

**New Venturetec  
Semi-Annual Report  
March 31, 2009**

# Contents

Disclaimer	3
Press Release – May 8, 2009	4
Investment Guidelines	5
Corporate Information	7
Performance	17
Portfolio Companies Status Reports	19
Interim Consolidated Financial Statements for the Period from October 1, 2008 to March 31, 2009	29
Appendix I Osiris Therapeutics: Risk Factors	59

# Disclaimer

New Venturetec is an investment company investing in venture portfolio companies which are in their early development stage, with no history of revenues, earnings or significant operations, and are subject to all of the risks inherent in the venture business. No investment in New Venturetec shares should be made by any person who is not in a position to bear the economic risk including the possibility of the loss of the entire amount of such investment. **The risk is 100%**

Any forward looking statements or projections made by the Company or its portfolio companies, including those made in this report, are based on management's expectations at the time they are made, and are subject to risks and uncertainties that may cause actual results to differ materially from those projected. Specifically, discussions of possible future growth and development in revenue and customers are forward looking in nature, and actual results could differ materially from current expectations. Each of the portfolio companies' future results may be impacted by factors such as technological changes, market acceptance of the companies' services and products, ability to grow its customer base, and competitive market pressures, among other things.

The shares of New Venturetec are listed on the SWX Swiss Exchange. The price per share is based on supply and demand on the market. Further, the trading of New Venturetec shares may be rather illiquid. New Venturetec does not make a market in its shares and the Company has no agreement with any market maker. No assurance can be given that any operational development of the Company or its portfolio is affecting the price of the New Venturetec shares on the market.

The current financial and economic environment is very difficult. The capital market is closed for venture companies and the tech sector is suffering from declining revenues. As a consequence portfolio companies which are in the need of cash face very unfavourable financing terms to existing shareholders – in our case Venturetec – which basically means heavy dilution and unfavourable liquidation preferences in case of a trade sale. This is only if the company is able to attract investments in the first place for which no assurance can be given that this may occur. The management of each portfolio company is advised to review expenses, cut back costs if necessary and secure cash to continue its operation. Survival is the goal.

**New Venturetec Shareholders should be aware of the risks which could result in a loss of 100% of the investment.** The crisis has its impact on small companies.

# Press Release

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## New Venturetec with a loss for the period October 1, 2008 to March 31, 2009

### Results for the six months period ending March 31, 2009

Zug, May 8, 2009. New Venturetec closed the first six months for fiscal year 2008/09, ended March 31, 2009, with a loss of USD 51'453'598 compared with a loss of USD 17'352'316 in the same period 2007/08. The net asset value per share decreased from USD 25.07 to USD 14.78 which equals -41.05% during the reporting six month period. The share price in the same period decreased from CHF 13.50 to CHF 7.26, or -46.22%.

The net loss on investments of the reporting period is USD 50'541'880 compared to a loss of USD 14'978'147 in the same period 2008. The reasons for the loss are decreases in the values of the public and the private portfolio companies. The publicly held companies were influenced by the turbulences in the financial markets. The shares of Osiris Therapeutics traded -28.45% in the reporting period, which equals a loss of USD 22'551'178. The loss on Invenda Corporation, which shares traded -85.45% in the reporting period was USD 1,187,653. On the private portfolio the investment in Iperia had to be written off which led to a loss of USD 12'131'594. Further, adjustments on the valuations of private companies were made on Healagenics with USD 7'531'220, Wstore with USD 4'100'000 and Prolexys Pharmaceuticals with USD 2'374'219. The write downs in private companies is a result of the general market conditions and lower valuations of such investments. The details on the valuation of the privately held companies are described in the semi-annual report.

As of March 31, 2009, New Venturetec had seven investments with three investments valued higher than the investment costs and four below investment costs. The total value of investments is USD 97'412'115 which results in an unrealized loss of USD 13'146'911 against the costs of the investments. As of March 31, 2009 82.90% of the total investments are in biotechnology and 17.10% in technology. The largest position is Osiris Therapeutics (NASDAQ:OSIR) with 58.84% of total investments.

There was no management fee or board remuneration paid for the reporting period but rather accrued. Total operational costs for the first half of the fiscal year 2008/09 were USD 227'450; the accrued management fee was USD 753'610.

The semi-annual report, including financial statements for the reporting period can be downloaded from [www.newventuretec.com](http://www.newventuretec.com).

New Venturetec is a publicly traded Swiss investment company (SWX:NEV) which invests directly in venture capital companies predominantly in the USA in the areas biotechnology and technology.

# Investment Guidelines

## Investment objective

The objective of Venturetec, Inc. (the Company) is to achieve long-term capital appreciation through investments in venture companies which Madison Partners SA (the Investment Manager) believes offer significant growth opportunities.

## Investment policy

The Company invests in venture companies only. The risks of venture capital investments are 100% (see also risks).

## Geographic area

The Company's investments are predominately in the United States of America. Exceptional investments may be domiciled in Europe.

## Industry focus

The Company invests in companies in the areas of biotechnology and technology.

## Investment strategy

The Company invests in venture companies in all stages from seed to late stage. Investments are made mainly in private but also in public companies and in all classes of securities, including common and preferred equity, secured and unsecured debt, convertibles, options, warrants and combinations thereof. The Company mainly invests in securities which are illiquid and are not traded on any stock markets. The investment horizon may be up to 20 years.

## Investment allocation

The purpose to invest is to build companies over a long period of time. This might result in a portfolio with only a few investments, rather than many smaller positions. It therefore might enhance the risk of a portfolio which concentrates in a small number of investments.

## Leverage

The Company may borrow capital to pursue the investment objectives.

## Hedging

The Company does not hedge any positions, investments, currencies, interests and the like. The Company does not do short selling, use of derivative instruments for the purpose of securing its investments or security lending or borrowing.

## Currency

Investments are mainly done in US Dollars. The Company is not following any defined currency ratios.

## Disinvestments

Positions held by the Company are mostly illiquid or there are legal or market driven limitations for sale or transfer of the securities, such as low liquidity in the public market, large positions, board representations, insider regulations, lock-up's and contractual sales limitations. The Company acts in the best interest of the shareholders to structure and execute disinvestments together with other shareholders and the management of the portfolio companies.

## Carry of responsibilities

The Company contracted services to the Investment Manager which are among others investment allocation, investment management and process, structuring of investments, monitoring and the disinvestments of investments. There may be a conflict of interest due to the fact that the Investment Manager manages other investment companies and represents other investors. The Investment Manager or Peter Friedli may represent the Company and other investors on the board of directors of the portfolio companies. As a Member of the board he will represent all shareholders of each company. The Investment Manager may also supply investment banking services to the portfolio companies and may be compensated for such services. Such remuneration is explicitly authorized. The investment manager may also invest personally in Portfolio Companies.

## Risk

Most of the investees are in the development stage, disclosing accumulated deficits and little or no revenues. Their ability to continue as a going concern may depend on additional funding which may cause in a dilution for holdings of the Company. These investments are offer the opportunity of significant capital gains, but involve a high degree of business and financial risk, **that can result in a 100% loss of the investment**. The Company may be limited or restricted to make disinvestments or sell or transfer any positions at any specific time and thereof risks to lose momentum or favourable market conditions.

## Change of Investment Guidelines

The Company's investment guidelines may be changed by the Board of Directors of the Company at any time in whole or in part subject to terms and conditions of agreements and contracts.

# Corporate Information

## Corporate governance

The following information completes the Semi-Annual Report in terms of Corporate Governance. New Venturetec is listed on the SIX Swiss Exchange, Symbol NEV, which requires certain disclosures on this subject. Additional information can be found in other parts of the report or on our website [www.newventuretec.com](http://www.newventuretec.com).

## Company summary

New Venturetec is an investmentholding company incorporated in Zurich on August 8, 1997. The Company is the owner of Venturetec, Inc., Tortola, BVI. Venturetec, Inc. holds participations in venture companies in the areas of biotechnology and technology which are predominantly domiciled in the USA.

The Company's business objective is to obtain capital appreciation from well selected companies that are at the forefront of technology and products in their field. The management builds positions early enough in leading technology companies with a long term investment commitment. **These investments bear a high degree of risk.**

### Venture capital

Venture Capital investing is the process of building a business from scratch. The investments of venture capital are made through different forms of securities ranging from common stock to preferred shares and convertible debt.

Venture capital can be private or public depending on the stage of the company. The company naturally evolves from its inception through generating profits if successful. In most cases several rounds of financing at different prices are conducted.

The proceeds of such financing are used for working capital to build the business as such companies still generate losses. The characteristics of a venture investment are typically of high risk, lack of a market for the securities and a long-term investment horizon. Venture capital offers the possibility of significant investment returns and attractive diversification benefits. However, no assurance can be given that such returns are realized. **The risks of venture capital investments are 100%.**

### Investment philosophy

The investment targets are carefully selected after indepth analysis of people, technology and markets. Major attention is given to management, its capability and its commitment. Taking influence on key management decisions and on strategic planning, monitoring as well as providing up-to-date reports on company progress are part of the investment management.

### Investing in New Venturetec

New Venturetec is the owner of Venturetec, Inc., which is currently holding investments in eight portfolio companies. The participations are managed to assure the best possible value creation for its shareholders. Cash from disinvestments will likely be reinvested. No capital increase is planned. The investment horizon should be up to 10 years. A shareholder is recommended to follow the development with interest and base an investment or disinvestment decision on results of the development of the portfolio companies rather than on the general capital market and the investors' sentiment. **Any investor should only invest in New Venturetec if he can afford the complete loss of the investment without having to change his lifestyle. Significant risk is involved and the timelines may exceed the expectations. In addition, the market of New Venturetec shares is very illiquid. The risks of venture investments are 100%. The total loss of the investment has to be considered as a realistic possibility.**

## Current market impact and risks

The current financial and economic environment is very difficult. The capital market is closed for venture companies and the tech sector is suffering from declining revenues. As a consequence portfolio companies which are in the need of cash face very unfavourable financing terms to existing shareholders – in our case Venturetec – which basically means heavy dilution and unfavourable liquidation preferences in case of a trade sale. This is only if the company is able to attract investments in the first place for which no assurance can be given that this may

occur. The management of each portfolio company is advised to review expenses, cut back costs if necessary and secure cash to continue its operation. Survival is the goal.

**New Venturetec Shareholders should be aware of the risks which could result in a loss of 100% of the investment.** The crisis has its impact on small companies. Unfortunately it is the second one in the life of New Venturetec after the Dotcom Burst in 2001.

We have attached risk factors of the main holding of Venturetec, Osiris Therapeutics, for your information. Please see Appendix I, page 59. The information is publicly available.

## Group structure and shareholders

The group New Venturetec comprises of New Venturetec AG and its wholly owned subsidiary Venturetec, Inc.

### New Venturetec

New Venturetec AG is a holding company established 1997 under Swiss law, domiciled in Zug. The Company is the owner of Venturetec, Inc., Tortola, BVI. New Venturetec AG is listed on the SIX Swiss Exchange (NEV). As of March 31, 2009 the Company's market capitalization was CHF 36'300'000

### Venturetec

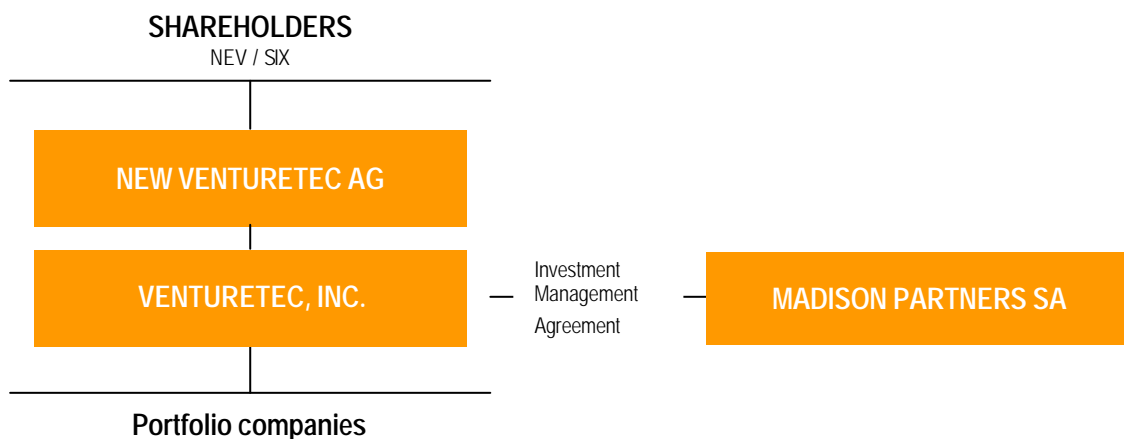
Venturetec, Inc. is a fully owned subsidiary of New Venturetec, domiciled in Tortola, British Virgin Islands, incorporated on September 11, 1996 with a share capital of USD 20,000,000. The purpose of the Company is to hold investments mainly in US high risk venture capital companies in the industries of biotechnology and technology.

The Board of Directors of Venturetec, Inc. consists of three members:

Peter Friedli,	Swiss, president
D.P. Venkatesh,	US resident, CEO of mPortal, Inc.
Luis A. Davis,	BVI resident, independent director

### Investment manager

The Investment Manager of Venturetec is Madison Partners SA, Panama with offices in the US. The Investment Manager provides management services to Venturetec on a contractual basis. For more details on the Investment Management Agreement see page 11.



### Significant shareholders

As of March 31, 2009 the following shareholders reported a holding of 3% or more of the total outstanding shares to the Company as reported to New Venturetec:

Bâloise-Holding, Basel	7.0%
Beamtenversicherungskasse des Kantons Zürich	6.4%
Pensionskasse der Credit Suisse, Zürich	4.4%
Sumara AG, Zug	3.8%

### **Cross-shareholdings**

The Board of Directors is not aware of any cross-shareholdings that exceed 3% of the capital shareholdings or voting rights on both sides.

### **Capital structure**

The Paid-in Capital is CHF 62,500,000 consisting of 5,000,000 Bearer shares with a par value of CHF 12.50 each. The shares are fully paid in. There is no authorized or conditional capital outstanding. There was no change in the capital structure for the last three years. No warrants, options, or convertible securities are outstanding. The outstanding loans are described in a separate paragraph below.

### **Shares**

Each share entitles the holder to one vote at the general assembly of the Company. There are no shares which carry preferential rights. Shareholders are entitled to the rights as set forth in the Swiss Code of Obligation.

### **Treasury stocks**

The Company does not own any of its shares.

### **Board of directors**

The Board of Directors of New Venturetec, which consists of two independent members and the Investment Manager, periodically discusses the investment holdings of Venturetec, Inc. as well as general business issues relating to its shareholders and investment outlook. The Investment Manager abstains from voting concerning any business issue between the Investment Manager and New Venturetec.

#### **Peter Friedli, president, Swiss**

Peter Friedli has been a principal of the investment banking firm Friedli Corporate Finance since 1986. Mr. Friedli has over 23 years of entrepreneurial experience as an independent investment manager in venture capital and has specialized in investments predominantly domiciled in the United States in the areas of biotechnology and technology. He has held interests in more than 170 venture companies ranging from start-up to public companies. Peter Friedli possesses an active involvement in the management of a number of those companies and also serves on the board of them. Prior to that he worked in the field of international management consulting for service and industrial companies in Europe and the United States.

Peter Friedli is a director of the following portfolio companies: Osiris Therapeutics, Inc., Inflabloc Pharmaceuticals, Inc., Prolexys Pharmaceuticals, Inc., Healagenics, Inc., mPortal, Inc..

Mr. Friedli is a founder of New Venturetec and on the Board of Directors since 1997. He is elected until the ordinary shareholder meeting 2009.

#### **Hans Lerch, vice president, Swiss**

Hans Lerch had a long time career with Kuoni Travel Holding Ltd. From 1972 – 1985 he had assignments in different locations in the Far East and thereafter various positions at the headquarter in Switzerland. From 1999 to 2005 Mr. Lerch was President and CEO of the Kuoni Group. Other significant positions were: Chairman and CEO of SR Technics, Zürich from 2005 to 2008, Chairman of the Board of Octagon Worlwide Ltd., Zürich and Member of the Board of Kühne+Nagel International, Schindellegi. Mr. Lerch is trained in trading and tourism.

Mr. Lerch is no, and has never been, member of the management of New Venturetec.

Mr. Lerch is on the Board of Directors since 2007. He is elected until the ordinary shareholder meeting 2009.

#### **Andreas von Sprecher, member and secretary, Swiss**

Andreas von Sprecher is a founding partner at the law firm Hüppi & von Sprecher. Prior to that Mr. von Sprecher worked as an attorney of law. He is involved in some entrepreneurial projects in the area of tourism and viniculture. Mr. von Sprecher graduated in Law at the University of Zurich and has been admitted to the bar of the Canton of Zurich in 1989.

Mr. von Sprecher is no, and has never been, member of the management of New Venturetec.

Mr. von Sprecher is Partner at Hüppi & von Sprecher. He is a member of the Board of Directors et al. of the Schweizerische Mobiliar Genossenschaft and SHV Interholding AG.

Mr. von Sprecher joined the Board of Directors in 2002 and is elected until the ordinary shareholder meeting 2009.

### **Elections**

The members of the Board of Directors are elected for three years, the next election will be at the General Meeting of Shareholders in 2009. Board members can be re-elected.

### **Portfolio company influence**

As board member Peter Friedli represents all shareholders on the portfolio companies' board. Venturetec itself does not have management or strategic influence.

### **Internal organization**

The board of directors constitutes itself. It appoints the chairman and the vice chairman, as well as a secretary, who is a member of the board. Meetings of the board of directors are convened by the chairman or, in his absence, by the vice chairman. Individual members of the board of directors may, stating their reasons, demand that the chairman call a meeting immediately. Prior to the meetings, the members of the board of directors receive comprehensive documentation on the agenda items to be discussed at the meeting.

The board of directors passes its resolutions by a majority of votes, whereby the chairman has the deciding vote in the event of a tie. The board of directors is quorate when the majority of its members is present at a board meeting. Resolutions may also be passed in writing or by telephonic meetings without a physical meeting of the board of directors being held. Circular resolutions must be unanimous in order to be valid.

The Board of Directors meets for several hours at least four times a year or whenever business requires. The members of the Board have regular informal discussions and reviews between the Board meetings. Six meetings of the board of directors took place in the reporting period, all of them last several hours. The full board of directors was present at all meetings. Peter Friedli visits all portfolio companies several times a year. The independent Board members are visiting the portfolio companies spontaneously.

### **Committees**

Based on the business and organizational structure of the Company the Board of Directors does not appoint any committees.

### **Responsibility**

The Board of Director is the Company's highest governing body and is also charged with supervising and monitoring the activities of the management. According to the Swiss Code of Obligations and the Article of Association of the Company the board of directors is responsible for the strategy, direction, supervision and control of the Company and its management. The Board of Directors of New Venturetec is specially responsible for the investment strategy, organizational regulations, appointing the management, financial planning and accounting policies, overall supervision and the relationship to the shareholders. Specifically with regard to the supervision and monitoring the Board of Directors receives regular reports on the Company's business, examines the annual report and semi-annual Report and the annual and semi-annual consolidated financial statements and examines the reports produced by the statutory auditors of the Company. The Board of Directors does not take any decisions on investments or disinvestments of the Company or its subsidiary.

The Board of Directors delegated the management of the Company to Venturetec, Inc. according to Art. 716b of the Swiss Code of Obligations. Venturetec, Inc. entered into an Investment Management Agreement with Madison Partners, SA. Further details on the Investment Management Agreement are described in the management section below. Any transactions which are related to the Investment Manager have to be approved by the independent members of the Board.

Madison Partners SA informs the Board on the status of the portfolio companies, investments or disinvestments, the business and the Company on a regular basis and as business requires. The members of the Board and the Investment Manager have regular informal discussions and reviews on corporate and portfolio matters between the board meetings.

## Information and control instruments

The Board of Directors adopted the investment guidelines of the Company, see page 5. Any transactions which are related to the Investment Manager have to be approved by the independent members of the board. All members of the board are visiting the portfolio companies spontaneously. The Investment Manager does not own any shares of New Venturetec nor of any portfolio companies. The Company, the board and the management strictly follows the trading and insider rules of the SIX Swiss Exchange.

In addition to the Company's comprehensive external reporting, the board discusses and reviews the financial performance, major events at portfolio companies, net asset value of the portfolio and liquidity planning at every board meeting.

## Management

Under a separate Investment Management Agreement, Venturetec, Inc. appointed Madison Partners SA, as Investment Manager with specific responsibilities with regards to the selection, purchase, sale, structure and disposal of the Group's investments. Madison Partners SA also provides corporate and administrative services, including accounting, reporting, regulatory services and investor relations to the Company. It executes and implements resolutions taken by the Board.

The key points of the Investment Management Agreement are:

- the Investment Manager has the power and authority to select, conduct due diligence, determine time and kind of purchase and structure of any investments or disinvestments on behalf of the Company
- the Investment Manager has the power and authority to monitor, control and manage the assets of the Company. He also exercises any rights, including voting rights on the portfolio companies on behalf of the Company
- the Investment Manager has sole power and authority for the disposal of cash or any assets whether it is for investment purposes or any other use including but not limited for corporate purposes
- the Investment Manager has power and authority to create reporting procedures in a manner consistent with the applicable law and the investment perspectives of the Company
- the Investment Management Agreement can be terminated by each party with a one year notice to the end of the following calendar year
- nothing contained in the Investment Management Agreement shall prevent the Manager or any affiliated person or entity of the Manager, including the Board of Directors from acting as Investment Manager for any other person, firm, corporation, or other entity and shall not in any way bind or restrict the Manager or any affiliated person or entity from buying, selling or trading any securities or options on such contracts for their own accounts or for the accounts of others for whom they may be acting. Nothing in the Investment Management Agreement shall limit or restrict the right of any director, officer, or employee of the Manager to engage in any other business or to devote his time and attention to the management or other aspects of any other business whether of similar or dissimilar nature, including investment banking services to portfolio companies. The Manager may be compensated for such services. Furthermore, the Company is aware and agrees to the Investment Manager's investment banking and / or consulting services provided to certain portfolio companies, if and when needed and approved by the independent directors of such companies and the remuneration thereof, if any. For further information please see Conflict of Interests on page 12.

## Management and performance fees

According to the Investment Management Agreement, management fees payable to the Investment Manager are calculated at 1.5% per annum on the Group's net asset value as estimated by the Investment Manager payable quarterly. Another 0.5% can be used for investor relation services and other external costs directly related to the investment management activities.

In addition, the management agreement provides a performance fee equal to:

- 12% of the percentage points exceeding 15% of the compounded annual return to investors calculated on the basis of the net asset value, multiplied by the net amount of realized profit and loss; or
- 12% of the net amount of realized profit and loss, if the compounded annual return to investors is 20% or higher

The performance fee is payable annually based on the audited financial statements, if the conditions are met, in the form of shares of the Company, cash, or a combination thereof at the discretion of the Investment Manager. 94% of

the performance fee is paid to the Investment Manager and 6% to the members of the Board of Directors (excluding Mr. Friedli). No performance fee has been paid out since inception of the Company.

Since the third quarter 2003, the management fee has not been paid out to the Investment Manager but rather accrued. The management fee accrued for the first half of the fiscal year 2008/09 is USD 753,610.

The total management fees accrued per March 31, 2009 are USD 9,692,891, which consists of notes in the amount of USD 8,939,281 and USD 753,610 which is accrued. Please see "Related Party Transactions" on page 13 and note 9, page 49.

## Change of board of directors and Investment Management Agreement

If the general assembly decides at any time to change the Board or vote against the proposal of the Board in order to elect directors other than the current members or to terminate or change the duties or scope of the Investment Management Agreement with Madison Partners SA, all the loans with the Investment Manager and Peter Friedli and all amounts due and accrued through the end of the period for which the contract could be terminated are due and payable in cash within five (5) days of the occurrence of a change of control. The calculation for the amount from the date of the change of control through the end of the life of the agreement is the same amount as accrued in the equal previous time period.

The guarantee of Mr. Friedli for the bank loan of Venturetec as described on page 13 will be cancelled immediately in case of a change of control and the bank loan would be due immediately.

