

Federal Laboratory Consortium
May 7, 2008

THE PAST 6 MONTHS - CRISIS

■ **THE U.S. WILL SLIP** into a "mild recession" this year and could drag the global economy down with it, the IMF predicted in its semiannual World Economic Outlook report.

Pew: Middle-Class Angst Highest in Almost 50 Years

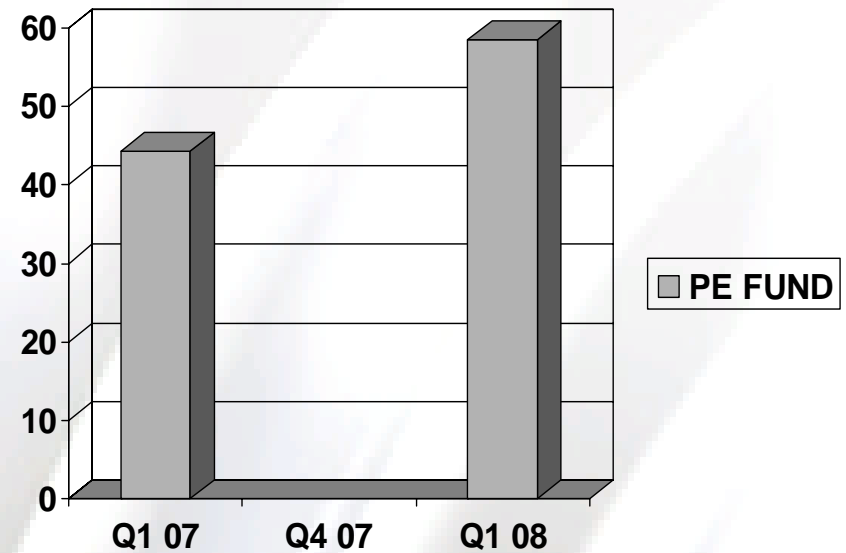
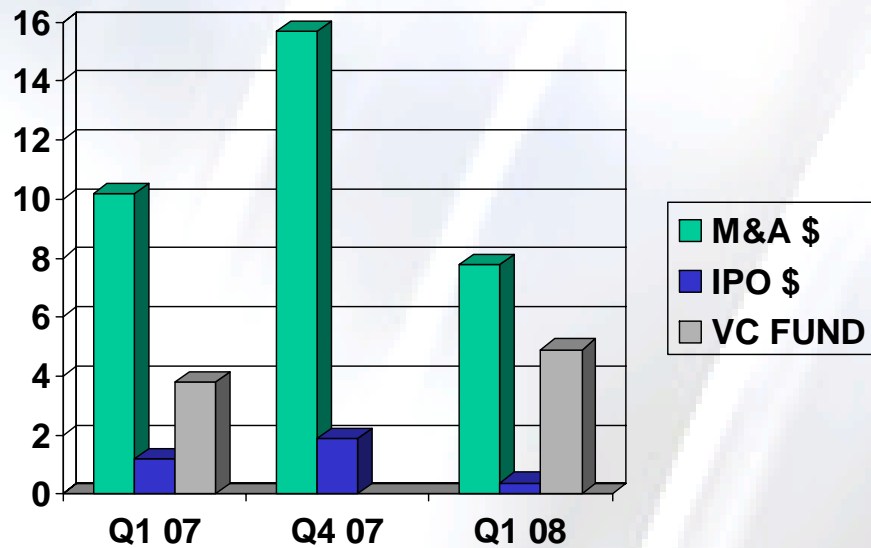
A majority of Americans say that in the past five years, "they either haven't moved forward in life (25%) or have fallen backward (31%) — the most downbeat assessment in nearly half a century of polling," according to a survey released today by Pew Research Center. "But at the same time, two-thirds say they have [...]"

■ **The Fed is considering** contingency plans for expanding its lending power in case recent steps to unfreeze credit markets fail. The talks are part of an effort at the Fed to determine its options if the credit crunch becomes more severe. 12:12 p.m.

