NOVEMBER 2003
VOLUME 13 • NO. 3

TUESDAY, NOVEMBER 11, 2003

WPI, WORCESTER
Campus Center Odeum

REGISTRATION: 6:00 PM
MEETING: 6:30 – 9:00 PM

$10.00 members
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NOVEMBER MEETING
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BioTech 2003: where are we now?

The biotechnology sector, once the "new kid on the block," is now more than 20 years old. During the last two decades this industry has experienced its share of high points and setbacks. As the business community enters the second half of 2003, a number of important questions arise that specifically impact the biotech industry. What opportunities exist for financing a biotech company? What new technologies are gaining momentum and catching the public's interest? How does a biotech firm grab the attention of one of the large pharmaceutical companies for the purpose of partnering and financing?

JIM LITTLE, *president of Cetek Corporation*

James Little, Ph.D., president of Cetek Corporation in Marlboro, Mass. will address these questions and provide answers based on his thorough knowledge of and experience in the biotech field. He will discuss the issue of financing in these days of tight purse strings and high unemployment. Additionally, Little will take a look at new technologies that are coming to market. He'll examine these innovations and how they fit into the big picture of biotechnology.

One of the biggest concerns of both consumers and corporations is the growth of large pharmaceutical companies. Little will examine the opportunities small biotechnology firms have for working collaboratively with these pharma giants.

Cetek is a drug discovery company with proprietary technologies in high throughput screening and natural products drug discovery. Little previously served as senior vice president of the company from August 1998 to December 2001. Prior to joining Cetek, Little held the office of senior vice president at Zymark Corporation in Hopkinton (1981-1998) and at Waters Corporation in Milford (1968-1981).

Little received his BS in chemistry from Kansas University and his Ph.D. in analytical chemistry from MIT.

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Software in biology, health care poses new legal issues

by RICHARD LUCASH

The application of computers to biology and health care is creating a revolution whose effects could be as profound as those predicted for e-commerce. The new "bio-medical information systems," as used for genetic research (bioinformatics) and health care applications, have raised significant privacy issues, but other new legal issues have arisen.

UNIVERSITIES AND INTELLECTUAL PROPERTY (IP)

A considerable amount of genetics research is conducted at universities. These institutions are well aware of the potential for generating income from this research, through industry and government sponsorship and from licensing the results for commercial purposes.

The Bayh-Dole Act of 1980 established a uniform federal policy in favor of allowing universities to own the results of government-funded research. It opened the door for mutually-advantageous relationships between the government, universities and corporations, enabling universities to profit from research results by giving exclusive licenses to companies that could bring the results to market.

This legislation has led to increased attention to universities' policies on ownership of research results. Most of the policies make the university the owner of research results that are generated by funding received by the university, or result from research conducted using university resources. Teaching hospitals, which have significant research conducted by doctors and scientists, have similar policies. These policies are generally well-accepted, particularly with the advent of professional licensing offices at universities and teaching hospitals that implement licensing to commercial entities of technology developed by faculty.

OPEN SOURCE

However, in what may be the opening salvo in a new battle over IP rights, Steven Brenner, a rising star in the bioinformatics field, is reported to have successfully conditioned his acceptance of a post at the University of California at Berkeley. The university agreed not to apply its IP policies to his work on bioinformatics software development, leaving him free to distribute it under open source arrangements.

Not surprisingly, given the academic and scientific ethos of advancing knowledge by sharing information widely, bioinformatics has become a locus of the open source movement, which advocates the open publication of source code. A notable example is found at www.bioinformatics.org, which describes itself as "a community focused on the freedom of information as it pertains to the biosciences."

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Please visit the website at
www.wpiventureforum.org
for directions to the meeting

Past keynote speaker draws venture capitalists' attention

In December 2002, Alexis Borisy, president, CEO and founder of CombinatoRx shared his thoughts on how early-stage companies can secure their first round of funding at that month's Venture Forum meeting. His goal was to impart logical reasons why earlier business decisions impact later choices that ultimately spell success or failure for a company. Borisy obviously follows his own advice.

