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National Institutes of Health



National Institutes of Health Commercialization Assistance Program
(NIH-CAP)

NIH-CAP 2005-06

First Interval Tracking Report

for the period

July 1 2006 to March 31 2007

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Background & Introduction

Larta tracks the progress of NIH-CAP participating companies for an 18 month period in two 9-month intervals, including a baseline period, which spans the duration of the program. This report provides progress tracking results for the companies that participated in the CAP in 2005-06, for the first interval since the culmination of the 2005-06 CAP or July 1 2006 to March 31 2007. This report presents only a summary of the data. Detailed source data can be found in a separate excel file (Processed Tracking 2005-06 Companies First Interval.xls). We discuss first the overall commercialization progress, and then separately evaluate direct CAP impact.

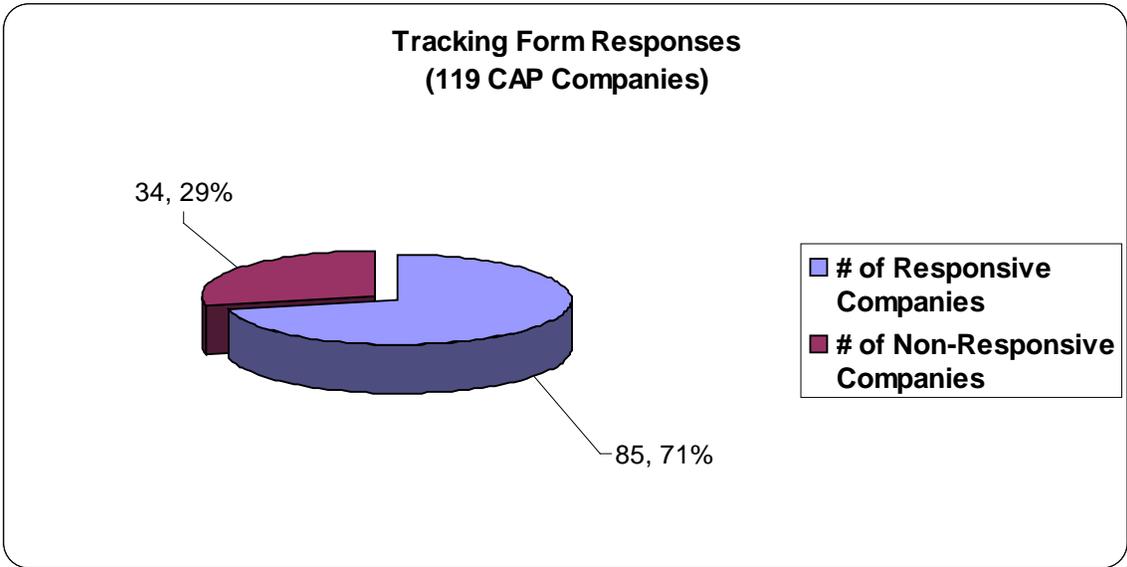
The Tracking Form

The second year of the CAP for NIH SBIR Phase II grantees was launched in July 2005. 107 companies completed the program in June 2006; 4 companies completed prior to the official program end date; and 18 companies did not complete the program of which 11 participated for a sufficient time period to be tracked. Thus, at the end of the program, 122 companies were sent baseline tracking forms. For this baseline interval, 2 companies were relieved from tracking (see Appendix A), leaving 120 companies to be tracked. For the first interval, 119 out of these 120 companies were sent tracking forms as one company was relieved from tracking due to an acquisition (see Appendix A for [REDACTED] acquisition details). Some notable features of the tracking form (see Appendix B) are listed below:

- Tracking is focused on quantifiable end results, i.e., deals, revenue growth, increased equity investment, increased employment, M&A outcomes.
- In addition, the form defined a “deal activity pipeline”. We hope that this attempt at quantifying complex and often circuitous commercialization efforts will provide some predictive capabilities in the future, somewhat analogous to sales pipeline forecasting.
- Participants were asked to report separately their overall commercialization progress and their evaluation of the CAP impact. Data on companies' commercialization progress are in principle objective and could be used in the studies of SBIR program performance in general; their use in evaluating CAP itself is limited due to the lack of a control group of SBIR companies.
- Data on CAP impact are indicative of CAP significance. Companies rated the CAP impact as 1) Major, 2) Valuable, 3) Minor or 4) None. For purposes of measuring CAP impact, Valuable and Minor impact are determined in this report to be ‘Some’ impact on the companies.
- Finally, with the question on revenue, the largest source of revenue was solicited from companies and for them to explicitly state commercial revenue vs. revenue from R&D grants and contracts.

