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In this edition...
The term arana is an aboriginal word for moon. However, some shareholders might be howling in the moonlight if US pharmacuetical Cephalon snaps up one of the best cashed up biotechs in Australia at at a bargain price. Unless of course, a superior offer is made.

The Progen-Avexa merger goes to the vote on March 11 but the battle for Progen's funds continues.

Finally Part II of our report on profitable pharma and biotech companies as at December 31, 2008, completes the edition.

The Editors

Companies Covered: AAH, APH, AVX, CBB, CGS, CMP, CLV, CYT, MVP, MSB, PGL, SRX, SDI

	Bioshares Portfolio
Year 1 (May '01 - May '02)	21.2%
Year 2 (May '02 - May '03)	-9.4%
Year 3 (May '03 - May '04)	70.0%
Year 4 (May '04 - May '05)	-16.3%
Year 5 (May '05 - May '06)	77.8%
Year 6 (May '06 - May '07)	17.3%
Year 7 (May '07 - May '08)	-36%
Year 8 (May '08 - current)	-37%
Cumulative Gain	**30%**
Av Annual Gain (7 yrs)	**17.8%**

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Biosharess

27 February 2009
Edition 301

Delivering independent investment research to investors on Australian biotech, pharma and healthcare companies.

Cephalon Takes Cheap Shot at Arana Therapeutics

Arana Therapeutics (AAH: 83 cents) has received a takeover bid from **Cephalon Inc**, a US pharmaceutical company based in Pennsylvania. Cephalon is capitalised at US$4.5 billion and reported revenues for 2008 of US$2 billion with a net profit of US$222.5 million. Cephalon held cash and cash equivalents at December 31, 2008 of US$525 million.

Cephalon is offering $1.40 for each Arana share, which values the bid at approximately $318 million or US$207 million (assuming an AUD/USD exchange rate of 65 cents). A further 5 cents per share would flow in if Cephalon receives more than 90% of acceptances from Arana shareholders.

The independent directors of the company, Robin Beaumont and Chris Harris, have recommended that the bid be accepted in the absence of a superior offer.

Arana's current cash resources are in the order of $175 million (US$114 million). Arana Therapeutics stands to receive potential but highly certain royalties until the first quarter of 2011 of $77 million (US$50 million). The bid essentially places an enterprise value on Arana Therapeutics of $70 million (US$44 million).

Cephalon has learnt from its previous foray into the Australian biotech sector, having failed to acquire **Sirtex Medical**, when it was seeking a 90% acceptance from shareholders and failed by 1% thanks to the efforts of that company's founder, Dr Bruce Gray. Whilst that stock is trading at around 50% of the Cephalon offer price, Sirtex has become a highly profitable business (see page 4) and one of the successes stories in Australian biotech. A condition of the offer from Cephalon for Arana is that it receives 50.1% acceptance from shareholders. Cephalon is already 19.9% of the way there, acquiring stock from **Start-Up Australia Ventures** and **Rockwell Securities**, at $1.40 per share. This is a successful exit for Start-Up Australia, which was an early investor in **Evogenix,** acquired by Arana in 2007.

Comments

Why the independent directors have said the bid should be accepted, qualified by 'in the absence of a superior offer' is puzzling and concerning. It is puzzling because the company is in a strong position financially and concerning because the implied enterprise value for Arana Therapeutics of US$44 million is, in our opinion, on the low side, given the range and quality of the company's assets. If in fact this is what the independent directors believe the company is worth, then there is an issue with Arana's previously stated arguments about the merits of its products and programs.

The acceptance of the bid without explanation from the independent directors as to why this is fair and reasonable offer to all shareholders is also a concern and warrants a detailed explanation from Robin Beaumont and Chris Harris.

Cont'd over

The US$44 million enterprise value is meant to reflect the value of: the ART621 program, for which trials are being conducted in rheumatoid arthritis (Phase II; 200 patients) and psoriasis (a Phase II dosing study); a proprietary protein engineering platform that has generated fee for service income on five occasions, with a sixth yet to be completed, and from which royalty streams may eventuate; ART010 for osteoporosis and bone cancer; ART150 for lung cancer; a co-development agreement with **Kyowa Hakka** for ART104 (colorectal cancer); ART123 (a new molecule targeting IL-23 /IL-12 in inflammation); a co-development agreement with **Greenovation** that covers up to five targets; and a technology licensing agreement with **Aveo Pharmaceuticals**.

