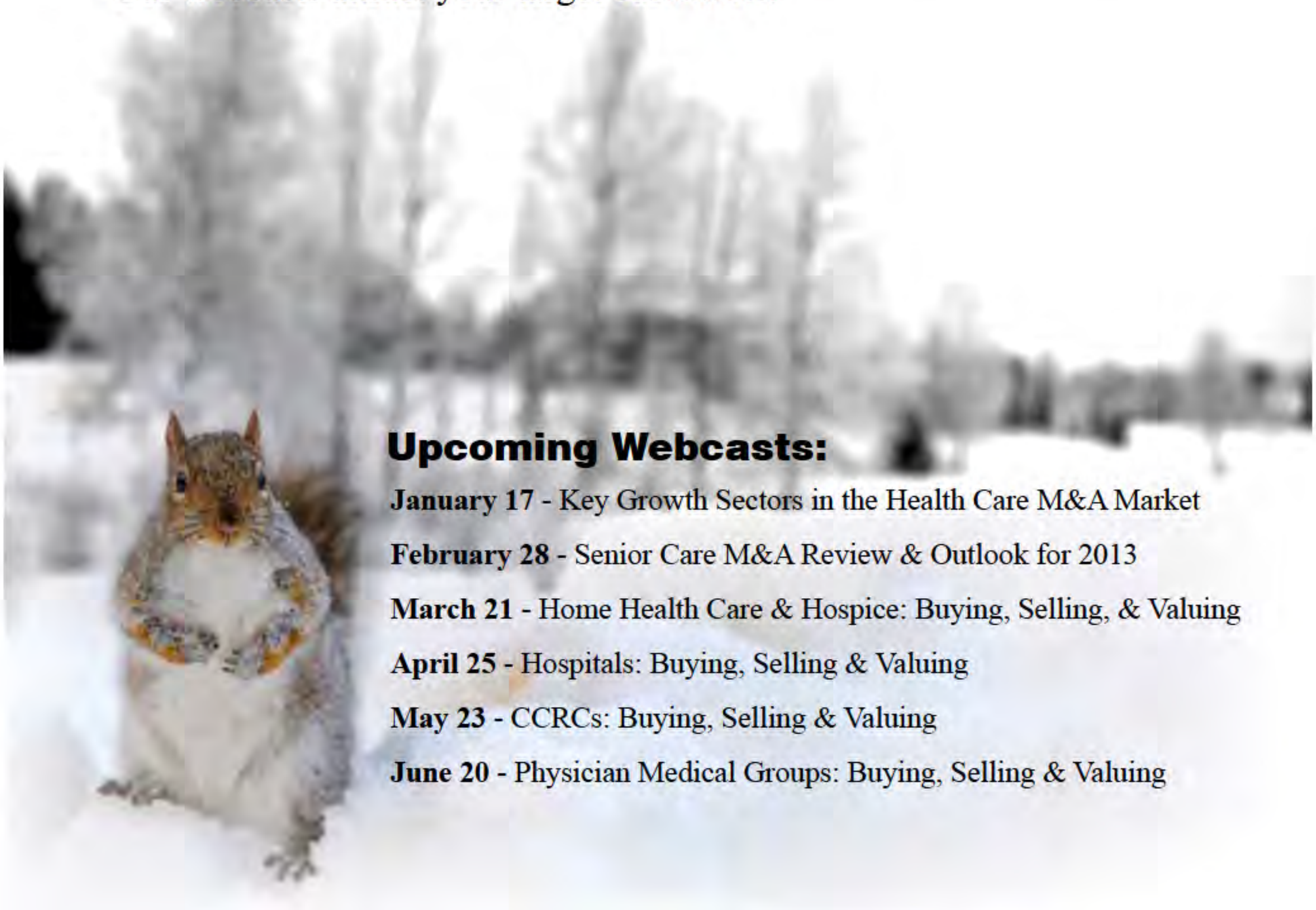

Upcoming Webcasts:

January 17 - Key Growth Sectors in the Health Care M&A Market

February 28 - Senior Care M&A Review & Outlook for 2013

March 21 - Home Health Care & Hospice: Buying, Selling, & Valuing

April 25 - Hospitals: Buying, Selling & Valuing

May 23 - CCRCs: Buying, Selling & Valuing

June 20 - Physician Medical Groups: Buying, Selling & Valuing

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Stellar Senior Living (SSL), launched last summer with a four-property acquisition, has added a fifth community. In conjunction with **Senior Housing Properties Trust** (NYSE: SNH), SSL purchased a community in Washington with 150 total units, comprised of 109 independent and assisted living units, and 41 memory care units that have 25 private rooms and 16 semi-private rooms for 57 licensed beds. In 2012, occupancy was 88% with revenues of $7.65 million. The three-story community was remodeled in 2007 and was purchased for $149,000 per unit. Last summer's acquisition was not at stabilized occupancy when it was purchased, but in six months occupancy has apparently increased by 700 basis points.

While margins may seem too low in some sales, they can also be unrealistically high in others. A case in point is the recent sale of a portfolio eight small residential care communities, mostly in rural Missouri, but all located within 70 miles of each other, which makes the management a bit easier. These eight properties were built between 2002 and 2012, with the prototype being 48 units and 21,360 square feet. Two of the campuses also have a 32-unit memory care building. The total number of units is 448 with 64 memory care, and the overall occupancy is about 90%, with four averaging 100%. One of the reasons why the occupancy is relatively high is because the rates are low. Revenues were only $6.13 million, or close to $1,500 per occupied unit. The EBITDA was $2.55 million, or a high 41% operating margin. That will not be sustainable for the new owner, a regional operator that owns several communities in Missouri, Tennessee, Mississippi, Illinois and Kansas. The purchase price was $22.5 million, or $50,200 per unit, which reflects the small size and rural nature of the locations. With the in-place cash flow, the cap rate comes to 11.3%, but when the buyer normalizes the expenses, which in this case means an extra $600,000 or more annually, the normalized cap rate would be closer to 8.0% to 8.5%. **Evans Senior Investments** represented the seller, who built and operated these properties.

Virtus Real Estate Capital, which has completed $1.65 billion in real estate acquisitions since 2003, has entered the seniors housing market with the acquisition of a 136-unit community in Michigan in a joint venture with **American House Senior Living Communities**. The community has studios, one- and two-bedroom units and was built in 2007. The community is approximately 200,000 square feet, nearly half of which is common areas, and it is licensed for 156 beds. The purchase price was $20.8 million, or $152,900 per unit, and based on trailing 12 months EBITDA, the cap rate was 8.25%.

The Month in M&A at a Glance: Health Care Services, January 2013

Sector	Deal Volume	Combined Price
Labs, MRI & Dialysis	5	$473,000,000
Long-Term Care	11	440,450,000
Other Services	10	245,393,900
Hospitals	8	158,160,000
Behavioral Health Care	4	—
Home Health & Hospice	3	—
Managed Care	0	—
Physician Medical Groups	6	—
Rehabilitation	1	—
Total	48	$1,317,003,900

Private equity firms continue to invest in the seniors housing sector. **The Carlyle Group** (NASDAQ: CG), through its **Carlyle Realty Partners VI** fund, closed on the acquisition of a 149-unit assisted living community in Oakland, California at the end of 2012. Although the property went through a $7.33 million renovation in 2008, Carlyle will invest up to $1.5 million to convert the second floor to a 27-unit memory care unit with an outdoor patio area, and the conversion of 30 studios into 15 one-bedroom units. Carlyle has hired **Integra Senior Living** to manage the property, and this is Carlyle's 32nd investment in seniors housing since 2003. **Grandbridge Seniors Housing** arranged the financing for the acquisition and renovations through its proprietary lending platform, **BB&T Real Estate Funding LLC**. No terms of the acquisition have been disclosed.