Response Rate

On May 9, 2007, 119 of the 2005-06 NIH-CAP companies were sent the tracking form from Kay Etzler at NIH. 85 of the 119 companies responded to the tracking request, after several email reminders; a 71% response rate. The response rate is significantly higher than that of the baseline period (63%), which is encouraging since more time has elapsed since the culmination of the program. Note also that some companies being tracked withdrew from the program earlier than its official end date and responses from them were unlikely.



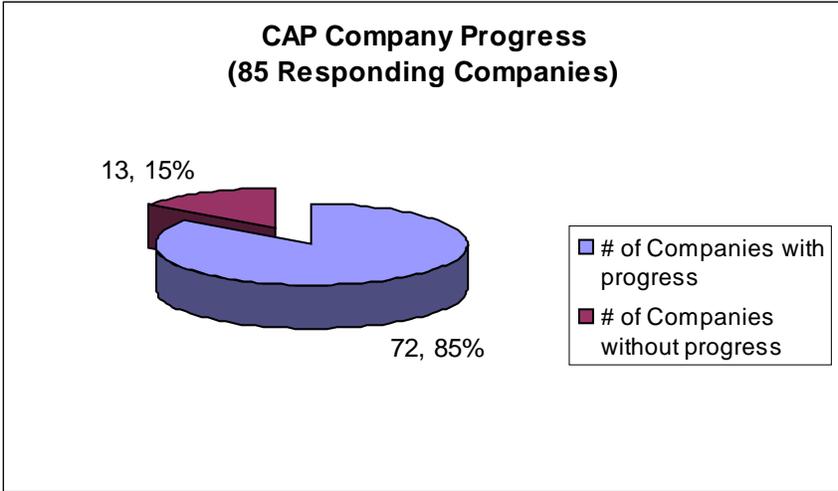
Commercialization Progress

The following charts describe the progress (with the commercialization of SBIR Phase II technologies) that the companies have made during the first interval since the culmination of the CAP. Progress is determined by a positive change in the following categories:

- Activity in Partnerships and Deals
- Revenue
- Growth of Equity Investment
- Growth of Employment
- Acquisitions

Activity in Partnerships and Deals

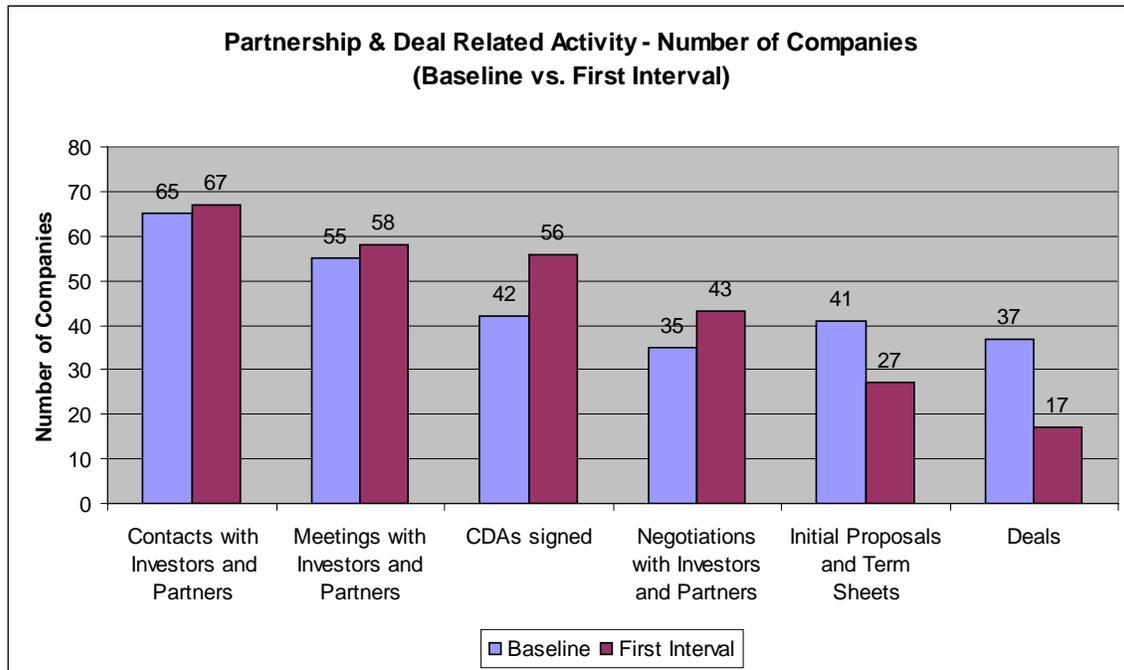
The chart below outlines commercialization progress with respect to partnership and deal related activities, excluding the companies that were non-responsive to the tracking request. Out of the 85 companies that responded to the first interval tracking request, an encouraging 72 companies or 85% of the companies indicate commercialization progress in the partnership and deal related activities area. This 85% rate is slightly lower than the 88% rate from the baseline results.