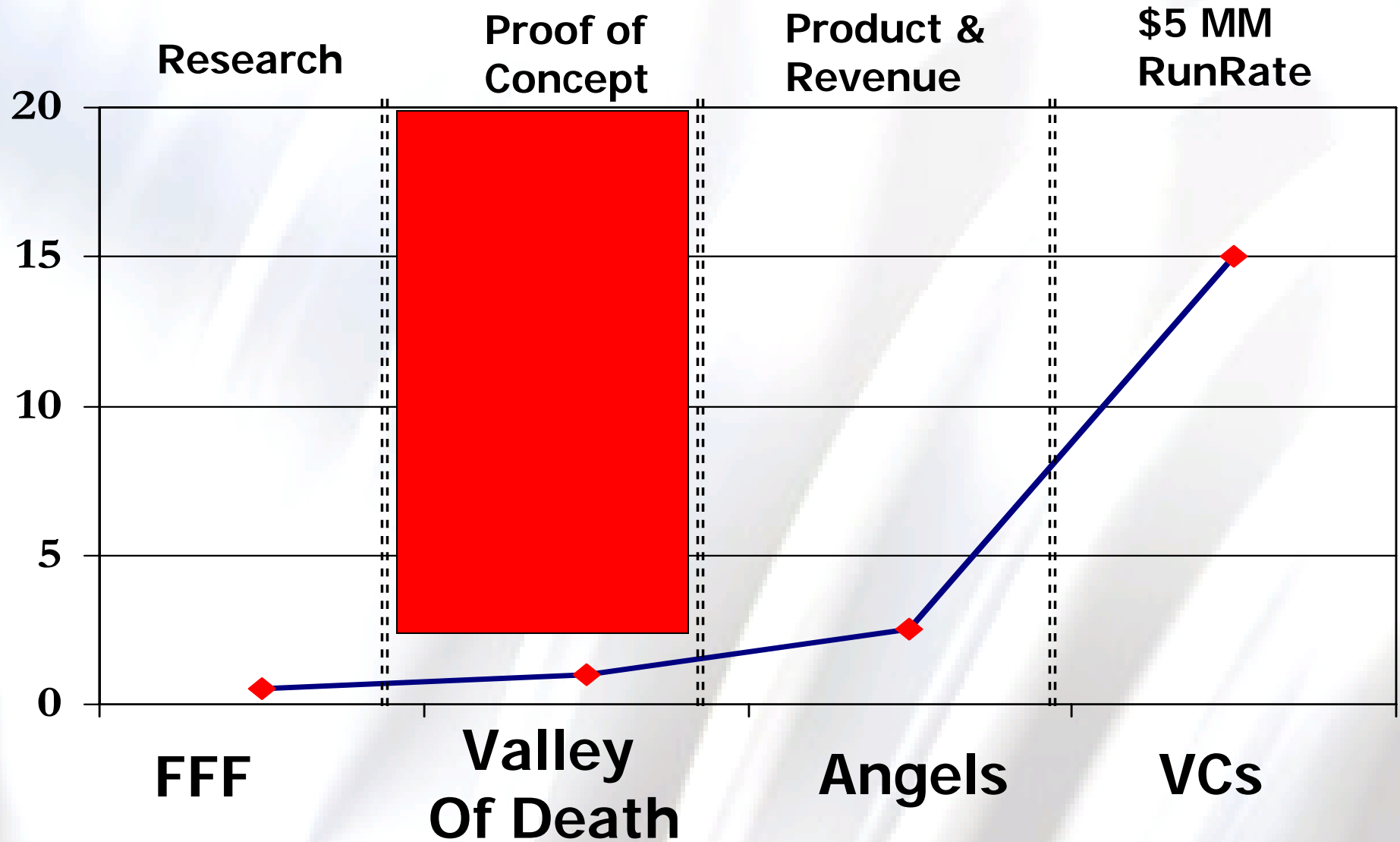
- Losses Mount: Major indexes decline as energy prices spook traders.
- Oil Stores Down: Crude inventories drop 3.2 million barrels; price tops \$112.
- Brown Bears: UPS slashes Q1 outlook on rising costs.