Timing

Several aspects of the bid relating to timing are worth noting. The bid comes several weeks before Arana releases results of the trial of ART621 in psoriasis patients. This trial is expected to yield early and important information about the activity and therapeutic characteristics of ART621, with the potential to influence commercial development decisions and prospects for the compound. If Arana directors are aware of the Phase II ART621 psoriasis results, then those results should have been released to the market. The bid and the sale of shares by two major shareholders to Cephalon also generally coincided with Arana's annual general meeting. What is difficult to reconcile is that the bid by Cephalon, which was described as unsolicited, was in fact a genuine unsolicited bid.

Chiplin resignation becomes clearer

The resignation of CEO John Chiplin in November 2008 can now be more clearly interpreted. Chiplin was a firm believer in the value being generated at Arana and the value of the assets past the cash in the bank and the future royalty stream. His vision was to position and mould the company into a global billion dollar biotech company specialising in the antibody space. His surprise resignation in November has perhaps become clearer now. It is likely the company was put on the market at that time to allow an exit for major shareholders, a decision no doubt Chiplin would have opposed at this stage of the company's development. With the independent directors firmly supporting this bid, the question can be asked, who on the board is representing the smaller shareholders of the company, some of whom bought into the company at $1.80 a share when Arana acquired Evogenix in a mostly scrip deal for around $120 million (based on Cephalon's offer price of $1.40 a share).

Summary

The Arana bid by Cephalon is opportunistic, taking advantage of a favourable currency exchange and an unstable economic period where large investors are keen to exit to boost cash positions ahead of uncertain and turbulent economic times. However, if this is the start of a trend for the Australian biotech sector, where leading biotech companies are acquired at bargain basement prices in a market where most speculative companies trade at severely depressed share prices, then it may have dire implications for the sector. Investors will be right to question the risk/reward balance and the appeal of investing in a highly speculative sector such as biotech.

Bioshares recommendation: **Reject Offer**

Bioshares

Mesoblast – Safety Cleared from First 20 Patients in CHF Trial

Mesoblast's (MSB: 79 cents) sister company Angioblast has reported positive safety data in the first 20 patients of its leading allogeneic stem cell study in patients with congestive heart failure. Using the lowest dose of its allogeneic (off-the-shelf) stem cells, no adverse events were detected. This is an important milestone as it reinforces the safety aspect of these allogeneic cells for the first time in clinical studies for Mesoblast. It also opens the way to move into therapeutic doses of the stem cells.

The current Phase II study being conducted in the US will evaluate three doses of the stem cells: a low, medium and high dose. The doses are the same as used in sheep studies. In the low dose group, which is the dose given to the firs 20 patients, no therapeutic effect was detected in the sheep, although an effect was detected in the higher dose groups. It is not expected to deliver a therapeutic effect in the first 20 patients although there could be a surprise. Efficacy data on the low dose group is expected in the next two months.

The medium and high dose arms should be completed this year with efficacy outcomes ascertained. Up to 60 patients will be included in the trial, including a placebo group which will receive the current standard of care. The efficacy is judged at three months following treatment. Another positive outcome from this trial was the speed at which patients could be recruited, taking only three months to recruit these first 20 patients.

The treatment involves around 15-18 injections delivered with a development-stage **Johnson & Johnson** cardiac catheter. The procedure takes less than one hour to complete. The stem cells are injected into heart tissue that is assessed as being damaged (not dead) using a cardiac mapping type catheter. The patients have stage II - IV heart disease.

If the current study is successful, Angioblast will likely move into Phase III studies in around 300 patients. Another Phase II heart study is expected to start in coming months in patients who have experienced a heart attack and are implanted with a coronary stent.

