

SPRING 2000

HealthCare

P E R S P E C T I V E S

Medical Devices

EMERGING TECHNOLOGIES
IN THE NEW MILLENNIUM



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HEALTHCARE PERSPECTIVES

Medical Devices

EMERGING TECHNOLOGIES
IN THE NEW MILLENNIUM

INTRODUCTION

The term medical device describes a wide range of products used for diagnosing and treating medical conditions. The medical device industry is a complex market force comprising numerous categories of companies. Publicly traded companies are generally divided into large capitalization and small capitalization companies. Some examples of large cap companies are Abbott Laboratories, Bausch & Lomb, and Johnson & Johnson. These companies have several divisions, which generally focus on many devices or device types (as well as other products) and garner name recognition and public attention. The small cap companies, such as Aksys, Ltd., Integ Incorporated, and Minntech Corporation, generally concentrate on one product or a group of products aimed toward a niche market. The small cap companies, combined with many one-product focused private companies, are generally classified as "Other Medical Devices" companies. This report focuses on the internal and external conditions which shape the Other Medical Devices segment of the medical devices industry.

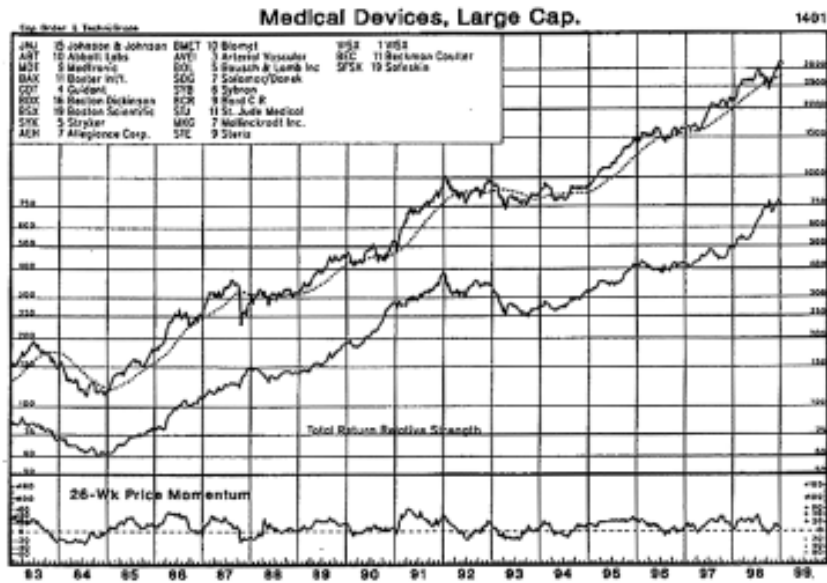
There are several indications and medical niches for which the Other Medical Devices companies have developed and are currently developing products. These include: renal disease, epilepsy, diabetes, laser vision, diagnostics, surgery, and sterilization/latex. In addition, there are companies that specialize in two or more of these areas. The initial impetus behind development of new products is consumer need. An understanding of the need for particular devices is essential to obtaining a firm grasp of the industry.

Also essential is exploration of broader market forces to understand the potential for future market growth and hindrance. These include the market trend of consolidation, an aging population in need of advancing technology, changes in FDA regulations, product liability, and reimbursement.

HEALTHCARE PERSPECTIVES

Exhibit 1

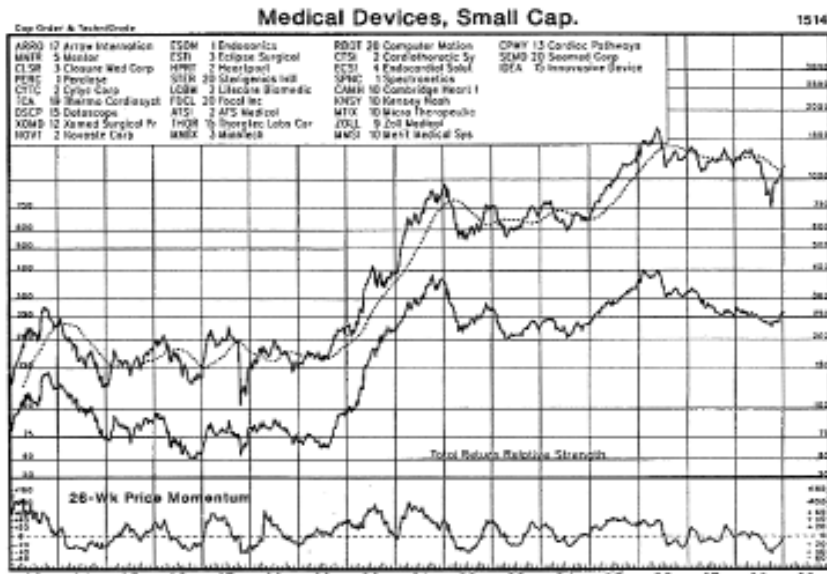
Large Cap Relative Performance: 1983-1998



Source: Piper Jaffray Inc.

Exhibit 2

Small Cap Relative Performance: 1983-1998



Source: Piper Jaffray Inc.

OTHER MEDICAL DEVICES CATEGORIES

The diseases discussed below represent the market targets of leaders in the Other Medical Devices segment.

Renal Disease

The kidneys, the major organs of the renal system, cleanse the blood by removing waste and excess fluids, maintain a healthful balance of various body chemicals, and help regulate blood pressure. When the kidneys become diseased or damaged, they can suddenly or gradually lose their ability to perform these vital functions. Waste products and excess fluid can build up inside the body, causing a variety of symptoms, particularly swelling of the hands and feet, shortness of breath, and a frequent urge to urinate.

End Stage Renal Disease (ESRD) is a condition in which kidney function gradually ceases. ESRD is chronic if not treated by dialysis or transplantation. Statistics indicate that the number of ESRD patients requiring dialysis is currently growing at a rate of 9% per year. Patients suffering from this condition require dialysis or kidney transplantation

in order to survive. However, only approximately 5% of ESRD patients are able to receive (and recover from) transplants, and even those patients require dialysis while awaiting a kidney. Therefore, there is a growing need for dialysis and the better outcomes associated with more frequent dialysis. Currently, patients must travel to an outpatient center to receive dialysis. With an at-home product, clinical outcomes and quality of life could drastically improve. One product goal in this industry is to provide at-home or transportable hemodialysis systems to ESRD patients. An example of a public company developing a personal dialysis instrument is Aksys, Ltd. The Aksys product, the Aksys PHD System, is a fully-automated personal dialysis instrument designed for use outside the traditional hospital setting, allowing for more frequent hemodialysis. VascA, Inc. is a private company which specializes in this indication (kidney dialysis fistula and needle assembly).

HEALTHCARE PERSPECTIVES

Epilepsy

Epilepsy is a neurological disorder characterized by recurrent seizures — episodes of abnormal electrical activity in almost any part of the brain. Generally, the term epilepsy (or seizure disorder) refers to relatively stereotyped attacks of involuntary behavior. The exact symptoms and severity may vary, and the seizures may occur infrequently or in rapid succession. Epilepsy is the second most common neurological disorder in the world. Approximately 600,000 individuals in the US, Europe and Japan suffer from refractory epilepsy, defined as a condition in which seizures cannot be controlled by traditional drug therapies.

A public company with a device for this segment is Cyberonics, Inc., which markets an FDA-approved medical device for epilepsy treatment. A private company with an epilepsy device is Telefactor Corp. (monitoring equipment).