Brookdale Senior Living (NYSE: BKD) announced it purchased 12 senior living communities it had been leasing, 11 of which were purchased under option agreements that had been negotiated when the leases began. For the 12 properties, BKD paid $162.1 million, or $186,100 per unit. With a cap rate above 9.0%, this was a great repurchase for the company, and provides about $14.6 million of cash flow before debt service. Brookdale financed nine of the communities with $171.3 million of debt (much more than their acquisition values) with Freddie Mac through **CBRE**.

Skilled Nursing Acquisitions

In one interesting deal, **Trilogy Health Services** announced that it has agreed to buy **King's Daughters'**

(continued on page 13)

Deal Summaries—Services — Hospitals

TARGET	LISTING	ACQUIRER	LISTING	DATE	PRICE
Knapp Medical Center Welaco, Texas	Nonprofit	**Prime Healthcare Foundation** Ontario, California	Nonprofit	1/2/2013	$110,000,000

In Brief: Prime will purchase a controlling interest by investing $10 million in capital improvements and paying $100 million which will be used to fund a new community foundation.

Rex Knightdale property Knightdale, North Carolina	Private	**Ventas** Chicago, Illinois	NYSE: VTR	1/3/2013	$24,760,000

In Brief: The Rex Healthcare campus was owned by a joint venture of NexCore Properties and Heitman Capital Management. In addition to buying the property, Ventas inherited the 75-year land lease agreement.

Krungdhon Hospital Bangkok, Thailand	SET: KDH	**Bangkok Dusit Medical** Bangkok, Thailand	OTCBB: BDULF	1/26/2013	$23,400,000

In Brief: Bangkok Dusit Medical Services paid cash for a 24.94% stake in Krungdhon Hospital. The acquisition is in line with BGH's goal to increase the number of hospitals to 50 by 2015.

Deal Summaries—Services — Labs, MRI & Dialysis

TARGET	LISTING	ACQUIRER	LISTING	DATE	PRICE
Verinata Health, Inc. Redwood City, California	Private	**Illumina, Inc.** Canton, Massachusetts	NASDAQ: ILMN	1/7/2013	$$350,000,000

In Brief: Verinata Health is focused on developing and offering non-invasive tests for early identification of fetal chromosomal abnormalities. The deal was made for $350 million and up to $100 million in milestone payments through 2015.

BioClinica, Inc. & CoreLab Newtown, Pennsylvania	NASDAQ: BIOC	**JLL Partners, Inc.** New York, New York	Private	1/30/2013	$123,000,000

In Brief: The cash price announced was for the BioClinica acquisition. No price was disclosed for CoreLab Partners. Following the purchase, both entities will be merged to creat a provider of medical imaging services and eClinical solutions for trials.

Deal Summaries—Services — Long-Term Care

TARGET	LISTING	ACQUIRER	LISTING	DATE	PRICE
5 assisted living communities Various sites	Private	**CNL Healthcare Properties** Orlando, Florida	Private	1/10/2013	$85,100,000

In Brief: Capital Holdings sold five communities, located in Maryland and Michigan. Capital Health Group Management will manage all of them.

5 Primrose Retirement assets Various locations, Midwest	Private	**CNL Healthcare Properties** Orlando, Florida	Private	1/10/2013	$72,100,000

In Brief: The five properties involved in this deal have a combined total of 323 units, including 174 independent living units, 128 assisted living units and 21 memory care units. Primrose will continue to operate the communities under long-term lease agreements.

Grand Villa East and West Delray Beach, Florida	Private	**Senior Management Advisors** Clearwater, Florida	Private	1/14/2013	$34,000,000

In Brief: SMA and Valstone Partners are collaborating to acquire two Delray Beach communities with 370 units.

12 senior living communities Various locations	Private	**Brookdale Senior Living, Inc.** Brentwood, Tennessee	NYSE: BKD	1/15/2013	$162,100,000

In Brief: 11 communities were acquired under purchase options which became exercisable at the end of 2012.