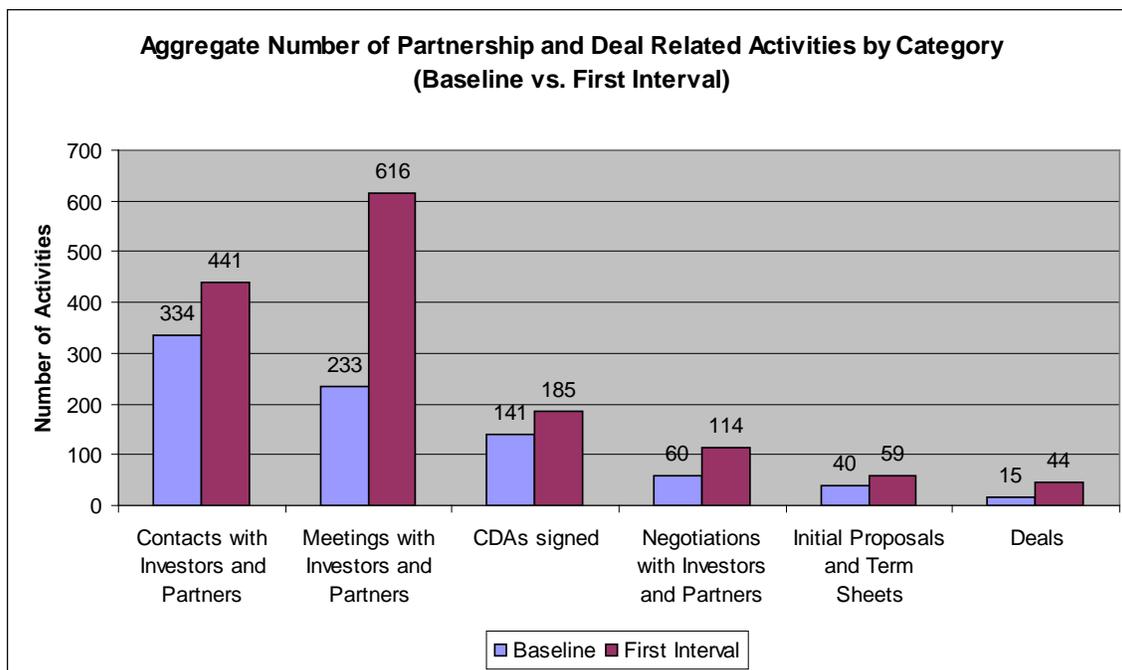


Note that "Progress" is defined as at least one event in at least one of the partnership and deal related activities listed below:

1. Contacts with Investors and Partners
2. Meetings with Investors and Partners
3. CDAs signed
4. Negotiations with Investors and Partners
5. Initial Proposals and Term Sheets
6. Deals

The charts below indicate the number of companies engaged in multiple partnership and deal related activities and the aggregate number of partnership and deal related activities by category.