In a recent *Boston Globe* column, Scott Kirsner reported that CombinatoRx received a patent for CRx-026, a drug that attacks tumors. A combination of an inhaled AIDs drug that prevents lung infection and a sedative, this agent holds promise as a more powerful and less toxic treatment than is now available for fighting tumors. Efforts to pursue research and development leading to the creation of this innovative drug have been made possible through financial support provided by venture capitalist organizations. According to Kirsner's column, Flagship Ventures of Cambridge led CombinatoRx's last round of funding.

ALEXIS BORISY, *president, CEO and founder of CombinatoRx*

According to the *Globe* article, venture capitalists worried that at 28, Borisy would not be able to fill the shoes of CEO when he sought his first round of funding. At the funding organization's request, Borisy recruited additional experienced personnel to round out the management team. When CombinatoRx applied for a second round of funding last year, investors didn't hesitate to write out a check. Kirsner noted in the article that Borisy doubled his original goal of raising $20 million.

Ernst & Young named Borisy Entrepreneur of the Year for New England; he has also earned a spot on MIT Technology Review magazine's TR100 list of the country's top innovators under 35. Borisy is 32.

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A look at September's meeting: *lessons learned during*

by Chris Golden

Stan Lapidus, executive-in-residence at Flagship Ventures, provided September meeting attendees with an entertaining and informative view of the ups and downs of an entrepreneur's life. Lapidus is a founder and now serves as chairman of the board of EXACT Sciences. He also founded Itran Corporation and Cytyc.

A captivated audience listens to September speaker, **STANLEY LAPIDUS.**

As a successful entrepreneur in the life sciences, Lapidus raised more than $100 million, holds 20 patents and has achieved market capitalizations of nearly $4 billion. In spite of such accomplishments, he said he did not consider all of his enterprises truly successful. In fact, he stated that while his early efforts resulted in a return on capital to the original investors, the returns were disappointing in his professional life as well as in his personal relationships and emotions. In his words, for six years he "was not having any fun."

STANLEY LAPIDUS, *executive-in-residence at Flagship Ventures*

Lapidus now focuses his energies exclusively on projects in the life sciences. Specifically, he focuses on creating products that produce a successful business model for improving the efficiency and reducing the cost of disease detection products. Based on personal experiences, Lapidus shared some of his criteria for entering into a new ventures with the audience.

Case presentation

StereoImaging

The case presenter, Philip McKinley, CEO and president of StereoImaging Corporation, conveyed to the audience the frustration of attempting to obtain venture capital funding in the current economy. After numerous presentations and communications, McKinley and his associates were unsuccessful at finding equity funding. As a result, the team decided to bootstrap their project.

WPI Venture Forum Radio Show

Are you looking for an entertaining, educational and interesting way to spend a couple of hours on a Saturday evening? Join Bob Hokanson, executive producer of the Forum radio show, every Saturday* from 5 to 7 pm on WTAG AM 580 to hear interviews with area business professionals from a variety of industries. Call 508-755-0058 to participate in the discussions and ask your questions about entrepreneurship and managing technology-based companies.

*Sports events or late-breaking news stories may occasionally pre-empt the regularly scheduled program.

a lifetime of entrepreneurship

WPI students attend Forum meetings to learn about entrepreneurship.

Three years into the effort, the company has completed the design and is in the process of constructing its first saleable equipment.

StereoImaging, Inc. proposes to replace surgical optical microscopes with stereoscopic video cameras. The company is responding to market demand for these products in the highly specialized periodontal, endodontal and surgical markets. The company plans to continue funding their efforts from revenue and utilize a distribution model that emphasizes the use of established optical microscope distributors.

PHIL MCKINLEY, *president, and* **LUIS FIGARELLA,** *vice president business development of StereoImaging Corporation*

After reviewing the case, the panel emphasized the need for additional market research with further emphasis on current market conditions, the pricing model and the purchase decision process. Additional comments focused on the protection of the intellectual property (the company has filed for patent protection) and the likelihood of competitors overtaking the company in the market. The panel unanimously recognized the company's ability to bring the project to its current state without major funding.