Deal Summaries—Services — Long-Term Care (cont'd)

TARGET	LISTING	ACQUIRER	LISTING	DATE	PRICE
Overlake Terrace Retirement Redmond, Washington	Private	**Stellar Senior Living, LLC** Salt Lake City, Utah	Private	1/29/2013	$22,350,000

In Brief: Overlake Terrace is a three-story community that was remodeled in 2007. It has 109 IL and AL units, plus 41 memory care units.

Deal Summaries—Services — Other

TARGET	LISTING	ACQUIRER	LISTING	DATE	PRICE
Grass Technologies Product West Warwick, Rhode Island	NASDAQ: ALOT	**Natus Medical Inc.** San Carlos, California	NASDAQ: BABY	1/7/2013	$18,600,000

In Brief: Grass Technologies Product Group is being sold by Astro-Med to Natus, which provides healthcare products used for screening, detection, treatment, monitoring and tracking of common medical ailments in newborn care.

TARGET	LISTING	ACQUIRER	LISTING	DATE	PRICE
Healthcare Corporation Denville, New Jersey	Private	**Selway Capital Acquisition** New York, New York	OTCBB: SWCA	1/31/2013	$74,743,900

In Brief: Healthcare Corporation of America is a pharmacy benefit manager. The deal includes 6,385,000 of Selway shares plus $10 million in notes.

Additional Transactions—Services

Sector	Target	Acquirer	Date
BEHAVIORAL HEALTH CARE	Greenleaf Center	Acadia Healthcare Company	1/8/2013
	Three opioid treatment programs	Behavioral Health Group	1/8/2013
	Educare Adolescent Services Ltd.	Horizon Care	1/15/2013
	Remuda Ranch	The Meadows	1/16/2013
HOME HEALTH & HOSPICE	Puget Sound Home Health LLC	The Ensign Group	1/7/2013
	Hospice agencies in AZ and CA	The Ensign Group	1/7/2013
	Guardian Healthcare Group, Inc.	Evolution Health	1/8/2013
HOSPITALS	Pankaj Apollo Hospital	Moolchand Healthcare	1/3/2013
	MD Anderson Proton Therapy Center	Concord Medical Services Holdings	1/4/2013
	Chester County Hospital and Health System	University of Pennsylvania Health	1/11/2013
	Saint Francis Care, Inc.	Ascension Health Care Network	1/16/2013
	Elmhurst Memorial Healthcare	Edward Hospital & Health Services	1/22/2013
LABS, MRI & DIALYSIS	Six dialysis facilities	Ambulatory Services of America, Inc.	1/3/2013
	Nine dialysis centers	DaVita	1/7/2013
	Lab21 Inc.	Selah Genomics Inc.	1/8/2013
LONG-TERM CARE	Six skilled healthcare centers	National HealthCare Corp.	1/2/2013
	Five assisted living facilities	Griffin-American Healthcare REIT II	1/7/2013
	Five senior housing facilities	Healthcare REIT, Inc.	1/8/2013
	Four Springwood senior housing properties	Presbyterian Senior Living	1/8/2013
	Park Place at Heritage Village	Virtus Real Estate Capital	1/18/2013
	King's Daughter's Hospital	Trilogy Health Services	1/25/2013
PHYSICIAN MEDICAL	Two physician medical groups	MEDNAX, Inc.	1/2/2013
	Northern Valley Anethesiology, P.A.	TeamHealth	1/7/2013
	National Pain Institute	Prospira PainCare	1/8/2013
	Northeast Washington Medical Group	Providence Health Care	1/8/2013
	San Francisco Physicians Internationale	TeamHealth	1/8/2013
	OB Klinika	Progress Medical	1/23/2013
REHABILITATION	Three occupational medicine centers	U.S. Healthworks	1/2/2013
OTHER	United Seating & Mobility	ATG Rehab	1/3/2013
	BELTAS	Clinical Network Services Pty Ltd.	1/7/2013
	DXE Medical, Inc.	Sarnova, Inc.	1/7/2013
	Aureus Sciences	Elsevier	1/8/2013
	EMT, Inc.	First Call Ambulance Service	1/15/2013
	Genesis Medical Imaging	BC Technical	1/15/2013
	Triplefin	H.D. Smith	1/15/2013

January Deals Drop

(continued from page 1)

to January 2012. And last month, four sectors that reported deal activity had no announced prices: Behavioral Health Care; Home Health & Hospice; Physician Medical Groups; and Rehabilitation. (The Managed Care sector even had no announced deals last month.)