CAPITAL IN PE SECTOR

\$ Billions



FUNDING PHASES



- **Early Stage Venture Fund**
 - Higher Return – Higher Risk than Angel Stage
 - Purchase Intellectual Property
 - Universities, Federal Labs, Research Institutions
 - Proof of Concept or Prototype
 - Early Sale
- **Multiple Investments (10 – 15) Lessen Risk**
- **Acquire Controlling Interest**
- **Invest What is Required to Take to Next Level**
- **High Exit Multiple**
 - Large Market

- **Life Sciences**
 - **Devices**
 - **Drugs & Biotech**
 - **No NCEs**
 - **Diagnostics**
- **Software**
- **Homeland Security**
- **Military**
- **Opportunistic**

- **Identify Technology**
 - Field of Use or Opportunistic
 - Disruptive
 - Understandable
- **Quantify TAM & Valuation**
- **Review IP**
- **Set Expectations**
 - Technology Transfer Office
 - Researcher
 - Role with Company
 - Ownership

- **Get to Know Researcher**
 - Professional
 - Social
- **Freedom to Operate Search**
 - \$\$
- **Term Sheet with Tech Transfer**
- **Acceptable R&D Plan**
- **Fund**

- **Need to Understand Science**
- **Players**
- **Valuation**
- **Contract Terms**