## Conflict of interests

Peter Friedli, President of New Venturetec AG, is a Member of the Board of the majority of the portfolio companies. As such, Mr. Friedli represents all shareholders of each portfolio company. Any related party transaction is approved by the Board of the portfolio company with Mr. Friedli abstaining from any vote or as directed by corporate counsel. Madison Partners SA, of which Peter Friedli is President, may provide investment banking services to portfolio companies if and when needed and approved by the independent Board of such companies and may be compensated for such services. The Investment Manager is explicitly authorized to conduct investment banking and / or consulting services to portfolio companies at its own terms if and when needed. The Investment Manager may be paid for such services by the portfolio company including if Venturetec invests in said portfolio company. New Venturetec or Venturetec, Inc. shall not have the right or claim to such payment. The Investment Manager performs services in connection with any payment by the portfolio company to the Investment Manager. Peter Friedli may also personally invest in portfolio companies at market terms. New Venturetec benefits from such investments. Through the effort and services of Madison Partners SA for portfolio companies, New Venturetec benefits. New Venturetec has also benefited from the loans, which are provided by Mr. Friedli.

Further conflicts may arise in the course of doing business from time to time. We are committed to solve them in the best interest of New Venturetec.

## Related party transactions

The management fee for the reporting period has not been paid but rather accrued.

The remuneration of the Board of Directors for the reporting period was total USD 45,995 which has been accrued. Mr. Friedli is not remunerated for serving on the Board. The Board of Directors reviews and defines the remuneration of the Board Members. The management and performance fee arrangement between the Company and Madison Partners SA are set forth in the Investment Management Agreement and described on page 11.

## Shareholdings

Peter Friedli: holding per March 31, 2009: 103,381 shares. No trading during the reporting period.

Hans Lerch: holding per March 31, 2009: 5'000 shares. No trading during the reporting period.

Andreas von Sprecher: holding per March 31, 2009: 3,000 shares. No trading during the reporting period.

Madison Partners SA does not own and never has owned any shares of the Company.

No transactions occurred between the directors, former directors, the Investment Manager and New Venturetec other than those described in this report.

## Loans

Notes payable to related parties are listed in the tables below. Please see note 13.3 on page 53 for further details.

### Promissory notes payable to Peter Friedli as of March 31, 2009

USD	7,679,749	Accrued management fee	4%	30.11.2009
USD	872,366	Loan from Peter Friedli to Venturetec	3%	30.11.2009
CHF	2,816,269	Loan from Peter Friedli to Venturetec	3%	30.11.2009
CHF	7,273,041	Costs related to the Basilea loan investment made by Peter Friedli	3%	30.11.2009

### Promissory note payable to Madison Partners SA as of March 31, 2009

USD	1,259,532	Accrued management fee	4%	30.11.2009
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If the General Assembly decides at any time to change the Board or vote against the proposal of the Board in order to elect directors other than the current members or to terminate or change the duties or scope of the Investment Management Agreement with Madison Partners SA, all the loans with the Investment Manager and Peter Friedli and all amounts due and accrued through the end of the period for which the contract could be terminated are due and payable in cash within five (5) days of the occurrence of a change of control. The calculation for the amount from the date of the change of control through the end of the life of the agreement is the same amount as accrued in the equal previous time period.

The loans can be redeemed at any time at the discretion of the Board.

The guarantee of Mr. Friedli for the bank loan of Venturetec as described below will be cancelled immediately in case of a change of control and the bank loan would be due immediately.

### Proceeds from the loan of the investment in Basilea Pharmaceutica

The following net proceeds realized have been gained through the CHF 20,000,000 loan from Peter Friedli for the investment in Basilea Pharmaceutica:

Realized proceeds	CHF	92,492,116
Loan Principal	CHF	20,000'000
<u>Interest and costs</u>	<u>CHF</u>	<u>17,565,836</u>
Realized net proceeds to Venturetec	CHF	54,926,280

### Net contribution of Mr. Friedli to New Venturetec since inception

Due to the favourable terms of the loan from Mr. Friedli to New Venturetec for the Basilea investment and its realized net proceeds to New Venturetec of CHF 54,926,280, the total net remuneration from New Venturetec to Peter Friedli and the Investment Manager is negative by USD 27,008,525 because the total paid and accrued management fee is less. In other words, Mr. Friedli contributed to New Venturetec on a net basis USD 27,008,525 since inception. This does not include any equity Mr. Friedli holds. He owns 103,381 shares of New Venturetec bought at an average price of CHF 33.00. Mr. Friedli never sold any New Venturetec shares.

### Guaranteed bank loan

The Company is holding a bank credit line up to USD 4'500'000. This credit line is guaranteed by Peter Friedli. Venturetec entered into a security agreement with Peter Friedli to cover any potential losses Mr. Friedli might occur through this guaranty with all assets of the Company. All costs Mr. Friedli may bear directly by providing the guaranty to the Company shall be carried by the Company. In case of a change of control the guarantee is immediately withdrawn and the loan due by Venturetec.

### Accrued management fee

Since the third quarter 2003, the management fee has not been paid out to the Investment Manager but rather accrued. The management fee accrued for the first half of the fiscal year 2008/09 is USD 753,610. The total management fees accrued per March 31, 2009 are USD 9,692,891, which consist of notes in the amount of USD 8,939,281 and USD 753,610 which is accrued. Please see table "Promissory notes payable" above.

### **Highest total compensation**

The highest total compensation received by a member of the Board of Directors in the reporting period is USD 45,995. This amount has been accrued for the first half of the fiscal year 2008/09.

## **Shareholders' participation rights**

The Company follows the Swiss Code of Obligations regarding the convening of shareholder meetings. New Venturetec does not have any voting restrictions at shareholder meetings and follows the one share – one vote principle. There are no restrictions on the participation rights of any shareholders at the meetings.

### **Voting**

A physical share certificate or a confirmation of a depository that the shares are held and blocked until the day of the shareholder meeting allows a shareholder to vote at the shareholder meeting. Proxy for voting can be given to depositories or to any person, who does not have to be a shareholder of the Company. The Shareholder Meeting takes decisions with the majority of the present shareholders, except of special quorum for certain resolutions as set forth in the Swiss Code of Obligations. The Article of Association of the Company does not require higher quorum for any other resolutions.

### **Agenda and proposals**

The Board of Directors defines the agenda of a shareholder meeting and publishes it in the Swiss Official Gazette of Commerce at least 20 days before the shareholder meeting. Shareholders, who hold shares with an aggregated amount of at least CHF 1'000'000, have the right to put any item on the agenda by written request to the Board of Directors. Such items have to be received by the Board of Directors in time to follow the rules of the publication of the agenda. Proposals regarding items, which are not included in the agenda, can be discussed upon the motion of the shareholders but not be voted at the shareholder meeting, except for motions as set forth in the Swiss Code of Obligations.

## **Change of control and defence measures**

### **Opting-up clause**

According to Art. 6 of the Articles of Association of the Company the opting-up is at 49%.

### **Change of control**

If the general assembly decides at any time to change the board or vote against the proposal of the board in order to elect directors other than the current members or to terminate the investment management agreement or change the duties or the scope of the Investment Management Agreement with Madison Partners SA, all the loans with the Investment Manager and Peter Friedli and the accrued and due management fees as defined thereafter will be immediately due within 5 days.

The guarantee of Mr. Friedli for the bank loan of Venturetec as described on page 13 will be cancelled immediately in case of a change of control and the bank loan would be due immediately.

## **Auditors**

KPMG AG, Zurich act as independent statutory and group auditors of the Company and have been in this role since inception. Mrs. Astrid Keller has been the leading auditor on their behalf since the fiscal year 2008/09. The auditors are elected for a period of one year by the general assembly. The remuneration for KPMG for auditing New Venturetec's consolidated and unconsolidated financial statements for the first half of the fiscal year 2008/09 amounted to CHF 25,000. No consulting fees were incurred during the reporting period.

### **Information instruments of the auditor**

The auditors are meeting with the management of the Company several times and have regular telephonic contact during the normal course of the annual and semi-annual audit. The management provides the auditors with all documents requested. The management informs the auditors regularly on the development of the portfolio companies and the business.

## Risk management

Most of the investees are in a development stage, disclosing accumulated deficits and little or no revenues. Their ability to continue as a going concern may depend on additional funding. These investments offer the opportunity of significant capital gains, but involve a high degree of business and financial risks that can result in substantial losses, including the risk of a total un-recoverability of an investment. The financial risk management objectives and policy of New Venturetec are to minimize dilution by structuring the initial investment accordingly. Other protective measures such as liquidation preferences are also part of the Company's policy. However, the operational risk remains. Furthermore, the Company does not hedge any foreign currencies or interest rate risk exposure. **The risks of venture capital investments are 100%. The total loss of the investment is a realistic possibility.**

### Current market impact

The current financial and economic environment is very difficult. The capital market is closed for venture companies and the tech sector is suffering from declining revenues. As a consequence portfolio companies which are in the need of cash face very unfavourable financing terms to existing shareholders – in our case Venturetec – which basically means heavy dilution and unfavourable liquidation preferences in case of a trade sale. This is only if the company is able to attract investments in the first place for which no assurance can be given that this may occur. The management of each portfolio company is advised to review expenses, cut back costs if necessary and secure cash to continue its operation. Survival is the goal.

**New Venturetec Shareholders should be aware of the risks which could result in a loss of 100% of the investment.** The crisis has its impact on small companies. Unfortunately it is the second one in the life of New Venturetec after the Dotcom Burst in 2001.

We have attached risk factors of the main holding of Venturetec, Osiris Therapeutics, for your information. Please see Appendix I, page 58. The information is publicly available.

## Market making

New Venturetec or the Investment Manager does not make a market in its shares and does not own any of its shares and never has. The Company has no agreement with any market maker. There are no costs and no liabilities in connection with any market making activities. Several banks may act periodically as market makers on their own behalf.

## Reporting and Information

### Publication

The official publication organ for announcements of the Company is the Swiss Official Gazette of Commerce.

### Financial reporting

New Venturetec issues audited annual and unaudited semi-annual consolidated financial statements prepared according to International Financial Reporting Standards (IFRS) and IAS 34 respectively annual per September 30 and semi-annual per March 31.

### Investor meetings

The financial results and the status of portfolio companies are reported at the Ordinary Annual Shareholders' Meeting in November/December each year. New Venturetec invites selected portfolio companies to present their company and business strategy at the shareholders' meeting.

### Price information

New Venturetec provides price information on its webpage. Additionally, prices can be retrieved through electronic channels such as Telekurs (NEV), Reuters (NEV.S) and Bloomberg (NWV SW Equity).

### Webpage

The webpage of New Venturetec is [www.newventuretec.com](http://www.newventuretec.com). The webpage contains comprehensive information on the investment approach and strategy, latest news and detailed information about the portfolio holdings,

including the latest net asset value report. Additionally, investors may find information about the portfolio companies, including a description of their business activity and the links to their webpages. Press releases and news on New Venturetec can be downloaded from the news section of the webpage.

#### Email – list

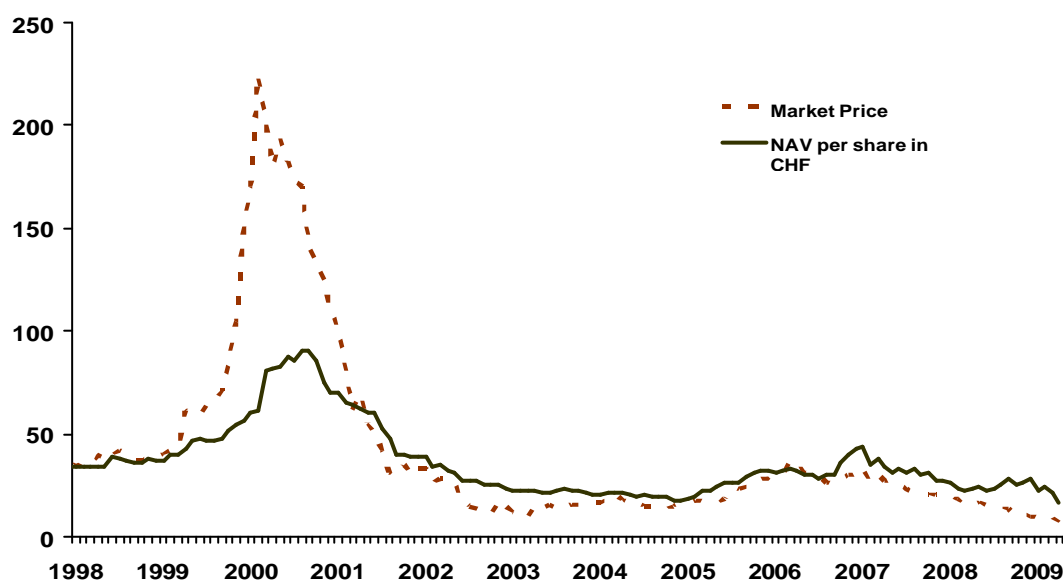
Investors can subscribe to the New Venturetec mailing list on [www.newventuretec.com](http://www.newventuretec.com). New Venturetec periodically sends information, reports and updates on its portfolio companies to shareholders by email.

### Net asset value (NAV) and market price – premium / discount

The most common valuation guideline for investment companies is the NAV. The NAV is not an absolute value. It is an indicator based on guidelines. By no means does the NAV represent a “true” value.

The market price is the price paid by the market participants. It is a market price determination by demand and supply. There are times when supply is higher than demand and vice versa. That simply does not correlate with the actual business performance of a company on a daily basis in any significant way. Reasons why somebody may decide to buy or sell are, in many cases, unrelated or only superficially related to the business performance.

New Venturetec offers a participation in a portfolio of young companies, not a trading opportunity. New Venturetec is the wrong vehicle for traders. It is an opportunity for investors, who understand investing in the very old fashioned and traditional way. At times of redemption or dissolution there is only one value. Investing in venture capital is a long-term commitment with high risks.



Highest premium: 267% in February 2000  
Highest discount: -69% in October 2008  
Average: -2.8%

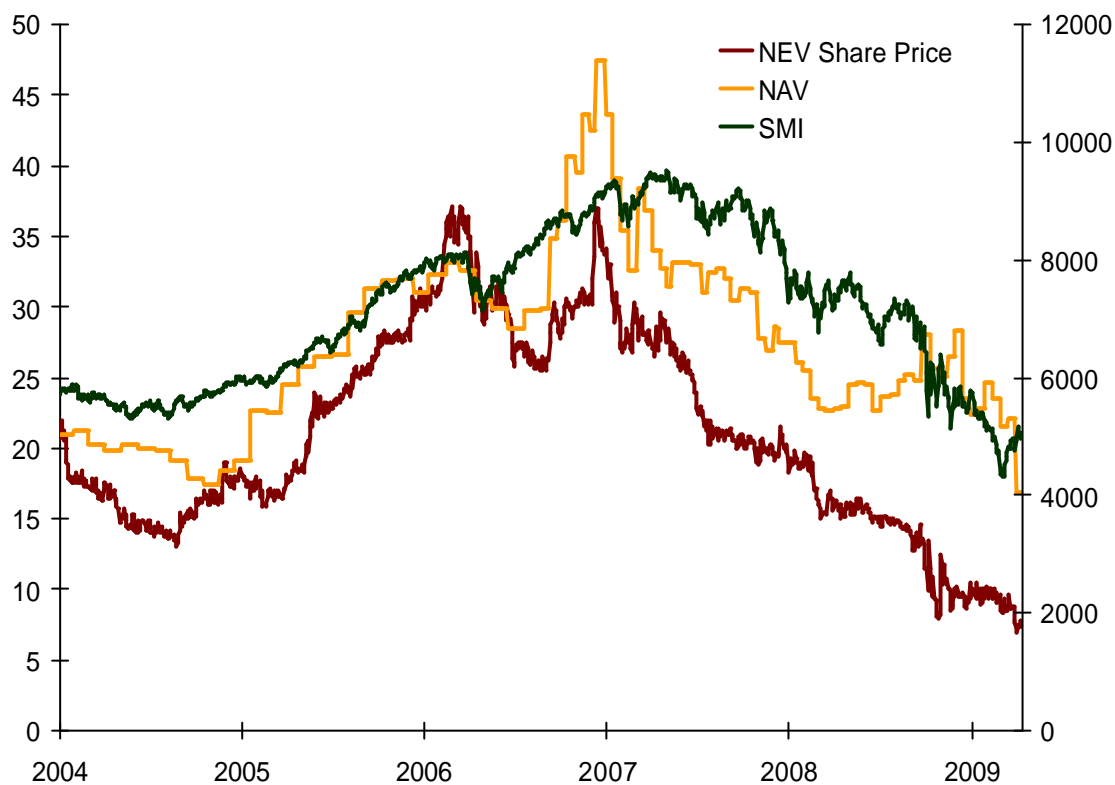
## Ordinary Meeting of Shareholders 2009

November 30, 11.45 – 13.30

Hotel Park Hyatt, Beethovenstrasse 21, 8002 Zürich

# Investment Performance

April 1, 2004 – March 31, 2009

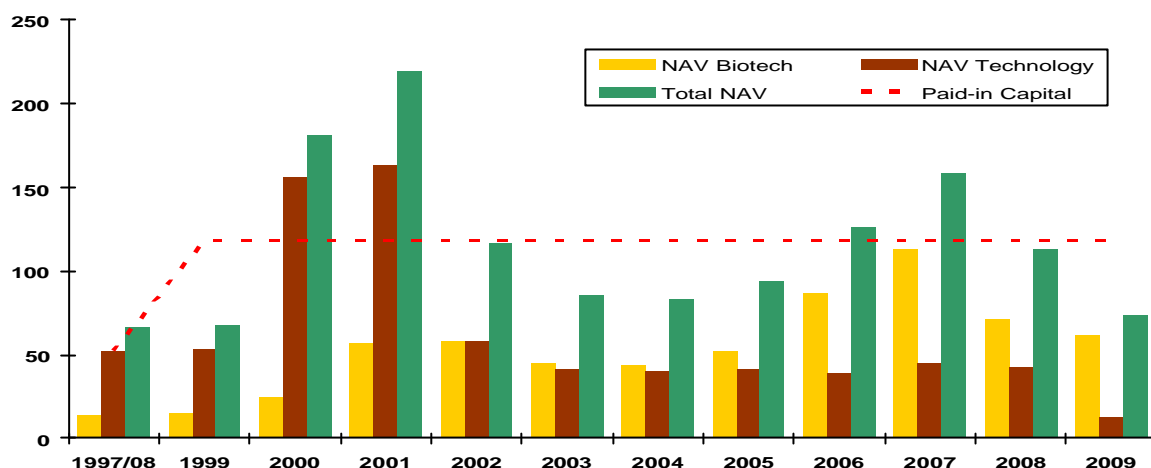


## Prices and volume

	First half of 2008/2009	2007/2008	2006/2007
High / Low Share price in CHF (SWX)	13.60 / 7.26	21.50 / 12.80	37.00 / 20.60
High / Low Net Asset Value in CHF	28.36 / 16.84	31.28 / 22.65	47.49 / 30.40
Closing share price (SWX) at the end of the period in CHF	7.26	13.50	21.25
Net Asset Value in CHF at the end of the period	16.83	28.18	30.40
Premium / Discount	-56.89%	-52.09%	-30.10%
Average daily trading volume	3,208	2,571	5,109

# Net asset value performance

January 1, 1997 – March 31, 2009



## Net asset value total return net

	CHF	Total return 31.03.2009	USD	Total return 31.03.2009
January 1997	28.94	-41.83%	20.00	-26.12%
Since IPO, Oct. 1997	33.00	-48.99%	22.76	-35.08%
Since capital increase February 1999	39.80	-57.70%	27.54	-46.35%
Year to Date	27.45	-38.67%	34.98	-39.05%
NAV as per March 31, 2009	16.83		14.78	

## Time Weighted Return net, p.a.

	CHF	based on NAV USD	based on market price CHF
January 1997	-4.33 %	-2.44 %	-10.67 %
Since IPO, Oct. 1997	-5.68 %	-3.56 %	-12.34 %
Since capital increase February 1999	-8.11 %	-5.94 %	-15.40 %

## IRR net, p.a.

	CHF	USD	CHF
January 1997	-6.50 %	-4.23 %	-13.47 %
Since IPO, Oct. 1997	-6.91 %	-4.58 %	-13.93 %
Since capital increase February 1999	-8.10 %	-5.58 %	-15.40 %

## Performance by company in USD

Company	Invested capital	Unrealized gain/loss	Realized gain/loss	Total est. value	% of total investments	Return p.a. %
Osiris Therapeutics	24,467,579	32,847,975		57,315,554	58.84%	12.43%
Inflabloc	11,199,254	-5,811,138		5,388,116	5.53%	-9.83%
Prolexys Pharmaceuticals	15,000,000	245,314		15,245,314	15.65%	1.34%
Healagenics	3,850,000	-1,039,593		2,810,407	2.89%	-61.95%
mPortal	10,370,000	4,608,500		14,978,500	15.38%	6.13%
Invenda	32,675,875	-32,368,318		307,557	0.32%	-48.53%
WStore	10,332,070	-8,965,404		1,366,666	1.40%	-21.25%

# Portfolio Companies Status Report

## Disclaimer and Risk Factors

Under the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, companies listed below caution investors that any forward-looking statements or projections made by the company, including those that may be made in this report, are based on management's expectations at the time they are made, and are subject to risks and uncertainties that may cause actual results to differ materially from those projected. Specifically, discussions of possible future growth and development in revenue and customers are forward looking in nature, and actual results could differ materially from current expectations. Each of the below listed companies' future results may be impacted by factors such as technological changes, market acceptance of the company's services, ability to grow its customer base, competitive market pressures and general economic environment, among other things. Each of the below listed companies' future results are also subject to other risk factors, including those detailed from time to time in the company's reports. Despite making these forward-looking statements, companies undertake no obligation or intention to update these statements after the date of this report.

The current financial and economic environment is very difficult. The capital market is closed for venture companies and the tech sector is suffering from declining revenues. The consequences for portfolio companies are the need of cash which will result in very unfavourable terms to existing shareholders – in our case Venturetec – basically resulting in heavy dilution and unfavourable liquidation preferences in case of a trade sale. This is only if the company is able to attract investments in the first place which no assurance can be given that this may occur. Management is advised in each portfolio company to review the expenses, cut back if necessary and secure cash to continue its operation. Survival is the goal.

**New Venturetec Shareholders should be aware of the risks which could result in a loss of 100% of the investment. The crisis has its impact on small companies.**

# Osiris Therapeutics

[www.osiris.com](http://www.osiris.com)

New Venturetec cost	USD 24.5million
New Venturetec holding of Osiris Therapeutics	12.8%

Valuation as of March 31, 2009	USD 57.3million
% of total investments as of March 31, 2009	58.8%

## Company Profile

Osiris Therapeutics, Inc. is the leading cell therapy company focused on developing and marketing stem cell products to treat medical conditions in the inflammatory, orthopedic and cardiovascular areas. The technology being developed by Osiris has shown significant advantages to other cellular therapies in development for a number of reasons. First, the Company's biologic drug candidates are readily available and are manufactured in scales similar to other drug products. Over ten thousand off the shelf treatments can be produced from a single bone marrow donation. Second, Osiris' drug candidates are universally compatible. These therapies can be used in any patient without prior typing or matching. Another attribute that separates Osiris' drug candidates from others in the world of cellular therapies is their ease of use. Treatment is accomplished via a simple intravenous infusion or injection.

Prochymal, a preparation of mesenchymal stem cells specially formulated for intravenous infusion, is currently being evaluated in Phase III trials for steroid refractory GvHD, acute GvHD, and Crohn's disease. Prochymal is also being studied in Phase II trials for the treatment of COPD, type 1 diabetes, and acute myocardial infarction. Osiris is also developing Chondrogen, an injectable formulation of MSCs, for arthritis in the knee.

Osiris has an extensive intellectual property portfolio. The company has 48 issued U.S. and 284 foreign patents.