Deal volume for the services sector was down by 14.3% compared with January 2012, coming in at 48 announced deals versus 56 a year earlier. Because so many deals did not have price, deal volume remains the best measure of interest in the sector.

Technology deals made up only 35.1% of the total 74 deals in Janaury 2013. By contrast, the technology sector accounted for 49.1% of the 110 deals recorded a year ago. But there were more prices attached to tech-side deals, as is often the case. So despite the lack of a billion-dollar deal in 2013, the sector still racked up $2.58 billion for the month.

Judging by last year's pattern—a fast start followed by a much slower finish—you wouldn't be crazy to think that deal volume might just be resting up for a sprint to December 31. We'll keep you posted, either way.

Health Care Services

(continued from page 10)

Hospital's downtown location in Madison, Indiana. Trilogy plans to convert the hospital to a new senior living campus that will include IL, AL, short-term rehab and skilled nursing services. It is expected to open in early 2014, and used as a regional training center for caregivers and nurses. No financial details have been disclosed.

AdCare Health Systems (NYSE: ADK) closed on its acquisition of three skilled nursing facilities for $13.5 million, which we assume either includes closing costs or renovation costs for one facility because the individual numbers don't quite add up. Two of the facilities are in South Carolina and are ADK's first in the state. One facility in Sumter has estimated annual revenues of $6.7 million, and was purchased for $5.525 million. The other South Carolina facility is in Georgetown and has $3.8 million in revenues, and was purchased for $4.2 million. The third facility is in Oklahoma City, Oklahoma and has 88 beds and $2.4 million in revenues, and was purchased for $3.0 million, or $34,100 per bed. After it is renovated, revenues at this facility are projected to increase to $7.6 million. These acquisitions were financed with traditional bank loans.

Deal Volume, January 2012 vs. January 2013

Service sectors	Jan-12	Jan-13	% change
Behavioral Health Care	5	4	-20.0%
Home Health & Hospice	7	3	-57.1%
Hospitals	11	8	-27.3%
Labs, MRI & Dialysis	2	5	150.0%
Long-Term Care	5	11	120.0%
Managed Care	2	0	-100.0%
Physicians Medical Groups	10	6	-40.0%
Rehabilitation	2	1	-50.0%
Other	12	10	-16.7%
TOTAL	56	48	-14.3%
Technology sectors			
Biotechnology	13	5	-61.5%
eHealth	11	6	-45.5%
Medical Devices	18	8	-55.6%
Pharmaceuticals	12	7	-41.7%
TOTAL	54	26	-51.9%

Source: Irving Levin Associates, Inc., February 2013

VC and IPO News

Health care industry IPOs got off to a strong start in 2013. It may be the start of something big, as many venture capital firms are trying to edge towards the exits. That was evident in the stories surrounding **Warburg Pincus LLC**'s growing impatience with the lack of serious suitors for its **Bausch & Lomb** division. The private equity firm hired **Goldman Sachs Group** to explore a sale after several large health care companies informally expressed interest. But according to the *Wall Street Journal*, Warburg's asking price rendered the potential suitors moot. For now, it's pursuing a dual-track approach, preparing for an IPO while leaving the door open for other potential buyers.

For companies that actually made the leap, the equity markets provided a warm bath. Biopharmaceutical company **Stemline Therapeutics Inc.** (NASDAQ: STML) saw shares rise in its trading debut on January 28. The company had priced 3.3 million shares at the low end of an expected range of $10 to $12 each, but then raised the number of shares by about 1 million, bringing the offering's value to $33 million. At the end of the first trading day, shares rose 18% to close at $11.80. Stemline develops treatments that target both cancer tumors and cancer stem cells. It has two clinical stage product candidates, one to treat acute myeloid leukemia and the other is a vaccine to prevent some forms of brain cancer. **Aegis Capital Corp.** served as Stemline's lead IPO underwriter.