WHAT'S REQUIRED FOR SUCCESS

RESEARCHER

Breakthrough Science

Creative Brilliance

Communications

Scientific Honesty

LABORATORY

Fair Economics

Transparency

Facilitation

Speed

Flexibility

FUND

Medium Term Horizon

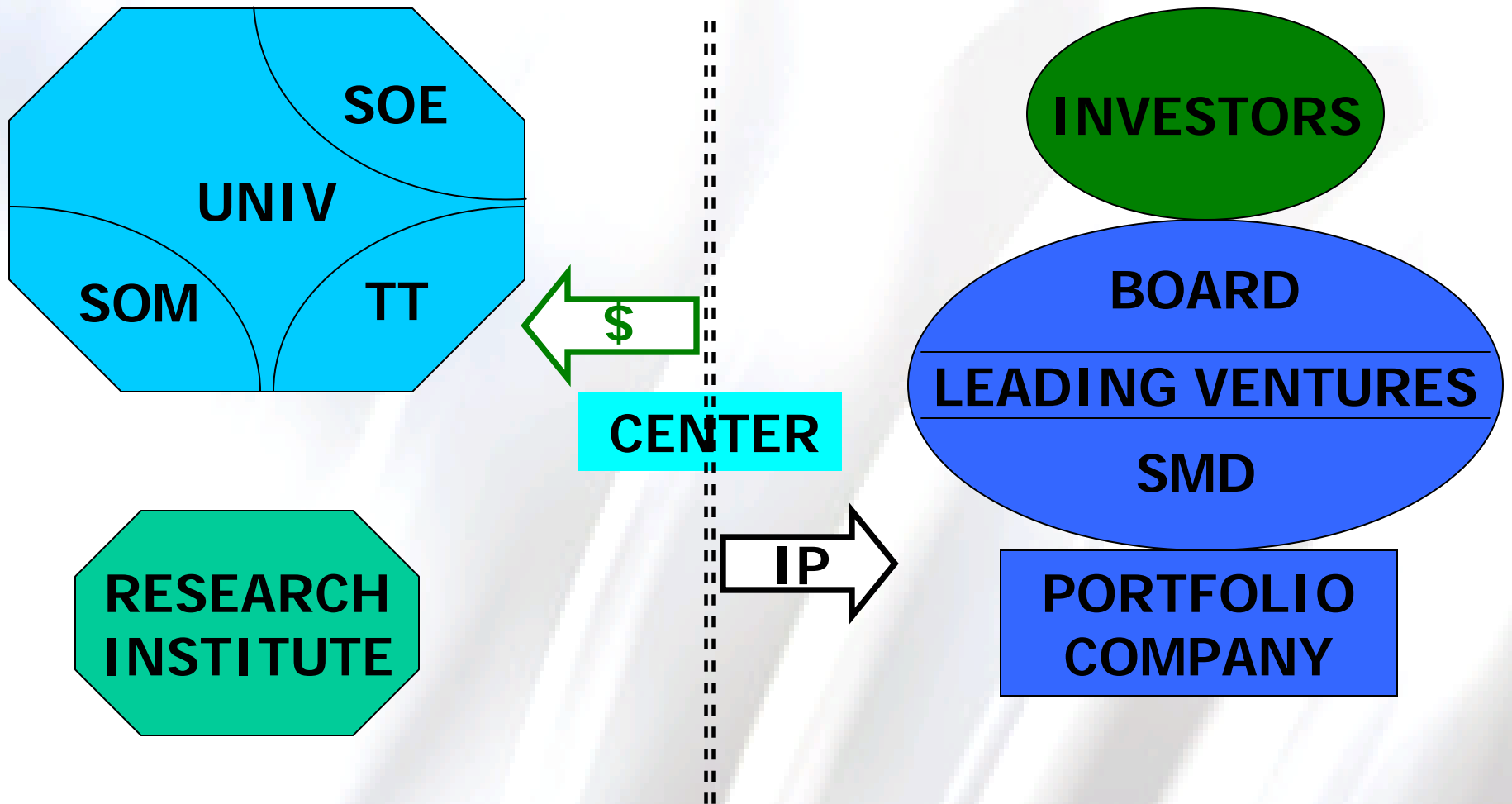
Communications

Science Familiarity

Flexibility of Plan

Ethics

MANY PLAYERS



VALUATION APPROACHES

- **Quantitative**
 - Difficult with Seed Round as Too Early
 - Skews Against Early Stage due to Startup \$
 - Sometimes Complex
- **Comparables**
 - Easily Understood
 - Generally Accepted
 - Disadvantage for Breakthrough Technology/Company
- **Heuristic**
 - Totally Dependent on Skill/Knowledge of User
 - Difficult to Explain to Outsiders

TRANSACTION EXAMPLE

	LIFESCI 1
TOTAL AVAILABLE MARKET	
Market Size Units/year	735,000
\$/Unit	\$350
Potential Revenue	\$257,250,000
License %	15%
License Revenue	\$38,587,500
Success Probability	75%
Net Value/Year	\$28,940,625
ACHIEVED REVENUE	
% Market Capture	10%
Captured Revenue/year	\$2,894,063

MULTIPLIER METHOD

	LIFESCI 1
EBIT MULTIPLE VALUATION 1	
Captured Revenue/year	\$2,984,063
SG&A at 15%	\$447,609
EBIT	\$2,536,454
EBIT Multiplier (1)	14.97
Value on Acquisition	\$37,970,710
(1) Source: Value Line database of 7091 US companies.01/2005	
EBIT MULTIPLE VALUATION 2	
Multiplier (3)	7.60
Value on Acquisition	\$19,277,047
(3) Source: Dealmaker-Grant Thornton-Winter 2006	
EBIT & CASH FLOW VALUATION	
Multiplier (2)	34.72
Value on Acquisition	\$88,065,667
(2) Source: Inc. Magazine August 2004	Value/EBIT

THE CONTRACT

- **Exclusivity**
- **Field of Use**
- **Patents**
 - Who Files
 - Approval
 - COM vs Method
- **Sublicense**
 - Fees
 - Approval
- **Milestones**
- **Indemnification**
- **Assignment**
 - Consent
 - Fees

SUCCESS FACTORS	RESEARCHER	LAB	FUND
Breakthrough Science	<input checked="" type="checkbox"/>		
Creative Brilliance	<input checked="" type="checkbox"/>		
Communications	<input checked="" type="checkbox"/>		<input checked="" type="checkbox"/>
Scientific Honesty	<input checked="" type="checkbox"/>		
Fair Economics	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	
Transparency		<input checked="" type="checkbox"/>	
Facilitation		<input checked="" type="checkbox"/>	
Flexibility		<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Medium Term Horizon			<input checked="" type="checkbox"/>
Science Familiarity			<input checked="" type="checkbox"/>
Ethics	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>

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