Diabetes

There are two main types of diabetes, Type I and Type II. Type I was once called juvenile diabetes, but is now referred to as insulin-dependent diabetes. Type I diabetes is caused by damage to the pancreas, an

organ containing beta cells, the cells that make insulin. Insulin is a hormone which helps cells take in glucose. If glucose remains in the blood instead of going into cells, diabetes develops. In Type II (adult-onset) diabetes, or non-insulin-dependent diabetes, glucose remains in the blood, either because a person does not make enough insulin or cells "ignore" the insulin. As there is no known cure for diabetes, it is considered a chronic condition and requires monitoring and regulation of blood glucose levels. It is estimated that 16 million people in the US, 6% of the population, suffer from diabetes. Approximately 800,000 to 1 million people suffer from Type I diabetes and are the primary population base for programmable insulin pumps (a product created by MiniMed Inc., a market leader in the small cap Other Medical Devices segment). It is also estimated that 3 million Type II diabetics are insulin-dependent and also would benefit from insulin pump or patch therapy. According to the American Diabetes Association, an estimated 2,200 people are diagnosed with diabetes each day in the US, and worldwide estimates point to a total of 100 million cases. Effects of untreated diabetes include blindness,

kidney failure, and limb amputation. An important aspect of diabetes management is glucose monitoring. Most systems designed to do so require blood, thus necessitating finger sticks, generally four a day, for diabetic patients. One public company, Integ, Inc., has created a bloodless monitoring system, based on taking a small sample of interstitial fluid (ISF) from the outer layers of skin on a patient's forearm. A private company, TheraSense, Inc. has developed an FDA-approved device (as of January 2000) which is marketed as a virtually pain-free blood glucose test.

Another aspect of diabetes care for those with insulin-dependent diabetes is insulin injection. The use of a pump can eliminate the need for multiple needle sticks incurred from daily insulin injections. An industry leader, MiniMed, makes pumps which eliminate the need for multiple daily insulin injections.

Two private companies specializing in diabetes devices are Biohybrid Technologies, Inc. (biohybrid artificial pancreas) and LXN Corporation, (in-office diabetes testing equipment).

Laser Vision Correction

Photorefractive Keratectomy (PRK) was once the most popular method for correction of moderate myopia until recently, when LASIK (Laser-In-Situ Keratomileusis) surpassed PRK in popularity. Both procedures are performed with an excimer laser. An excimer laser is an ultraviolet laser which utilizes Argon and Fluorine gas to create a non-thermal, or cool beam, of laser light. This non-thermal laser beam can break molecular bonds in a process called "photoablation." In essence, the laser places the same degree of curvature provided by a person's contact lenses or glasses on top of the eye, removing the necessity for eyewear. The excimer laser is extremely precise, able to remove 0.25 microns of tissue in a single pulse; that is, 1/200th of a human hair, 1/40th of a human cell, or 39 millionths of an inch in 12 billionths of a second. LASIK has grown tremendously in popularity and is widely publicized in the media. Over a million patients have been treated worldwide. Over 70 million people in the US are myopic, or nearsighted. More than 90% of these people are in the mild or moderate category, the population which currently composes the majority of LASIK patients. Recently, ophthalmologists have taken advantage of this

HEALTHCARE PERSPECTIVES

remarkable surge in popularity to set up shop in a variety of locations, including shopping malls. The procedure is very fast and produces favorable results with a minimum recovery time.

There are several public companies which create excimer lasers, including Summit Technology, Chiron Vision Corporation, and Visx Incorporated. The Laser Research Center, a private company, also specializes in excimer lasers.

Diagnostics

The diagnostics segment includes several types of tests, including the Pap Smear, which is used to detect cervical cancer. This test is part of every woman's yearly health screening and is vital as it is the only available method to detect pre-cancerous cervical changes. The Pap Smear has been around since the 1950s. With its introduction, the death rate from cervical cancer dropped by 70%. According to National Cancer Institute Statistics, approximately 15,000 women in the US are diagnosed with cervical cancer each year.

Although this diagnostic tool has been in use for 50 years, there is new technology called

ThinPrep (Cytoc Corporation). This technology allows for a more even cellular presentation for this type of diagnostic test. A private company which makes diagnostic kits for Pap Smear (as well as sexually transmitted diseases) is Medical Packaging Corporation. Other private companies specializing in diagnostic products in areas other than cervical cancer include: MedTest Systems, Inc. (portable clinical chemistry analyzer) and Eagle Diagnostics Corporation (in vitro test kits).

Surgical Products

Companies developing and manufacturing surgical devices fill a wide variety of needs in this field. Some of the products are developed in order to improve upon current technology by minimizing invasiveness of surgery and controlling bleeding with new types of sealants and shunts, and reducing post-surgical complications such as adhesions. Surgical products generally fulfill very specific needs, although most can be used in a variety of specialties. Some examples of surgical products are discussed below.

One publicly traded leader in this segment (Focal, Inc.) makes liquid absorbable

HEALTHCARE PERSPECTIVES

surgical sealants which are being developed for use in thoracic, neurological, cardiovascular, and gastrointestinal surgery, in order to seal air and fluid leaks resulting from such procedures. Another public company in this sector (Bio-Vascular, Inc.) develops products for use in thoracic, cardiac, neurological, vascular and ophthalmic surgery, including shunts and dural repair patches.

Innerdyne, Inc., a third public company, is slightly more specialized, developing products solely for the purpose of "reducing complications of minimally invasive procedures" (company slogan). One line of products, the Step products, used for abdominal surgery, has been created to reduce injury caused by invasive procedures traditionally completed via use of a trocar. The trocar is sharp and is used with vigorous force, whereas InnerDyne's products are blunt-tipped and bladeless, thus reducing risk of injury to the abdominal tissues.

Other publicly traded companies that produce surgical products include Aaron Medical Industries, Inc. (flexible surgical lights and cauteries), American BioMed,

Inc./ Cathlab Division (minimally invasive surgical devices), and ArthroCare Corporation (surgical supplies based on novel ablation technology). Apple Medical Corp., a private company, also creates surgical devices.

Sterilization

Sterilization and infection prevention are key concepts in every field of medicine. Two public companies in this niche are discussed below.

STERIS Corporation creates a wide variety of products for health care, scientific, research, food, and industrial companies throughout the world. In health care, for example, they provide high temperature processing systems, health care decontamination systems, low temperature sterile processing systems, biohazardous waste systems, consumable systems, and specialty surgical systems. Their scope of business is large, providing systems for hospitals, doctors' offices, and labs. STERIS Corporation's business philosophy is to be the market leader in this niche, providing all products necessary to prevent infection and microbial contamination, as well as therapy support systems, products, services, and

HEALTHCARE PERSPECTIVES

technologies to health care, scientific, research, food, and industrial companies worldwide.

In contrast, Safeskin Corporation focuses primarily on latex gloves. They are the leading manufacturer of latex exam gloves for all applicable industries, including medical, dental, scientific, and high-technology. Additionally, for latex sensitive individuals, Safeskin Corporation produces non-latex gloves. A private company specializing in non-latex gloves and hypoallergenic surgical tape is Allerderm Laboratories, Inc.

Multispecialty

There are a few companies in the small cap Other Medical Devices segment which develop products for a variety of purposes, falling into several of the categories discussed above. In addition, these companies develop a variety of other niche products in areas like cancer, impotence, and dental restoration. Examples of multi-specialty companies include: Minntech Corporation, Mentor Corporation, and Lifecore Biomedical.

CURRENT MARKET TRENDS

The specific market targets of several Other Medical Devices companies provide an understanding of product development focus and niche markets. An examination of overall trends in the industry is also essential to provide a broader view of external forces shaping the market.

Consolidation

Consolidation has been one of the most recent noteworthy trends in the medical device industry. This trend creates market shifts as small companies merge with larger ones. By early 1999, the diagnostics industry primarily contained eight companies (Abbott and Roche leading the pack), which accounted for 75% of the \$19 billion market. In the second half of 1998, major acquisitions by Boston Scientific, Medtronic, Guidant, Johnson & Johnson, and Stryker allowed these organizations to achieve large market share in various areas. Johnson & Johnson-DePuy and Stryker/Osteonics-Howmedica each garnered a 25% market share in prosthetic hips and 27% and 22% of shares in prosthetic knees, respectively.