Mesoblast recently teamed up with **Parkway Group Healthcare** to trial the Mesoblast stem cells to prevent or treat osteoarthritis in the knee. The Parkway group operates 15 hospitals in Asia, offering leading edge therapies to middle-to-upper class residents across Asia. According to Mesoblast, the company was approached by PGH which has been assessing available stem cell therapies. This trial will run in parallel with an Australian trial looking at using the Mesoblast stem cells for prevention of osteoarthritis in people undergoing anterior cruciate ligament (ACL) surgery following sports injuries. About 50%-60% of people who damage their ACL are expected to experience osteoarthritis 12 months after the injury.

Bioshares recommendation: **Speculative Buy Class A**

Bioshares

FY2008-09 Half Year Profit Reviews – Part 2

In Bioshares 300 we compiled summaries of half yearly results where companies reported a profitable outcome. In this edition we provide summaries and commentary on a further eight companies.

(Correction: In the the table shown last week for Atcor Medical, the net profit figure shown for H1 FY2006 should have been -$1.1 million, not positive $1.1 million as displayed.)

Ascent PharmaHealth – Hit by PBS Changes

Generic drug marketer Ascent Pharmahealth recorded a $2.2 million net profit from sales of $42 million for the half year. The company announced the acquisition of Strides Asia in February 2008 (finalised August 2008), which has meant the latest results are provided on a proforma basis to include a full six months of Strides data. While net profit grew 63% from the previous corresponding period, Australian sales were weakened by changes to the PBS for which a 25% price cut on the wholesale price of more than 70 pharmaceuticals has been introduced. (See more extensive commentary on page 5)

Ascent PharmaHealth*			CMP	$0.16
APH	Cap'n ($M)	$40	PE (Ann.)	9
	H1 FY2006	H1 FY2007	H1 FY2008	H1 FY2009
Sales ($M)			$32.2	$42.0
Change				31%
EBIT ($M)			$1.7	$2.3
Change				33%
Net Profit ($M)			$1.3	$2.2
Change				63%

*proforma results

Clover Corp – Focus on costs pays off

Nutritional food ingredients company Clover Corp saw sales dip 4% in the half year ending December 31, 2008. However, the company delivered a very strong increase in profit of 135% (pcp), booking $1.61 million in net profit. [On a calendar year basis, Clover Corp posted sales of $21.3 million, up 16% from CY2007. NPAT $3.7 million: +200%]

The company attributed its performance to a focus on high-valued products, implementation of strict cost controls and recognition of foreign exchange gains. Clover Corp has negligible debt and has built up cash reserves of $9.5 million.

Clover Corp			CMP	$0.19
CLV	Cap'n ($M)	$31	PE (Ann.)	10
	H1 FY2006	H1 FY2007	H1 FY2008	H1 FY2009
Sales ($M)	$7.0	$7.6	$9.4	$9.1
Change		8%	24%	-4%
EBIT ($M)	$0.51	$0.42	$1.14	$2.09
Change		NA	170%	84%
Net Profit ($M)*	$0.46	$0.08	$0.69	$1.61
Change		NA	756%	135%

Cogstate – Maiden profit

Cognition testing company Cogstate delivered a maiden profit of $1.3 million for the half year ending December 31, 2008. The increase in sales for the period, compared to the same period a year ago was 136%. The company recorded a net gain on foreign exchange of $0.65 million.

The company has issued full year guidance of revenue in the range of $3-$3.5 million and net profit of $1.5-1.75 million. The company expects that some weakness in sales of services for earlier stage drug trials to occur. However, this is expected to be buffered by committed larger later stage trials.

Cogstate			CMP	$0.23
CGS	Cap'n ($M)	$15	PE (Ann.)	6
	H1 FY2006	H1 FY2007	H1 FY2008	H1 FY2009
Sales ($M)*	$0.8	$1.1	$1.6	$3.9
Change		43%	47%	136%
EBIT ($M)	-$1.5	-$0.9	-$0.6	$1.4
Change		-37%	-37%	-334%
Net Profit ($M)	-$1.2	-$0.9	-$0.6	$1.3
Change		-21%	-36%	NA

Cordlife – Sales Boosted by Government Incentives

Cord blood banking company Cordlife locked in an impressive growth in sales of cord blood banking services of 63%, recording sales of $11.4 million. Net profit for a the period was $1.6 million (+997%). Growth emanated from the company's principal markets in Singapore and Hong Kong, with sales in Singapore benefiting from a government incentive program.