Diagnostics company **LipoScience** (NASDAQ: LPDX) went public on January 25, offering 5 million shares priced at $9.00 each. Trading closed at $10.80 that day, after the price hit $11.35. The company won FDA approval last September for a new test through its Vantera system to assess a patient's risk of heart disease. It hoped to raise net proceeds of $38.6 million from the IPO, and when it closed the offering on January 30, its underwriters exercised their full option to purchase an additional 750,000 shares. As a result, the net proceeds look to be about $44.9 million. **Barclays Capital Inc.**, **UBS Securities LLC** and **Piper Jaffray & Co.** acted as joint book-running managers for the offering.

On the venture capital front, health care deals stayed strong, following a sharp uptick at the end of 2012, according to **CB Insights**. In Q4:12, the company reported 164 healthcare deals pulled in a tidy $1.99 billion. And if announcements made at JP Morgan's 13th annual Healthcare Forum in early January are any indication, the pace may pick up this year. At the San Francisco summit, **GlaxoSmithKline** (NYSE: GSK) announced it had put $50 million into a $250 million life sciences fund run by **Sanderling Ventures**, with the goal of seeding new biotech startups. Not to be outdone, **General Electric Co.** (NYSE: GE) announced it was getting into the accelerator business by partnering with **StartUp Health** to run a three-year entrepreneur program for early-stage health companies. With StartUp as the day-to-day program administrator, 10 companies will be selected to have a GE mentor who will work with them on a business plan, connecting them with experts from financial, technology and marketing services.

Medical device startups were certainly under the VC microscope. **Tryton Medical** announced it had raised $24 million in equity financing as it prepares to seek FDA approval for its Side Branch Stent that treats bifurcated lesions. **PTV Sciences** led the latest and, hopefully, final round, joined by **RiverVest Venture Partners**, **Spray Venture Partners** and the **3x5 Special Opportunity Fund**.

Two-year-old **Micro Interventional Devices** raised $3.5 million of an expected $5 million Series B round. The funds are earmarked for an ongoing CE mark study for its minimally invasive surgical device, Permaseal, used during transcatheter aortic valve replacement procedures.

Neurodevice firm **SPR Therapeutics** raised $5 million in Series A funding from **NDI Healthcare Fund**, **Public Square Partners** and individual investors. The money will go to commercialize pain therapies using SPR's proprietary peripheral nerve stimulation technology. Since its founding in 2010, the company says it has raised more than $10.7 million, including $5 million in private equity and $5.7 million in non-dilutive funding in grants and loans from the **National Institutes of Health**, **U.S. Department of Defense** and the **state of Ohio**.

Healthcare IT

Healthcare IT deals also attracted a lot of VC interest in 2012. As **Mercom Capital** reported in January, 163 healthcare IT deals were funded last year, amounting to $1.2 billion—more than double the numbers reported for such deals in 2011. The highest deal flow went to practice management solution companies, with 14 deals announced, followed by electronic medical record and electronic health record companies (13). Clinical decision support and business and clinical intelligence companies reported 10 deals each.