HEALTHCARE PERSPECTIVES

Consolidation activity continued throughout 1999. For example, Xomed Surgical, a leading provider of surgical products used by ear, nose, and throat surgeons, merged with Medtronic Inc., the world's leading medical technology company, at the end of 1999. This transaction was indicative of a continuing trend of large companies merging with smaller companies, strong in their own niche markets, in order to expand growth of the larger companies by expanding their product lines.

The "big players" in the industry (i.e., those with large market share) are contrasted with the smaller companies creating products for one or two indications. Instead of trying to achieve large market share in existing technologies, the smaller companies are creating new technology in niche areas. Fourteen companies of this type are highlighted at the end of this report. Several current factors are indicative of possible emergence of these companies or others as strong players in the industry in their own niche markets.

HEALTHCARE PERSPECTIVES

The Aging Demographic

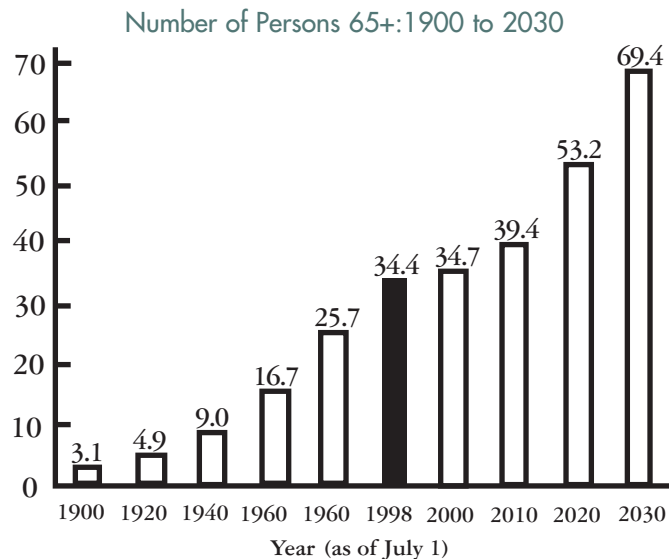
Potential growth for medical technology is closely associated with a rapidly aging population. Logically, as more people get older, there will be increasing demand for medical products. As this demographic increases, there will likely be additional demand for products created by smaller companies specializing in niche innovations.

In the US in 1998, there were 34.4 million people age 65 years or older (12.7% of the population). In addition, there is a growing subset of elderly Americans in the 85+ age group, with 4.0 million people 85 and older in 1998, representing a 33-fold increase in this population since the

beginning of the century. It is projected that in 2030 there will be 69.4 million Americans age 65 and older, representing about 20% of the population.

Not only does the aging population portend a growing need for medical technology, the payor base for medical expenses will be shifting toward Medicare. The Health Care Financing Administration (HCFA) estimates that the total expenditures for drugs and other medical nondurables will be \$124.5 billion in 2000, growing to \$223.6 billion in 2007, with an increasing share of cost paid by Medicare.

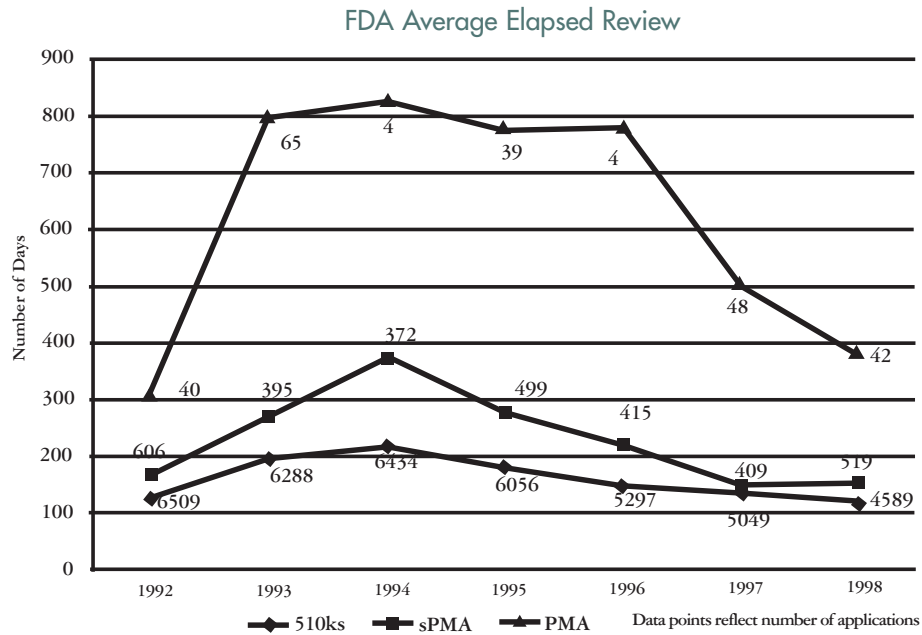
Exhibit 3



Note: Increments in years on horizontal scale are uneven.

Source: U.S. Bureau of the Census

Exhibit 4



FDA Regulations

The Food and Drug Administration (FDA) has two primary functions: regulation and enforcement. The FDA is the sole regulatory agency for the drug/device industries and imposes strict control (in the interest of public safety) on these industries. Federal control over drugs began in 1848 with the Drug Importation Act, regulating inspection of imported drugs. The 1938 Federal Food, Drug and Cosmetic (FDC) Act extended FDA's control to cosmetics and therapeutic devices. The first "modern" regulation of medical devices occurred with the advent of the Medical Device Amendments of 1976, which required device manufacturers to register with FDA and follow quality control

procedures. Finally, the passage of the Food and Drug Modernization Act (FDAMA) of 1997 was an attempt to streamline the process of approval as time to market for drugs/devices was, in the view of the industry and public, excessively long in many cases.

Thus, it is important to recognize that rapid development of technology does not directly correlate with actual use of innovations. Getting new medical technology to market is a long process, closely regulated by the FDA. The arduous process of getting new products to market has long been a hindrance for both pharmaceutical and

HEALTHCARE PERSPECTIVES

medical device companies. However, the FDA has streamlined its approval process and has markedly shortened approval times, especially for premarket approval applications (PMAs, the application for new devices) in the past few years, as illustrated in Exhibit 4.

The purpose of FDAMA was to clarify FDA focus with regard to the allocation of resources to devices that pose the greatest risk to the public and those that are most beneficial to the public. The Act also clarified the need for the FDA to base its decisions on clearly defined criteria and provide for appropriate interaction with the regulated industry. The new legislation was enacted to enhance collaboration between the FDA and industry which, in turn, should accelerate the introduction of safe and effective devices to the US.

The Modernization Act was signed into law by President Clinton on November 21, 1997. Most provisions went into effect on February 19, 1998 (90 days from enactment of the Modernization Act), while some have different effective dates or require implementing regulations. The highlights of FDAMA are summarized in Exhibit 5.

The key changes instituted by FDAMA, all beneficial to the device industry, include marked shortening of certain approval timelines, allowing dissemination of information regarding off-label use of devices (although there were some restrictions, see Product Liability section below), and easing the postmarket surveillance requirements.

Exhibit 5

Highlights of the Food and Drug Modernization Act (FDAMA)

<p>IDEs (Investigational Device Exemption)</p>	<ul style="list-style-type: none"> • Allows changes in clinical protocol without additional FDA approval for changes not affecting risk/benefit ratios, validity of data, scientific soundness of study, welfare of subjects • Allows changes in device without additional FDA approval for changes not significantly affecting design or basic principals of operation of device • FDA required to meet with Sponsor within 30 days of written request for pre-IDE meeting • FDA required to approve or deny application for Humanitarian Device Exemption within 75 (rather than 180) days of approval • Expanded access to Investigational Devices granted outside clinical trials
<p>PMA (Pre-market Approval Applications)</p>	<ul style="list-style-type: none"> • Allows data from previous studies to be submitted • Expedited review for devices representing breakthrough technology, sole treatment for indication, better alternative to existing treatments, availability in best interest of patients • Upon written request of the applicant, FDA must meet with the applicant within 100 days of submission to discuss status of PMA
<p>Premarket Notification [510(k)]</p>	<ul style="list-style-type: none"> • Exemption of Class I and certain Class II devices from 510(k) • Expanded use of third party reviewers for 510(k)s
<p>Labeling</p>	<ul style="list-style-type: none"> • Allows for dissemination of information regarding off-label use of device
<p>Postmarket Surveillance</p>	<ul style="list-style-type: none"> • Postmarket surveillance no longer required for all devices but FDA may request it for certain Class II or III devices (those implanted in body for over a year, those intended to be life saving or life sustaining and used outside a device user facility).