## Market

If approved, Prochymal would be the first and only drug for the treatment of GvHD. The U.S. market size for GvHD is estimated at \$200 million. Prochymal is also being evaluated for treatment refractory Crohn's disease. There are approximately 25,000 cases of treatment refractory Crohn's disease in the U.S. This represents a \$900 million market opportunity. Prochymal is also being evaluated in several other indications, including newly diagnosed type 1 diabetes representing a \$450 million market opportunity, acute myocardial infarction representing a \$3.5 billion market opportunity, and COPD representing a \$5 billion market opportunity. Chondrogen for osteoarthritis of the knee represents a \$3 billion market opportunity.

## Development

Osiris has active Phase III clinical trials for three different indications and has been granted FDA Fast Track status for each. The first Phase III trial is investigating Prochymal in patients with steroid refractory GvHD. Approximately 80 sites in the United States, Canada, Europe, and Germany are participating in this trial and enrollment has been completed. The last patient is expected to complete the study at the end of May 2009. The second Phase III trial is evaluating Prochymal as a first line treatment for acute GvHD and is taking place in approximately 50 leading centers in the United States and Canada. Enrollment is ongoing. GvHD is a life threatening disease that, today, has no approved treatment.

Osiris is also evaluating Prochymal in a double-blind, placebo controlled Phase III trial for patients with treatment refractory Crohn's disease. The company has been granted Fast Track status by FDA and approximately 50 leading centers in the United States and Canada have enrolled patients. Enrollment in this Phase III trial was recently discontinued at 210 patients because of a potential design flaw in the trial that resulted in significantly higher than expected placebo response rates. The decision to discontinue was made after the trial's final scheduled interim analysis showed that one of the two Prochymal dose arms had crossed a futility boundary and was unlikely to achieve the primary endpoint of remission. The dose arm was unlikely to achieve the primary endpoint of remission because of the high placebo response rate. The analysis continued to show no serious safety concerns with the therapy and safety was not a factor in the decision to stop enrollment. The trial will remain blinded and patients will continue to be followed for efficacy and safety.

Prochymal is also being evaluated in several earlier stage clinical trials. Osiris initiated a Phase II trial to evaluate Prochymal in patients who have suffered an acute myocardial infarction. The Phase I trial met its primary safety endpoint and also showed that patients treated with Prochymal experienced fewer adverse events through the six month, one and two year time points as well as improvements in left ventricular ejection fraction. Patients receiving Prochymal also experienced an improvement in lung function leading to the development of a Phase II program

evaluating Prochymal in patients with COPD. The Phase II trial evaluating Prochymal in patients with COPD completed patient enrollment in September 2008. Also, a Phase II trial evaluating the safety and efficacy of Prochymal in preserving insulin production in newly diagnosed type 1 diabetes patients is actively enrolling patients.

Under the \$224.7 million Department of Defense contract, Osiris continues to develop Prochymal for the repair of gastrointestinal injury resulting from radiation exposure. Since the safety of Prochymal has been demonstrated, only pre-clinical animal studies are required for approval in this indication.

In orthopedics, Osiris completed enrollment and reported positive twelve month results in a 55 patient Phase I/II clinical trial evaluating Chondrogen for the regeneration of cartilage and prevention of osteoarthritis in the knee. A twelve month analysis of the data from the Phase I/II trial revealed that the drug met its primary endpoint of safety. A significant improvement in pain was observed in patients who had osteoarthritis and received Chondrogen at six weeks, six months, and twelve months when compared to those receiving placebo. The next phase of clinical testing is being developed.

In November of 2008, Osiris announced a major strategic alliance with Genzyme Corporation worth up to \$1.4 billion for the development and commercialization of Prochymal and Chondrogen. Under the agreement, Osiris will commercialize Prochymal and Chondrogen in the United States and Canada, and Genzyme will commercialize the treatments in all other countries. Genzyme will make an up-front payment of \$130 million to Osiris (\$75 million paid initially \$55 million to be paid on July 1, 2009), plus potential significant milestone and royalty payments.

Over the past twelve months, Osiris has reported a number of events related to the development of its stem cell drug products.

- Discontinued enrollment in Phase III Crohn's study as a result of concerns with trial design. Drug safety was not a factor in the decision to discontinue.
- Formed major strategic alliance with Genzyme Corporation worth up to \$1.4 billion for the development and commercialization of Prochymal and Chondrogen in countries outside the United States and Canada.
- Sold the Osteocel business to NuVasive, Inc. in a transaction worth up to \$85 million in upfront and milestone payments.
- Completed enrollment of a Phase III pivotal trial evaluating Prochymal in steroid refractory GvHD patients.
- Received approval to initiate Prochymal expanded access program in the US for adult and pediatric patients and in Canada for pediatric patients suffering from life-threatening Graft versus Host Disease (GvHD).
- Reached agreement with the FDA regarding the timing and content of the submission of the first marketing application for a stem cell product.
- Osiris received \$2 million milestone payment from the Juvenile Diabetes Research Foundation after accomplishing certain clinical and regulatory milestones including initiating patient treatments.
- Completed enrollment of Phase II clinical trial evaluating Prochymal in patients with chronic obstructive pulmonary disease (COPD).
- Reported positive two-year data from Phase I clinical trial evaluating Prochymal in heart attack patients.

### **Outlook and risk**

Osiris is in line to successfully commercialize the world's first stem cell drug. The company's lead biologic drug candidate, Prochymal, for the treatment of inflammatory disease, is the only stem cell therapeutic for which patients are being enrolled in Phase III clinical trials and is the only stem cell therapeutic currently designated by the FDA as both an Orphan Drug and Fast Track product candidate. However, there are very high risks associated with the development of drug products. Approximately 50% of investigational drugs in Phase III clinical trials do not go on to receive FDA approval. Prochymal is the first stem cell product ever in Phase III clinical trials. By acting in this new territory the process and outcome of the trials are not foreseeable. A failure of both Phase III clinical trials of Prochymal would cause serious problems for Osiris and a massive decline of the share price would be highly possible.

**Please see Appendix I on page 58 for more information on the risk of Osiris Therapeutics.**

## Inflabloc Pharmaceuticals, Inc.

[www.inflabloc.com](http://www.inflabloc.com)

New Venturetec cost	USD 11.2 million	Valuation as of March 31, 2009	USD 5.4 million
New Venturetec holding of Inflabloc	18.5%	% of total investments as of March 31, 2009	5.5%

### Company Profile

Inflabloc Pharmaceuticals, Inc. is a privately held company located in Salt Lake City, Utah, USA. The company is actively engaged in the development of cross-therapeutic area (cross-TA) drugs specifically in the area of angiogenic inhibitors based on the company's core technology of cobalamin (Vitamin B12). Inflabloc's mission is to provide safe, efficacious therapeutics for the treatment of ocular diseases. The company's main focus is in the area of age related macular degeneration (AMD) and proliferative diabetic retinopathy/ diabetic macular edema (DR/DME).

Cobalamin possesses two properties: the ability to make water insoluble drugs, or compounds, water soluble. Additionally, cobalamin is able to target cells in specific diseases. These properties allow for the delivery of lower, more potent, and safer doses of drugs without the side effects of added solubilizers which result in toxic affects to the patient thus lowering the potency of the drug.

The company's lead compound is IP-2001. IP-2001 has a classical antiangiogenic therapeutic (AAT) covalently linked to B12. IP-2001 is a bioconjugate of cobalamin linked to an AAT at a proprietary location that allows for cost effective synthesis whilst retaining potency and efficacy. The AAT is known, at low doses, to be antiangiogenic. The company is capitalizing on this inherent antiangiogenic affect by targeting two major diseases that have aberrant blood vessel growth and leakage as the underlying similar mechanisms: Age related macular degeneration (AMD) and diabetic retinopathy (DR). While the two diseases possess different mechanisms that results in disease, both diseases share many areas in common. Both target the eye, a very unique organ. Both result in blindness. Both diseases have aberrant blood vessel growth as their root cause which leads to blindness. AMD presently is treated with an expensive biologic. In the case of diabetic retinopathy, there is no effective treatment approved. Thus, IP-2001 represents a unique entry into both markets.

### Development

IP-2001 development has made significant progress for product use in the ophthalmologic space. The company has established proof of concept (POC) IP-2001 in AMD using a gold standard choroidal neovascularization model. In addition, as the potency of IP-2001 was therapeutic at a very low dose, this allows the company a better choice for future cost effective drug development to date, the company have realized very encouraging and positive results.

A second study independent of the contract company, demonstrated that both IP-2001 are more potent than the Avastin. Furthermore, combination studies with IP-2001 additive when combined with Avastin to treat AMD. This represents a significant milestone. The company believes that this positions IP-2001 to be a competitor product in the AMD space. This will allow future development of the drug as a stand alone or as a combination treatment.

In addition, the company is through collaboration with an international recognized eye care facility, has conducted studies in diabetic retinopathy with IP-2001. The results of these studies are very encouraging. It was demonstrated that in the Akita mouse, the gold standard for type 1 diabetes complications, that IP-2001 was very potent and effective in the inhibition of vascular leakage of blood vessels. Leakage is a common complication in DR that progresses to DME. In addition, IP-2001 was more effective than Avastin in this inhibition. Lastly, combination studies with IP-2001 indicate a synergistic effect at inhibition of vascular leakage in the Akita mouse.

### Market

The incidence of AMD is expected to reach 3 million people ages 50-75 (USA) by 2012. There are only three approved drugs for wet AMD. Of these only photolytic therapy and Lucentis are utilized; Macugen use has significantly dropped. The company believes that IP-2001 will be unique as a monotherapy, an adjunct therapy, or a combination therapy due to IP-2001 safety and stability profile as well as its complementary mechanism of action. As Lucentis, is very close in function to Avastin, the company feels confident that there is a niche for IP-2001.

The development of an effective antiangiogenic for AMD or DR treatment would require safety, ease of use, and cost. AMD suffers require monthly treatments that cost on average \$1500 -2000 per treatment/month. In addition,

the development of a delivery system that was either an eye drop or possibly an oral would represent a significance advance. IP-2001 is an attractive alternative for those companies wishing to secure a stable water soluble compound for development into an ocular topical formulation.

Diabetic retinopathy has no effective medications at present on the market. Thus, the market is poised for new pharmacologic entries that are primarily safe and effective. Importantly, DR is not restricted to just the type 1 diabetic patient; type 2 diabetics can develop DR. While ease of use is desired in treatment, it is far more important to have an effective product available. Toxicity is more of a concern given the age of the affected population. This makes the IP-2001 particularly attractive.

### Outlook and risk

Presently, the company is soliciting interested pharmaceutical companies that share an interest in the ophthalmologic area. The Company depends on the ability to find a partner to successfully bring any product to the market. The inability of finding such a partner could cause to significant problems for the company including the possibility to go out of business. There is a high degree of risk.

## Prolexys Pharmaceuticals, Inc.

[www.prolexys.com](http://www.prolexys.com)

New Venturetec cost	USD 15.0 million
New Venturetec holding of Prolexys	16.7%

Valuation as of March 31, 2009	USD 15.2 million
% of total investments as of March 31, 2009	15.7%

### Company Profile

Prolexys Pharmaceuticals, Inc. is a drug discovery company focused on the discovery of novel small molecule drugs active against cancers with high market potential and unmet medical need. Our proprietary proteomics technologies enable us to discover and validate novel disease targets and rapidly identify, validate, and develop small molecule compounds active at these targets. Prolexys currently has lead compounds and pre-clinical programs for 3 high potential cancer targets.

The most advanced clinical candidate is PRLX 93936, a novel small molecule agent that is potent and selective against a broad range of RAS pathway-active cancer cells such as those found in Pancreatic cancer, Renal cell carcinoma, Colon cancer, Lung cancer, and several sarcoma types. PRLX 93936 is currently in Phase 1 clinical trials for patients with solid tumors that are resistant to the standard of care drugs.

### Development

In the last 12 months the company has made remarkable progress in the clinical development of PRLX 93936. 20 patients have been dosed in the Phase 1 clinical trial with no significant drug-related adverse effect. The drug exposure level achieved in the current Phase 1 trial exceeds dose-levels at which tumor growth inhibition is observed in the animal models of disease. We have also made progress in generating the preclinical data needed to identify patient sub-types that may be more responsive to PRLX 93936:

- NSCLC patients with KRAS mutations that are resistant to EGFR-based therapy
- Colon cancer patients with RAS mutations that do not respond to EGFR therapy
- Combination of Sutent & 93936 as a frontline therapy for Renal Cell Carcinoma patients
- Combination of Gemcitabine & 93936 in Pancreatic cancer

Prolexys continued to maintain and expand the Intellectual Property estate around PRLX 93936. It further optimized the drug product by introducing a more stable lyophilized formulation in the clinic.

The Company maintains a very active conversation with large pharmaceutical companies as well as mid-sized biotechnology companies. There has been a high-level of interest from potential partners. It is clear that most potential partners are very impressed with the novel mechanism of action but remain concerned about the therapeutic index. In the current Phase 1 trial Prolexys is now approaching therapeutically relevant dose levels. In the last few months the company has made exciting progress in defining the cancer sub-types which might be most responsive to PRLX 93936. It is now focussed on partnering the PRLX 93936 program in the next 6-9 months.

### Market

In the next 5-10 years the conventional cytotoxic drugs, which typically exercise toxicity in normal as well as cancer cells (leading to side-effects), will be replaced by therapies that address specific molecular target or a cancer-

specific pathway. Targeted therapies such as PRLX 93936 have a very high market potential. In recent years several targeted drugs have achieved blockbuster status (world-wide sales upward of 1 billion US dollars). Examples include:

- Rituxan (Biogen Idec/Genentech/Roche),
- Sutent (Pfizer),
- Gleevec (Novartis),
- Herceptin, and Avastin (Genentech/Roche).

The target markets for PRLX 93936 include a wide range tumors that have acquired resistance to the standard of care drugs. More specifically, PRLX 93936 is highly effective in animal models representative of human pancreatic, colon, lung, melanoma, renal, and ovarian cancer, multiple myeloma, and several sarcoma sub-types. In the clinical development phase we will specifically address cancers with high market potential and unmet medical need.

### Outlook and Risk

The pace of the Phase 1 trial has been very slow. The patients enrolled in cancer trials are fragile and therefore any adverse event triggers a careful and systematic evaluation to ascertain that the observed side effects are not related to drug-exposure. Therefore, there is a risk that we may run out of funding before a safe clinical dose is established. As has been observed for other novel cancer drugs, PRLX 93936 may cause un-anticipated toxicity in the clinic. We have observed adverse events in a handful of patients; in each case we have been able to rule out the drug-effect. Although we have made good progress in identifying the cancers that are most likely to respond to PRLX 93936, the limited understanding of the mechanism of action of this drug makes it more difficult to identify markers for the drug efficacy.

## Healagenics, Inc.

[www.healagenics.com](http://www.healagenics.com)

New Venturetec cost	USD 3.9 million
New Venturetec holding of Healagenics	35.0%

Valuation as of March 31, 2009	USD 2.9 million
% of total investments as of March 31, 2009	2.9%

### Company Profile

Healagenics, Inc. advances the treatment of wounds by developing innovative products that promote healing and help return damaged tissue to its natural state. The company's initial product, the FDA cleared Healadex™ is the first to use porcine serum in moist wound dressings for the treatment of acute and chronic wounds. Healagenics continues to develop groundbreaking products for both physician use and over-the-counter sales. Founded in 2006, Healagenics is a privately held biomedical technology company headquartered in Woburn, Massachusetts.

The first clinical evaluation of Healadex , a 27 patient, multi center trial on patients with chronic ulcers of the lower limbs was completed in December, 2008. The product was evaluated for safety and clinical efficacy as determined by healing rates at two time points (4 and 12 weeks). There were no safety issues related to the product. The results for the percent of patients who achieved complete healing at 4 and 12 weeks were 31% and 63% respectively. These results are favorably compared to healing rates for more expensive, biologic and active therapies that are currently on the market.

Healagenics launched Healadex® in July, 2008 in a test market launch in two key areas (Pennsylvania, Florida). The test market yielded valuable information on product performance. Feedback from over 90% of the clinicians who used the product on a "problem" patient was extremely positive. Revenues were less than expected in the test markets. The reason for low sales was linked to a longer than expected sales cycle, a change in buying patterns by hospitals/clinics and an inconsistent sales presence in the target markets.

### Development

Healagenics is seeking an US marketing and distribution partner(s) for Healadex. The ideal partner will have the capability to conduct a national marketing/distribution campaign. Initial meetings with potential partners are ongoing. The goal is to have a partnership agreement in place by late Q3 2009.

The Company continues to employ a virtual model organization. Key functions such as accounting, regulatory and quality systems are staffed by consultants. A contract sales representative is working to maintain current customers

and to continue to build awareness in key accounts. This effort is being continued to assist in on-going partnering activities. Manufacturing operations will continue to be conducted by an external contractor.

### Market

The wound care market is very fragmented. Despite the availability of numerous products, care givers still search for safe, clinically and cost effective solutions to their wound healing needs.

Healadex®Wound Dressing provides a treatment alternative for patients suffering from chronic and acute wound injuries. Healagenics's proprietary technology (patent pending) is designed to provide an optimum wound healing environment for the "stalled" or chronic wound.

### Outlook and risk

Healagenics has accelerated its plan to partner Healadex in order to maximize the chance for commercial success and to reduce operation costs. The initial feedback from partner candidates has been positive. Healagenics will continue to support its current commercial efforts in a streamlined manner to continue to build clinical documentation of Healadex's performance and to build awareness within the wound care field. However, the Company is depending on the ability to find such a commercial partner in order to accelerate sales of Healagenics. The ability to build awareness and accelerate sales of the product is crucial for the success of the Company. Healagenics is not operating on a profitable basis and is therefore depending on external capital to fund its operation. The unavailability of funding may result in the bankruptcy of the Company or a massive dilution for the existing shareholders.

## mPortal, Inc.

### www.mportal.com

New Venturetec cost	USD 10.4million
New Venturetec holding of mPortal	39.0%

Valuation as of March 31, 2009	USD 14.9million
% of total investments as of March 31, 2009	15.4%

### Company Profile

mPortal enables superior user experiences for discovery and download of content and applications on mobile devices.

mPortal provides the software infrastructure necessary for mobile service providers to create an end-to-end solution for the way in which consumers discover and purchase mobile content such as news, weather and infotainment, music and video or applications such as games, productivity/utility tools on their mobile devices. By providing both the software needed on the mobile device as well as the back end infrastructure for aggregating and delivering the various content and applications, mPortal provides a total solution to its customers.

### Development

mPortal has been able to continue its growth trajectory in terms of revenues and has reached a cash flow positive state of operations in the past 12 months. It has also been able to successfully penetrate the cable operator space in addition to the mobile operator space in the US. The Company has not been able to reach an independent state of operations in its India subsidiary which continues to require significant management attention from the US parent.

The Company has been very limited in its investment in improving its product capabilities due to its reliance on customer funding for expanding product functionality. While the product features are in line with market expectations, it does not provide mPortal with any competitive edge in the marketplace. The Company continues to use a direct sales model with no partners or channels and this is expected to continue in 2009 as the current delivery organization cannot cope with the added volume that a business development partner may bring in terms of both opportunities and delivery. mPortal has been able to build an organization that is now capable of delivering multiple customer implementations in parallel, although within limits and expects to continue to aggressively pursue new opportunities in 2009 and beyond.

## Market

The Company continues to focus exclusively on the US market in 2009 and is expected to do so until year end with an opportunity for international expansion in 2010. The overall market for mobile content and applications continues to grow at a healthy pace, spurred by the entry of Apple and Google into the mobile space. The Company has also focused its energy more on providing an end-to-end solution for software infrastructure on the handset and the back-end servers in order to create a differentiated offering in the marketplace. While most players focus on either the high end (smartphone) segment of mobile devices or the mass market (feature) phone segment, mPortal's solutions span both ends of the device spectrum thereby increasing its overall market potential.

## Outlook and risk

In 2009, mPortal is focused on building a cash reserve that will allow it to make some level of investment ahead of the market in both its products and sales capabilities. While the rest of 2009 is expected to be a weak economic market environment for the Company, it believes that it can conserve cash in 2009 and use the funds to aggressively grow in 2010. The primary risk for the company outside of the overall economic climate which has hurt its customers ability to purchase mPortal's software is the threat of an internet-type business model in the mobile space where the software license revenues that mPortal relies on are replaced or diminished by an ad-supported revenue model which will significantly hurt the Company's revenue growth. However, the Company believes that such a major shift is not expected to happen for another 18-24 months and it is in the process of adapting its business model to counter the potential shift.

## Invenda Corporation

### www.invenda.com

New Venturetec cost	USD 32.6 million
New Venturetec holding of Invenda	13.0%

Valuation as of March 31, 2009	USD 0.4 million
% of total investments as of March 31, 2009	0.3%

## Company Profile

It is no longer a forecast that consumers consumption habits will shift from traditional media to online media, and with it marketers will also shift more of their marketing budgets online. This is now a reality. A current key indicator is the decline of the readership of newspapers, and as a result the shutting down of several prominent papers' printing presses such as the Christian Science Monitor and the Seattle Post Intelligencer. These papers are now available only online. According to Forrester Research, digital marketing in the US is expected to continue to grow. In its Collabrys business unit, Invenda has established relationships with global companies such as Colgate-Palmolive, Reckitt Benckiser, Gerber Products Company and Revlon. The value drivers in this business line include growth in the number of clients, increases in their database sizes, and the level and types of technologies and services provided to them, among others. The Company's ConsumerReview division provides interactive media services with solutions including online advertising and e-commerce links to a variety of clients. The value drivers in this business line include the growth in site traffic, number of advertiser clients, growth in e-commerce, among others.

## Development

After careful consideration, the Board of Directors of Invenda concluded that the benefits of remaining a public reporting company were outweighed by the costs and administrative burdens of being a public reporting company. On January 9, 2009 Invenda's voluntary application for de-registration from the SEC and de-listing from SIX Swiss Exchange was approved. Invenda's last day of trading on the SIX Swiss Exchange will be April 8, 2009. After that, Bondpartners SA through its Helevtica platform will provide a secondary marketing until October 8, 2009 as required by SIX Swiss Exchange.

Invenda has continued to focus on expanding its list of clients and the size of its business within existing clients, increasing traffic to its Web sites. With the downturn in the economy the Company has also focused on reducing operating expenses. The following are some highlights of activities over the last year:

- Renewed contract with Reckitt-Benckiser for 2009.
- Renewed contract with Colgate-Palmolive for 2009.
- Received notice of allowance on another patent in the US in the field generally relating to price comparison shopping.
- Signed new contract Dial Corp (now Henkel North America).
- Reduced executive salaries by 20% and most others by 10%.

## Market

It is no longer a forecast that consumers consumption habits will shift from traditional media to online media, and with it marketers will also shift more of their marketing budgets online. This is now a reality. A current key indicator is the decline of the readership of newspapers, and as a result the shutting down of several prominent papers' printing presses such as the Christian Science Monitor and the Seattle Post Intelligencer. These papers are now available only online. According to Forrester Research, digital marketing in the US is expected to continue to grow. In its Collabrys business unit, Invenda has established relationships with global companies such as Colgate-Palmolive, Reckitt Benckiser, Gerber Products Company and Revlon. The value drivers in this business line include growth in the number of clients, increases in their database sizes, and the level and types of technologies and services provided to them, among others. The Company's ConsumerReview division provides interactive media services with solutions including online advertising and e-commerce links to a variety of clients. The value drivers in this business line include the growth in site traffic, number of advertiser clients, growth in e-commerce, among others.

## Outlook and risk

With down turn in the economy, consumers are looking for savings to extend their incomes. Searches for coupons has increased significantly on the Internet and manufacturers are also eager to increase sales by attracting consumer with discount coupons. At the same time, the decline in readership of traditional newspapers has reduced the traditional reach of coupons. This provides the E-centives business unit of Invenda the opportunity to grow. On the other hand many advertisers are reducing their spend in the display advertising category on the internet. This contraction will likely have a negative impact on the revenues of the Consumer Review business unit. The Collabrys business unit will likely retain its client base at the same revenue levels or slightly higher given that it provides core technology and services for its clients on the Internet. Consumers adoption of the Internet as the primary channel for information, research and a key channel for commerce is not longer in dispute. The primary challenge in the Collabrys business unit is still long sales cycles. Competition from traditional and new interactive agencies will also continue to lengthen sales cycles. As with any other business, the Company also faces challenges including execution, resources and timing, among others.