Cordlife			CMP	$0.28
CBB	Cap'n ($M)	$26	PE (Ann.)	8
	H1 FY2006	H1 FY2007	H1 FY2008	H1 FY2009
Sales ($M)	$3.0	$4.0	$7.0	$11.4
Change		31%	77%	63%
EBIT ($M)	-$3.54	-$3.57	$0.23	$2.68
Change		NA	NA	1082%
Net Profit ($M)	-$3.48	-$3.28	$0.15	$1.59
Change		NA	NA	997%

Compumedics – Saved by FX gains

Diagnostic equipment manufacturer Compumedics experienced a decline in sales in the latest half year period of 15%, with sales falling from $20.1 million to $17 million. However, the company did manage to post a strong profit of $2.46 million (up 52% pcp) driven by a pre-tax foreign exchange gain of $2.5 million.

Compumedics was unable to meet all the orders on its books for H1 FY2009 because of restricted working capital. The company took orders of about $19 million for the half year.

Compumedics has been focusing on building annuity style revenue businesses, which accounted for $3.4 million in sales or 20% of total sales in the latest period, compared to $2 million or 10% of sales in the previous corresponding period.

Compumedics			CMP	$0.15
CMP	Cap'n ($M)	$24	PE (Ann.)	5
	H1 FY2006	H1 FY2007	H1 FY2008	H1 FY2009
Sales ($M)	$18.1	$19.7	$20.1	$17.1
Change		9%	2%	-15%
EBIT ($M)	-$2.68	$0.95	$1.95	$2.81
Change		NA	106%	44%
Net Profit ($M)	-$3.02	$0.46	$1.61	$2.46
Change		NA	250%	52%

Medical Developments – Flat sales

Medical Developments International market the Penthrox (methoxyflurane) pain relief device in addition to other medical devices. Sales of $4.3 million were flat for the latest half year period compared to the same period a year ago. However, the company chipped in a modest increase in net profit of 6%, with NPAT of $0.45 million recorded.

Sales of Penthrox were solid whereas medical product sales were weaker for HY1 FY2009.

Medical Developments Int.			CMP	$0.20
MVP	Cap'n ($M)	$11	PE (Ann.)	12
	H1 FY2006	H1 FY2007	H1 FY2008	H1 FY2009
Sales ($M)	$3.2	$4.2	$4.3	$4.3
Change		32%	3%	0%
EBIT ($M)	-$0.16	-$0.29	$0.63	$0.65
Change		NA	NA	3%
Net Profit ($M)	-$0.16	-$0.29	$0.42	$0.45
Change		NA	NA	6%

SDI – Returns to profitability, but carries debt

After a flat performance in H1 FY2008, dental products company SDI delivered a 17% growth in sales of $25.5 million, returning a net profit of $1.43 million (-$0.65 million, pcp). Adjusted for exchange rate effects, sales grew 6.4% for the half year.

The company is carrying borrowings of $15 million, equating to a net debt to equity ratio of 28%. Similar to Blackmores, gearing ratio helps explain the company's low annualised PE ratio of 10.

SDI			CMP	$0.24
SDI	Cap'n ($M)	$28	PE (Ann.)	10
	H1 FY2006	H1 FY2007	H1 FY2008	H1 FY2009
Sales ($M)	$19.0	$21.8	$21.8	$25.5
Change		15%	0%	17%
EBIT ($M)	$1.36	$2.13	$0.04	$3.11
Change		57%	-98%	8300%
Net Profit ($M)	$0.86	$1.26	-$0.65	$1.43
Change		47%	-49%	NA

Sirtex Medical – Compelling growth story

Sirtex Medical market the SirSpheres product, which is used to treat patients after surgery for liver cancer. Product sales increased by a robust 58% for the half year period, with sales of $29.5 million a record figure. Currency effects contributed an additional $3.4 million in realised foreign exchange gains and $6.5 million in unrealised exchange gains for the period.

The net profit after tax of $10.96 million represented an increase of 914% from the same period a year ago.

Sirtex expended $8.4 million on marketing and $2.7 million on clinical trials in the half year period just ended. Sirtex Medical holds cash resources of $14.8 million and is debt free.