A WPI student questions the September case presenter.

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State of the economy

CONTINUED FROM FRONT PAGE

Case presentation

Blue Sky Biotech, Inc.
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Michael Hellerstein, *co-founders*
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toll free: 1-800-383-7795
cell: 774-535-1100
www.blueskybiotech.com

PAUL WENGENDER, *co-founder of Blue Sky Biotech, Inc.*

A contract research organization (CRO) in the pharmaceutical research and development marketplace, Blue Sky Biotech, Inc. supplies specialized services and expertise throughout the first stages of pre-clinical drug discovery. From DNA cloning and protein expression to cell culture and protein purification, Blue Sky Biotech's professionals can deliver a complete suite of services that ensure expeditious and high-quality project completion. The founders boast experience through professional relationships with Harvard, Massachusetts General Hospital, AstraZeneca, and Pfizer. Blue Sky's familiarity with research reagent (DNA, protein and cell) production in a commercial setting, enables clients in large pharmaceutical and small biotech companies to eliminate research bottlenecks and enhance productivity.

Blue Sky's slogan "Focus on your Freedom to Innovate" underscores the role they play in client outsourcing. In these days of belt-tightening, which has occurred across all stages of the "drug discovery pipeline," Blue Sky offers a high-quality, cost-effective alternative to building laboratory space and hiring additional scientists through its outsourcing arm. Additionally, by relieving a client's top-notch employees from onerous or repetitive labor, Blue Sky allows those companies more time for important, internal innovation. According to co-founder Paul Wengender, "We have customers, cash flow, and our operations are humming along."

At the November Forum meeting, Wengender will address two specific issues. "We know we need to adapt a sales strategy to: a) authorities who decide outsourcing is a stable strategy and b) lab managers who understand the science we will deal with directly in the normal course of operations," he says. "We know how to approach scientists, and we have a small network of executives who already understand the value proposition. We will need to sell the economics of outsourcing with Blue Sky to executives who control the budgets. But how do we market to them with a limited budget?"

Additionally, Wengender will explore the question of timing when, and if, a service firm decides to switch to selling products. "We have seen needs for 'commoditized' tools for discovery (liquid buffers, enzymes, etc.), but are restraining from engaging in these endeavors. We don't think it's smart to juggle different identities at this early stage," he says.

A panel of experts will evaluate the oral presentation and offer constructive feedback to the case presenter.

Joseph Thomas serves as moderator for the November meeting. Thanks to Chris Golden who served as moderator for September. His name was inadvertently omitted from the September newsletter.

Spotlight on Entrepreneurs

The WPI Venture Forum invites entrepreneurs* to participate in a one-minute practice pitch for funding. Each entrepreneur is allowed to display one overhead slide, which they can bring or prepare on site with materials provided by the Forum. The one-minute rule is strictly enforced and no questions are allowed.

Each entrepreneur is allowed only one opportunity to present a one-minute elevator pitch per each new business venture. The main objective of this feature is to generate investments and/or advice, rather than sales.

**An entrepreneur is defined as someone who organizes, manages and assumes the risk of a business or enterprise. This can include pre-startups.*

Answers to your angel investing questions

During these stressful economic times, entrepreneurs need all the help they can get when it comes to potential funding sources. To find out more about angel investing, *The Vantage* recently communicated with Matthew Macarty and Bruce Sommer of EMME Consulting, LLC of Durham, New Hampshire, who conducted a Q2 2003 Angel Equity® Survey. (See page 10 for results of that survey.) Below are their thoughts on angel investing and the economy.

Venture Forum: How do the results of this angel equity survey help entrepreneurs?

