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GUIDANT ACQUISITION CHANGES VC INVESTMENT LANDSCAPE FOR MEDICAL DEVICES

Future Start-ups Must be "Built to Last" Rather Than "Built to Sell," Says ONSET Ventures Partner

MENLO PARK, CA - February 1, 2006 - The recent acquisition of Guidant [GDT] by Boston Scientific [BSX] will impact future venture-capital start-up investments in medical devices, said ONSET Ventures general partner Rob Kuhling. The popular strategy of incubating new technologies as start-ups and then selling them to large, established players will become increasingly less viable as further industry consolidation occurs, he maintains.

"A unique form of symbiosis has existed for over a decade between the venture capital community and the large medical device manufacturers," stated Kuhling. "Much of the basic R&D for new technologies has been occurring in start-ups, where the investors and entrepreneurs would assume the development and approvals risks, and then depend upon one of a half-dozen or so large players to take their product to market." This strategy, which Kuhling said has become widely institutionalized, plays to the strengths of both constituencies: "The start-ups provide a steady flow of turn-key new products that are able to flow into huge, well-established, manufacturing, marketing, and distribution infrastructures, which would otherwise be impossibly expensive - and risky - to fund."

So ideal has this strategy been that entrepreneurs and VCs often begin planning from "day 1" when - and frequently by whom - an acquisition will occur, said Kuhling. "For many new ideas, there is never a thought as to creating a self-sustaining entity. The proverbial 'back of the envelope' inevitably contains a list of future suitors right alongside the sketch of the new device."

But a build-for-acquisition strategy - or "quick flip" as insiders call it - requires a sizeable pool of those very suitors - ideally competitors amongst themselves - and that, said Kuhling, is what is changing. "Guidant is gone, and St. Jude may be next," he said, referring to industry speculation that the latter may itself be in the crosshairs of Johnson & Johnson [JNJ].

But it is not only a reduction in the number of potential acquirers that is problematic, maintained Kuhling, but in the distraction that such consolidation inevitably brings the players. "Boston Scientific will be burdened with debt and integration issues; Abbott, who will buy Guidant's vascular intervention business, will be similarly occupied with integration. And J&J may be very focused on St. Jude. It's hard to imagine any of these companies coming up for air - and snapping up a start-up or two - for some time."

Instead, said Kuhling, the entrepreneurs and VCs are going to have to focus on building medical device businesses that can stand alone, or that can consolidate with other similarly-situated start-ups

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to reduce the market development burden. “It’s back to building businesses the old fashion way: invent the new technology, figure out the best market fit, do all of the R&D, get the approvals, and then carry it to market own your own.”

ONSET has a long track record of successfully building companies both for acquisition and for the long haul, and remains highly active in medical devices. Some recent investments include Neuronetics - developing a transcranial stimulation system for the treatment of depression, and Oculir - pioneer of a non-invasive glucose monitoring system. Previous ONSET investment Embolic Protection, Inc. was acquired by Boston Scientific, Spinal Concepts by Abbott, and Endocardial Solutions by ST. Jude. ONSET’s investment in Nektar [NKTR] (formerly Inhale) has resulted in a high-profile public biopharmaceutical company with unique drug delivery technologies. Another ONSET investment now publicly held, Conceptus [CPTS], is a world leader in minimally-invasive permanent birth control technology.

Guidant agreed on January 25 to acquisition by Boston Scientific for US\$27 billion, after the latter’s rival Johnson & Johnson failed in a 1-year odyssey to acquire the attractive maker of defibrillators, implantable pacemakers, and stent devices.

About ONSET Ventures

ONSET Ventures specializes in providing an ideal mix of start-up, follow-on, and intellectual capital to entrepreneurs and early-stage technology ventures, to help transform world-class ideas into sustainable and valuable businesses. The firm has backed over 100 companies since 1984 and now has more than \$700 million under management.

ONSET pioneered, and has refined over 20 years, a highly-optimized tool set for risk and capital management, and a *shirt-sleeves style* of active collaboration with entrepreneurs that leverages the firm’s substantial operating experience. That collaboration frequently begins before the closing of any financing, and typically continues throughout the life of the venture. The combined process, which has become the hallmark of the firm, has resulted in ventures that have consistently met their operational and financing milestones. In addition, it has resulted in a franchise that not only brings successful, serial entrepreneurs back to ONSET Ventures time and again, but also attracts investors who want the increasingly rare opportunity to participate in very early stage venture investing.

ONSET Ventures focuses exclusively on information and medical technology-based start-ups, and has a long history of successful ventures in each of these sectors.

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Additional background information is available at www.roeder-johnson.com.