## Wstore

### www.wstore.com

New Venturetec cost	USD 10.3million
New Venturetec holding of WStore	20.0%

Valuation as of March 31, 2009	USD 1.4million
% of total investments as of March 31, 2009	1.4%

## Company profile

WStore Group sells IT products like computers, peripherals, consumables and accessories to large and small and medium sized businesses as well as to governmental bodies.

The Company is a Direct Marketer: it sells primarily through its web sites, catalogue and call centres. Its Field Sales engineers are focusing on referencing the Company with large accounts. Its logistics centre (certified ISO9001 & ISO14001) and partnerships enable the Group to deliver any of the 50,000 available IT products everywhere within less than 48 hours. Based on a proprietary software technology, the Company streamlines end-to-end distribution processes: demand generation, contact management, sales, purchase, delivery and receivables financing.

Wstore's sales proposition is as follows:

- Account management: Each customer is taken care of by one salesman who shall develop a sustainable relationship with the customer based on a good understanding of its business priorities and the capability to provide solutions in the areas of printing, communications and infrastructure
- Internet: Wstore provides its customers with an easy to use tool to search for commodity products, track orders and invoices and provide contents on products and markets
- SMB and mid market accounts: these segments provide better margins and make the company less dependant from one large volume account

### **Development**

Wstore encountered a substantial drop in sales in 2008. Revenues decreased by 26% to EUR 194 million and the Company accounted a net loss of EUR 4.3 million against a profit of EUR 0.4 million in 2007. The Company incurred a loss of EUR 6.0 million in the first six month of 2008 in its France operations. This was a result on difficulties in the migration of the IT system to SAP and its impact on customer service, the decision to stop non profitable businesses to large account customers and the shift of marketing spending form catalogue to the Internet. Further, social costs for the layoff of 43 people have been accounted. Wstore made a profit of EUR 1.7 million in the second half of 2008 due to restructurings and cost saving programs.

### **Market**

The Company operates on the market of IT commodities sold to businesses, which are split into: IT infrastructure, IT services and Family IT. The size of market is approximately six billion Euro in the large European countries.

The IT market shrank by 11% in 2008. The current market demand is still under heavy pressure and the Company expects an even strong drop of the market in 2009. Wstores sees the pressure coming from the stop of investment projects with a large number of large corporations. The current spending on IT has been significantly reduced, especially in printing. Further negative impact has the reduced factoring credit facilities and guarantees for IT distributors. This has a direct impact on sales volumes.

Wstore believes that 2009 will be a year of consolidation in the IT distribution market.

### **Outlook and risk**

The main objectives of Wstore for 2009 are:

- survive
- limit the decline of sales as much as possible through more commercial presents, training of the sales force on solution approaches and the development of Internet sales
- focus on profitable markets like small and midsize businesses
- protect the credit limits with suppliers in order to protect cash
- Adjust operating expenses to the economical reality

Wstore is acting in a declining market and pressures on margin are high. Cost reductions can only be slowly adapted caused by social laws in France. Wstore's main focus is to survive the current economic crises. The survival as of today is not granted and it is a real possibility that the company goes out of business.

**New Venturetec Ltd., Zug**  
**Review Report to the Board of Directors**  
Interim Consolidated Financial Statements  
October 1, 2008 to March 31, 2009

Review Report to the Board of Directors of  
**New Venturetec Ltd., Zug**

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*Introduction*

We have been engaged to review the accompanying consolidated balance sheet of New Venturetec Ltd., Zurich as at March 31, 2009 and the related consolidated statements of income, changes in equity and cash flows, and a summary of significant accounting policies and other explanatory notes (the interim consolidated financial statements) for the six-month period then ended. The Board of Directors is responsible for the preparation and fair presentation of these interim consolidated financial statements in accordance with International Accounting Standard 34 *Interim Financial Reporting*. Our responsibility is to express a conclusion on these interim consolidated financial statements based on our review.

*Scope of Review*

We conducted our review in accordance with International Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

*Conclusion*

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim consolidated financial statements do not give a true and fair view of the financial position of the entity as at March 31, 2009, and of its financial performance and its cash flows for the six-month period then ended in accordance with International Accounting Standard 34 *Interim Financial Reporting* and that they do not comply with the accounting principles of the Additional Rules for the Listing of Investment Companies issued by the Swiss Exchange.

Without qualifying our conclusion we draw attention to Notes 5c and 7 to the interim consolidated financial statements, which are prepared in accordance with paragraph 20 of the Additional Rules for the Listing of Investment Companies issued by the SIX Swiss Exchange. As described in the notes to the interim consolidated financial statements, unquoted investments amounting to USD 39,789,004 (40.8% of consolidated assets) as of March 31, 2009, and amounting to USD 64,626,037 (44.0% of consolidated assets) as of September 30, 2008, have been valued at fair values as determined by the Investment Manager and approved by the Board of Directors. We have reviewed the procedures applied in valuing such investments and have inspected underlying documentation; while in the circumstances the procedures appear to be reasonable and the documentation appropriate, determination of fair values involves subjective judgment which is not susceptible to independent verification procedures and remains the responsibility of the Board of Directors.

KPMG AG



Astrid Keller  
*Licensed Audit Expert*



Alexander Fähndrich  
*Licensed Audit Expert*

Zurich, May 4, 2009

*Enclosure:*

- Interim consolidated financial statements (consolidated balance sheet and related consolidated statements of income, changes in equity and cash flows, and notes)

## Interim Consolidated Balance Sheet

	Note	March 31, 2009 (unaudited) USD	September 30, 2008 (audited) USD
<b>Assets</b>			
Cash and cash equivalents	6	45,891	175,491
Accrued income		92,530	0
Venture capital investments and notes receivable	7	1,300,000	1,500,000
<b>Current assets</b>		<b>1,438,421</b>	<b>1,675,491</b>
Venture capital investments	7	96,112,115	145,132,103
<b>Non-current assets</b>		<b>96,112,115</b>	<b>145,132,103</b>
<b>Total assets</b>		<b>97,550,536</b>	<b>146,807,594</b>
<b>Liabilities and equity</b>			
Accrued management fees	9	753,610	1,259,532
Other accrued expenses and deferred income		312,865	319,778
Loans payable to related parties	13.3	19,319,261	17,856,861
Bank loans payable	6	3,100,000	1,700,000
<b>Current liabilities</b>		<b>23,485,736</b>	<b>21,136,171</b>
Deferred tax liabilities	11	188,786	345,594
<b>Non-current liabilities</b>		<b>188,786</b>	<b>345,594</b>
<b>Total liabilities</b>		<b>23,674,522</b>	<b>21,481,765</b>
Share capital	8	43,302,813	43,302,813
Additional paid-in capital	8	51,520,777	51,520,777
Translation reserve		2,117,835	2,114,052
Accumulated deficits / retained earnings		(23,065,411)	28,388,187
<b>Equity attributable to shareholders of New Venturetec</b>		<b>73,876,014</b>	<b>125,325,829</b>
<b>Total liabilities and equity</b>		<b>97,550,536</b>	<b>146,807,594</b>
Number of shares outstanding		5,000,000	5,000,000
<b>Net asset value per share</b>		<b>14.78</b>	<b>25.07</b>

**Interim Consolidated Income Statement  
for the six months ended March 31,**

	Note	2009 (unaudited) USD	2008 (unaudited) USD
<b>Income</b>			
Interest income	7.3/7.4	160,266	97,119
		<b>160,266</b>	<b>97,119</b>
<b>Expenses</b>			
Losses on investments	7.3/7.4	(50,541,880)	(14,978,147)
Management fees	9	(753,610)	(946,777)
Performance fees	10	0	225,524
Interest on loans from third and related parties	13.3	(357,946)	(123,351)
General and administrative expenses		(227,207)	(217,099)
Bank charges		(243)	(312)
Net foreign exchange gains/(losses)		110,214	(1,458,538)
		<b>(51,770,672)</b>	<b>(17,498,700)</b>
<b>Loss before tax</b>		<b>(51,610,406)</b>	<b>(17,401,581)</b>
Income tax expenses	11	156,808	49,265
<b>Loss attributable to shareholders of New Venturetec</b>		<b>(51,453,598)</b>	<b>(17,352,316)</b>
Weighted average number of shares outstanding during the year		5,000,000	5,000,000
<b>Basic and diluted loss per share</b>		<b>(10.29)</b>	<b>(3.47)</b>

**Interim Consolidated Statement of Changes in Equity  
for the six month ended March 31, 2009 and 2008 (unaudited)**

	Share capital (note 8) USD	Additional paid-in capital (note 8) USD	Translation reserve USD	Accum- lated deficits / Retained earnings USD	Total equity attributable to shareholders of New Venturetec USD
<b>Balance as of 30.9.2007</b>	<b>43,302,813</b>	<b>51,520,777</b>	<b>2,108,848</b>	<b>33,959,566</b>	<b>130,892,004</b>
Translation adjustment	0	0	(14,163)	0	(14,163)
<b>Net income recognized directly in equity</b>	<b>0</b>	<b>0</b>	<b>(14,163)</b>	<b>0</b>	<b>(14,163)</b>
Loss for the period	0	0	0	(17,352,316)	(17,352,316)
<b>Total recognized income and expense</b>	<b>0</b>	<b>0</b>	<b>(14,163)</b>	<b>(17,352,316)</b>	<b>(17,366,479)</b>
<b>Balance as of 31.3.2008</b>	<b>43,302,813</b>	<b>51,520,777</b>	<b>2,094,685</b>	<b>16,607,250</b>	<b>113,525,525</b>
<b>Balance as of 30.9.2008</b>	<b>43,302,813</b>	<b>51,520,777</b>	<b>2,114,052</b>	<b>28,388,187</b>	<b>125,325,829</b>
Translation adjustment	0	0	3,783	0	3,783
<b>Net income recognized directly in equity</b>	<b>0</b>	<b>0</b>	<b>3,783</b>	<b>0</b>	<b>3,783</b>
Loss for the period	0	0	0	(51,453,598)	(51,453,598)
<b>Total recognized income and expense</b>	<b>0</b>	<b>0</b>	<b>3,783</b>	<b>(51,453,598)</b>	<b>(51,449,815)</b>
<b>Balance as of 31.3.2009</b>	<b>43,302,813</b>	<b>51,520,777</b>	<b>2,117,835</b>	<b>(23,065,411)</b>	<b>73,876,014</b>

## Interim Consolidated Cash Flow Statement for the six months ended March 31,

		2009 (unaudited)	2008 (audited)
	Note	USD	USD
Management fees paid		0	(1,161,077)
Performance fees paid		0	(1,237,000)
Payments for general and administrative expenses		(227,502)	(121,202)
Bank charges		(243)	(312)
<b>Cash used in operating activities</b>		<b>(227,745)</b>	<b>(2,519,591)</b>
Purchase of venture capital investments/notes rec.	7.3/7.4	(1,300,000)	(2,937,000)
Proceeds on disposal of venture capital investments	7.3	0	2,316,777
Interest received		45,844	40,591
<b>Cash used in investing activities</b>		<b>(1,254,156)</b>	<b>(579,632)</b>
Increase of bank loans	6	1,400,000	0
Redemption of loans payable to related parties	13.3	0	(9,019,572)
Interest paid		(38,226)	(3,059,361)
<b>Cash provided by / (used in) financing activities</b>		<b>1,361,774</b>	<b>(12,078,933)</b>
Exchange effect on cash and cash equivalents		(9,473)	675,202
<b>Net change in cash and cash equivalents</b>	<b>11</b>	<b>(129,600)</b>	<b>(14,502,954)</b>
Cash and cash equivalents at beginning of year	6	175,491	15,486,571
<b>Cash and cash equivalents at end of year</b>	<b>6</b>	<b>45,891</b>	<b>983,617</b>

## Notes to the Interim Consolidated Financial Statements for the six months ended March 31, 2009

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### Basis of the Consolidated Financial Statements

#### 1 Principal activities

New Venturetec Ltd., Zug ("the Company", "the Parent Company") was formed on July 16, 1997 and incorporated on August 8, 1997 for the purpose of direct and indirect investments in Swiss and foreign companies, especially in high risk venture capital companies in the industries of Biotechnology and Technology. The company was incorporated in Zurich and changed its domicile to Zug in December 2008.

The Group represents the Company and its wholly-owned subsidiary Venturetec, Inc., Tortola, British Virgin Islands ("the Subsidiary"), incorporated on September 11, 1996 with a share capital of USD 20 million. As of March 31, 2009, the Company's venture capital investments and notes receivable are held via this subsidiary.

#### 2 Statement of compliance

The Group's consolidated financial statements cover the six months from October 1, 2008 to March 31, 2009. These consolidated financial statements have been prepared in accordance with International Accounting Standard 34 and comply with the accounting principles of the Additional Rules for the Listing of Investment Companies issued by the SIX Swiss Exchange.

#### 3 Basis of presentation

The consolidated financial statements are presented in USD. They are prepared on a fair value basis for venture capital investments. Other financial assets and liabilities are stated at historical or amortized cost.

The same accounting policies and methods have been applied as those relating to the consolidated financial statements for the year ended September 30, 2008.

A number of new and revised Standards and Interpretations have been issued, but are not yet effective. They have not been applied early in these consolidated financial statements. Their impact on the consolidated financial statements of New Venturetec has not yet been systematically analyzed. However, it is expected that only IAS 1 revised, IFRS 7 revised and IFRS 8 will have an impact on the consolidated financial statements, basically resulting in additional presentation changes.

#### 4 Judgment involved in the application of accounting policies, management assumptions and estimates

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that effect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Significant assumptions and estimations are involved in the determination of fair value of venture capital investments. The carrying amount of these investments and the key factors for recognizing changes in fair value are disclosed in note 7. The valuation factors involved in determining the fair value of these investments are disclosed in note 5c.

#### 5 Summary of significant accounting policies

##### a) Basis of consolidation

The consolidated financial statements include the Company and its subsidiary as mentioned above. All intercompany transactions and balances are eliminated.

Investments in associates are accounted for as venture capital investments and carried at fair value through profit or loss (see accounting policy 5c) in accordance with revised IAS 28 and revised IAS 39.

## Notes to the Interim Consolidated Financial Statements for the six months ended March 31, 2009

## 5 Summary of significant accounting policies (continued)

*b) Foreign currency translation*

Transactions in foreign currencies are translated at the foreign exchange rate at the date of the transaction. Monetary assets and liabilities in foreign currencies are translated at the foreign exchange rate at the balance sheet date. Non-monetary assets and liabilities in foreign currencies that are stated at fair value are translated at the foreign exchange rate at the date the values are determined. Foreign exchange differences arising on translation are recognized in the income statement.

The functional currency of the Parent Company is CHF. Assets and liabilities of the Parent Company are translated to the presentation currency (USD) at the foreign exchange rates at the balance sheet date. The revenues and expenses are translated to USD at average rates. Foreign exchange differences arising on this translation are recognized directly in equity within the translation reserve.

If a loan is granted by the Parent Company to the Subsidiary and the loan in substance forms part of the investment in the Subsidiary, foreign exchange differences arising from the loan are also recognized in the translation reserve. On a disposal of the Subsidiary, exchange differences recognized in equity would be recognized in the income statement as part of the gain or loss on disposal.

Cash flows are translated at average rates. Foreign exchange differences on cash and cash equivalents are presented separately in the cash flow statement.

The following exchange rates were applied:

	Rate at balance sheet date			Average rate for the six months ended	
	31.03.09	30.09.08	31.03.08	31.03.09	31.03.08
1 USD to CHF	1.1394	1.1242	0.9932	1.1523	1.1087

*c) Venture capital investments and notes receivable*

The Group's investments (venture capital investments and notes receivable) primarily relate to U.S. venture capital companies.

All venture capital investments are classified as financial assets at fair value through profit or loss. The venture capital investments are initially measured at fair value on the trade date, excluding transaction costs. Upon initial recognition attributable transaction costs are recognized in profit or loss when incurred. These investments are subsequently measured at fair value, with changes in the fair value recognized in the income statement.

The notes receivable are classified as loans and receivables. The notes receivable are initially measured at fair value, plus transaction costs. Subsequent to initial recognition the notes are measured at amortized cost using the effective interest rate method, less any impairment losses. The amortized cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus principal payments, plus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction for impairment or uncollectibility.

Embedded derivatives are separated from the host contract and accounted for separately if:

- the economic characteristics and risks of the host contract and the embedded derivative are not closely related;
- a separate instrument with the same terms will meet the definition of a derivative; and
- the combined instrument is not measured at fair value through profit or loss.

Separable embedded derivatives are recognized initially at fair value. Changes in the fair value of separable embedded derivatives are recognized immediately in profit or loss.

The venture capital investments are stated at fair value on an item by item basis, as determined by the Investment Manager and approved by the Board of Directors. Fair value is defined as the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction. Options and similar rights attached to the investments are also considered in determining fair value.

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**Notes to the Interim Consolidated Financial Statements for the six months ended March 31, 2009**


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**5 Summary of significant accounting policies (continued)**

The basis for the fair valuation is the following:

**Valuation of investments in public companies**

The fair value of public companies equals the closing bid price on the reporting date as reported by the exchange where the shares are quoted and traded. Estimated future selling costs are not deducted. The following aspects are excluded from the determination of fair value:

- Investments may be subject to lock-up agreements during a certain period.
- The reliability of the fair value depends on whether one or more buyers would be willing to acquire the entire share held in the investee at the publicly listed price.

**Valuation of investments in private companies**

The fair value of private companies, for which no quoted market price is available, is estimated using valuation techniques including use of recent arm's length market transactions, reference to the current fair value of another instrument that is substantially the same, discounted cash flow techniques and other valuation techniques that provide a reliable estimate of prices obtained in actual market transactions.

The original cost or the price of any subsequent capital increase is considered as an approximation of fair value at the time of the transaction.

The following factors determine the price paid for an investment (the fair value):

- Start-up capital: Technology assessment, negotiations with management, industry comparables, or competitors' bids.
- Capital increase: Re-evaluation of the original technology assessment, negotiations with management, industry comparables, competitors' bids, or achievement of milestones and business plan guidelines. The investment valuation may include a reduction of 10-20% from the price of the capital increase if considered necessary based on the valuation factors listed below.

Subsequent estimates of fair values take into account the following aspects:

- An increase in fair value is recognized when a significant event occurs, such as the issuing of a patent, corporate partnering / private placement, achievement of a milestone (e.g., in research and development) or an increased profitability.
- A decrease in fair value is recognized if the performance subsequent to the acquisition is significantly below the business plan, or if any other circumstances exist that indicates that the fair value of the investment has decreased.

Other factors considered include:

- nature of the business and history of the investee, and related risks
- economic and industry outlook, and related risks
- financial condition and earnings capacity of the investee, and related risks
- incremental value of goodwill and other intangible assets
- sale of shares and the volume of shares to be valued
- market price of shares of public enterprises engaged in the same or a similar business
- fair value of the investee as a whole, taking into account:
  - cost based considerations: replacement values of the underlying net assets on both a going concern and a liquidation basis, etc.
  - earnings-based considerations: discounted earnings, price earnings ratios, multiples, etc.
  - market-based considerations: market values of shares, adjusted market value, etc.

The fair value of the investments in private companies is subject to a re-assessment by the Investment Manager whenever the Company's net asset value is published (normally on a bi-weekly basis). No independent external valuations of the investments are conducted. There are inherent difficulties in determining the fair value of such investments and, as a consequence, the net asset value of the Company.

**d) Accounts receivable**

Accounts receivable relate to the sale of investments and are initially recognized at fair value, plus transaction costs, if any. Where an investment is sold and the settlement is deferred beyond normal credit terms, the proceeds recognized on the disposal are the present value of the anticipated future cash flows. A market related discount rate is used to discount the anticipated future cash flows. Subsequent to initial recognition, the accounts receivable are measured at amortized cost using the effective interest method, less any impairment losses.

## Notes to the Interim Consolidated Financial Statements for the six months ended March 31, 2009

## 5 Summary of significant accounting policies (continued)

e) *Loans payable*

Interest-bearing borrowings are recognized initially at fair value, less any attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are carried at amortized cost using the effective interest method.

f) *Cash and cash equivalents*

Cash and cash equivalents include cash at banks, call money and fixed term deposits with a term of three months or less from the date of acquisition. They are stated at their nominal amount.

g) *Income taxes*

New Venturetec Ltd. has the status of a holding company and as such, benefits from the participation exemption at federal level and from the complete exemption at cantonal and communal level. The theoretical maximum applicable income tax rate is 8.5%. Venturetec, Inc. is not subject to any income taxes.

Current income taxes are, to the extent unpaid, provided for at the enacted tax rate based on current and past earnings of New Venturetec Ltd.

Deferred income taxes are recognized at the expected applicable tax rates on any temporary differences, both taxable and deductible, between the carrying amount and the tax base of assets and liabilities, including the taxable temporary differences of the Subsidiary since they might result in dividend income of New Venturetec Ltd. In measuring the deferred tax assets or liabilities, the manner in which the enterprise expects, at the balance sheet date, to recover or settle the carrying amount of its assets and liabilities is taken into account.

h) *Derecognition of financial assets and liabilities*

The Group derecognizes a financial asset when contractual rights to the cash flows from the asset expire, or it transfers the right to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial assets are transferred.

The Group derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

## 6 Cash and cash equivalents and bank loan payable

	<b>31.03.2009</b>	<b>30.09.2008</b>
	<b>USD</b>	<b>USD</b>
Cash at banks	45,891	175,491
<b>Cash and cash equivalents</b>	<b>45,891</b>	<b>175,491</b>

As of March 31, 2009, cash and cash equivalents are mainly held in USD (USD 8,079) and CHF (CHF 34,050). On May 28, 2008, New Venturetec signed a credit facility in the amount of USD 4.5 million. Within this credit facility and as of March 31, 2009, the total amount of USD 3.1 million was utilized (September 30, 2008: USD 1.7 million), consisting of a draw down on January 26, 2009 of USD 2.1 million at an interest rate of 1.775% and a draw down on February 9, 2009 of USD 1.0 million at an interest rate of 1.75%. The Company's assets have been pledged to Mr. Peter Friedli who acts as a guarantor of this loan.

## Notes to the Interim Consolidated Financial Statements for the six months ended March 31, 2009

## 7 Venture capital investments and notes receivable

## 7.1 Summary

	<b>31.03.2009</b>	<b>30.09.2008</b>
	<b>USD</b>	<b>USD</b>
Venture capital investments (original cost) <sup>1</sup>	109,259,026	125,187,380
Convertible notes receivable at amortized cost	1,300,000	5,004,720
Option portion of convertible notes (original cost)	0	665,464
Cumulative fair value adjustments <sup>2</sup>	(13,146,911)	15,774,539
<b>Total venture capital investments at fair value</b>	<b>97,412,115</b>	<b>146,632,103</b>
Thereof current	1,300,000	1,500,000
Thereof non-current	96,112,115	145,132,103

As of March 31, 2009 and September 30, 2008, the Group's venture capital investments in early stage companies are primarily in the form of common or preferred shares.

As of March 31, 2009, the Group's venture capital investments in convertible notes receivable form part of the long term investment in following companies:

**March 31, 2009:**

<b>Company</b>	<b>Principal</b>	<b>Acquisition</b>	<b>Int.</b>	<b>Maturity</b>	<b>Amortized</b>	<b>Option</b>	<b>Option</b>
	<b>USD</b>	<b>Date</b>	<b>Rate</b>		<b>cost</b>	<b>original cost</b>	<b>at fair value</b>
			<b>%</b>		<b>USD</b>	<b>USD</b>	<b>USD</b>
Healagenics	300,000	22.10.08	10	30.06.09	300,000 <sup>3</sup>	0	0
Prolexis	1,000,000	13.02.09	8	30.06.09	1,000,000 <sup>3</sup>	0	0
<b>Total</b>					<b>1,300,000</b>	<b>0</b>	<b>0</b>

Healagenics and Prolexis are privately held companies and there is no market price for their shares. The fair values of the conversion options are considered immaterial. The conversion option related to a convertible note receivable from Osiris Therapeutics, valued at USD 1.4 million as of September 30, 2008, was exercised on November 14, 2008 (see also Note 7.4). The notes held in Iperia had to be fully written off due to insolvency of the company (see also Notes 7.4 and 7.5).