Source: Food and Drug Administration

Off-Label Device Use and Product Liability

Product liability illustrates the correlation between the drug/device industry and the FDA. Although FDAMA did allow for

information dissemination of off-label drug/device use, it was conditional upon manufacturers' submission of supplemental

applications to the FDA. While this requirement was ruled unconstitutional (on the basis of the First Amendment) last year in the US District Court, the FDA challenged the ruling in the US Court of Appeals for the DC Circuit in January 2000. There is much at stake for drug/device companies as many drugs and devices are currently prescribed off-label, thus generating revenue for these companies beyond projections based on approved use of these products. The market is likely to be affected if the FDA is able to restrict companies from providing off-label information to physicians. In addition, the broader implications of restriction of off-label information is that of product liability. If FDA's guidelines are reinstated, it is possible that companies will be held liable for injuries sustained by patients as a result of off-label use. This, of course, would be damaging to companies as large amounts of resources would be channeled in the direction of litigation.

Reimbursement

A primary determinant of a medical device company's prosperity is payment. Compensation is subject to the determination of government payors (e.g., Medicare) and private insurers to reimburse costs associated with procedures in which medical devices are utilized. The process of obtaining reimbursement approval from insurance carriers can be extensive.

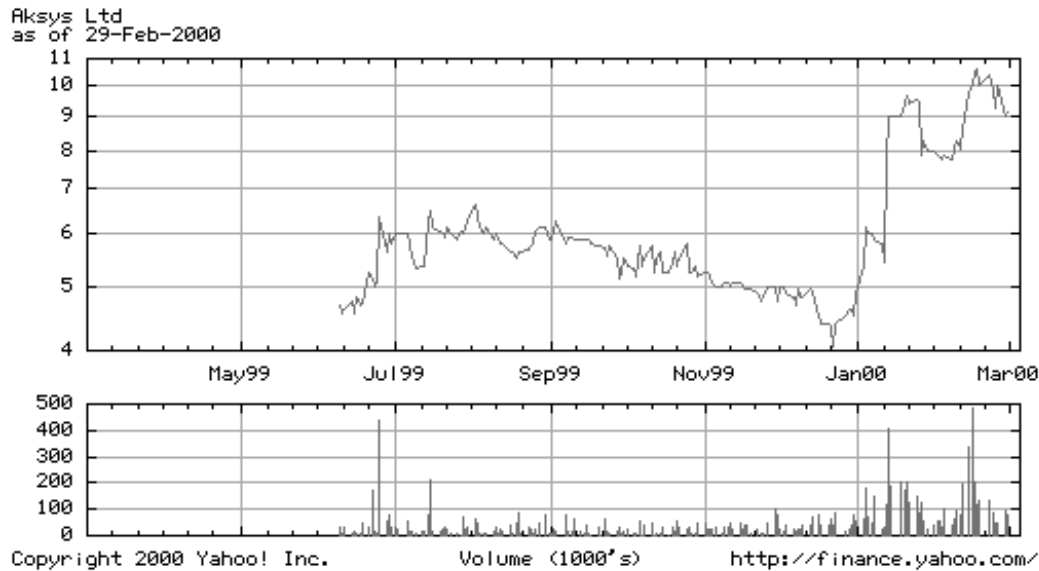
Managed care providers have become increasingly reticent in making payments. Further, based on this reticence, it is incumbent upon the medical device companies to develop hard evidence that their products ultimately reduce the cost to be borne by the managed care payor. This may be achieved by presenting results of pharmacoeconomic studies, specifically, proving cost-effectiveness of a particular device.

CONCLUSIONS

The astonishing growth in the technology industry in the past decade has led to a shift in market focus and has created an environment for technology companies to enjoy large revenues and dominate the market.

One area of technology, medical technology, has not yet realized such rapid growth, but several factors indicate that market conditions for smaller medical device companies, in particular, may create such growth in the next decade. Although large cap medical technology companies have consistently outperformed the S&P 500, those with capitalization below \$1 billion have not performed as well. However, with the advent of a rapidly aging population, continual advancement in medical technology, and niche markets, the smaller medical device companies are likely to boost performance in the near future.

HEALTHCARE PERSPECTIVES



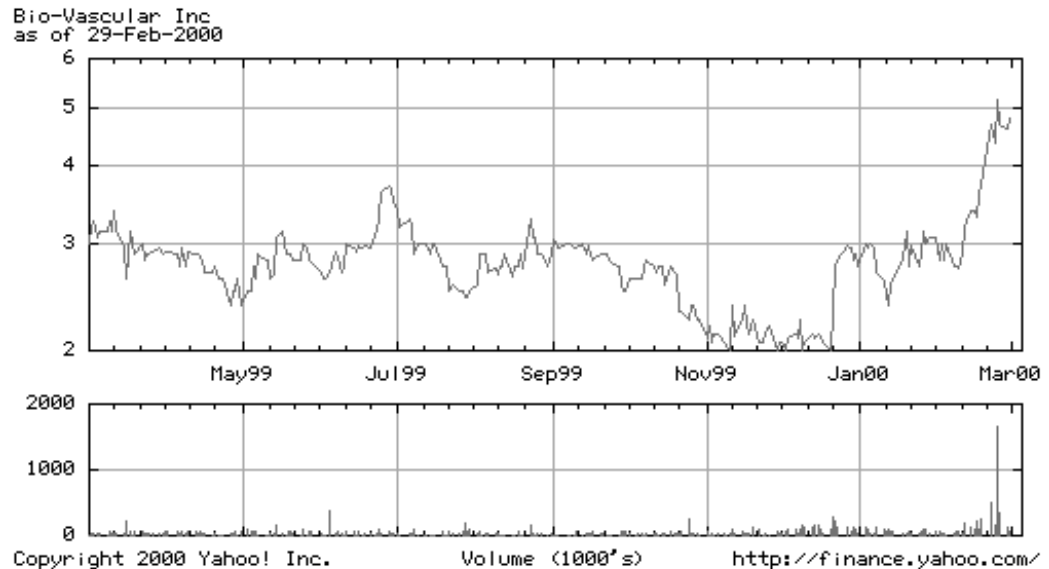
AKSYS LTD.

Aksys Ltd. provides hemodialysis products and services for patients suffering from end-stage renal disease (ESRD), commonly known as chronic kidney failure. Aksys Ltd. has developed an automated personal hemodialysis system, known as the Aksys PHD Personal Hemodialysis System (PHD System), which is designed to enable patients to perform daily hemodialysis at alternate sites, such as the patient's home, improve clinical outcomes, reduce total ESRD treatment costs, and enhance quality of life. Aksys Ltd. intends to develop a service network to provide support for patients and dialysis providers in all aspects relating to the use and maintenance of the PHD System.

Revenues rose from \$1 million to \$8.5 million for 9 months ended September 1999. Net loss decreased 41% to \$6.5 million. Results reflect the recognition of the funds related to the co-development and license agreement with Teijin Ltd., partially offset by costs required to execute the agreement.

For the 3 months ended 12/31/99, revenues were 1,133; after tax earnings were -4,806. (Preliminary; reported in thousands of dollars).