Sirtex Medical			CMP	$2.26
SRX	Cap'n ($M)	$126	PE (Ann.)	6
	H1 FY2006	H1 FY2007	H1 FY2008	H1 FY2009
Sales ($M)	$10.3	$14.1	$18.7	$29.5
Change		37%	33%	58%
EBIT ($M)	$2.71	$1.66	$2.20	$16.28
Change		-39%	32%	640%
Net Profit ($M)	$0.66	$0.89	$1.08	$10.96
Change		35%	22%	914%

Ascent Pharmahealth – Generics Industry Gets Tougher

Ascent Pharmahealth (APH: 16 cents) listed on the ASX in 2004 as Genepharm Australasia at 50 cents a share. It listed at a time when the generic pharmaceutical industry was very appealing, with the Duchen family at **Arrow Pharmaceuticals** enjoying great success. However the Duchens came and went quickly, selling their generic pharmaceutical business to **Sigma** for $800 million in 2005, after only six years in business, just before the arrival of the Indians and other low cost manufacturers.

Over the last three years, the generics industry has seen increased pricing competition which according to APH, has turned fierce resulting in strong discounting. This is in conjunction with a government PBS reforms which took effect at the start of August last year resulting in a 25% fall in the prices of over 70 leading generic drugs in Australia.

The Genepharm business started with access to generics from **Genepharm SA** in Greece. However, the company accelerated its growth plans by acquiring **Douglas Pharmaceuticals Australia** for $70 million. Douglas was generating an EBITDA (earnings before interest, tax, depreciation and amortisation) of $6.4 million at the time of acquisition.

Last year Genepharm acquired **Strides Arcolab**'s Australian and Asian operations for $61 million. The business was expected to generate an EBITDA of $7.4 million for FY2008. Genepharm then changed its name to Ascent Pharma Health giving the Indian company Strides Arcolab a 55% stake in APH.

The enlarged APH business was expected to then generate a combined EBITDA of $14.8 million. The acquisition of the Strides Asia and Australian operations was effective from 1st August 2008. However the first six months of the current financial year has been disappointing, generating an EDITDA of only $4.1 million (we are using the EBITDA metric because that has been the acquisition multiple used by the company). A net profit of $1.5 million was achieved, up from $1.3 million on the previous corresponding period. If non-recurring items relating to the Strides acquisition are excluded, it equates to an EBITDA of $4.76 for the first half of this year.

Even allowing for the month on July prior to the Strides acquisition, the result is disappointing. The Strides Asia business sells generics into Asia, predominantly Singapore (46% of sales), Malaysia and Hong Kong. It also sells cold, flu and pain medicines under its own brand and sells generics to Australian distributors and end users. Its subsidiary, Drug Houses of Australia, is the number one generics player in Singapore.

The disappointing half reflects the increasing competition in the Australian market and the downward pressure on margins, and the effect from the larger than expected fall in PBS wholesale generic prices.

APH is currently capitalised at $40 million. It had cash of $2.7 million at the end of last year and interest bearing liabilities of $14.4 million.

The company is trading on an annualised PE (pro forma basis) of 9 times and an EBITDA multiple of 4.2. (The Strides acquisition was made at an EBITDA of 8.8 and Douglas Pharmaceuticals Australia at 11 times EBITDA).

The company is unable to provide guidance performance for the next year due to the uncertain nature of markets it operates in. Better value with lower risk can be attained through another local pharmaceutical business, Probiotec, which anticipates continued strong growth and trades at attractive multiples (see last week's *Bioshares* 300 page 5).

Bioshares recommendation: **Switch to Probiotec (PBP)**

Bioshares

Progen Pharmaceuticals-Avexa Merger Goes to a Vote

Progen Pharmaceutical shareholders will be voting on March 11 on whether to merge with another listed biotech, Avexa. Under the terms of this merger proposal, $20 million of the approximate $70 million in funds held by Progen will be distributed to Progen shareholders at $1.10 a share (current Progen share price 80cents). The remainder of the funds will largely go towards funding Avexa's lead HIV program, which is currently in Phase III studies.

There is a contest between the Progen/Avexa boards, who support the proposed merger, and another listed company Cytopia, which is leading the offer for an alternative arrangement. In the current economic climate, funding has become scarce and Cytopia is also keen to gain access to some of the Progen funds.