As of September 30, 2008, the Group's venture capital investments in convertible notes receivable form part of the long term investment in following companies:

<sup>1</sup> Original cost represents the fair value at initial recognition of the investment.

<sup>2</sup> Cumulative fair value adjustments comprise of cumulative fair value adjustments of capital investments and of cumulative fair value adjustments of the option portion of convertible notes if any.

<sup>3</sup> Presented as current assets as of 31.03.2009

## Notes to the Interim Consolidated Financial Statements for the six months ended March 31, 2009

**September 30, 2008**

<b>Company</b>	<b>Principal USD</b>	<b>Acquisition Date</b>	<b>Int. Rate %</b>	<b>Maturity</b>	<b>Amortized cost USD</b>	<b>Option original cost USD</b>	<b>Option at fair value USD</b>
Iperia	500,000	10.10.07	10	10.10.08	500,000 <sup>4</sup>	0	0
Iperia	1,000,000	03.12.07	5	03.12.08	1,000,000 <sup>4</sup>	0	0
Iperia	1,500,000	23.07.08	5	31.12.09	1,500,000	0	0
Osiris Therapeutics	2,500,000	29.05.08	4	30.11.09	2,004,720	665,464	1,381,890
<b>Total</b>					<b>5,004,720</b>	<b>665,464</b>	<b>1,381,890</b>

Financial risk management: For the financial risk management refer to note 14.

<sup>1</sup> Presented as current assets as of 30.09.2008

## Notes to the Interim Consolidated Financial Statements for the six months ended March 31, 2009

## Venture capital investments and notes receivable (continued)

## 7.2 List of venture capital investments

	Approximate paid-in capital <sup>1</sup>		Approximate percentage held <sup>1</sup>	
	31.03.2009 USD million	30.09.2008 USD million	31.03.2009 %	30.09.2008 %
<b>Biotechnology</b>				
Osiris Therapeutics	269.8	258.2	13	13
Inflabloc Pharmaceuticals	47.1	47.1	19	19
Prolexys Pharmaceuticals	181.0	181.0	17	17
Healagenics	10.1	9.9	36	35
Etex	n/a	n/a	n/a	n/a
<b>Technology</b>				
mPortal	17.7	17.7	39	39
IPeria	n/a	62.1	n/a	31
Invenda	142.8	142.8	13	13
WStore	21.7	21.7	20	20

<sup>1</sup> Paid-in capital includes common and preferred share capital and any additional paid-in capital, as of the date of the most recent financial statements. The numbers represent the structure of a typical early stage company. There may be immediate changes, events which will change the structure and dilute the percentage and voting rights held in the companies. There is no relationship between changes of such numbers and the value of the investment. No assurance can be given that any development will be in favor of the investment value. The approximate percentage held includes effects of potential dilution.

## Notes to the Interim Consolidated Financial Statements for the six months ended March 31, 2009

## 7 Venture capital investments and notes receivable (continued)

## 7.3 Movements of cost and changes in fair value, prior year

	<b>Cost</b> <b>01.10.2007</b> <b>USD</b>	<b>Additions</b> <b>USD</b>	<b>Disposals</b> <b>USD</b>	<b>Cost</b> <b>31.03.2008</b> <b>USD</b>	<b>Fair value</b> <b>31.03.2008</b> <b>USD</b>
<b>Biotechnology</b>					
Osiris Therapeutics	20,538,503	1,237,000	0	21,775,503	49,862,340
Inflabloc Pharmaceuticals	10,799,254	200,000	0	10,999,254	5,188,116
Basilea Pharmaceutica	967,397	0	(459,754)	507,643	1,877,175
Prolexys Pharmaceuticals	14,000,000	0	0	14,000,000	15,871,095
Healagenics	3,550,000	0	0	3,550,000	10,041,627
Etex	2,664,248	0	0	2,664,248	1
<b>Technology</b>					
mPortal	10,370,000	0	0	10,370,000	15,077,500
IPeria	18,516,612	1,556,528 <sup>1</sup>	0	20,073,140	16,619,696
Invenda	32,675,875	0	0	32,675,875	7,009,547
WStore	10,332,070	0	0	10,332,070	10,933,332
<b>Total</b>	<b>124,413,959</b>	<b>2,993,528</b>	<b>(459,754)</b>	<b>126,947,733</b>	<b>132,480,429</b>

<sup>1</sup> This amount includes USD 56,528, related to interest on note receivable, accounted for as an addition to cost and other income. No cash was involved in this transaction.

## Notes to the Interim Consolidated Financial Statements for the six months ended March 31, 2009

## 7 Venture capital investments and notes receivable (continued)

## 7.3 Movements of cost and changes in fair value, prior year (continued)

	Cumulative fair value adjustments 01.10.2007 USD	Gains USD	Losses USD	Decrease due to disposals <sup>1</sup> USD	Cumulative fair value adjustments 31.03.2008 USD
<b>Biotechnology</b>					
Osiris Therapeutics	29,224,923	0	(1,138,086) <sup>2</sup>	0	28,086,837
Inflabloc Pharmaceuticals	(3,317,081)	0	(2,494,057) <sup>3</sup>	0	(5,811,138)
Basilea Pharmaceutica	4,617,846	0	(1,391,291) <sup>2</sup>	(1,857,023)	1,369,532
Prolexys Pharmaceuticals	1,871,095	0	0	0	1,871,095
Healagenics	6,491,627	0	0	0	6,491,627
Etex	(2,664,247)	0	0	0	(2,664,247)
<b>Technology</b>					
mPortal	4,707,500	0	0	0	4,707,500
IPeria	(353,050)	0	(3,100,394) <sup>4</sup>	0	(3,453,444)
Invenda	(24,478,675)	0	(1,187,653) <sup>2</sup>	0	(25,666,328)
WStore	6,067,928	0	(5,466,666) <sup>4</sup>	0	601,262
<b>Total investments</b>	<b>22,167,866</b>	<b>0</b>	<b>(14,778,147)</b>	<b>(1,857,023)</b>	<b>5,532,696</b>
<b>Warrants</b>	<b>200,000</b>	<b>0</b>	<b>(200,000)</b>	<b>0</b>	<b>0</b>
<b>Total</b>	<b>22,367,866</b>	<b>0</b>	<b>(14,978,147)</b>	<b>(1,857,023)</b>	<b>5,532,696</b>

<sup>1</sup> Generally, a positive amount reflects cumulative loss on disposal of an investment, a negative amount a cumulative realized gain on disposal of an investment.

<sup>2</sup> Based on quoted share price (SWX, Nasdaq).

<sup>3</sup> Based on discontinuance of certain development projects.

<sup>4</sup> Company failed to meet growth targets.

## Notes to the Interim Consolidated Financial Statements for the six months ended March 31, 2009

## 7 Venture capital investments and notes receivable (continued)

## 7.4 Movements of cost and changes in fair value, current year

	Cost 01.10.2008 USD	Additions USD	Disposals USD	Cost 31.03.2009 USD	Fair value 31.03.2009 USD
<b>Biotechnology</b>					
Osiris Therapeutics	24,445,687	21,892 <sup>1</sup>	0	24,467,579	57,315,554
Inflabloc Pharmaceuticals	11,199,254	0	0	11,199,254	5,388,116
Prolexys Pharmaceuticals	14,000,000	1,000,000	0	15,000,000	15,245,314
Healagenics	3,550,000	300,000	0	3,850,000	2,810,407
Etex	2,664,248	0	0	2,664,248	1
<b>Technology</b>					
mPortal	10,370,000	0	0	10,370,000	14,978,500
IPeria	21,620,430	0	(21,620,430) <sup>2</sup>	0	0
Invenda	32,675,875	0	0	32,675,875	307,557
WStore	10,332,070	0	0	10,332,070	1,366,666
<b>Total</b>	<b>130,857,564</b>	<b>1,321,892</b>	<b>(21,620,430)</b>	<b>110,559,026</b>	<b>97,412,115</b>

<sup>1</sup> USD 21,892 related to interest on note receivable, accounted for as an addition to cost and interest income. No cash was involved in this transaction.

<sup>2</sup> Reflects write off due to insolvency of the company.

## Notes to the Interim Consolidated Financial Statements for the six months ended March 31, 2009

## 7 Venture capital investments and notes receivable (continued)

## 7.4 Movements of cost and changes in fair value, current year (continued)

	Cumulative fair value adjustments 01.10.2008 USD	Gains USD	Losses USD	Increase due to disposals and write offs 31.03.2009 <sup>1</sup> USD	Cumulative fair value adjustments 31.03.2009 USD
<b>Biotechnology</b>					
Osiris Therapeutics	55,399,153	0	(22,551,178) <sup>3,4</sup>	0	32,847,975
Inflabloc Pharmaceuticals	(5,811,138)	0	0	0	(5,811,138) <sup>5</sup>
Prolexys Pharmaceuticals	2,619,533	0	(2,374,219) <sup>6</sup>	0	245,314
Healagenics	6,491,627	0	(7,531,220) <sup>7</sup>	0	(1,039,593)
Etex	(2,664,247)	0	0	0	(2,664,247)
<b>Technology</b>					
mPortal	4,608,500	0	0	0	4,608,500 <sup>8</sup>
IPeria	(9,488,836)	0	(12,131,594)	21,620,430 <sup>2</sup>	0
Invenda	(30,514,649)	0	(1,853,669) <sup>3</sup>	0	(32,368,318)
WStore	(4,865,404)	0	(4,100,000) <sup>9</sup>	0	(8,965,404)
<b>Total</b>	<b>15,774,539</b>	<b>0</b>	<b>(50,541,880)</b>	<b>21,620,430</b>	<b>(13,146,911)</b>

<sup>1</sup> Generally, a positive amount reflects cumulative loss on disposal of an investment, a negative amount a cumulative realized gain on disposal of an investment.

<sup>2</sup> Realized loss (write off) due to insolvency of company.

<sup>3</sup> Based on quoted share price (Nasdaq / SIX)

<sup>4</sup> This amount includes a loss of USD 776,809 related to the revaluation of the conversion option on the note receivable upon execution and a gain in the amount of USD 631'853 on the underlying note which was held at amortized cost.

<sup>5</sup> Valuation adjusted in the fiscal year ended September 30, 2008. Currently no further adjustments necessary.

<sup>6</sup> Due to dilution.

<sup>7</sup> Based on failure to achieve the business plan.

<sup>8</sup> Valuation unchanged based on the achievement of business plan and profitable operation.

<sup>9</sup> Based on failure to reach the budget and revenue forecast and a very unfavorable market environment.

## Notes to the Interim Consolidated Financial Statements for the six months ended March 31, 2009

## 7 Venture capital investments and notes receivable (continued)

## 7.5 Fair value information

The methods and assumptions used in estimating the fair values of the venture capital investments are discussed in note 5 c).

Fair value of venture capital investments:

Venture capital investments for which fair values were:	31.03.2009		31.03.2008	
	USD	%	USD	%
- determined directly, in full or in part, by reference to published price quotations	57,623,111	59%	58,749,062	44%
- determined using valuation techniques <sup>1</sup>	39,789,004	41%	73,731,367	56%
<b>Total carrying amount</b>	<b>97,412,115</b>	<b>100%</b>	<b>132,480,429</b>	<b>100%</b>

The total amount of the change in fair value estimated using a valuation technique that was recognized in the income statement in the current year amounted to a net loss of USD 26,137,033 (previous year: net loss of USD 11,061,117).

The following is an overview of assumptions and valuation techniques applied to investments without published price quotations on a company by company basis:

**Inflabloc:** Inflabloc successfully developed its program for the treatment of age related macular degeneration (AMD). The projects are on target. The valuation which is based on DCF calculation model did not change significantly in the reporting period. The valuation is also supported by the investment of a third party investor.

**Prolexys Pharmaceuticals:** Prolexys makes slow progress in the Phase I clinical trial of the PRLX 93936 product for oncology applications. Progress as well on a back-up compound for PRLX 93936. The clinical trials are slow and the development is behind plan. The current market environment is putting a lot of pressure on the valuations the necessary capital increases to fund the operations. New Venturetec invested USD 1'000'000 in the reporting period to prevent its investment from further dilution. The company valuation which is based on a DCF calculation did slightly decrease in the reporting period.

**Healagenics:** Healagenics launched its first product in the second half of 2008. The market penetration was very slow and the company did not meet its revenue plans. Current shareholders including Venturetec covered the losses through debt financings. The valuation which is based on a DCF calculation decreased accordingly.

**Etex:** The investment in Etex was fully written off due to a high possibility of capital increases that would have a highly dilutive effect on the investment held by New Venturetec. Any pay back on, or favorable disposal of, the investment is not foreseeable. Given the high uncertainty and lack of transparency there is no basis to arrive at a higher valuation.

**mPortal:** The company increased its customer base and positioned itself well in the market place. mPortal is on plan and the valuation of the company which is based on DCF calculation model did not change in the reporting period. mPortal is working profitably.

**Iperia:** The company failed heavily to achieve its budget for 2007 and the first 3 quarters of 2008. In Q4 2008 the company was not able to attract investors to fund its losses. In January 2009 the company was forced to sell all its assets at a very low price which did not cover the short term debt of the company. Neither note holders nor shareholders of Iperia will be refunded and the investment had to be written off.

**Wstore:** Wstore faced a 25% decrease in revenue in 2008 and a loss of EUR 4 million. This loss put a lot of pressure on the balance sheet of the company. Wstore can not afford any additional loss. The survival of the company is questionable as the market is continuing to decrease. The valuation was not supported by any outside investor. Efforts to sell the company in the second half of 2008 were not successful and no pricing indications were given. The valuation is therefore based on DCF calculation. The valuation decreased due to the increased risk of bankruptcy as described above.

The carrying amounts of the Group's other financial assets and liabilities at the balance sheet date approximated their fair values.

<sup>1</sup> Part of this value was determined using valuation techniques that are not supported by observable market prices or rates

## Notes to the Interim Consolidated Financial Statements for the six months ended March 31, 2009

**8 Share capital and capital management****8.1 History of changes in share capital**

On October 10, 1997, the Company increased its share capital from CHF 25,000,000 (USD 17,006,803) to CHF 31,250,000 (USD 21,303,517) by issuing 500,000 bearer shares with a par value of CHF 12.50 each at a price of CHF 33.00 per share. On October 17, 1997, the Company's shares were listed on the Swiss Exchange. The additional paid-in capital amounted to CHF 10,250,000 (USD 7,046,610). The cost of the initial public offering (IPO) in the amount of CHF 1,090,000 (USD 749,346), including bank commissions, stamp duties and other costs directly related to the IPO, was deducted from additional paid-in capital.

On February 4, 1999, the Company increased its share capital from CHF 31,250,000 (USD 21,303,517) to CHF 62,500,000 (USD 43,302,813) by issuing 2,500,000 bearer shares with a par value of CHF 12.50 at a price of CHF 39.75 per share. The additional paid-in capital amounted to CHF 68,125,000 (USD 47,958,465). The cost of the capital increase in the amount of CHF 3,885,000 (USD 2,734,952), including bank commissions, stamp duties and other costs directly related to the capital increase, was deducted from additional paid-in capital.

The share capital as of March 31, 2009 consisted of 5,000,000 bearer shares with a par value of CHF 12.50 each, fully paid in.

**8.2 Significant shareholders**

The following is an overview of significant shareholders:

Company		
Bâloise-Holding, Basel	7.0 %	(350,000 shares)
Beamtenversicherungskasse of the Canton of Zurich	6.4 %	(320,000 shares)
Pensionskasse of Credit Suisse, Zurich	4.4 %	(219,702 shares)
Sumara AG, Zug	3.8 %	(190,178 shares)

**8.3 Capital management**

The objective of New Venturetec is to achieve long term capital appreciation through equity and debt investments in start-up, emerging and growth companies which the Investment Manager believes offer significant growth opportunities. The Group identifies successful and promising companies and then actively work with management over a five to ten year time horizon.

The investment decisions will be based upon (i) the Investment Manager's ability to identify companies which can successfully utilize capital at an early stage in their life cycle, (ii) carefully selected or assessed management teams, (iii) strategic advice for positioning such companies in high growth markets promising to generate public interest at a future date and (iv) an influence on the portfolio companies.

The Group measures its performance based on the development of its Net Asset Value (NAV). The NAV per share is a figure which is calculated on a regular, consistent basis to approximately reflect the intrinsic value of one share of the Company. The NAV is expected to serve as an indicator for the price of the shares of the Company. The NAV is calculated by the Investment Manager on a bi-weekly basis by dividing the value of the net assets of the Group (the value of its assets less its liabilities) by the total number of shares outstanding.

It is not the aim of the Group to leverage its equity for the purpose of making investments. Nevertheless, the Group may carry some debt in order to balance the availability of liquidity and to avoid dilution of its investments. The Group's debt financing is primarily provided by Mr. Peter Friedli through accrued management fees and accrued performance fees that are converted into loans payable (see note 13.3).

It is not the Group's policy to pay out any dividends.

## Notes to the Interim Consolidated Financial Statements for the six months ended March 31, 2009

## Notes to the consolidated income statement

## 9 Management fees

According to the Investment Management Agreement (see note 13), management fees payable to the Investment Manager are calculated at 1.5% per annum on the Group's net asset value as estimated by the Investment Manager. Another 0.5% can be used for investor relation services and other external costs directly related to the investment management activities; such costs are presented under general and administrative expenses.

According to an amendment to the loan agreements set out in note 13.3, dated January 24, 2005, an additional management fee payable to the Investment Manager was calculated at 1.5% of the principal amount of the debt financed investments (retroactively since the initial borrowing) until such loans were converted into promissory notes.

During the interim period and as of March 31, 2009 USD 753,610 (prior year: USD 903,124) were accrued for based on NAV calculations. Additionally, no management fee on the debt financed investments (prior period: USD 43,653) was accrued for.

During the interim period under review, no management fees were paid out (prior year: an amount of USD 88,653 related to ordinary management fees based on NAV calculations and an amount of USD 1,072,424 related to management fees on debt financed investments were paid in cash).

With effect from December 31, 2007, any accrued ordinary management fees were converted into a 4% interest bearing secured promissory note payable to Mr. Friedli. As at March 31, 2009 this is presented as a loan payable to related party. Furthermore, any accrued management fees on debt financed investments, together with the underlying loan and any accrued interest, were converted into 3% interest bearing secured promissory notes payable to Mr. Friedli and are presented as loans payable to related party as at March 31, 2009. Management fees as accrued as of September 30, 2008 were converted into 4% interest bearing secured promissory note payable to Madison Partners SA, Panama, presented as a loan payable to related party as of March 31, 2009 (see also Note 13.3).

**Accrued management fees are as follows:**

	<b>Six months ended 31.03.2009 USD</b>	<b>Twelve months ended 30.09.2008 USD</b>
Management fee as of October 1	1,259,532	8,516,876
Management fee for the current period	753,610	1,832,718
Management fee paid out	0	(1,237,444)
Converted into promissory notes	(1,259,532)	(7,941,576) <sup>1</sup>
Foreign exchange differences	0	88,958
<b>Total management fees accrued at the end of period</b>	<b>753,610</b>	<b>1,259,532</b>

The accrued expenses become due within 3 business days from the date of a forced change of the Investment Manager.

The Investment Manager is permitted to offer to, and perform services, if and when needed and approved by the investees, to the benefit of, the Company's investees and get compensated for such services accordingly.

<sup>1</sup> Includes an amount of USD 7,679,749 which relates to ordinary management fees, the remaining amount of USD 261,827 relates to management fees on debt financed investments (Healgenics and Invenda).

## Notes to the Interim Consolidated Financial Statements for the six months ended March 31, 2009

## 10 Performance fees

The amount stated as of September 30, 2008 reflects a performance fee on the debt financed investment in Basilea Pharmaceutica. The performance fee was calculated at 12% on all realized profits that exceeded the initial principal borrowed amount. As the entire investment was sold and any remaining outstanding performance fees were converted into a 3% promissory note as of September 30, 2008, no items are shown under this heading as of March 31, 2009.

**Accrued performance fees on debt are as follows:**

	<b>Six months ended 31.03.2009 USD</b>	<b>Twelve months ended 30.09.2008 USD</b>
Performance fees of October 1	0	7,957,389
Performance fee for the current period	0	(492,028) <sup>1</sup>
Performance paid out	0	(1,320,138)
Converted into promissory note	0	(6,733,050)
FX-Adjustments	0	587,827
<b>Total performance fees accrued at the end of the period</b>	<b>0</b>	<b>0</b>

## 11 Income taxes

For the interim periods ended March 31, 2009 and 2008, no current tax expenses or provisions were recognized due to the accumulated deficits incurred by the Parent Company. The tax effect of the tax loss carryforward is insignificant and not recognized as an asset.

Deferred taxes arise only on the revaluation of investments and on the undistributed earnings of the Subsidiary. The related deferred tax liability and any changes thereto are debited or credited to deferred tax expense. They are calculated at 0.5%, which is the estimated tax rate on dividend income applicable to the Parent Company. A deferred tax income of USD 156,808 was recognized in the income statement in the current period (prior year: USD 49,265).

<sup>1</sup> The accrued performance fee decreased due to a decrease of the Basilea Pharmaceutica share price which influenced the unrealized part of the performance fee. The investment in Basilea Pharmaceutica has been fully sold up to September 30, 2008.

Notes to the Interim Consolidated Financial Statements for the six months ended March 31, 2009

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Notes to the consolidated cash flow statement

12 Additional information on the cash flow statement

*Composition of cash and cash equivalents:*

- see note 6

*Significant non-cash transactions:*

**Related to the interim period ended March 31, 2009**

- As disclosed in notes 9 and 13.3 respectively, accrued management fees of USD 1,259,532 were converted into a loan payable to related party.
- Interest on loans payable to related party was accrued and did not result in any cash flow during the interim period under review .
- Interests on notes receivable in the total amount of USD 114,422 were accrued or accounted for as an addition to costs and did not result in any cash flow during the interim period under review.

**Related to the interim period ended March 31, 2008**

- During interim period under review and as disclosed in note 7.3, interest income in the amount of USD 56,528 was recognized as part of notes receivable.
- As disclosed in notes 9, and 13.3 respectively, accrued management fees of USD 256,707 were converted into loans payable.
- Interest on loans payable to related party was accrued and did not result in any cash flow during the interim period under review .

Notes to the Interim Consolidated Financial Statements for the six months ended March 31, 2009

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Other notes

**13 Related parties**

**13.1 Investment Manager**

The Investment Manager of New Venturetec Ltd. is Madison Partners SA, Panama, with offices in the US. The Investment Manager provides management services to New Venturetec Ltd. under a separate Investment Management Agreement with specific responsibilities as regards to the selection, purchase, sale, structure and disposal of the Group's investments.

Mr. Peter Friedli is the Chairman of the Board of Directors and, through Friedli Corporate Finance, majority shareholder of Madison Partners SA and at the same time is the Chairman of the Board of Directors of New Venturetec Ltd. Furthermore, he is also a member of the Board of Directors of certain investees. As Chairmen of the Board of Directors of the Investment Manager of New Venturetec and other investment companies, he may be able to exercise significant influence or control over the Company's investees.

In addition to the management fees recognized in the income statement and disclosed in note 9, the agreement provides for a performance fee equal to:

- 12% of the percentage points exceeding 15% of the compounded annual return to investors calculated on the basis of the net asset value, multiplied by the net amount of "realized profit and loss"; or
- 12% of the net amount of "realized profit and loss", if the compounded annual return to investors is 20% or higher.

Such performance fee is payable annually based on the audited financial statements, if the conditions are met, in the form of shares of the Company, cash, or a combination thereof at the discretion of the Investment Manager. 94% of the performance fee is paid to the Investment Manager and 6% to the members of the Board of Directors (excluding Mr. Friedli).