HEALTHCARE PERSPECTIVES



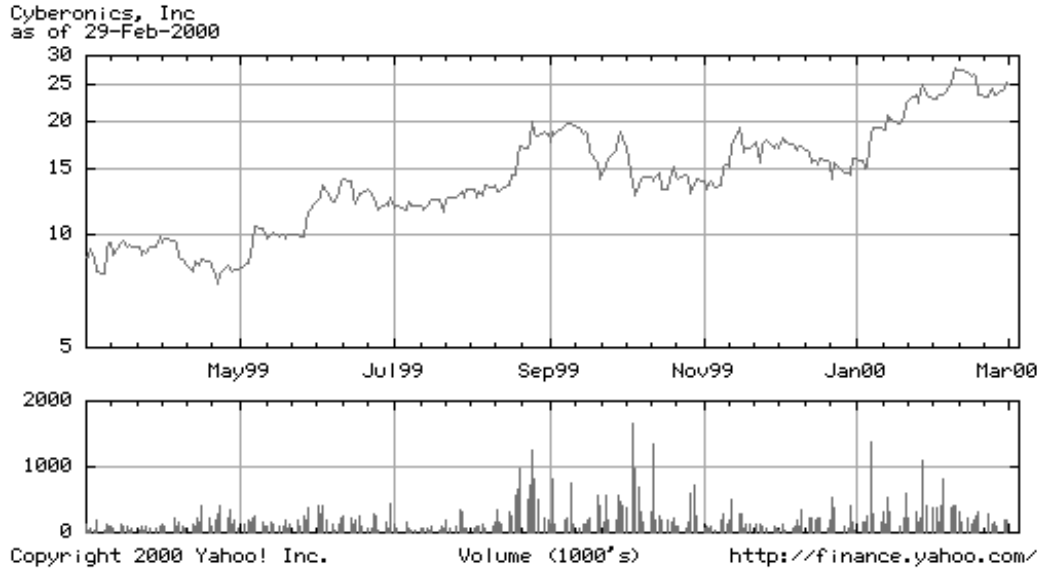
BIO-VASCULAR, INC.

Bio-Vascular, Inc. develops, manufactures and markets branded proprietary and patented specialty medical products for use in thoracic, cardiac, neurological, vascular and ophthalmic surgery. The company's branded products include the Tissue-Guard product line, the Biograft peripheral vascular graft, and surgical productivity tools used in cardiac and vascular surgery. The Tissue-Guard product line includes Peri-Strips, Peri-Strips Dry, Dura-Guard, Vascu-Guard, Supple Peri-Guard, Peri-Guard, Tissue-Guard, Supple Tissue-Guard, CV Peri-Guard and Ocu-Guard. Through the company's wholly owned subsidiary, Jer-Neen Manufacturing Co., Inc., Bio-Vascular, Inc. is a value added original equipment manufac-

turer of micro precision wire-based component products including precision coils, stylets and related wire products, and guidewire components and subassemblies used in implantable defibrillation, interventional medicine and other surgical applications within the medical industry. The company has two business segments, Branded Products and Component Products.

For the 3 months ended 1/00, revenues rose 14% to \$4.4 million. Net loss fell 59% to \$129 thousand. Revenues reflect higher sales of the Flo-Thru Intraluminal Shunt and Peri-Strips. Lower loss benefited from a higher gross margin and lower S/G/A expenses from cost control plans.

HEALTHCARE PERSPECTIVES



CYBERONICS, INC.

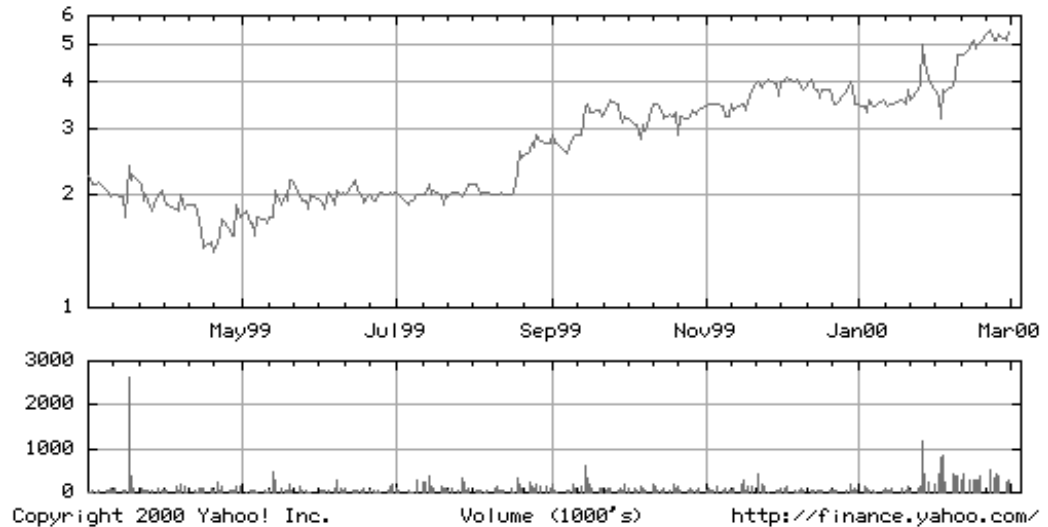
Cyberonics, Inc. designs, develops, manufactures and markets the NeuroCybernetic Prosthesis, or NCP(R) System, an implantable medical device for the treatment of epilepsy and other debilitating neurological disorders. They have also received regulatory approval to sell the NCP System in Canada, Europe and certain countries in the Far East with the broader indication of refractory epilepsy and without discrimination to patient age. They have completed a total of seven clinical studies, including five controlled acute phase studies involving over 450 patients, a long-term multi-year follow-up study involving 253 patients and a mortality study. To date,

over 4,500 patients have accumulated in excess of 3,000 patient years of treatment experience with the NCP System.

Net sales rose 66% to \$19.8 million for the 6 months ended 12/31/99. Net loss before accounting change fell 78% to \$1.9 million. Revenues reflect growth in the United States market. Lower loss also reflects an improved gross profit margin and lower general, selling, and administrative expenses.

HEALTHCARE PERSPECTIVES

Innerdyne Inc
as of 29-Feb-2000

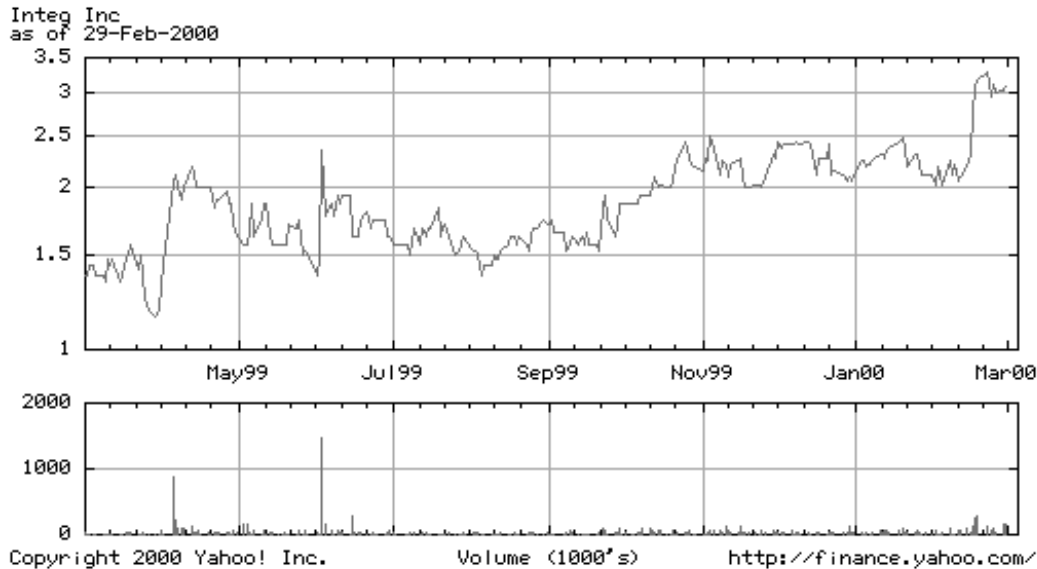


INNERDYNE, INC.