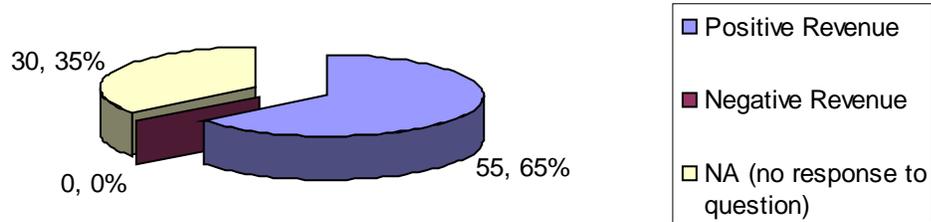
Key observations:

- Partnership and deal related activity has significantly increased in intensity when compared with the baseline. First interval results have exceeded baseline numbers in all categories of partnership and deal related activities. Meetings and negotiations with investors and partners as well as deals have almost tripled in the first interval compared with baseline. Note that [REDACTED] reported 313 meetings with investors and partners or 51% of the 616 meetings with investors and partners, and [REDACTED] reported 21 deals or 48% of the 44 deals recorded in the first interval. The venture capital environment has improved since the culmination of the 2005-06 CAP as indicated by these results.
- In terms of number of companies engaged in partnership and deal related activities, in almost all categories a greater number of companies engaged in such activities in the first interval when compared to the baseline except for initial proposals and term sheets and deals. This indicates an increase in the average number of initial proposals and term sheets as well as deals per company in the first interval.

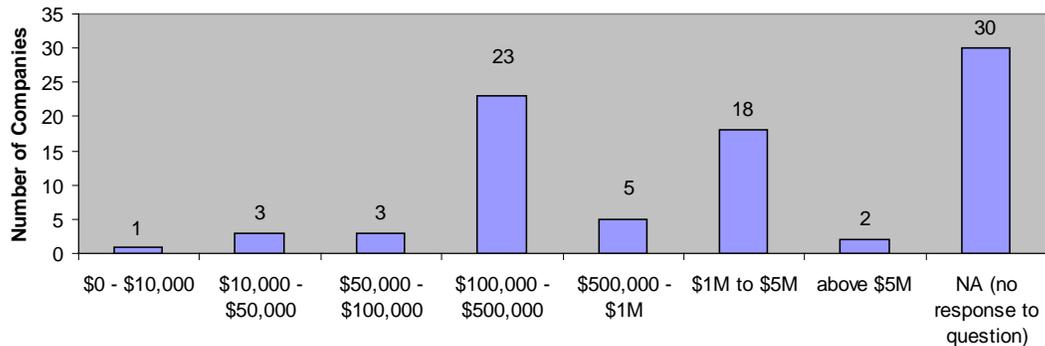
Commercial Revenue

The revenue question for the first interval was changed due to inconsistent responses in the baseline. First interval results will be compared with second interval data when the latter is collected.

Revenue for the First Interval Tracking Period (85 Responding Companies)



Total Revenue for the First Interval Tracking Period (85 Responding Companies)



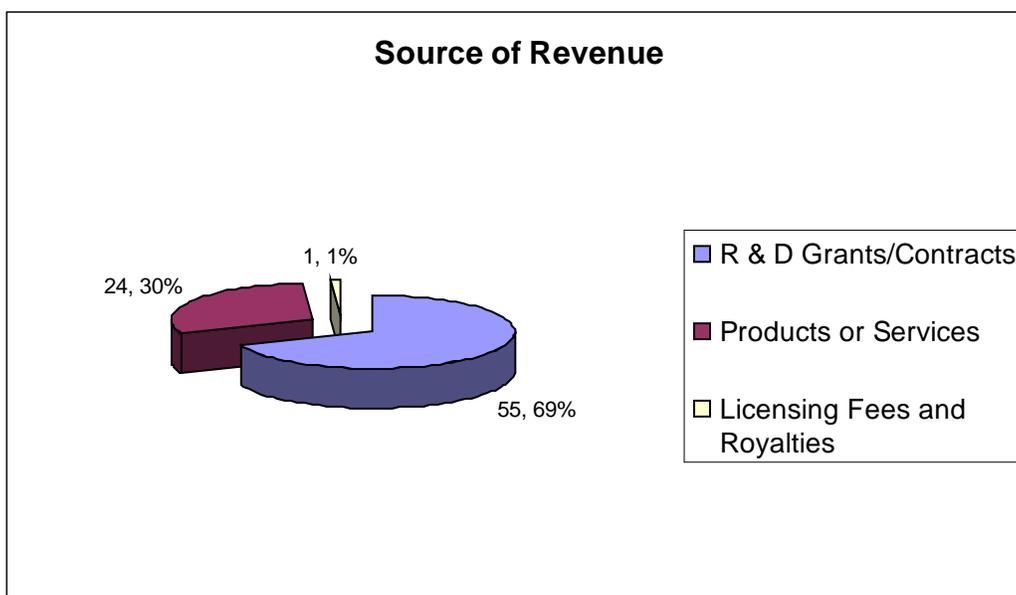
Key observations:

- None of the responding companies have reported negative total revenue.
- The highest revenue reported was \$27.5 million (██████████).
- 2 companies have reported total revenue of over \$5 million and 18 companies between \$1 million and \$5 million.
- See table below for top ten companies with respect to total revenue:

Company Name	Revenue
██████████	\$ 27,500,000
██████████	\$ 5,300,000
██████████	\$ 4,800,000
██████████	\$ 4,400,000
██████████	\$ 4,320,000

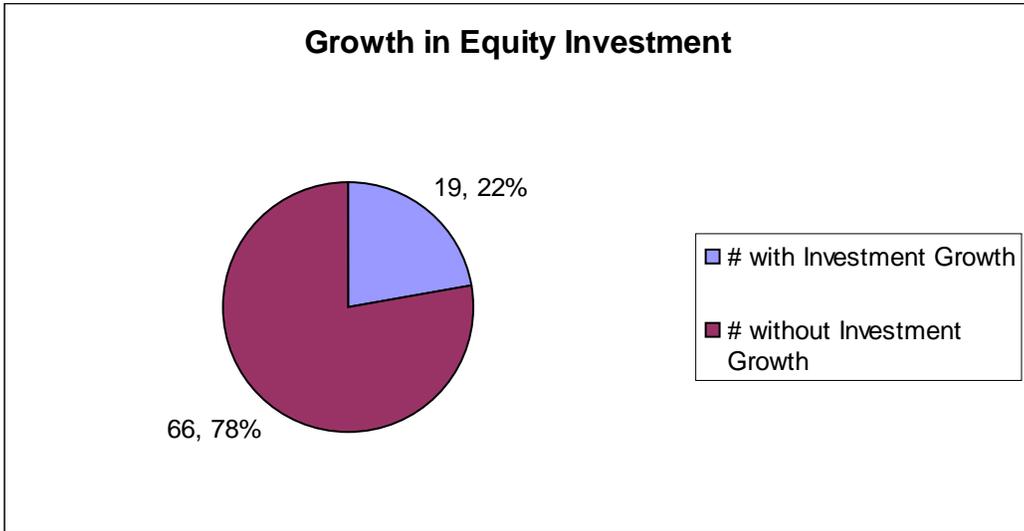
Company Name	Revenue
██████████	\$ 3,800,000
██████████	\$ 3,200,000
██████████	\$ 2,500,000
██████████	\$ 2,400,000
██████████	\$ 1,960,000

However, R&D Grants/Contracts remain the largest source of total revenue for 69% of companies, as shown below. This trend is the same as with prior tracked CAP companies (2004-05 CAP companies).

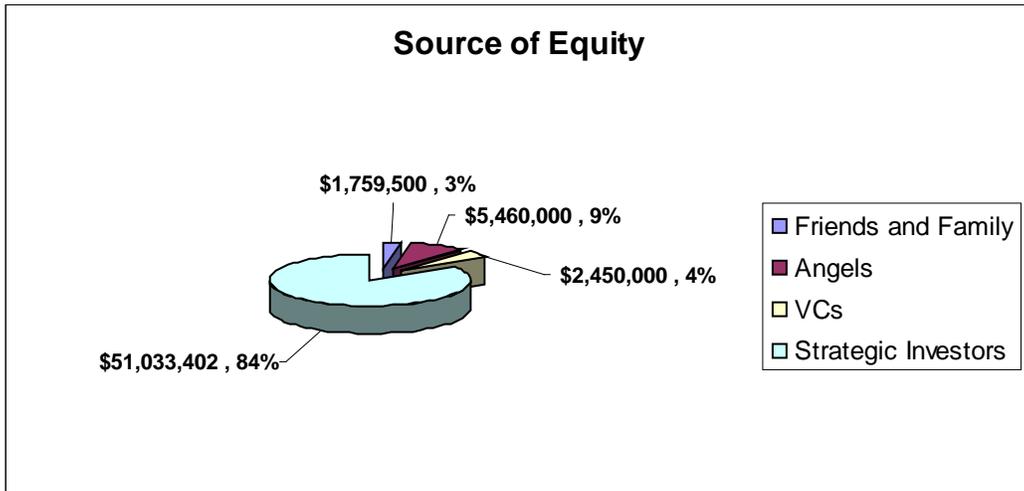


Growth in Equity Funding

The data refers to the growth of the equity funding for the company as a whole. 19 companies or 22% indicated an increase in equity funding from one or more sources; this is an increase from the baseline as 13 companies or 17% reported increase in equity funding during that period.