Matthew Macarty: The Angel Equity Survey solicits investment behavior information from roughly 220 angel investment organizations around the U.S. We believe the investment activity it tracks is a representation of the early-stage private financing behavior in the country. The results are good indicators of "who, what, when, where…" about emerging entrepreneurial companies. It shows the entrepreneur looking for financing:

- what types (sectors, areas, size, etc.) of entrepreneurial ventures are being financed
- how much angel investors are offering
- how much equity investors are taking for their investments
- what types of financing are more popular

The survey provides entrepreneurs a good benchmark. It arms them with valuable information regarding how they can lower their costs in seeking financing by focusing their search for investors and helps them pitch their financing package to target investors in an effective manner. The survey provides them some good intelligence for their upcoming negotiations with investors, and in many cases may be a cornerstone in increasing the probability of getting funded.

VF: How do the results help angel investors?

MM: In our experience, we hear two chief complaints from angel investors: First, there is not enough access to "deal flow." Secondly, there is not enough information about the "angel market." Currently there is no information system exclusively for business angels, although PriceWaterhouseCoopers does collect some investment information. The more data we collect, and the more angels we talk to, the more we realize that no one has a clear picture of what is currently happening or what happened in the past. Every data point currently found in print on business angels is based on an estimate of an estimate. For example, if I told you that angel investments totaled between $40 and $60 billion in 2000 (which turns out to be one popular estimate), you would probably want a clear stream of data to back these figures up. You might even want to have a range that gets a little closer. After all $20 billion is a pretty big gap. It turns out that there is no database to turn to that captures angel investment activity.

Likewise, if I told you that angels invest in ten times as many deals as venture capital funds in any given year, you would want some assurance that I had some data to back up this supposition. While we commonly hear this, there is no data to back it up. In fact, it is beginning to look as if this number has been grossly overestimated. There isn't even a clear definition of what an angel is. For instance, most data currently available lump economic development organizations in with angels. While these are important investments that should also be tracked, they are not what most people would consider a traditional angel investment. Additionally, more and more venture capital funds are making "angel sized" investments making it

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Software in biology, health care poses new legal issues

CONTINUED FROM PAGE 2

Open source advocates are motivated by a philosophical belief in favor of the free exchange of information, an economic argument that the results of federally-funded research should be available to the public without further cost. Some suggest that source code, if widely published, will give rise to a better product. However, developing software under open source arrangements does not provide insulation from legal issues. There are numerous open source licensing systems in existence. At one end of the spectrum are systems that focus on a kernel of open, unrestricted code, while allowing proprietary add-ons from which the developers can profit. At the other end are arrangements that put at risk the copyright on unrelated code distributed with the open source materials. It gets particularly complicated to make commercial use of software when its component modules are subject to different licensing systems.

RICHARD LUCASH

Also, the liability issues attendant on open source, where each module may be the product of numerous contributors, can best be summarized as "if everyone is responsible, no one is responsible," meaning that any company planning to build a business around open source should follow the existing business models of making money on service, support and customization.

LIABILITY ISSUES

The deployment of computer systems for biomedical information systems brings up the liability issues associated with other computer systems, but often with new twists. For example, while software and system vendors routinely impose stringent limits on their liability for product defects or failure, some types of liability are considered so extreme, that the vendors seek protection beyond traditional measures such as warranty disclaimers and liability caps, and require indemnification *from* the customer. This is often found in contracts for software for medical applications, and was an issue in the contracting for air traffic control systems.

That model, however, may not be sufficient for some of the new applications. For example, a bioterrorism attack might be detected by analyses of emergency room visits, which could show a localized increase in a particular set of symptoms — such as those of anthrax — that would not be expected to occur normally. But while the software would likely be used by a particular organization, the actions taken in response will be taken by a host of others, including local and federal government agencies. People well beyond the members of the organization will feel the effects of those actions.

In such cases, the software licensee would be faced with liability it may view as greatly disproportionate to the cost of the software or the direct economic benefit from deploying the software. It may be that the deployment of some of these systems will require an insurance pool organized by the government, as was done in the nuclear power industry.