Other Performance fees are due on debt financed investments (see note 10 and 13.4 for further details)

**13.2 Board of Directors**

USD 45,995 was accrued as fees to the Board Directors for the interim period under review and USD 81,532 was paid out related to accrued fees for prior periods (2008: USD 49,650 accrued).

## Notes to the Interim Consolidated Financial Statements for the six months ended March 31, 2009

## 13.3 Loans payable to related party

All loans payable to related parties are entered into with Mr. Friedli, except for the 4 % secured promissory note for management fee "Madison".

<b>Loans payable (including accrued interest)</b>	<b>31.03.2009</b>	<b>30.09.2008</b>
	<b>USD</b>	<b>USD</b>
<u>3% secured promissory note "Healagenics" <sup>1)</sup></u>	904,685	891,707
<u>3% secured promissory note "Invenda" <sup>2)</sup></u>	2,544,880	2,541,501
<u>4% secured promissory note for management fee <sup>3)</sup></u>	8,058,476	7,906,144
<u>3% secured promissory note for performance fee <sup>4)</sup></u>	6,526,842	6,517,509
<u>4% secured promissory note for management fee "Madison" <sup>5)</sup></u>	1,284,378	0
<b>Total</b>	<b>19,319,261</b>	<b>17,856,861</b>

- 1) On February 27, 2002, a loan of USD 500,000 was granted to Venturetec, Inc. by another investment company managed by the same Investment Manager, repayable on June 30, 2007 and bearing interest at 10% per annum, for the purpose of financing the investment in Healagenics (see note 7). The original due date of June 30, 2004 was prolonged in June 2003 to June 30, 2006, in October 2004 to June 30, 2007 and in June 2006 to June 30, 2008. This loan, including any accrued interest and management fees (in total USD 872,366), was converted with effect from 31 December 2007 into a 3% secured promissory note payable to Mr. Friedli, due on 31 December 2008, prolonged in February 2009 to November 30, 2009.
- 2) On April 15, 2002, a loan of CHF 2,000,000 was granted to Venturetec, Inc. by another investment company managed by the same Investment Manager, repayable on June 30, 2007 and bearing interest at 5% per annum, for the purpose of financing part of the investment in Invenda (see note 7). The original due date of June 30, 2004 was prolonged in June 2003 to June 30, 2006, in October 2004 to June 30, 2007 and in June 2006 to June 30, 2008. This loan, including any accrued interest and management fees (in total CHF 2,816,269) was converted with effect from 31 December 2007 into a 3% secured promissory note payable to Mr. Friedli, due on 31 December 2008, prolonged in February 2009 to November 30, 2009.
- 3) With effect from December 31, 2007 accrued management fees in the amount of USD 7,679,749 were converted into a 4% secured promissory note payable to Mr. Friedli, due on 30 June 2009, prolonged in February 2009 to November 30, 2009.
- 4) On July 1, 2008, the performance fee on the disposal of the debt financed investment in Basilea Pharmaceutica in the amount of CHF 7,273,041 (USD 6,733,050) was converted into a 3% secured promissory note payable to Mr. Friedli, due on 30 June 2009, prolonged in February 2009 to November 30, 2009.
- 5) With effect from October 01, 2008 accrued management fees in the amount of USD 1,259,532 were converted into a 4% secured promissory note payable to Madison Partners SA, due on November 30, 2009.

Upon a forced change of the Investment Manager, all loans payable, including accrued interest, have to be paid within 5 business days from such event.

## Notes to the Interim Consolidated Financial Statements for the six months ended March 31, 2009

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### 13.4 Performance fees

According to an amendment to the loan agreements set out in note 13.3, dated January 24, 2005, an additional performance fee is due to Mr. Friedli at 12% of all realized profit that exceeds the initial principal borrowed amount, calculated by each underlying investment.

As of 31 December 2007, any outstanding performance fees were converted into a 3% secured promissory note payable to Mr. Friedli, compare note 13.3. For further details see note 10.

### 13.5 Related party transaction

During the interim period under review, no cash transactions with related parties occurred, except for payments of Board of Director's fees (see note 13.2).

## 14 Financial risk management

The Group's investing activities expose it to various types of risk that are associated with the financial instruments and markets in which it invests:

- market risk, includes currency risk, interest rate risk and equity price risk.
- credit risk and
- liquidity risk

This note presents information about the Group's exposure to each of these risks, the Group's objectives, policies and processes for measuring and managing risk.

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. All investment decisions for the Company as well as the Net Asset Value computation are made unilaterally by the Investment Manager. The Board of Directors is responsible for ensuring that the Investment Manager follows the investment policy set by the Company. However, it should be realized that Peter Friedli is Chairman of the Board of Directors and acting on behalf of the Investment Manager and that between him and the Company conflicts of interests may arise.

In order for the Company to be successful in investing in start-up and emerging companies, it must identify potentially profitable enterprises at an early stage in their development, a process which is very difficult even for people with considerable experience in the venture capital field. Furthermore, the Company is competing for investment opportunities with a number of other venture capital firms. The Company may also invest in businesses which are not start-up or emerging companies, but which are for various reasons seeking to raise additional capital without making a public offering of securities. These reasons can include adverse conditions in the public securities markets, or a record of earnings and/or growth, which is less than adequate for a successful public offering of securities.

Notes to the Interim Consolidated Financial Statements for the six months ended March 31, 2009

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**14.1 Market risk**

Market risk embodies the potential for both loss and gains and includes market price risk, currency risk and interest rate risk. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.

The objective of Venturetec, Inc. is to achieve long-term capital appreciation through investments in venture companies which the Investment Manager believes offer significant growth opportunities. Venturetec Inc. invests in venture companies. Many of the investments relate to privately held companies. Although the risk of market fluctuation is balanced through the long term investment horizon the risk of venture capital investments is 100%. The Investment Manager monitors the capital market and adjusts the Net Asset Value of the portfolio on a biweekly basis.

**14.1.1 Equity price risk**

Equity price risk is the risk that the fair value of an equity investment will fluctuate as a result of changes in equity prices (other than those arising from interest rate risk or currency risk), whether caused by factors specific to an individual investment, its issuer or all factors affecting all instruments traded in the market.

As all of the Company's equity investments are carried at fair value with fair value changes recognized in the income statement, all changes in market conditions will directly affect profit or loss.

Most of the investees are in a development stage, disclosing accumulated deficits and little or no revenues. Their ability to continue as a going concern may depend on additional funding. These investments offer the opportunity of significant capital gains, but involve a high degree of business and financial risks that can result in substantial losses, including the risk of a total un-recoverability of an investment. The financial risk management objectives and policy of New Venturetec are to minimize dilution by structuring the initial investment accordingly. Other protective measures such as liquidation preferences are also part of the Company's policy. However, the operational risk remains. Furthermore, the Company does not hedge any foreign currencies or interest rate risk exposure. The risks of venture capital investments are 100%.

**Sensitivity analysis**

If for Osiris Therapeutics the price quoted at the NASDAQ would have increased / decreased by 10% with all other variables held constant P&L would have been USD 5,731,000 higher/lower.

If for Invenda the price quoted at the SIX Swiss Exchange would have increased/decreased by 10% with all other variables held constant profit and loss would have been USD 31,000 higher/lower.

For not publicly listed investments a quantitative sensitivity analysis is not meaningful as the performance is linked to fundamental data (technology, management, milestones, etc.). For a detailed overview of the investment portfolio and its exposure refer to note 7.

## Notes to the Interim Consolidated Financial Statements for the six months ended March 31, 2009

## 14.1.2 Currency risk

The Company's subsidiary is investing in its functional currency USD and the Net Asset Value per share is also published in US Dollars. Any investment in other currencies than the US Dollar might lead to positive or negative impacts on the Company's performance in its annual financial statements, including its income statement.

As of March 31, 2009 only the following monetary financial assets and liabilities are denominated in currencies other than the functional currency of the group companies holding the assets and liabilities:

All amounts shown in USD March 31, 2009	USD	CHF	Other
Cash and cash equivalents	7,604	34,050	3,761
Other accrued expenses		(196,077)	0
Loans payable to related party		(9,071,721)	0
<b>Net exposure as of March 31, 2009</b>	<b>7,604</b>	<b>(9,233,748)</b>	<b>3,761</b>
<b>September 30, 2008</b>			
Cash and cash equivalents	7,634	768	4,038
Other accrued expenses		(212,147)	
Loans payable to related party		(9,059,010)	
<b>Net exposure as of September 30, 2008</b>	<b>7,634</b>	<b>(9,270,389)</b>	<b>4,038</b>

## Sensitivity analysis

A 10 percent strengthening of the USD against the CHF would have increased net profit by USD 839,000 (prior twelve months period ended September 30, 2008: USD 853,000). A decrease by 10 percent would have had the same but opposite impact on net profit. This analysis assumes that all other variables, in particular interest rates, remain constant.

## 14.1.3 Interest rate risk

At the reporting date the interest rate profile of the Group's interest bearing financial instruments was as follows:

Fixed rate instruments	Note	31.03.2009 USD	30.09.2008 USD
Convertible notes receivable	7.1	1,300,000	5,004,720
Loans payable to related party	13.3	19,319,261	17,856,861
<b>Variable rate</b>			
Cash and cash equivalents	6	45,891	175,491
Bank loan payable	6	3,100,000	1,700,000

## Fair value sensitivity analysis for fixed rate instruments

The Group does not account for any fix rate financial assets and liabilities at fair value through profit or loss. Therefore a change in interest rates at the reporting date would not affect profit and loss or the equity.

## Cash flow sensitivity analysis for variable rate instruments

## Notes to the Interim Consolidated Financial Statements for the six months ended March 31, 2009

A change of 100 basis points in interest rates at the reporting date would have decreased profit and loss by USD 15,000 (prior twelve months period ended September 30, 2008: increased USD 19,000). A decrease by 100 basis points would have had the same but opposite impact on profit and loss. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

## 14.2 Credit risk

Credit risk is the risk that a counterparty will fail to discharge an obligation or commitment that it has entered into with the Company.

At March 31, 2009 only cash and cash equivalents as disclosed in notes 6 receivables, other assets and convertible notes receivable as disclosed in note 7 were exposed to credit risks. The carrying amounts of these assets represent their maximum credit risk exposure. No impairment losses have been recognized until balance sheet date.

Cash and cash equivalents are deposited by banks with a minimum credit rating of at least investment grade. The convertible notes are investments in companies for which New Venturetec has sufficient information for assessing the financial situation of the private equity company.

## 14.3 Liquidity risk

Liquidity risk is the risk that New Venturetec will not be able to meet its financial obligations as they fall due. Currently most of the liabilities are due to Mr. Peter Friedli and it is not expected that they will be called upon prior to the successful settlement of venture capital investments. Part of the investment portfolio is invested in publicly traded companies and could be liquidated if required. Nevertheless, Peter Friedli is Chairman and a member of the Board of Directors of Osiris Therapeutics and Invenda and therefore is subject to certain trading restrictions. These trading restrictions are also applicable to New Venturetec and may have a negative impact on liquidity of the Group.

The following table shows an analysis of the remaining contractual maturities of financial liabilities

<b>31.03.2009 USD</b>	<b>Carrying amount</b>	<b>Less than 3 months</b>	<b>3 months to a year</b>	<b>1 year to 2 years</b>	<b>No maturity</b>
Accrued management fees	753,610	753,610			
Other accrued expenses	205,133	205,133			
Loans payable to related party	19,319,261		19,746,893		
Bank loan payable	3,100,000	3,113,013			
<b>Total</b>	<b>23,378,004</b>	<b>4,071,756</b>	<b>19,746,893</b>	<b>0</b>	<b>0</b>
<b>30.09.2008 USD</b>	<b>Carrying amount</b>	<b>Less than 3 months</b>	<b>3 months to a year</b>	<b>1 year to 2 years</b>	<b>No maturity</b>
Accrued management fees	1,259,532	1,259,532			
Other accrued expenses	212,147	212,147			
Loans payable to related party	17,856,861	3,458,539	14,799,610		
Bank loan payable	1,700,000	1,715,300			
<b>Total</b>	<b>21,028,540</b>	<b>6,645,518</b>	<b>14,799,610</b>	<b>0</b>	<b>0</b>

## Notes to the Interim Consolidated Financial Statements for the six months ended March 31, 2009

## 14.4 Categories of financial instruments and Fair Value

	31.03.2009 Carrying amount USD	Fair value USD	30.09.2008 Carrying amount USD	Fair value USD
<b>Cash</b>	45,891	45,891	175,491	175,491
Cash equivalents	0	0	0	0
Convertible notes receivable	1,300,000	1,300,000	5,004,720	5,004,720
<b>Total loans and receivable</b>	<b>1,300,000</b>	<b>1,300,000</b>	<b>5,004,720</b>	<b>5,004,720</b>
Venture capital equity investments	96,112,115	96,112,115	140,245,493	140,245,493
<b>Total designated at fair value through profit and loss</b>	<b>96,112,115</b>	<b>96,112,115</b>	<b>140,245,493</b>	<b>140,245,493</b>
Options and warrants	0	0	1,381,890	1,381,890
<b>Total financial assets held for trading</b>	<b>0</b>	<b>0</b>	<b>1,381,890</b>	<b>1,381,890</b>
Accrued management fees	753,610	753,610	1,259,532	1,259,532
Accrued performance fees	0	0	0	0
Other accrued expenses	312,865	312,865	212,147	212,147
Loans payable to related parties	19,319,261	19,084,485	17,856,861	17,387,053
Bank loan payable	3,100,000	3,100,000	1,700,000	1,700,000
<b>Total financial liabilities at amortized cost</b>	<b>23,485,736</b>	<b>23,250,960</b>	<b>21,028,540</b>	<b>20,558,732</b>

Basis for determination of the fair values:

The carrying amounts of cash equivalents, bank loans payable, other assets and accrued expenses due to the short maturity approximate fair value.

For the determination of the fair value of the venture capital investments refer to Notes 5c and 7.

The fair value of the loans payable to related party is determined by discounting the future contractual cash flows. The applied discount factor is the government yield curve plus a credit spread of 4% for both 2009 and 2008.

## 15 Subsequent events

The consolidated interim financial statements were authorized for issue by the Board of Directors on May 4, 2009.

The Board of Directors is not aware of any events between March 31, 2009 and May 4, 2009, which would require adjustment to the carrying amounts of the Group's assets and liabilities as of March 31, 2009 or would require disclosure under this heading.

## Appendix I

### Risk Factors Osirs Therapeutics

Source: Osiris Therapeutics 10K form December 31, 2008

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**Form 10-K**

**ANNUAL REPORT PURSUANT TO SECTION 13 OR  
15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934:**

For the fiscal year ended December 31, 2008

**TRANSITION REPORT PURSUANT TO SECTION 13  
OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934:**

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 001-32966

**Osiris Therapeutics, Inc.**

(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of  
incorporation or organization)

**71-0881115**

(I.R.S. Employer Identification No.)

**7015 Albert Einstein Drive, Columbia, Maryland**

(Address of principal executive offices)

**21046-1707**

(Zip Code)

**443-545-1800**

(Registrant's telephone number, including area code)

**Securities registered pursuant to Section 12(b) of the Act:**

**Title of Each Class**

**Name of Each Exchange on which Registered**

Common Stock, \$0.001 par value

NASDAQ Global Market

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer       Accelerated filer       Non-accelerated filer       Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

On June 30, 2008, the last business day of the registrant's most recently completed second fiscal quarter, the aggregate market value of voting Common Stock held by non-affiliates of registrant, based upon the last sale price of the Common Stock reported on the NASDAQ Global Market was approximately \$278,226,000.

The number of shares of the registrant's Common Stock outstanding as of March 6, 2009 is 32,708,920.

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## ITEM 1A. RISK FACTORS

### *Risks Related To Our Business*

#### ***We have a history of operating losses and may not achieve or sustain profitability.***

We have incurred losses in each year since our inception, and may incur additional losses over the next several years. As of December 31, 2008, we had an accumulated deficit of \$274.9 million. These losses resulted principally from costs incurred in our research and development programs and from our general and administrative expenses. These losses, among other things, have had and will continue to have an adverse effect on our stockholders' equity, total assets and working capital.

We expect to continue to incur significant operating expenses in the foreseeable future as we seek to:

- complete our Phase III clinical trials for Prochymal for GvHD and Crohn's disease;
- complete our Phase II clinical trial for Chondrogen, and, if supported by the Phase II clinical trial, initiate additional clinical trials;
- complete our Phase II clinical trial for Prochymal for cardiac indications, and, if supported by the Phase II clinical trial, initiate Phase III clinical trials;
- complete our Phase II clinical trial for Prochymal for type 1 diabetes, and, if supported by the Phase II clinical trial, initiate Phase III clinical trials;
- complete our Phase II clinical trial for Prochymal for COPD, and, if supported by the Phase II clinical trial, initiate Phase III clinical trials;
- complete our animal studies for Prochymal for acute radiation syndrome, and, if supported by the preclinical studies, initiate further studies;
- maintain, expand and protect our intellectual property portfolio; and

## Table of Contents

- add operational, financial, accounting, facilities engineering and information systems personnel, consistent with expanding our operations and our status as a public company.

In addition, during 2008 we sold our Osteocel business unit, including our only commercially available product. While we expect to achieve commercialization of at least some of our other products, there can be no assurances when, or if, we will be able to do so.

The extent of our future operating losses or profits is highly uncertain, and we may not achieve or sustain profitability. If we are unable to achieve and then maintain profitability, the market value of our common stock will decline and you could lose part or all of your investment.

### **The current credit and financial market conditions may exacerbate certain risks affecting our business.**

We rely upon third-parties for certain aspects of our business, including collaboration partners, wholesale distributors, contract clinical trial providers, contract manufacturers and third-party suppliers. Because of the recent tightening of global credit and the volatility in the financial markets, there may be a delay or disruption in the performance or satisfaction of commitments to us by these third-parties or our access to capital may be restricted or eliminated, any of which could adversely affect our continuing operations or business.

### **If we are not able to recruit and retain qualified management and scientific personnel, we may fail in developing our technologies and biologic drug candidates.**

Our future success depends to a significant extent on the skills, experience and efforts of the principal members of our scientific, management and sales personnel. These members include C. Randal Mills, Ph.D., Richard W. Hunt, Harry E. Carmitchel, Michelle L. Williams, Ph.D., Philip R. Jacoby, Jr., and Lode Debrabandere Ph.D. The loss of any or all of these individuals could harm our business and might significantly delay or prevent the achievement of research, development or business objectives. We have entered into employment agreements with Dr. Mills, Messrs. Carmitchel and Hunt, and Dr. Debrabandere. The existence of an employment agreement does not, however, guarantee retention of these employees, and we may not be able to retain those individuals for the duration of or beyond the end of their respective terms. Except for Dr. Mills, Messrs. Carmitchel and Hunt, and Dr. Debrabandere, none of our employees is employed for a specified term. Competition for personnel is intense. We may be unable to retain our current personnel or attract or integrate other qualified management and scientific personnel in the future.

### **If the potential of our stem cell therapies to treat diseases is not realized, the value of our technology and our development programs could be significantly reduced.**

The potential of our stem cell therapies to treat diseases is currently being explored by us. We have not proven in clinical trials that our stem cell therapies will be a safe and effective treatment for any disease. Our stem cell therapies are susceptible to various risks, including undesirable and unintended side effects, unintended immune system responses, inadequate therapeutic efficacy or other characteristics that may prevent or limit their marketing approval or commercial use. We have not yet completed all of the testing necessary to allow us to make a determination that serious unintended consequences will not occur. If the potential of our stem cell therapies to treat disease is not realized, the value of our technology and our development programs could be significantly reduced. Because our biologic drug candidates are based on MSCs, any negative developments regarding the therapeutic potential or side effects of MSCs could have a material adverse effect on our business, financial condition and results of operations.

## Table of Contents

### **Our product development programs are based on novel technologies and are inherently risky.**

We are subject to the risks of failure inherent in the development of products based on new technologies. The novel nature of our therapeutics creates significant challenges in regards to product development and optimization, manufacturing, government regulation, third-party reimbursement and market acceptance. For example, the FDA has relatively limited experience with stem cell therapies. None has been approved by the FDA for commercial sale, and the pathway to regulatory approval for our biologic drug candidates may accordingly be more complex and lengthy. Additionally, stem cells are subject to donor-to-donor variability, which can make standardization more difficult. As a result, the development and commercialization pathway for our therapies may be subject to increased uncertainty, as compared to the pathway for new conventional drugs.

### **There are no FDA approved treatments for some of the disease indications we are pursuing. This could complicate and delay FDA approval of our biologic drug candidates.**

There are no drugs or therapies currently approved with stated indications for the first-line treatment of acute GvHD or the treatment of steroid refractory GvHD. As a result, the clinical efficacy endpoints, or the criteria to measure the intended results of treatment, for our biologic drug candidate Prochymal for the treatment of GvHD may be difficult to determine. In addition, patients battling GvHD and who, therefore, are candidates for treatment with Prochymal, are typically very ill as a result of an underlying genetic or oncologic condition. Due to the graveness of their underlying disease and the very serious complications and disorders that often accompany acute GvHD, many of these patients will die from causes other than GvHD prior to the completion of the study even if their GvHD responds favorably to treatment with Prochymal. The resulting reduction in the number of patients available for evaluation at the end of the study may make it more difficult for us to demonstrate efficacy, as necessary to obtain FDA approval to market Prochymal for commercial sale.

There are also no drugs or therapies currently approved with stated indications for the repair of heart muscle following heart attack. As a result, the clinical endpoints for our biologic drug candidate Prochymal for cardiac indications may be difficult to determine. In the case of Prochymal for the treatment of Crohn's disease, there are other products approved for the treatment of this disease, so it is expected that the clinical efficacy endpoints for Prochymal for this indication will be established by comparison with these already approved treatments. In order to obtain FDA approval for any indication, we will have to demonstrate, among other things, that our biologic drug candidate is safe and effective for that indication. The results of our clinical trials must be statistically significant, meaning that there must be sufficient data to indicate that it is unlikely the outcome occurred by chance. These challenges may prevent us from developing and commercializing products on a timely or profitable basis, or at all.

### **Our biologic drug candidates represent new classes of therapy that the marketplace may not understand or accept.**

Even if we successfully develop and obtain regulatory approval for our biologic drug candidates, the market may not understand or accept them. We are developing biologic drug candidates that represent novel treatments and will compete with a number of more conventional products and therapies manufactured and marketed by others, including major pharmaceutical companies. The degree of market acceptance of any of our developed and potential products will depend on a number of factors, including:

- the clinical safety and effectiveness of our products and their perceived advantage over alternative treatment methods;

## Table of Contents

- our ability to demonstrate that Prochymal can have a clinically significant effect, initially on steroid refractory GvHD and acute GvHD, and then also the other indications for which we seek approval;
- our ability to separate ourselves from the ethical controversies associated with stem cell drug candidates derived from human embryonic or fetal tissue;
- ethical controversies that may arise regarding the use of stem cells or human tissue of any kind, including adult stem cells, adult bone marrow and other adult tissues derived from donors;
- adverse events involving our biologic drug candidates or the products or product candidates of others that are stem cell based;
- our ability to supply a sufficient amount of our product to meet regular and repeated demand in order to develop a core group of medical professionals familiar with and committed to the use of our products; and
- the cost of our products and the reimbursement policies of government and third-party payors.

If the health care community does not accept our potential products for any of the foregoing reasons, or for any other reason, it could affect our sales, having a material adverse effect on our business, financial condition and results of operations.