The total amount of new funding by source of funding is shown below.



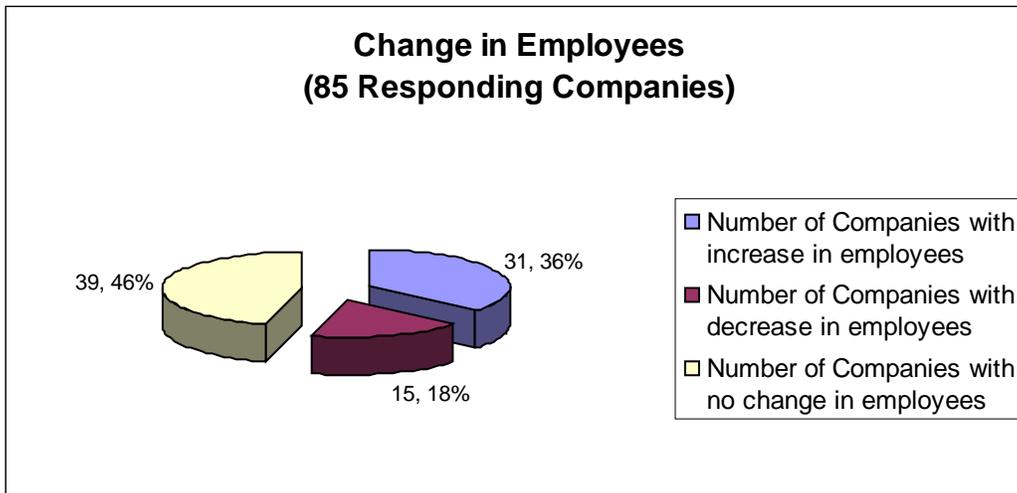
Key observations:

- Strategic investment accounted for the largest source of equity funding followed by angel funding. Note that [REDACTED] accounted for \$47.3 million of the total strategic investment (over 90% of the total strategic investment) and [REDACTED] accounted for \$3 million of the total angel funding (over 50% of the total angel funding). This is a deviation from the baseline period when VC funding dominated the source of equity.
- In total, \$60.7 million was raised by the 19 CAP companies that were successful with equity investment compared with \$45.6 million by 13 companies in the baseline period.
- The bulk of funding went to [REDACTED] (\$47.3 million in strategic investment), and [REDACTED] (\$3 million in angel funding).

Other Success Indicators

Employees

31 companies or 36% of the respondents indicated an increase in employees compared with 26 companies or 35% during the baseline period.



The responses also indicated that the aggregate gain in employment for the first interval was 89 compared with -8 in the baseline.

Mergers & Acquisitions

There was one acquisition reported in the first interval by ██████████ h that was acquired by a local entrepreneur/investor. NIH will follow up with ██████████ regarding the details of the acquisition.

CAP Impact

CAP Impact was rated by the companies as either 1) Major, 2) Valuable, 3) Minor or 4) No Impact. CAP impact was determined for the following activities that have been addressed earlier in the report (Note that Valuable and Minor impact are determined in this report to be 'Some' impact on the companies).

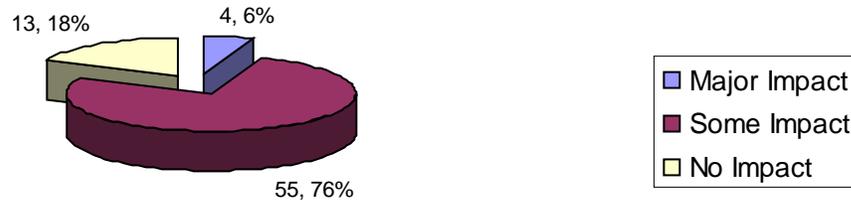
- Activity in Partnerships and Deals
- Revenue
- Growth in Equity Investment

Note that the data here represent companies' subjective assessments on the impact of CAP on specific commercialization outcomes. Companies have separately outlined their feedback on the CAP, the results of which have been submitted to NIH.

Activity in Partnerships and Deals

Progress is defined as at least one activity in at least one of the partnership and deal related activity categories.