Innerdyne, Inc. is primarily focused on the development and commercialization of access products based on its proprietary radial dilation technology used to perform minimally invasive surgical (M.I.S.) procedures. Innerdyne, Inc. is evaluating the application of its radial dilation technology to enhance percutaneous access for vascular procedures. The company has proprietary technology in the areas of biocompatible coatings, radiation delivery for the treatment of stenosis and cancer, and drug attachment technologies, which it intends to continue to develop either internally or through strategic alliances.

Revenues rose 13% to \$14.8 million for the 9 months ended 9/99. Net income totaled \$917 thousand, up from \$141 thousand. Revenues reflect increased unit sales of the company's Step devices. Earnings reflect a reduction in R&D expenditures due to a transfer of the EnAbl thermal ablation program to US Surgical.

HEALTHCARE PERSPECTIVES



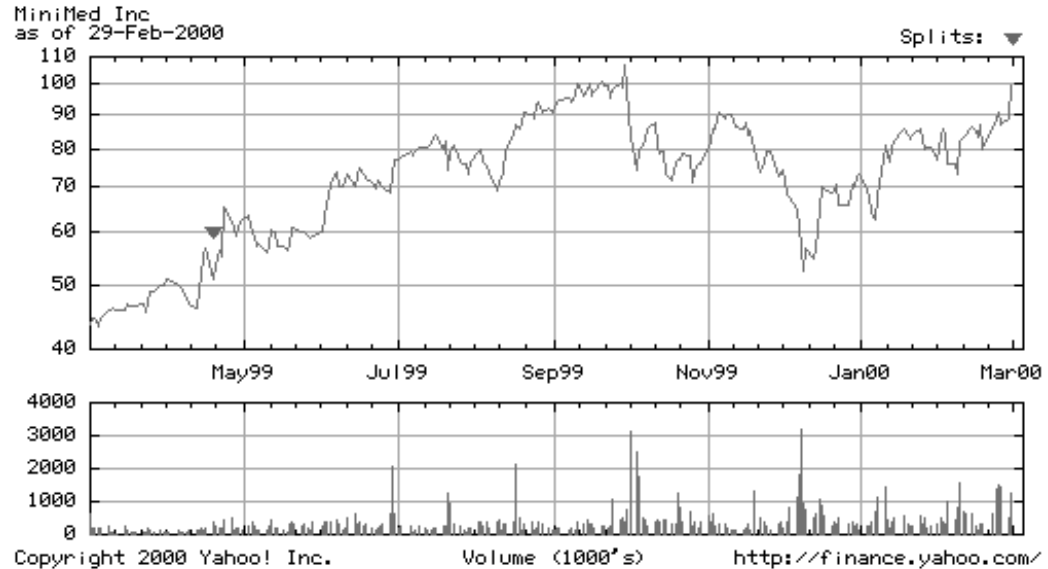
INTEG INCORPORATED

Integ, Inc. is developing the LifeGuide System, a next generation hand-held glucose-monitoring product for use by people with diabetes, which alleviates pain and blood associated with conventional "finger-stick" technologies. Utilizing the company's proprietary interstitial fluid (ISF) sampling technology, the LifeGuide System will allow people with diabetes to frequently self-monitor their glucose levels without repeatedly enduring the pain of lancing their fingers to obtain a blood sample. Integ, Inc. maintains that the proposed LifeGuide System represents a significant technological advance in glucose monitoring and will enable people with diabetes to manage their disease more

effectively and conveniently. Ultimately, Integ, Inc. expects to file a 510(k) premarket notification with the United States Food and Drug Administration for the LifeGuide System once the development of the LifeGuide System is complete.

Integ, Inc. reported no revenues for the 9 months ended 9/99. Net loss fell 32% to \$6.2 million. Lower loss reflects decreased staffing costs, pilot plant costs and decreased consulting, clinical and regulatory expenses.

HEALTHCARE PERSPECTIVES



MINIMED INC.

MiniMed Inc. designs, develops, manufactures and markets advanced microinfusion systems for delivery of a variety of drugs primarily focusing on diabetes management. The company has historically sold external insulin pumps and related disposables, which are designed to deliver small quantities of insulin in a controlled, programmable profile. The programmable external insulin pumps are thin and lightweight (about the size of a pager) and designed to be worn under the patient's clothing, on a belt, in a pocket, or elsewhere in order not to interfere with normal daily activities. MiniMed Inc. has developed an implantable pump, which to date, has been utilized only for insulin delivery. MiniMed plans to diversify

its drug delivery programs, to expand the market for insulin pumps, and to diversify into disease management and the distribution of additional diabetes products. In addition, MiniMed plans to enhance its current products related to its insulin pumps.

Net sales rose 52% to \$141.4 million for the 9 months ended 10/1/99. Net income rose 75% to \$14.5 million. Revenues reflect higher sales volumes of external pumps and related disposable products. Earnings also reflect higher gross profit due to MRG transaction.

HEALTHCARE PERSPECTIVES

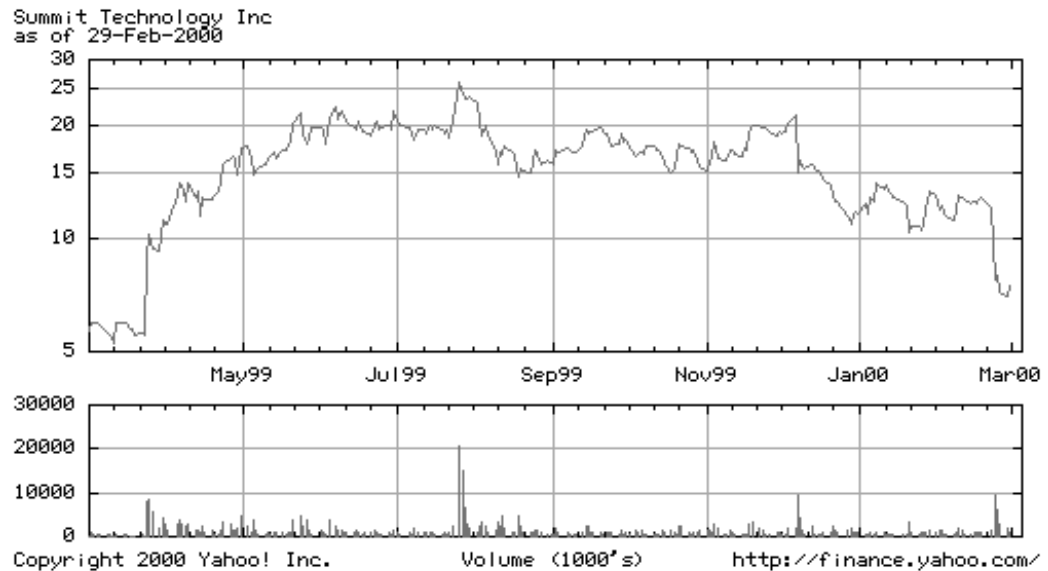


MINNTECH CORPORATION

Minntech Corporation is engaged in the development, manufacture, and marketing of medical supplies and devices, sterilants, and filtration and separation products. The company's products are used primarily in kidney dialysis and in open-heart surgery. The trade name of Minntech Renal Systems is used for products sold in the dialysis market and the trade name of Minntech is used for products sold in the cardiosurgery market. The trade name of Minntech Fibercor is used for filtration and separation products marketed to the pharmaceutical, medical, semiconductor, and biotechnology industries. This company has core technologies in electronics, fibers, plastics, and chemical solutions, all of which were internally developed.

Revenues remained flat at \$56.4 million for the 9 months ended 12/31/99. Net income decreased 24% to \$4.1 million. Results reflect an increase in dialysis concentrate sales, offset by increased R&D expenses due to the development of a second-generation endoscope reprocessing system.