### **The successful commercialization of our biologic drug candidates, or any of our other potential stem cell therapeutics, will depend on obtaining reimbursement from third-party payors.**

If we successfully develop and obtain necessary regulatory approvals, we intend to sell our biologic drug candidates initially in the United States and Canada. In the United States, the market for any pharmaceutical product is affected by the availability of reimbursement from third-party payors, such as government health administration authorities, private health insurers, health maintenance organizations and pharmacy benefit management companies. Stem cell therapies like Prochymal and Chondrogen may be expensive compared with standard pharmaceuticals, due to the higher cost and complexity associated with the research, development and production of stem cell therapies, the small size and large geographic diversity of the target patient population for some indications, and the complexity associated with distribution of stem cell therapies which require special handling, storage and shipment procedures and protocols. This, in turn, may make it more difficult for us to obtain adequate reimbursement from third-party payors, particularly if we cannot demonstrate a favorable cost-benefit relationship. Third-party payors may also deny coverage or offer inadequate levels of reimbursement for our potential products if they determine that the product has not received appropriate clearances from the FDA or other government regulators or is experimental, unnecessary or inappropriate. For example, patients battling GvHD and who, therefore, are candidates for treatment with Prochymal, are typically very ill as a result of an underlying genetic or oncologic condition. Because these patients have a low probability of survival (whether or not their GvHD is successfully treated), third-party payors may resist reimbursing the cost of treatment.

In some of the other countries in which we or other entities with which we collaborate, including Genzyme Corporation, may seek to market our products, the pricing of prescription pharmaceutical products and services and the level of government reimbursement are subject to governmental control. In these countries, pricing negotiations with governmental authorities can take six to twelve months or longer after the receipt of marketing approval for a product. To obtain reimbursement or pricing approval in some countries, we or our collaborators may be required to conduct one or more clinical trials that compares the cost effectiveness of our biologic drug candidates or products to other available therapies. Conducting one or more additional clinical trials would be expensive and result in delays in commercialization of our products.

## Table of Contents

Managing and reducing health care costs has been a general concern of federal and state governments in the United States and of foreign governments. Although we do not believe that any recently enacted or presently proposed legislation should impact our business, we might be subject to future regulations or other cost-control initiatives that materially restrict the price we receive for our products. In addition, third-party payors are increasingly challenging the price and cost-effectiveness of medical products and services, and many limit reimbursement for newly approved health care products. In particular, third-party payors may limit the indications for which they will reimburse patients who use any products that we may develop. Cost control initiatives could decrease the price for products that we may develop, which would result in lower product revenues to us.

### **Our dependence upon a limited supply of bone marrow donors and biologics growth media may impact our ability to produce sufficient quantities of our biologic drug candidates as necessary to complete our clinical trials, and if our trials are successful, to meet product demand.**

The population of acceptable bone marrow donors is limited to volunteers between the ages of 18 and 30. In addition, potential donors are prescreened for a variety of health conditions and are only allowed to donate bone marrow a total of six times in their lifetime, further limiting the total number of potential donors. The amount of bone marrow donated may be insufficient for us to mass produce our biologic drug candidates. In addition, the expansion of MSCs through our proprietary manufacturing methods utilizes biologic growth media which may be in limited supply. Future government regulation or health concerns may also reduce the number of donors or otherwise limit the amount of bone marrow available to us. If we cannot secure quantities of bone marrow or biologic growth media sufficient to meet the manufacturing demands for our clinical trials, we might not be able to complete our clinical trials and obtain marketing approval for our biologic drug candidates. Moreover, even if our clinical trials are successful and we obtain marketing approval for our biologic drug candidates, our inability to secure enough bone marrow to meet product demand would limit our potential revenues.

### **Osteocel and our biologic drug candidates are derived from human bone and bone marrow sources and therefore have the potential for disease transmission.**

The utilization of donated bone and bone marrow creates the potential for transmission of communicable disease, including but not limited to human immunodeficiency virus, or HIV, viral hepatitis, syphilis, Creutzfeldt-Jakob disease, or the human form of "mad cow" disease, and other viral, fungal or bacterial pathogens. Although we are required to comply with federal and state regulations intended to prevent communicable disease transmission, and our suppliers of adult human bone and bone marrow are also required to comply with such regulations in connection with their collection, storage and supply to us:

- we or our suppliers may fail to comply with such regulations;
- even with compliance, our products might nevertheless be viewed by the public as being associated with transmission of disease; and
- a patient that contracts an infectious disease might assert that the use of our products resulted in disease transmission, even if the patient became infected through another source.

Any actual or alleged transmission of communicable disease could result in patient claims, litigation, distraction of management's attention and potentially increased expenses. Further, any failure in screening, whether by us or other manufacturers of similar products, could adversely affect our reputation, the support we receive from the medical community and overall demand for our products. As a result, such actions or claims, whether or not directed at us, could have a material adverse effect on our reputation with our customers and our ability to market our products, which could have a material adverse effect on our business, financial condition and results of operations.

## Table of Contents

### **We may not be able to manufacture our biologic drug candidates in quantities sufficient for later stage clinical studies or for commercial sale.**

If we successfully obtain marketing approval for one of our biologic drug candidates, we may not be able to produce sufficient quantities of the product at an acceptable cost. Commercial-scale production of therapies made from live human mesenchymal stem cells involves production in small batches and strict adherence to complex manufacturing and storage protocols and procedures. Our biologic drug candidates are inherently more difficult to manufacture at commercial-scale than chemical pharmaceuticals, which are manufactured using precise chemical formulations and operational methods.

### **We use third-party collaborators to help us develop and commercialize our products, and our ability to commercialize such products may be impaired or delayed if collaborations are unsuccessful.**

We have arrangements in place with third-party collaborators as a means to help us with research and development efforts or marketing and distribution. For example:

- we are party to a Collaboration Agreement with Genzyme Corporation for the development and commercialization of Prochymal and Chondrogen outside the United States and Canada for certain indications, and with the potential for the development and commercialization of these product candidates for additional indications in the future;
- we are party to a Manufacturing Agreement with NuVasive, Inc. for the manufacture of Osteocel on an interim basis and until the "Manufacturing Assets Closing" occurs under the Asset Purchase Agreement between us and NuVasive, pursuant to which we sold our Osteocel and Osteocel XO lines of business to NuVasive;
- we have a collaboration with JCR Pharmaceuticals Co., Ltd. granting to JCR an exclusive right to Prochymal for the treatment of GvHD in Japan; and
- we have a collaboration with Genzyme Corporation to develop effective countermeasures to nuclear terrorism and other radiological emergencies. The initial focus of the collaboration is to develop Prochymal to treat the potentially lethal complications of acute radiation syndrome.

We may enter into additional collaborations in the future. We are dependent upon the success of our current and any future collaborators in performing their responsibilities in connection with the relevant collaboration. If we fail to maintain these collaborative relationships for any reason, we would need to undertake on our own and at our own expense, or find other collaborators, to perform the activities we currently anticipate will be performed by our collaborators. This would substantially increase our cash requirements. We may not have the capability or financial capacity to undertake these activities on our own, or we may not be able to find other collaborators on acceptable terms, or at all. This may limit the programs we are able to pursue and result in significant delays in the development, sale and manufacture of our products, and may have a material adverse effect on our business.

We are subject to a number of risks associated with our dependence upon our collaborative relationships, including:

- our collaborators may not cooperate with us or perform their obligations under our agreements with them;
- we cannot control the quality, amount and timing of our collaborators' resources that will be devoted to performing their responsibilities under our agreements with them, and our collaborators may choose to pursue alternative technologies in preference to those being developed in collaboration with us;
- refusal to or failure of our collaborators to perform their responsibilities in a timely manner, including breach;

## Table of Contents

- the right of the collaborator to terminate its collaboration agreement with us for reasons outside our control, and in some cases on limited notice;
- business combinations and changes in a collaborator's business strategy may adversely affect the party's willingness or ability to complete its obligations;
- loss of significant rights to our collaborative parties if we fail to meet our obligations;
- disagreements as to ownership of clinical trial results or regulatory approvals;
- withdrawal of support by a collaborator following development or acquisition by the collaborator of competing products; and
- disagreements with a collaborator regarding the collaboration agreement or ownership of intellectual property or other proprietary rights.

In addition, the recent tightening of global credit and the volatility in the financial markets may result in or contribute to a delay or disruption in the performance or satisfaction of commitments to us by these third-parties.

Due to these factors and other possible events, we could suffer delays in the research, development or commercialization of our products or we may become involved in litigation or arbitration, which would be time consuming and expensive.

### **Two of our most significant collaborative arrangements are with Genzyme Corporation, and our ultimate success may depend upon performance on the part of Genzyme and the success of these collaborations.**

We are party to two collaborative arrangements with Genzyme, one for the development and commercialization of Prochymal and Chondrogen outside the United States and Canada for certain indications, and the other to develop effective countermeasures to nuclear terrorism and other radiological emergencies. These collaborations are subject to all of the risks and uncertainties applicable to collaborative arrangements generally, including those described above. In addition, these collaborations are subject to a number of risks and uncertainties specific to the transactions and the parties.

Under our collaborative arrangement with Genzyme for commercialization of Prochymal and Chondrogen outside the United States, Genzyme is obligated to make two up front payments to us: an initial payment of \$75.0 million, which has already been received, and an additional payment of \$55.0 million scheduled to be paid on July 1, 2009. In addition, we have the opportunity to earn up to an additional \$1.25 billion in milestone payments under this collaboration. Receipt of these additional milestone payments is conditioned upon the achievement of the applicable development, regulatory and sales milestones, all of which are subject to all of the risks and uncertainties otherwise applicable to our business, including the success of Prochymal and Chondrogen. Genzyme has the right to terminate the collaboration at any time after July 1, 2009. Genzyme also has the right to "opt-out" of further participation with regard to Chondrogen development, whereupon all rights to Chondrogen will revert to us, but our opportunity to earn Chondrogen-related development, regulatory and sales milestones of up to approximately \$500.0 million will cease. The success of this collaboration for us will in part be dependent upon Genzyme, including determinations regarding the exercise of its termination and opt-out rights, and its success in obtaining timely regulatory approvals for the marketing of products outside of the United States, and ability to generate sales sufficient to trigger milestone and royalty payments to us.

Under our collaborative arrangement with Genzyme for the development of effective countermeasures to nuclear terrorism and other radiological emergencies, we were awarded in January 2008 a contract from the U.S. Department of Defense to develop and supply Prochymal for acute radiation syndrome. We are carrying out this contract in partnership with Genzyme, with us contributing Prochymal and our corresponding safety and advocacy database to the effort, and with Genzyme lending its mass product development and large scale commercialization expertise.

## Table of Contents

Genzyme has significantly greater resources than we do, and these collaborations are not as core to its business, as they are to ours. We are dependent upon Genzyme's continued performance under these collaborations, and any determination by Genzyme not to proceed or perform, or any material adverse event that affects Genzyme's ability or desire to perform, under either of these collaborations may have a material adverse effect on our business.

**We are currently dependent upon third-parties for services and raw materials needed for the manufacture of our biologic drug candidates, and if these products are successfully commercialized, may become dependent upon third-parties for their distribution. If any of these third parties fail or are unable to perform in a timely manner, our ability to manufacture and deliver could be compromised.**

In order to produce our biologic drug candidates for use in clinical studies, and to produce any of our biologic drug candidates that may be approved for commercial sale, we require biological media, reagents and other highly specialized materials. This is in addition to the bone marrow aspirate used in the manufacture of our biologic drug candidates. These items must be manufactured and supplied to us in sufficient quantities and in compliance with current Good Manufacturing Practices, or cGMP. To meet these requirements, we have entered into supply agreements with firms that manufacture these components to cGMP standards. Our requirements for these items are expected to increase if and when we transition to the manufacture of commercial quantities of our biologic drug candidates.

In addition, as we proceed with our clinical trial efforts, we must be able to demonstrate to the FDA that we can manufacture our biologic drug candidates with consistent characteristics. Accordingly, we are materially dependent on these suppliers for supply of cGMP-grade components of consistent quality. Our ability to complete ongoing clinical trials may be negatively affected in the event that we are forced to seek and validate a replacement source for any of these critical components. If we are not able to obtain adequate supplies of these items of consistent quality from our third-party suppliers, it will also be more difficult to manufacture commercial quantities of our biologic drug candidates that are approved for commercial sale.

In addition, if commercial sale of our biologic drug candidates is approved, we intend to rely on third parties for their distribution. Proper shipping and distribution requires compliance with specific storage and shipment procedures. Failure to comply with these procedures or the occurrence of inadvertent damage to the shipping container will necessitate return and replacement, potentially resulting in additional cost and causing us to fail to meet supply requirements.

**Use of third-party manufacturers may increase the risk that we will not have adequate quantities of our biologic drug candidates.**

We use third-party manufacturers to supply our biologic drug candidates for clinical trials. Reliance on third-party manufacturers entails risks to which we would not be subject if we manufactured such components ourselves, including:

- reliance on the third-party for regulatory compliance and quality assurance;
- the possible breach of the manufacturing agreement by the third-party; and
- the possible termination or nonrenewal of the agreement by the third-party, based on its own business priorities, at a time that is costly or inconvenient for us.

Our contract manufacturers are subject to all of the risks and uncertainties that we have when we manufacture on our own. Similar to us, they are subject to ongoing, periodic, unannounced inspection by the FDA and corresponding state and foreign agencies or their designees to ensure strict compliance with cGMP regulations and other governmental regulations and corresponding foreign standards. However, we do not control compliance by our contract manufacturers with these regulations and

## Table of Contents

standards. Our present or future manufacturers might not be able to comply with these regulatory requirements. If our third-party manufacturers fail to comply with applicable regulations, the FDA or other regulatory authorities could impose sanctions on us, including fines, injunctions, civil penalties, denial of marketing approval of our biologic drug candidates, delays, suspension or withdrawal of approvals, license revocation, seizures or recalls of biologic drug candidates or our other products, operating restrictions and criminal prosecutions. Any of these actions could significantly and adversely affect supplies of our biologic drug candidates or other products and could have a material adverse effect on our business, financial condition and results of operations.

These manufacturers are also subject to many of the general business risks that we and are collaborators are faced with. For example, the recent tightening of global credit and the volatility in the financial markets may result in or contribute to a delay or disruption in the performance or satisfaction of commitments to us by these third parties.

We have contracted with Lonza to manufacture quantities of our stem cell drug candidates for our clinical trials. If Lonza is unable to increase production sufficiently, we may also not be able to meet anticipated market demand in the future.

### **If our processing and storage facility or our clinical manufacturing facilities are damaged or destroyed, our business and prospects would be negatively affected.**

If our processing and storage facility or the equipment in the facility were to be significantly damaged or destroyed, we could suffer a loss of some or all of the stored units of our biologic drug candidates and it would force us to halt our clinical trial processes.

We lease approximately 61,203 square feet of space in Columbia, Maryland that houses essentially all of our corporate operations. Currently, we maintain insurance coverage totaling \$19.4 million against damage to our property and equipment, an additional \$4.0 million to cover business interruption and extra expenses, and \$5.6 million to cover R&D restoration expenses. If we have underestimated our insurance needs, we will not have sufficient insurance to cover losses above and beyond the limits on our policies.

### **Ethical and other concerns surrounding the use of stem cell therapy or human tissue may negatively affect public perception of us or our products or biologic drug candidates, or may negatively affect regulatory approval of our products or biologic drug candidates, thereby reducing demand for our products and adversely affecting the market price for our common stock.**

The commercial success of our biologic drug candidates will depend in part on general public acceptance of the use of stem cell therapy for the prevention or treatment of human diseases. The use of embryonic stem cells and fetal tissue for research and stem cell therapy has been the subject of substantial national and international debate regarding related ethical, legal and social issues. In the U.S., for example, until March 2009, federal government funding of embryonic stem cell research has been limited to specifically identified cell lines and is not otherwise available. We do not use embryonic stem cells or fetal tissue, but the public may not be able to, or may fail to, differentiate our use of adult stem cells from the use by others of embryonic stem cells or fetal tissue. This could result in a negative perception of our company or our products or biologic drug candidates.

We may obtain stem cells from volunteer adult bone marrow donors from non-profit organizations that collect and process tissue donations. Bone marrow donors receive payment, but ethical concerns have been raised by some about the use of donated human tissue in a for-profit setting, as we are doing.

## Table of Contents

Future adverse events in the field of stem cell therapy or changes in public policy could also result in greater governmental regulation of our biologic drug candidates and potential regulatory delays relating to their testing or approval.

**We may eventually compete with other companies for product sales. Many of these competitors have greater resources or capabilities than we have, or may succeed in developing better products or in developing products more quickly than we do, and we may not compete successfully with them.**

In the marketplace, we compete or may eventually compete with other companies and organizations that are marketing or developing therapies for our targeted disease indications, based on traditional pharmaceutical, medical device or other, non-cellular therapy and technologies. These include: Novartis, the manufacturer of Neoral® for the prevention of organ rejection in transplant patients, which would compete with Prochymal for the treatment of GvHD; and Johnson & Johnson, the manufacturer of Remicade®, and Abbott, the manufacturer of Humira, which would compete with Prochymal for the treatment of Crohn's disease. In addition to those listed above, we have other potential competitors developing a variety of therapeutics.

We also face competition in the cell therapy field from academic institutions and governmental agencies. Many of our current and potential competitors have greater financial and human resources than we have, including more experience in research and development and more established sales, marketing and distribution capabilities.

We anticipate that competition in our industry will increase. In addition, the health care industry is characterized by rapid technological change, resulting in new product introductions and other technological advancements. Our competitors may develop and market products that render products now or in the future under development by us, or any products manufactured or marketed by us, non-competitive or otherwise obsolete.

**The use in human subjects of our stem cell therapies or products produced by us may expose us to product liability claims, and we may not be able to obtain adequate insurance.**

We face an inherent risk of product liability claims. None of our products or product candidates have been widely used over an extended period of time, and therefore our safety data are limited. We derive the raw materials for our products and product candidates from human donor sources, the manufacturing process is complex, and the handling requirements are specific, all of which increase the likelihood of quality failures and subsequent product liability claims. We will need to increase our insurance coverage if and when we begin commercializing our biologic drug candidates. We may not be able to obtain or maintain product liability insurance on acceptable terms with adequate coverage or at all. If we are unable to obtain insurance, or if claims against us substantially exceed our coverage, then our business could be adversely impacted. Whether or not we are ultimately successful in any product liability litigation, such litigation could consume substantial amounts of our financial and managerial resources and could result in, among other things:

- significant awards against us;
- substantial litigation costs;
- recall of the product;
- injury to our reputation;
- withdrawal of clinical trial participants; and
- adverse regulatory action.

## Table of Contents

Any of these results could have a material adverse effect on our business, financial condition and results of operations.

### **Risk Factors Regarding the Sale of our Osteocel Business.**

**We may not receive all of the payments available to us under the terms of the asset purchase agreement for the sale of our Osteocel business, and accordingly, we may have less cash available to us to fund our remaining operations.**

The terms of the asset purchase agreement for the sale by us of our Osteocel business provide for an initial payment of \$35 million dollars in cash and allow for the prospect of additional milestone payments, of up to approximately an additional \$50 million dollars in the aggregate. We earned, and have received, the initial payment of \$35 million and the initial \$5 million milestone payment under this agreement.

In addition, pursuant to the terms of a manufacturing agreement entered into concurrent with the initial closing under the asset purchase agreement, we have the ability to earn fee revenues related to the production of Osteocel for supply to NuVasive over a period of approximately eighteen months following the initial closing.

Our ability to earn the additional milestone payments and fee revenues is, however, subject to a number of conditions and uncertainties, and we have no assurances that these amounts will, in fact, be paid to or be received by us in full. If we do not receive these payments, we will have less cash available to fund our remaining operations and to support the continued development and pursuit of FDA approval for our biologic drug candidates, including Prochymal.

The manufacturing agreement provides for concessionary pricing on the sale of Osteocel, which could result in losses from the operation of discontinued operations. If we incur losses under the manufacturing agreement, we will have less cash available to fund our remaining operations and to support the continued development and pursuit of FDA approval for our biologic drug candidates, including Prochymal.

**The asset purchase agreement for the sale of our Osteocel business exposes us to contingent liabilities which could adversely affect our ability to pursue our core business focused on the development and marketing approval for our biologic drug candidates, including Prochymal.**

In the asset purchase agreement we have made customary representations and warranties and the parties have agreed to indemnify each other for breaches of representations, warranties and covenants contained in the asset purchase agreement, and we have agreed to indemnify NuVasive for certain excluded liabilities. Should we incur liability for breach of these representations or warranties, our ability to pursue our core business focused on the development and marketing approval for our biologic drug candidates, including Prochymal, could be materially and adversely affected.

**By completing the sale, we sold the assets that produce our only currently commercialized product.**

Pursuant to the asset purchase agreement, we sold our entire product line relating to the processing, manufacturing, marketing and selling of Osteocel and Osteocel XO. Although we generate revenues from a variety of other sources, including collaborative agreements and a government contract, the Osteocel business that we sold to Nuvasive included our only commercially available product.

## Table of Contents

### **Our long term business prospects will depend primarily on the success of our biologic drug candidates business.**

Although we expect to continue to manufacture Osteocel until the expiration of the manufacturing agreement approximately eighteen months after the initial closing under the asset purchase agreement, our biologic drug candidate business will be the primary focus of our business. Our long term business prospects will, therefore, be dependent almost solely on the success of our biologic drug candidate business. This business is based on novel technologies and involves significant risks and challenges in regards to product development and optimization, manufacturing, government regulation, intellectual property, third-party reimbursement and market acceptance, among the other risks disclosed by us.

### **Risks Related to Intellectual Property**

#### **If our patent position does not adequately protect our products, others could compete against us more directly, which would harm our business and have a material adverse effect on our financial condition and results of operations.**

Our success depends, in large part, on our ability to obtain and maintain intellectual property protection for our biologic drug candidates. The patent position of biotechnology companies is generally highly uncertain, involves complex legal and factual questions and has been the subject of much litigation. Neither the U.S. Patent and Trademark Office nor the courts has a consistent policy regarding the breadth of claims allowed or the degree of protection afforded under many biotechnology patents.

The claims of our existing U.S. patents and those that may issue in the future, or those licensed to us, may not confer on us significant commercial protection against competing products. Third parties may challenge, narrow, invalidate or circumvent any patents we own or may obtain in the future. Our patents on MSC technology, in particular, are quite broad in that they cover mesenchymal stem cells and the therapeutic uses thereof. Patents with broad claims tend to be more vulnerable to challenge by other parties than patents with more narrowly written claims. Also, our pending patent applications may not issue, and we may not receive any additional patents. Further, the laws of foreign countries may not protect our intellectual property rights to the same extent as do the laws of the United States. Our patents might not contain claims that are sufficiently broad to prevent others from utilizing our technologies. Consequently, our competitors may independently develop competing products that do not infringe our patents or other intellectual property.

Because of the extensive time required for development, testing and regulatory review of a potential product, it is possible that, before any of our products can be commercialized, any related patent may expire or remain in force for only a short period following commercialization, thereby reducing any advantages of the patent. For instance, one of our patents related to our MSC technology will expire in 2013 if no extension is applied for and received. To the extent our biologic drug candidates based on that technology are not commercialized ahead of this date, to the extent we have no other patent protection on such products, or to the extent that regulatory or patent extensions are not granted, those products would not have the robust protection we currently expect to enjoy. The background technologies used in the development of our biologic drug candidates are known in the scientific community, and it is possible to duplicate the methods we use to create our biologic drug candidates.

#### **If certain license agreements are terminated, our market exclusivity could be adversely affected.**

We are a party to various agreements that give us rights to use specified technologies applicable to research, development and commercialization of our product candidates. If these agreements were voided or terminated, our product development, research and commercialization efforts may be altered or delayed. Certain aspects of our technology rely on patented inventions developed using university or

## Table of Contents

third party resources. The universities or third parties may have certain rights, as defined by law or applicable agreements, in such patents, and may choose to exercise such rights. If we fail to comply with any terms or provisions of these agreements, our rights could be terminated. Currently, we are in compliance with the terms of all agreements, and we do not have any reason to believe that our rights might be terminated.

### **If we are unable to protect the confidentiality of our proprietary information, trade secrets and know-how, our competitive position would be impaired and our business, financial condition and results of operations could be adversely affected.**

Some aspects of our technology, especially regarding manufacturing processes, is unpatented and is maintained by us as trade secrets. In an effort to protect these trade secrets, we require our employees, consultants, collaborators and advisors to execute confidentiality agreements upon the commencement of their relationships with us. These agreements require that all confidential information developed by the individual or made known to the individual by us during the course of the individual's relationship with us be kept confidential and not disclosed to third parties. These agreements, however, may not provide us with adequate protection against improper use or disclosure of confidential information, and these agreements may be breached. A breach of confidentiality could affect our competitive position. In addition, in some situations, these agreements may conflict with, or be subject to, the rights of third parties with whom our employees, consultants, collaborators or advisors have previous employment or consulting relationships. Also, others may independently develop substantially equivalent proprietary information and techniques or otherwise gain access to our trade secrets.