In *Bioshares* view, the argument being put forward by Cytopia and 14 Progen shareholders (the Cytopia Proposal) is entirely reasonable. Given the majority of the funds held by Progen were raised specifically for a Phase III cancer drug trial that was cancelled, Progen shareholders should be given the option for a return of those funds. The proposal being put forward by the Cytopia led group is that any funds remaining would stay with Progen and the remaining shareholders could then vote on a merger with Cytopia.

To effect this, Cytopia is proposing to spill the existing board at Progen and install three independent directors on March 27. The three proposed directors are Tom Williams, Dr Damian Pethica and Robert Collins.

Comments on proposed transactions

At *Bioshares*, our role is to comment on transactions and operations of listed biotech companies in Australia. *Bioshares* is comfortable with the Cytopia proposal. Two of the three directors (Williams and Pethica) have been actively involved with the listed biotech sector in Australia. All three have a small ownership of shares in Cytopia (less than $20,000 cumulative value) and we are comfortable with their proposed appointments.

The Progen merger with Avexa makes sense for Avexa shareholders. It gives the company access to significant funding (up to $50 million) to continue its lead HIV Phase III study. However the funds will still not be sufficient to complete the Phase III program and there is a risk that the company will not be able to partner this program.

High incentive for Avexa CEO

Avexa CEO, Dr Julian Chick, will receive a bonus of $250,000 in the merged entity if there are no negative results at the 16 week testing of the lead HIV drug candidate. He will also receive 500,000 shares in the merged entity if approved by shareholders, or if not approved by shareholders, then a payment of $675,000.

It is a peculiar and large bonus incentive when arguably the major milestone warranting an incentive should be in securing a major licensing deal, which will be the largest risk going forward (given the high success rate quoted by and emphasized by the company of HIV drugs in Phase III trials).

Arbitrage investors wade in

At stake here also is an arbitrage investment action by several funds that have been buying up Progen stock at a discount to cash backing (around $1.10 a share) betting that a full cash distribution will be made to Progen shareholders for those who seek it.

Cytopia is seeking to satisfy two groups of Progen shareholders; those that want a full cash distribution and those that want to retain an investment in an oncology drug development company. The remaining funds, if only $10 million - $15 million, could give Cytopia at least three years of funding with a number of clinical shots on goal. The Avexa merger proposal offers shareholders an option in a late stage clinical program in HIV and some earlier stage assets. There is also the opportunity to continue development of PI-88 for other indications.

A complicated process

To complicate the situation, the Avexa/Progen merger proposal will be voted upon on 11 March. At least 50% of Progen votes received will need to vote in favour of this resolution. On March 27 Progen shareholders can vote on the Cytopia Shareholder Group proposals.

The first proposal to be voted on at the March 27 meeting is offering the option of a full share buyback to all Progen shareholders at $1.10 a share. However, for this first resolution to be passed, the proposed board spill and appointment of new directors must be agreed upon. The company will need to have liquid assets of at least $68 million, otherwise the buyback could be

Cont'd over

Progen-Avexa merger - from previous page

scaled back, on a pro rata basis. And if the March 11 merger proposal between Progen and Avexa is passed, then this decision needs to be rescinded.

If the proposals from the Cytopia led group are passed, then the new directors will be installed on a platform to explore a merger with Cytopia, although representing Progen shareholders.

Cytopia seeks to adjourn meeting

Cytopia was unsuccessful in having its requested meeting at the same time as the Progen/Avexa merger to be considered on March 11. The timing difference may be crucial and it is also a reasonable request to have both options voted on at the same meeting. To effect this, Cytopia and the 14 Progen shareholders will request to adjourn the March 11 meeting to the March 27 meeting day, immediately after the Cytopia proposals are considered.

Bioshares has been critical of the Progen board and management in the past. A new board at Progen would be a welcomed move. Avexa disappointed investors when the timeline and costs for its Phase III HIV trial blew out. It precipitated a fall in the share price once Avexa announced it could no longer fund the completion of the Phase III study and that a partner would be required to complete the Phase III program. That the additional funding that may become available from Progen will still not be sufficient to complete the Phase III studies leaves a funding risk for the proposed merged entity.