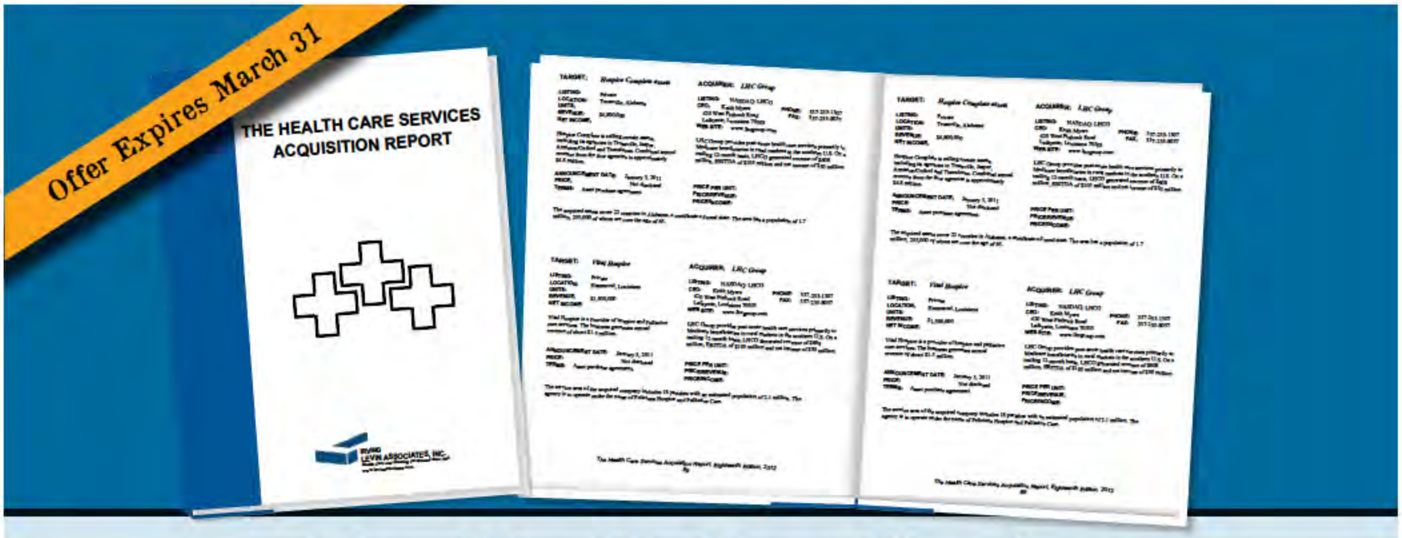
And the interest doesn't look as if it will slow down in 2013. **Norwest Venture Partners**, one of Silicon Valley's oldest VC firms, announced it has about $2 billion under management in its current fund and is most excited about healthcare IT opportunities, as well as enterprise software, data networking and IT infrastructure in general.

Some noteworthy deals announced in January include **eHealth Technologies**' $6 million Series D financing round led by **Merck's Global Health Innovation Fund**. The Rochester, New York company offers real-time reporting on referral patterns for hospitals, automating transitions of care. It integrates patient records and diagnostic images with electronic medical records.

A startup that has been working with **Cigna** (NYSE: CI) to develop a consumer-facing "digital health engagement platform"—read that as a healthcare social network and gaming site—raised $21 million in a combination of debt, options and warrants. **Audax Health Solutions** is seeking to raise a total of $45 million. Its main product is a social network that allows patients to connect with each other and consult with experts. Cigna's CIO, Mark Boxer, joined Audax's board last month.

And in a reverse course maneuver, a former founder of Facebook has launched a health IT company that has nothing to do with social networking. **Syapse Inc.**, which proclaims itself "one of the largest repositories of human molecular profiles," closed a $3 million series A round of financing led by **The Social+Capital Partnership**, a venture capital fund launched by former FB vice president Chamath Palihapitiya. Last summer the Palo Alto, California-based company launched its cloud-based Discovery platform, used primarily by diagnostics laboratories and genome sequencing platform companies.

Finally, **Intuitive Health Inc.**, located in Plano, Texas, rounded up $3.4 million. The company has worked with **AT&T** (NYSE: TK) and nonprofit health system **Texas Health Resources** to run a pilot of its cloud-based patient monitoring platform. It uses AT&T's wireless connectivity to send data from patients' personal devices—scales, pressure cuffs or pulse oximeters—to their healthcare providers, to reduce the possibility of complications that require hospital readmission. Early results showed that using the platform to monitor heart failure patients at home for 90 days after their hospital discharge reduced readmissions by 27%.



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