Adequate remedies may not exist in the event of unauthorized use or disclosure of our confidential information. The disclosure of our trade secrets would impair our competitive position and could have a material adverse effect on our business, financial condition and results of operations.

### **If we infringe or are alleged to infringe intellectual property rights of third parties, it will adversely affect our business, financial condition and results of operations.**

Our research, development and commercialization activities, including any biologic drug candidates or products resulting from these activities, may infringe or be claimed to infringe patents owned by third parties and to which we do not hold licenses or other rights. There may be applications that have been filed but not published that, when issued, could be asserted against us. These third parties could bring claims against us that would cause us to incur substantial expenses and, if successful against us, could cause us to pay substantial damages. Further, if a patent infringement suit were brought against us, we could be enjoined from certain activities including a stop or delay in research, development, manufacturing or sales activities related to the product or biologic drug candidate that is the subject of the suit.

As a result of patent infringement claims, or in order to avoid potential claims, we may choose or be required to seek a license from the third party. These licenses may not be available on acceptable terms, or at all. Even if we are able to obtain a license, the license would likely obligate us to pay license fees or royalties or both, and the rights granted to us might be nonexclusive, which could result in our competitors gaining access to the same intellectual property. Ultimately, we could be prevented from commercializing a product, or be forced to cease some aspect of our business operations, if, as a result of actual or threatened patent infringement claims, we are unable to enter into licenses on acceptable terms. All of the issues described above could also impact our collaborators, which would also impact the success of the collaboration and therefore us.

There has been substantial litigation and other proceedings regarding patent and other intellectual property rights in the pharmaceutical and biotechnology industries. In addition to infringement claims against us, we may become a party to other patent litigation and other proceedings, including

## Table of Contents

interference and reexamination proceedings declared by the United States Patent and Trademark Office and opposition proceedings before the patent offices for other countries (e.g. the European Patent Office), regarding intellectual property rights with respect to our products and technology. For example, a patent that was granted to us in Europe for human mesenchymal stem cells in the cardiac context was opposed in the European Patent Office by two different companies. In 2008 we prevailed in an opposition proceeding brought before the European Patent Office against one of our patents related to the cardiac indications of Prochymal. Though we were successful in that particular proceeding, the outcome of any future patent controversies is uncertain. The cost to us of any patent litigation or other proceeding, even if resolved in our favor, could be substantial. Some of our competitors may be able to sustain the costs of such litigation or proceedings more effectively than we can because of their greater financial resources. Patent litigation and other proceedings may also absorb significant management time. Uncertainties resulting from the initiation and continuation of patent litigation or other proceedings could have a material adverse effect on our ability to compete in the marketplace and, as a result, on our business, financial condition and results of operations. To the extent that our employees, consultants or contractors use intellectual property owned by others, disputes may arise as to the rights related to or resulting from the use of such intellectual property.

### **We may become involved in lawsuits to protect or enforce our patents or the patents of our collaborators or licensors, which could be expensive and time consuming.**

Litigation may be necessary to enforce patents issued or licensed to us, to protect trade secrets or know-how, or to determine the scope and validity of the proprietary rights. Litigation, opposition or interference proceedings could result in substantial additional costs and diversion of management focus. If we are ultimately unable to protect our technology, trade secrets or know-how, we may be unable to operate profitably.

Competitors may infringe our patents or the patents of our collaborators or licensors. As a result, we may be required to file infringement claims to protect our proprietary rights. This can be expensive, particularly for a company of our size, and time-consuming. In addition, in an infringement proceeding, a court may decide that a patent of ours is invalid or is unenforceable, or may refuse to enjoin the other party from using the technology at issue. An adverse determination of any litigation or defense proceedings could put one or more of our patents at risk of being invalidated or interpreted narrowly. Interference proceedings brought by the U.S. Patent and Trademark Office may be necessary to determine the priority of inventions with respect to our patent applications or those of our collaborators or licensors. Litigation or interference proceedings may fail and, even if successful, may result in substantial costs and distraction to our management. We may not be able, alone or with our collaborators and licensors, to prevent misappropriation of our proprietary rights, particularly in countries where the laws may not protect such rights as fully as in the United States.

Furthermore, because of the substantial amount of discovery required in connection with intellectual property litigation, there is a risk that some of our confidential information could be compromised by disclosure during this type of litigation. In addition, during the course of this kind of litigation, there could be public announcements of the results of hearings, motions or other interim proceedings or developments. If investors perceive these results to be negative, the market price for our common stock could be significantly harmed.

The biotechnology industry, including our fields of therapeutic interest, is highly competitive and subject to significant and rapid technological change. Accordingly, our success will depend, in part, on our ability to respond quickly to such change through the development and introduction of new products. Our ability to compete successfully against currently existing and future alternatives to our product candidates and systems and competitors who compete directly with us in the biopharmaceutical industry will depend, in part, on our ability to: attract and retain skilled scientific and research personnel; develop technologically superior products; develop competitively priced products; obtain

## Table of Contents

patent or other required regulatory approvals for our products; and be early entrants to the market; manufacture, market and sell our products, independently or through collaborations. If a third party were to commercialize a competitive product, there is no assurance that we would have a basis for initiating patent infringement proceedings or that, if initiated, we would prevail in such proceedings.

### **Risks Related to Regulatory Approval and Other Government Regulations**

**If we are not able to successfully develop and commercialize our biologic drug candidates and obtain the necessary regulatory approvals, we may not generate sufficient revenues to continue our business operations.**

In order to generate sales revenue from our biologic drug candidates, we must conduct extensive preclinical studies and clinical trials to demonstrate that our biologic drug candidates are safe and effective and obtain required regulatory approvals. Our early stage biologic drug candidates may fail to perform as we expect. Moreover, our biologic drug candidates in later stages of development may fail to show the desired safety and efficacy traits despite having progressed successfully through preclinical or initial clinical testing. We will need to devote significant additional research and development, financial resources and personnel to develop commercially viable products and obtain the necessary regulatory approvals.

If our biologic drug candidates do not prove to be safe and efficacious in clinical trials, we will not obtain the required regulatory approvals. If we fail to obtain such approvals, we may not generate sufficient revenues to continue our business operations.

Even if we obtain regulatory approval of a product, that approval may be subject to limitations on the indicated uses for which it may be marketed. Even after granting regulatory approval, the FDA and regulatory agencies in other countries continue to review and inspect marketed products, manufacturers and manufacturing facilities, which may create additional regulatory burdens. Later discovery of previously unknown problems with a product, manufacturer or facility, may result in restrictions on the product or manufacturer, including a withdrawal of the product from the market. Further, regulatory agencies may establish additional regulations that could prevent or delay regulatory approval of our products.

**We cannot market and sell our biologic drug candidates in the United States or in other countries if we fail to obtain the necessary regulatory approvals or licensure.**

We cannot sell our biologic drug candidates until regulatory agencies grant marketing approval, or licensure. The process of obtaining regulatory approval is lengthy, expensive and uncertain. It is likely to take several years to obtain the required regulatory approvals for our lead stem cell biologic drug candidate, Prochymal, or we may never gain the necessary approvals. Any difficulties that we encounter in obtaining regulatory approval may have a substantial adverse impact on our operations and cause our stock price to decline significantly. Moreover, because our biologic drug candidates are all based on a single platform technology, MSCs, any adverse events in our clinical trials for one of our biologic drug candidates could negatively impact the clinical trials and approval process for our other biologic drug candidates.

To obtain marketing approvals in the United States for MSC products, for instance, we must, among other requirements, complete carefully controlled and well-designed clinical trials sufficient to demonstrate to the FDA that the biologic drug candidate is safe and effective for each disease for which we seek approval. Several factors could prevent completion or cause significant delay of these trials, including an inability to enroll the required number of patients or failure to demonstrate adequately that MSCs are safe, effective and potent for use in humans. Negative or inconclusive results from or adverse medical events during a clinical trial could cause the clinical trial to be repeated or a program to be terminated, even if other studies or trials relating to the program are successful. The

## Table of Contents

FDA can place a clinical trial on hold if, among other reasons, it finds that patients enrolled in the trial are or would be exposed to an unreasonable and significant risk of illness or injury. If safety concerns develop, we or the FDA could stop our trials before completion. Some participants in our MSC clinical trial have experienced serious adverse events, seven of which have been determined to be possibly related to MSCs and one of which has been determined to be probably related. A serious adverse event is an event that results in significant medical consequences, such as hospitalization, disability or death, and must be reported to the FDA. We cannot assure you that safety concerns regarding MSCs will not develop.

The pathway to regulatory approval for MSCs may be more complex and lengthy than for approval of a new conventional drug. Similarly, to obtain approval to market our stem cell products outside of the United States, we, together with our collaborative partners, will need to submit clinical data concerning our products and receive regulatory approval from governmental agencies, which in certain countries includes approval of the price we intend to charge for our product. We may encounter delays or rejections if changes occur in regulatory agency policies during the period in which we develop a biologic drug candidate or during the period required for review of any application for regulatory agency approval. If we are not able to obtain regulatory approvals for use of our biologic drug candidates under development, we will not be able to commercialize such products, and therefore may not be able to generate sufficient revenues to support our business.

### **If we are not able to conduct our clinical trials properly and on schedule, marketing approval by FDA and other regulatory authorities may be delayed or denied.**

The completion of our clinical trials may be delayed or terminated for many reasons, including, but not limited to, if:

- the FDA does not grant permission to proceed and places the trial on clinical hold;
- subjects do not enroll in our trials at the rate we expect;
- subjects experience an unacceptable rate or severity of adverse side effects;
- third-party clinical investigators do not perform our clinical trials on our anticipated schedule or consistent with the clinical trial protocol, Good Clinical Practice and regulatory requirements, or other third parties do not perform data collection and analysis in a timely or accurate manner;
- inspections of clinical trial sites by the FDA or Institutional Review Boards (IRBs) of research institutions participating in our clinical trials find regulatory violations that require us to undertake corrective action, suspend or terminate one or more sites, or prohibit us from using some or all of the data in support of our marketing applications; or
- one or more IRBs suspends or terminates the trial at an investigational site, precludes enrollment of additional subjects, or withdraws its approval of the trial.

Our development costs will increase if we have material delays in our clinical trials, or if we are required to modify, suspend, terminate or repeat a clinical trial. If we are unable to conduct our clinical trials properly and on schedule, marketing approval may be delayed or denied by the FDA.

### **We may not be able to secure and maintain research institutions to conduct our clinical trials.**

We rely on research institutions to conduct our clinical trials. Specifically, the limited number of bone marrow transplant centers further heightens our dependence on such research institutions for our Phase III trials. Our reliance upon research institutions, including hospitals and clinics, provides us with less control over the timing and cost of clinical trials and the ability to recruit subjects. If we are unable to reach agreement with suitable research institutions on acceptable terms, or if any resulting agreement is terminated, we may be unable to quickly replace the research institution with another qualified institution on acceptable terms. We may not be able to secure and maintain suitable research institutions to conduct our clinical trials.

## Table of Contents

### **Final marketing approval of our biologic drug candidates by the FDA or other regulatory authorities for commercial use may be delayed, limited, or denied, any of which would adversely affect our ability to generate operating revenues.**

Any of the following factors may cause final marketing approval for our biologic drug candidates to be delayed, limited or denied:

- our biologic drug candidates require significant clinical testing to demonstrate safety and effectiveness before applications for marketing approval can be filed with the FDA;
- data obtained from preclinical and nonclinical animal testing and clinical trials can be interpreted in different ways, and the FDA may not agree with our interpretations;
- it may take many years to complete the testing of our biologic drug candidates, and failure can occur at any stage of the process;
- negative or inconclusive results or adverse side effects during a clinical trial could cause us to delay or terminate development efforts for a biologic drug candidate; and
- commercialization may be delayed if the FDA requires us to expand the size and scope of the clinical trials.

If marketing approval for our biologic drug candidates is delayed, limited or denied, our ability to market products, and our ability to generate product sales, would be adversely affected.

### **Producing and marketing an approved drug or other medical product is subject to significant and costly post-approval regulation.**

It is likely that Prochymal, if approved for GvHD based on our currently contemplated Phase III trial, will receive conditional approval by the FDA, and we will be required to conduct Phase IV clinical trials to obtain full approval. Even if we obtain full approval of a product, that approval is subject to limitations on the indicated uses for which we can market it. After granting marketing approval, the FDA and regulatory agencies in other countries continue to review and inspect marketed products, manufacturers and manufacturing facilities, creating additional regulatory burdens. Later discovery of previously unknown problems with a product, manufacturer or facility may result in restrictions on the product or manufacturer, including a withdrawal of the product from the market. Further, regulatory agencies may establish additional regulations that could prevent or delay marketing approval of our products.

### **Our business involves the use of hazardous materials that could expose us to environmental and other liability.**

We have facilities in Maryland that are subject to various local, state and federal laws and regulations relating to safe working conditions, laboratory and manufacturing practices, the experimental use of animals and the use and disposal of hazardous or potentially hazardous substances, including chemicals, micro-organisms and various radioactive compounds used in connection with our research and development activities. In the United States, these laws include the Occupational Safety and Health Act, the Toxic Test Substances Control Act and the Resource Conservation and Recovery Act. We cannot assure you that accidental contamination or injury to our employees and third parties from hazardous materials will not occur. We do not have insurance to cover claims arising from our use and disposal of these hazardous substances other than limited clean-up expense coverage for environmental contamination due to an otherwise insured peril, such as fire.

## Table of Contents

### **We may not be able to obtain or maintain Orphan Drug designation for our biologic drug candidates.**

Some jurisdictions, including the European Union and the United States, may designate drugs for relatively small patient populations as orphan drugs. Although the FDA and its European counterpart, the European Medicines Agency ("EMA") have designated Prochymal for the treatment of steroid refractory GvHD as an orphan drug, none of our other biologic drug candidates have received such designation. Orphan Drug designation does not convey any advantage in, or shorten the duration of, the regulatory review and approval process, but does make the product eligible for orphan drug exclusivity, reduced filing fees and specific tax credits. Generally, if a company receives the first marketing approval for a product with an Orphan Drug designation in the clinical indication for which it has such designation, the product is entitled to orphan drug exclusivity. Orphan drug exclusivity means that the health authorities will not approve another application to market the same drug for the same indication, except in limited circumstances, for a period of up to seven years in the United States and ten years in Europe. This exclusivity, however, could block the approval of our biologic drug candidates if a competitor obtains marketing approval before us. Even if we obtain orphan drug exclusivity for any of our biologic drug candidates, we may not be able to maintain it. For example, if a competitive product is shown to be clinically superior to our product, any orphan drug exclusivity we have will not block the approval of such competitive product.

### **The Fast Track designation for development of any of our products may not lead to a faster development or regulatory review or approval process, and it does not increase the likelihood the biologic drug candidate will receive marketing approval.**

If a drug is intended for the treatment of a serious or life-threatening condition and the drug demonstrates the potential to address unmet medical needs for this condition, the drug sponsor may apply for FDA Fast Track designation for a particular indication. Marketing applications filed by sponsors of products in Fast Track development may qualify for priority review under the policies and procedures offered by the FDA, but the Fast Track designation does not assure any such qualification. Although we have obtained a Fast Track designation from the FDA for Prochymal for the treatment of GvHD and treatment refractory Crohn's disease, receipt of Fast Track designation may not result in a faster development process, review or approval compared to drugs considered for approval under conventional FDA procedures. In addition, the FDA may withdraw our Fast Track designation at any time. If we lose our Fast Track designation, the approval process may be delayed. In addition, our Fast Track designation does not guarantee that we will qualify for or be able to take advantage of the expedited review procedures and does not increase the likelihood that Prochymal will receive regulatory approval for the treatments of steroid refractory GvHD or Crohn's disease.

### **Risks Related to Government Contracts**

#### **Federal government spending priority or our relationships with the federal government may change in a manner that harms our business or prospects.**

Our ability to successfully pursue and perform under development and purchase agreements with United States and Allied governmental agencies for countermeasures to nuclear terrorism and other radiological emergencies, including the contract awarded to us by the DoD for the development and stockpiling of Prochymal for the treatment of a acute radiation syndrome ("ARS"), depends upon continued federal government expenditures on defense, emergency preparedness and other programs. These expenditures will likely fluctuate over time. While spending authorizations for defense and emergency preparedness related programs by the government have increased in recent years, and in particular after the 2001 terrorist attacks, future levels of expenditures and authorizations for these programs may decrease, remain constant or shift to program areas inapplicable to us. Our business, prospects, financial condition and/or operating results could be materially harmed by budgetary constraints affecting federal government spending generally, or specific departments or agencies in

## Table of Contents

particular, and by changes in fiscal policies or available funding, or by changes in federal government programs or requirements or delays in government appropriations process. In addition, our business, prospects, financial condition and/or operating results could be materially harmed if we are suspended or disbarred from contracting with the federal government or a significant governmental agency, or our reputation or relationship with governmental entities is impaired, or the government otherwise declines to do business with us, or significantly decreases the amount of business it is willing to do with us.

### **Federal government contracts contain provisions that may be unfavorable to us.**

Federal government contracts contain provisions, and are subject to laws and regulations, that give the government rights and remedies not typically found in commercial contracts. These provisions may allow the government to terminate existing contracts for convenience, as well as for default, to reduce or modify contracts or subcontracts, to cancel multi-year contracts or related purchase orders if funds for contract performance for any subsequent year become unavailable, to decline to exercise an option to renew a multi-year contract or to decline to purchase product pursuant to an option afforded under a contract. If the government terminates a contract for convenience, we may recover only our incurred or committed costs, settlement expenses and profit on the work completed prior to the termination. If the government terminates a contract for default, we may not recover even those amounts, and instead may be liable for excess costs incurred by the government in procuring undelivered items and services from another source.

### **Unfavorable federal government audit results could subject us to penalties or sanctions and could impair our ability to win new contracts.**

The Defense Contract Audit Agency ("DCAA") and other government agencies routinely audit and investigate government contracts and systems. These agencies review a contractor's performance on its contract, cost structure and compliance with applicable laws, regulations and standards. The DCAA also reviews the adequacy of, and a contractor's compliance with, its internal control systems and policies, including the contractor's accounting, purchasing, property, estimating, compensation and managing information systems. Allegations of impropriety or deficient controls could harm our reputation and/or adversely influence the award of new contracts. Any costs found to be improperly allocated to a specific contract will not be reimbursed, while such costs already reimbursed must be refunded. Therefore, a DCAA audit could result in a substantial adjustment to our revenue earned from federal government contracts.

### **The government may terminate our federal government contracts at any time.**

Federal government contracts may span one or more base years and one or more option years, and may provide the government with one or more options in respect of continued performance by us thereunder. For example, our contract with the U.S. Department of Defense ("DoD") for the development and stockpiling of Prochymal for the treatment of ARS provides the DoD with successive options for the purchase of Prochymal, assuming receipt of FDA approval for its use in the treatment of ARS. Federal government agencies have no obligation to exercise these options unless determined to be in the best interest of the government. Additionally, federal government contracts typically contain provisions permitting the government to terminate the contract for its convenience. A decision not to exercise an option or a decision to terminate a contract could have a material adverse effect on our business and prospects.

### **If we fail to comply with complex procurement laws and regulations, we could incur various penalties or sanctions.**

To the extent which we enter into contracts or other arrangements with the United States or other Allied governments, we must comply with the laws and regulations relating to the formation,

## Table of Contents

administration and performance of those contracts. These laws and regulations affect how we conduct business with our government contracts. In complying with these laws and regulations, we may incur additional costs and delays, and non-compliance may also allow for the assignment of additional fines and penalties, including contractual damages. Among these laws and regulations are the Federal Acquisition Regulations, which comprehensively regulate the formation, administration and performance of United States federal government contracts, the Truth in Negotiations Act, which requires certification and disclosure of all costs and pricing data in connection with contract negotiations, and laws, regulations and executive orders restricting the use and dissemination of information classified for national security purposes, and restricting the export of certain products and technical data. We are subject to periodic review of our performance under and compliance with the terms of any federal government contracts to which we are a party. As a result of these reviews, we may learn that we are not in compliance with all of the terms of any such contracts and we could be subject to civil or criminal penalties or administrative sanctions for failure of compliance.

### **Risks Related to Our Common Stock**

#### **The trading price of the shares of our common stock is highly volatile, and purchasers of our common stock could incur substantial losses.**

Our stock price is volatile. The stock market in general and the market for biotechnology companies in particular have experienced extreme volatility that has often been unrelated to the operating performance of particular companies. As a result of this volatility, investors may not be able to sell their common stock at or above the price they paid for it. The market price for our common stock may be influenced by many factors, including:

- results of clinical trials of our biologic drug candidates or those of our competitors;
- regulatory developments in the United States and foreign countries;
- variations in our financial results or those of companies that are perceived to be similar to us;
- changes in the structure of healthcare payment systems;
- announcements by us of significant acquisitions, strategic partnerships, joint ventures or capital commitments;
- market conditions in the pharmaceutical and biotechnology sectors and issuance of securities analysts' reports or recommendations;
- sales of substantial amounts of our stock by existing stockholders;
- sales of our stock by insiders and 5% stockholders;
- general economic, industry and market conditions;
- additions or departures of key personnel;
- intellectual property, product liability or other litigation against us;
- expiration or termination of our relationships with our collaborators; and
- the other factors described in this "Risk Factors" section.

In addition, in the past, stockholders have initiated class action lawsuits against biotechnology and pharmaceutical companies following periods of volatility in the market prices of these companies' stock. Such litigation, if instituted against us, could cause us to incur substantial costs and divert management's attention and resources, which could have a material adverse effect on our business, financial condition and results of operations.

## Table of Contents

### **Concentration of ownership of our common stock among our existing executive officers, directors and principal stockholders may prevent new investors from influencing significant corporate decisions.**

Our executive officers, directors and beneficial owners of 5% or more of our common stock and their affiliates, in aggregate, beneficially own approximately 50% of our outstanding common stock as of December 31, 2008. These persons, acting together, will be able to significantly influence all matters requiring stockholder approval, including the election and removal of directors and any merger or other significant corporate transactions. The interests of this group of stockholders may not coincide with our interests or the interests of other stockholders.

Peter Friedli, our Chairman of the Board of Directors, and certain entities with which he is affiliated, beneficially own approximately 43% of our outstanding common stock as of December 31, 2008. Accordingly, Mr. Friedli currently has, and will continue to have, a significant influence over the outcome of all corporate actions requiring stockholder approval.

### **Certain provisions of Delaware law and of our charter and bylaws contain provisions that could delay and discourage takeover attempts and any attempts to replace our current management by stockholders.**

Certain provisions of our certificate of incorporation and bylaws, and applicable provisions of Delaware corporate law, may make it more difficult for or prevent a third party from acquiring control of us or changing our Board of Directors and management. These provisions include:

- the ability of our Board of Directors to issue preferred stock with voting or other rights or preferences;
- the inability of stockholders to act by written consent;
- a classified Board of Directors with staggered three-year terms;
- requirements that special meetings of our stockholders may only be called by the chairman of our Board of Directors, upon request of stockholders holding at least 20% of our capital stock issued and outstanding, or upon a resolution adopted by, or an affirmative vote of, a majority of our Board of Directors; and
- requirements that our stockholders comply with advance notice procedures in order to nominate candidates for election to our Board of Directors or to place stockholders' proposals on the agenda for consideration at meetings of stockholders.

We will also be afforded the protections of Section 203 of the Delaware General Corporation Law, which will prevent us from engaging in a business combination with a person who acquires at least 15% of our common stock for a period of three years from the date such person acquired such common stock, unless advance board or stockholder approval was obtained.

Any delay or prevention of a change of control transaction or changes in our Board of Directors or management could deter potential acquirers or prevent the completion of a transaction in which our stockholders could receive a substantial premium over the then current market price for their shares.