Cytopia is a well-qualified drug discovery and development biotech group that focuses on the oncology area. It has a development agreement with one of the world's leading pharmaceutical groups, **Novartis**, and a suite of development programs and capabilities.

Progen shareholders to decide

Bioshares encourages Progen shareholders to vote on this issue. In our view it is entirely reasonable for both proposals to be considered at the same meeting. The proposals being offered by Cytopia and its group of Progen Shareholders offer a valid alternative to the Progen/Avexa merger. In the end it will be the Progen shareholders who vote that will decide on where the surplus funds end up.

Bioshares

Bioshares Model Portfolio (27 February 2009)

Company	Price (current)	Price added to portfolio	Date added
ASDM	$0.35	$0.30	December 2008
QRxPharma	$0.25	$0.25	December 2008
Hexima	$0.39	$0.60	October 2008
Atcor Medical	$0.17	$0.10	October 2008
CathRx	$0.45	$0.70	October 2008
Impedimed	$0.50	$0.70	August 2008
Mesoblast	$0.79	$1.25	August 2008
Cellestis	$2.00	$2.27	April 2008
IDT	$1.59	$1.90	March 2008
Circadian Technologies	$0.67	$1.03	February 2008
Patrys	$0.05	$0.50	December 2007
Bionomics	$0.20	$0.42	December 2007
Cogstate	$0.23	$0.13	November 2007
Sirtex Medical	$2.26	$3.90	October 2007
Clinuvel Pharmaceuticals	$0.21	$0.66	September 2007
Starpharma Holdings	$0.20	$0.37	August 2007
Pharmaxis	$1.16	$3.15	August 2007
Universal Biosensors	$0.49	$1.23	June 2007
Biota Holdings	$0.44	$1.55	March 2007
Probiotec	$1.43	$1.12	February 2007
Peplin Inc	$0.50	$0.83	January 2007
Arana Therapeutics	$0.83	$1.31	October 2006
Chemgenex Pharma.	$0.34	$0.38	June 2006
Cytopia	$0.09	$0.46	June 2005
Acrux	$0.45	$0.83	November 2004
Alchemia	$0.15	$0.67	May 2004

Portfolio Changes – 27 Feb 2009

IN:
No changes

OUT:
No changes

How Bioshares Rates Stocks

For the purpose of valuation, *Bioshares* divides biotech stocks into two categories. The first group are stocks with existing positive cash flows or close to producing positive cash flows. The second group are stocks without near term positive cash flows, history of losses, or at early stages of commercialisation. In this second group, which are essentially speculative propositions, *Bioshares* grades them according to relative risk within that group, to better reflect the very large spread of risk within those stocks.

Group A

Stocks with existing positive cash flows or close to producing positive cash flows.

Buy	CMP is 20% < Fair Value
Accumulate	CMP is 10% < Fair Value
Hold	Value = CMP
Lighten	CMP is 10% > Fair Value
Sell	CMP is 20% > Fair Value

(CMP–Current Market Price)

Group B

Stocks without near term positive cash flows, history of losses, or at early stages commercialisation.

Speculative Buy – Class A
These stocks will have more than one technology, product or investment in development, with perhaps those same technologies offering multiple opportunities. These features, coupled to the presence of alliances, partnerships and scientific advisory boards, indicate the stock is relative less risky than other biotech stocks.

Speculative Buy – Class B
These stocks may have more than one product or opportunity, and may even be close to market. However, they are likely to be lacking in several key areas. For example, their cash position is weak, or management or board may need strengthening.

Speculative Buy – Class C
These stocks generally have one product in development and lack many external validation features.

Speculative Hold – Class A or B or C

Sell

Corporate Subscribers: Pharmaxis, Cytopia, Arana Therapeutics, Starpharma Holdings, Cogstate, Xceed Biotechnology, Optiscan Imaging, Bionomics, ChemGenex Pharmaceuticals, Circadian Technologies, Biota Holdings, Stem Cell Sciences, Halcygen Pharmaceuticals, Peplin, BioMD, Impedimed, QRxPharma, Patrys, Labtech Systems, Hexima, Tyrian Diagnostics, Mesoblast, Atcor Medical