HEALTHCARE PERSPECTIVES



SUMMIT TECHNOLOGY

Summit Technology, Inc. is engaged in the business of vision correction, and in the selling of contact lenses and related products.

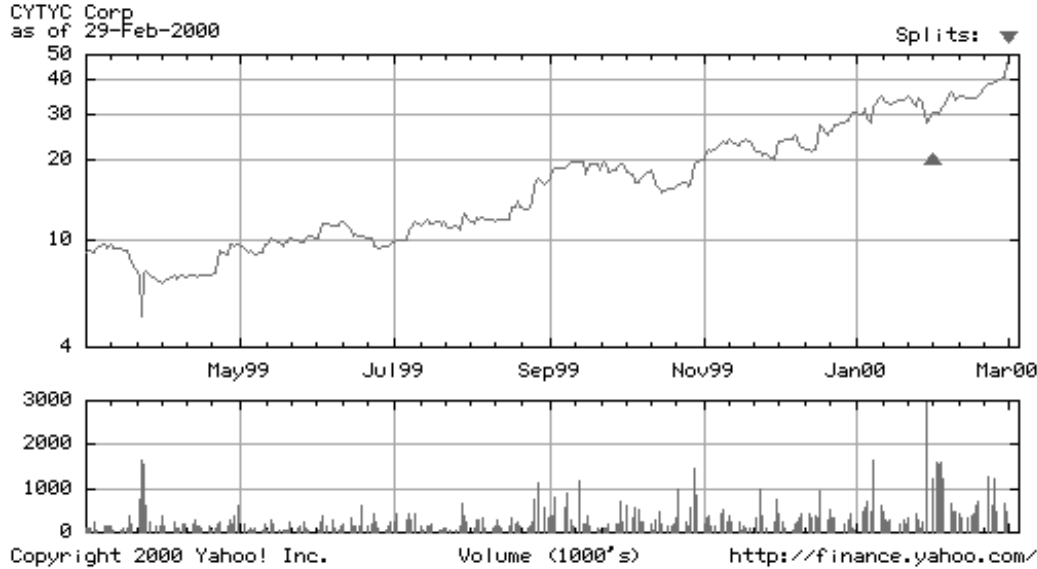
In the vision correction segment, the company develops, manufactures, sells and services ophthalmic laser systems, or Excimer Systems, and related products designed to correct common refractive vision disorders with a procedure known as Laser Vision Correction. In addition, Summit Technology services laser systems and related products to correct vision disorders and collects per procedure license fees from users of its systems. Through Lens Express, Summit Technology fulfills new orders of contact lenses and reorders of contact lenses, and is engaged in program sales, sales of eye

care solutions, lens case sales, sunglass sales, membership sales, and vitamin sales.

Total revenues rose 17% to \$81.2 million for the 9 months ended 9/30/99. Net loss before accounting change totaled \$22.2 million vs. an income of \$33.1 million. Results reflect increased license fee, disc and system revenues, offset by the absence of litigation gains.

For the 3 months ended 12/31/99, revenues were 29,904; after tax earnings were -871. (Preliminary; reported in thousands of dollars).

HEALTHCARE PERSPECTIVES



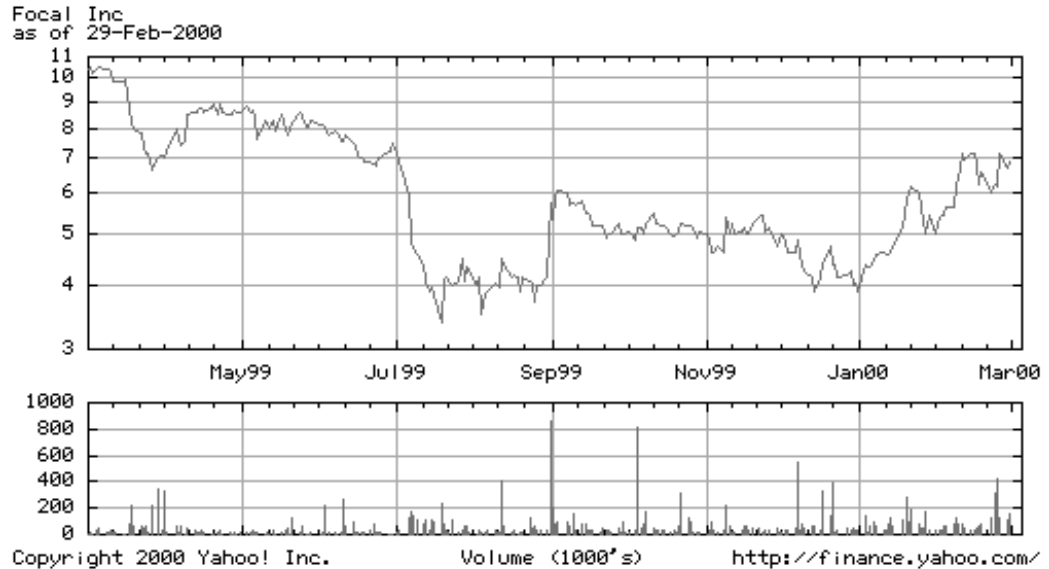
CYTYC CORPORATION

CYTYC Corporation designs, develops, manufactures and markets a sample preparation system for medical diagnostic applications. CYTYC Corporation has developed the ThinPrep system, a new method for the automated preparation of microscopic slides for cervical cell samples, intended to replace the traditional Pap smear for cervical cancer screening.

Net sales totaled \$56.4 million, up from \$29.6 million for the 9 months ended 9/30/99. Net income totaled \$2.8 million vs. a loss of \$15.4 million. Revenues reflect increased sales of Cytyc Corporation's ThinPrep Pap Test for cervical cancer screening. Earnings also reflect higher

margins due to increased sales of higher margin products.

For the 3 months ended 12/31/99, revenues were 24,733; after tax earnings were 2,863. (Preliminary; reported in thousands of dollars).



FOCAL, INC.

Focal, Inc. develops, manufactures and commercializes synthetic, absorbable, liquid surgical sealants based on proprietary polymer technology. Focal's family of FOCALSEAL surgical sealant products is being developed for use inside the body to seal leaks resulting from lung, neurological, cardiovascular and gastrointestinal surgery. Focal has developed two primary formulations of its products, FOCALSEAL-L surgical sealant and FOCALSEAL-S surgical sealant, which have absorption times that parallel long-term and short-term synthetic, absorbable polymer sutures, respectively. FOCALSEAL-L is initially being used to seal air leaks following lung surgery. FOCALSEAL-S surgical sealant will initially be used to seal cerebral spinal fluid

leaks following neurosurgery. Focal is developing other applications for the liquid formulations of its polymer technology including local drug delivery systems, synthetic coatings for vascular grafts and tissue coatings to prevent postsurgical adhesions. Revenues fell 64% to \$2.1 million for the 9 months ended 9/30/99. Net loss rose 29% to \$13.4 million. Revenues reflect lower collaborative revenue due to the funding under the alliance with Ethicon relating to the pulmonary and neurological sealants ceased after 12/98. Loss also reflects lower gross margins and interest income. For the 3 months ended 12/31/99, revenues were 1,065; after tax earnings were -3,392. (Preliminary; reported in thousands of dollars).