The improvements to human health and welfare through the use of biomedical information systems may turn out to be the most significant effects yet made to individuals' lives through computing power. The legal developments that attend these changes promise to be equally significant.

Richard Lucash, is a partner in Lucash, Gesmer & Updegrove LLP, a Boston law firm that represents emerging technology companies and their investors. Peter Moldave, Joseph LaFerrera and Frans Wethly of the firm contributed to this article.

This article was previously edited and published in the April 8, 2002 issue of Mass. High Tech.

Online membership

The WPI Venture Forum offers a quick, easy and secure way to begin or renew your membership. Visit our website and join one of the finest groups in the area that serves individuals filled with an entrepreneurial spirit.

www.wpiventureforum.org/Membership

Answers to your angel investing questions

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increasingly difficult to define angel investing. We have developed a clear and concise definition of an angel organization*, and for the past three years have been working to develop an extensive information system for angels. It stands to reason that the more you understand what you are doing, and what other people like you are doing, the more effective you can be at doing your job.

VF: Should entrepreneurs seek alternatives to angel investing? Why or why not?

MM: Entrepreneurs should always seek multiple investment alternatives. This will not only increase the likelihood of getting funded, but more important, will help ensure that entrepreneurs get matched with a funding organization that most closely meets organizational needs.

VF: How will the current economic recovery differ from those in the past?

MM: I am not sure that it will differ from past recoveries on a macro level. On a micro level, with all likelihood the next economic boom will be led by a currently nascent technology such as biotechnology or nanotechnology.

Our information system is only as good as the information we collect. We encourage business angel organizations to participate in our simple online survey each quarter. We encourage feedback and input from angels so that we can provide relevant information to help investors make better investment decisions.

**We distinguish angel investment organizations from venture capital organizations not by the size and/or stage of investment, but rather by the level of individual investor involvement. An angel organization allows its members to completely control in which companies their money is invested.*

Matthew Macarty and Bruce Sommer, EMME Consulting, LLC can be reached at P.O. Box 830 Durham, NH 03824-0830 603-659-1830 mjmacarty@emmeconsultants.com, www.emmeconsultants.com

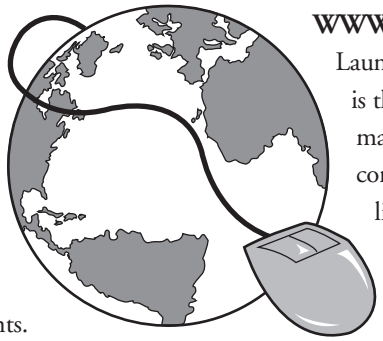
Websites of interest

WWW.SMALLTIMES.COM

This website provides "big news to small tech." The site offers an analysis of the latest business developments in the areas of MEMS (micro-electro-mechanical systems), nanotechnology and microsystems. You'll find breaking news in the fields of biotech, consumer goods, defense, energy, environment, IT, telecom and transportation as well as census records of corporations, companies and universities involved in technology. The career center allows users to search for jobs by geographic area or expertise. A calendar provides an up-to-date list of conferences and other industry-related events.

WWW.FEDGRANTS.GOV

This site provides the ideal meeting place for entrepreneurs looking for funding and those with the fiscal resources to help out those in need. Grantors can post grant solicitations while applicants can obtain applications for those grants. A complete list of agencies and their locations as well as grant opportunities with details regarding deadlines, eligibility requirements and other pertinent information is available at the site. Grants are available for a number of industries including robotics, healthcare, artificial intelligence, cognitive science, microbial genome sequencing and chemical bonding.



WWW.ENTREMATE.COM

Launched June 2003, this site is the first web-based/online matching service that connects entrepreneurs with like-minded individuals for the purpose of starting a business. Similar to a personals site, this site matches entrepreneurs with a related passion to others using certain criteria. Users can post a profile and can also search for other individuals that share similar business interests by location, industry, role, etc. Access to the site is free of charge at this time.