HEALTHCARE PERSPECTIVES

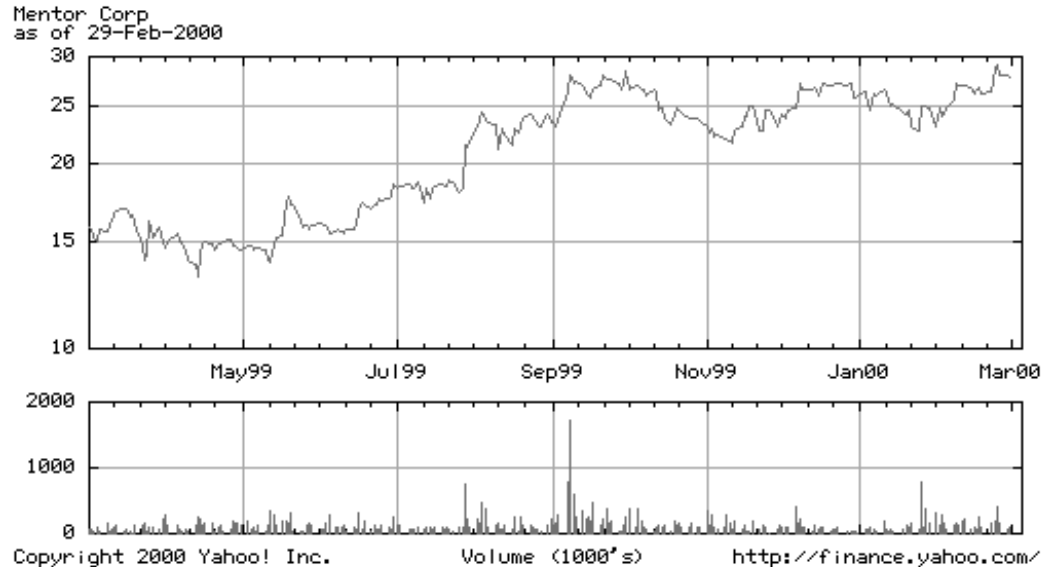


LIFECORE BIOMEDICAL

Lifecore Biomedical, Inc. manufactures biomaterials and surgical devices for use in various surgical markets and provides specialized contract aseptic manufacturing services through its two divisions, the Hyaluronate Division and the Oral Restorative Division. Lifecore Biomedical's Hyaluronate Division is principally involved in the development and manufacture of products utilizing hyaluronate, a naturally occurring carbohydrate that moisturizes or lubricates the soft tissues of the body. The Oral Restorative Division of Lifecore Biomedical markets a line of titanium-based dental implants for replacement of lost or extracted teeth.

Net sales increased 26% to \$15.7 million for the 6 months ended 12/31/99. Net income totaled \$502 thousand vs. a loss of \$142 thousand. Revenues benefited from higher sales of oral restorative products. Net income reflects lower research and development cost for human clinical trials and higher margins.

HEALTHCARE PERSPECTIVES



MENTOR CORPORATION

Mentor Corporation develops, manufactures, and markets products for the medical specialties of plastic and reconstructive surgery, general surgery and urology. Plastic surgery products include surgically implantable prostheses for cosmetic and reconstructive surgery, principally breast implants and tissue expanders. General surgery products include capital equipment and disposable products used in soft tissue aspiration. Urologic products consist of disposable products for the management of urinary incontinence, surgically implantable prostheses, principally penile implants for the treatment of chronic male sexual impotence, and brachytherapy seeds for the treatment of prostate cancer.

Revenues rose 21% to \$178.7 million for the 9 months ended 12/31/99. Net income from continuing operations rose 29% to \$20.3 million. Results reflect strong sales of urology products and the introduction of two new products, increased income, and lower interest expense.

HEALTHCARE PERSPECTIVES

SAFESKIN CORPORATION

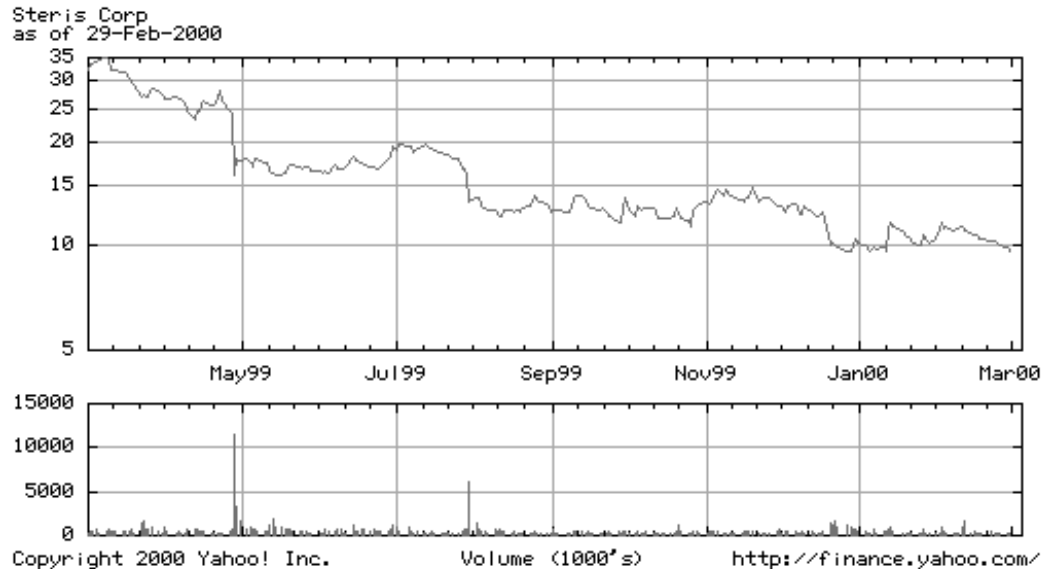
Safeskin Corporation develops, manufactures and markets disposable gloves.

The Medical Examination Gloves segment manufactures powder-free latex gloves, lightly powdered latex gloves and powder-free nitrile gloves. Powder-free gloves are manufactured utilizing a proprietary process. Safeskin's lightly powdered glove is its lowest priced glove. Nitrile medical examination gloves are made of a synthetic co-polymer that contains no latex.

The Surgical Glove segment produces powder-free latex gloves (Safeskin 2000) and Tactylon gloves. The Safeskin 2000 surgical glove is non-pyrogenic, reducing the risk of endotoxin contamination of surgical sites. Tactylon synthetic surgical gloves are constructed from a patented synthetic thermoplastic elastomer technology developed to address the needs of those who are sensitive to latex. The High Technology and Scientific Gloves segment produces latex cleanroom gloves, latex laboratory gloves and synthetic cleanroom and laboratory gloves.

Net sales fell 6% to \$161.8 million for the 9 months ended 9/30/99. Net income fell 59% to \$17.5 million. Revenues reflect a decrease in unit volumes sold by the medical division. Net income suffered from lower margins due to lower prices and product mix and higher selling expenses related to expansion into international markets.

HEALTHCARE PERSPECTIVES



STERIS CORPORATION

STERIS Corporation develops, manufactures and markets infection prevention, contamination prevention, microbial reduction, and surgical support systems, products, services and technologies for healthcare, scientific, research, food and industrial customers worldwide. STERIS is recognized as the market leader in low temperature sterilization, high temperature sterilization, washing and decontamination systems, surgical tables, surgical lights, and consumables. STERIS Corporation has expanded from its original narrow product line to become a multi-faceted global organization that serves healthcare, scientific, research, food and industrial markets. Health care products,

systems and services are used by customers to reduce or eliminate microbial contamination of surfaces with which human contact occurs. Scientific and Industrial contamination prevention and control products and services are used in the pharmaceutical, biotechnology, medical device, research, food and industrial markets.

Revenues fell less than 1% to \$570.5 million for the 9 months ended 12/31/99. Net income fell 38% to \$34.7 million. Results reflect lower Health Care and Scientific and Industrial sales, and higher selling expenses.

HEALTHCARE PERSPECTIVES

HEALTHCARE PERSPECTIVES



All financial information for the profiled companies was taken from yahoo.com. Other resources used in the preparation of this report include the following: America Diabetes Association, The Laser Center (TLC), The Food and Drug Administration (FDA), American Association of Retired Persons (AARP), Health Care Financing Administration (HCFA), National Cancer Institute (NCI), Piper Jaffray Research Reports, Prudential Research Reports, Bank of America Industry Information, and Company Information for the profiled companies.

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