The Angel Equity®, Survey: a comprehensive Q2 2003 report

After 12 consecutive quarters of decline, the overall venture capital market seemed to have leveled off during the second quarter of 2003. For the first time since the beginning of 2000, total investment dollars increased slightly from the previous quarter. The PriceWaterhouse Coopers/Thomson Venture Economics/ National Venture Capital Association's Money Tree® Survey results showed that total overall investments grew to $4.3 billion in the second quarter, up from $4 billion in the first quarter. This growth came from a modest increase in the number of quarterly investments. According to survey results, 669 companies received funding in the second quarter of 2003, compared to 674 in the first quarter.

Additionally, the MoneyTree Survey reported that 138 companies received first-time venture capital financing in Q1 2003, versus 153 companies in the second quarter, an 11 percent increase. The National Association of Seed and Venture Funds (NASVF) broke down some of the Money Tree data to report a 44 percent increase in "initial" stage investments, i.e., deals that represent first-time institutional investment in a company, primarily at the seed or early stage of its existence. These types of investments grew from $408 million in 97 companies in Q1 to $588 million in 128 companies in Q2.

The numbers

The results of the Q2 2003 Angel Equity Survey indicate that the number of reporting business angel organizations financing at least one entrepreneurial venture in the second quarter of 2003 grew by 49 percent. In the first quarter, 47 percent of responding organizations reported making an investment, whereas 70 percent reported doing so in the second quarter. Moreover, of the population that did invest during the second quarter, 56 percent reported financing multiple companies, while 33 percent reported financing three or more (four being the most) ventures. The average number of deals during the second quarter was 1.5 per angel organization; eliminating those who did not make any investments, the average climbs to 2.2 deals.

Investment strategy

Angel investors seem to continue the trend toward conservative, fundamental investing strategies during these post-bubble times of limited liquidity. On average, angel organizations viewed only 25 business proposals in the second quarter – almost half of what they looked at during the first quarter. However, these same financing organizations "seriously considered" roughly 15 percent of all proposals, nearly identical to what was examined during the first quarter. Rather, reflecting recent conservative investment behaviors, the ratio of investment made to proposals viewed remained between 9 and 15 percent this quarter. Investors bought into about 60 percent of all proposals they seriously considered.

Representing approximately $34 million in total dollars invested in 33 different privately held companies, both the mean and median total amount invested per venture was slightly more than $1 million and ranged from $11,000 to $2.8 million. Investments made by a single angel organization in one venture ranged from $11,000 to $800,000 and averaged just under $220,000 (median = $100,000). This compares to an average of $244,000 during Q1.

The overwhelming majority (97 percent) of transactions was made by angel investors participating in some sort of syndicated financial activity, or investment group. The number of investors participating in a deal ranged from 1 to 37 and averaged just under seven (median = four) members. The average investment per investor nearly doubled from last quarter. During the second quarter an individual angel investor invested, on average, approximately $45,000 versus $22,000 last quarter. For the second quarter the individual amount invested ranged from $1,900 to $133,000.

Investment stage, sector and region

Contrary to first quarter results, seed and start-up investments seemed to grow as a percentage of overall investments during the second quarter. These early stages of the angel investment activity combined to make up approximately 75 percent of all investments. Follow-on investments dominated survey results in the first quarter; angel organizations reported that nearly 60 percent of all their investments were follow-on investments.

The software industry attracted the largest number of angel investments and the greatest amount of investment dollars in the second quarter. Electronics/instrumentation came in second in terms of dollars received and more deals were conducted in biotechnology than any other sector, except software.

Silicon Valley topped the list of total dollars invested and percent of deals. As a nation, private equity financing seemed to grow, while venture capital investments in Canada fell by more than one-half to C$212 million during the second quarter.

This information is reprinted with permission from The Angel Equity, Survey Comprehensive Q2 2003 Report conducted by EMME Consulting LLC. For the complete report, more information or to participate in future surveys, please visit www.angelequity.com.

*Calendar of upcoming meetings**

November 11
Biotechnology/strategic investments

December 9
Leadership teams

January 13
Product development

February 10
Negotiating

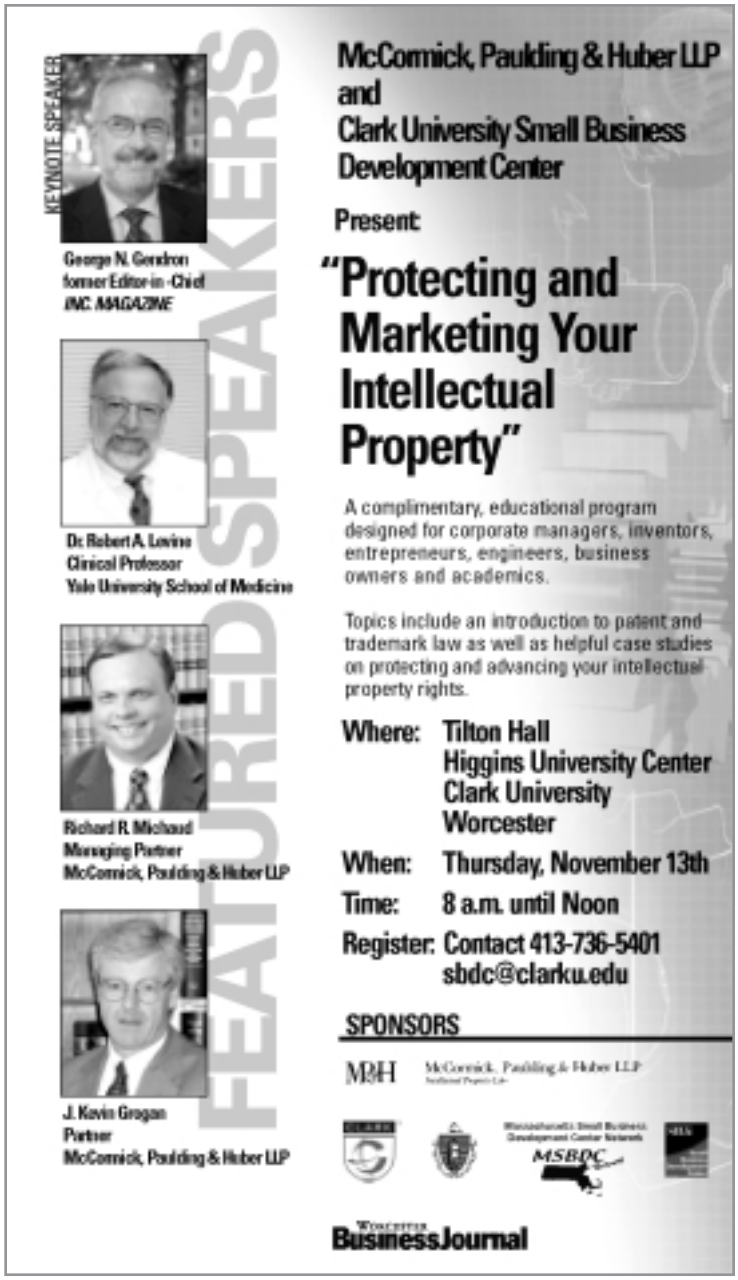
March 9
Marketing

April 13
Raising money

May 11
Valuation

June 8
Business Plan Contest

**Topics subject to change*



New sponsor

The WPI Venture Forum is pleased to welcome Sullivan & Worcester LLP to its list of sponsors. Founded in 1941, Sullivan & Worcester LLP is a general practice law firm comprising more than 150 lawyers with headquarters in Boston and offices in New York City and Washington, D.C.

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We have strong, established working relationships with business advisors, accountants, banks, insurance agencies, marketing agencies, venture capitalists, angel investors, and investment bankers, and can make introductions where appropriate.

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For more information, contact George W. Tetler III, Esq. at (508) 926-3437 or Thomas O. Hoover at (508) 416-2475.