CAP Impact on Progress (72 Progressing Companies)



Key observations:

- 4 companies have attributed the CAP with major impact and 55 companies have attributed the CAP with some impact.
- 82% of the progressing companies have attributed major or some impact to the CAP on partnership and deal related activities, compared with 86% for the baseline period.

Comments from CAP participants regarding CAP impact on partnerships and financing deals are shown below. Note that these are comments from companies that attributed the CAP with major or some impact.

“My technology is at an early stage, too early for most investors to be interested. However, my NIH CAP experience was very valuable in helping me plan my current work so that I will be better able to address the issues of concern to investors in the future.”

“We sent our talk slide which we presented at the NIH-CAP meeting last June. The board members at [REDACTED] were impressed with our products and decided to go for distribution agreement.”

“Information and materials packaged for the CAP program provided a valuable basis for the Partnering Information Memorandum and presentation materials. We extended our engagement with the [REDACTED] to include partnering and M&A activities in addition to investors.”

“Although we have not formed any major partnerships or acquired any significant funding, the CAP program has been very helpful in helping us further define our business strategy so as to be able to continue the pursuit of commercializing the Phase II work. We have been in discussion with a local company with similar commercial product interest. They are currently successfully raising VC money for their product, but we do not have any commitments from them on our funding yet. We have continued both US and international prosecution of the several patents we have submitted and obtained.”

“Discussions have been ongoing with several companies for the specific project involved in the CAP program as well as other related technologies. What the CAP program really helped us with was to begin getting initial exposure for some of our novel technologies and devices. It has historically been difficult for a small R&D/Service Provider to get attention from east coast or west coast firms. The CAP program allowed us to bridge that gap, initiate meaningful discussions and potentially close a deal that will be significant for our group.”

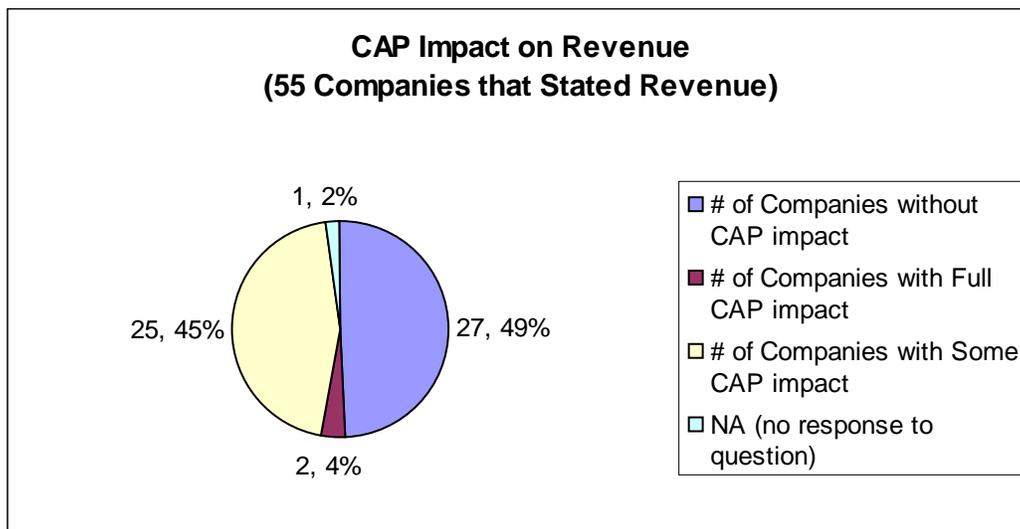
“There was value in the CAP with regard to the thinking and planning aspects of these various types of activities, and we expect that to continue in follow-on work.”

“██████████ was identified as a potential partner before we started the CAP. The lessons we learned during the course aided in our negotiations.”

“The CAP Program has been very helpful to provide guidance in the discussion with investors and prospective partners.”

“CAP was able to focus our goals, confirmed our strategy and provided valuable input in maximizing value. Our goal is to bring a product to market, and to become profitable, without requiring external investment (only federal grants). We are on track to achieve this, with a submission to the FDA planned in Q4 2007.”

Revenue



The above chart shows the impact that CAP had on the companies' revenue for those companies that stated revenue for the first interval tracking period.

Key observations:

- 27 companies of the 55 companies (49%) that indicated change in revenue attributed the CAP with some or full impact.

Comments from CAP companies that attributed the program with full or some impact on revenue are provided below:

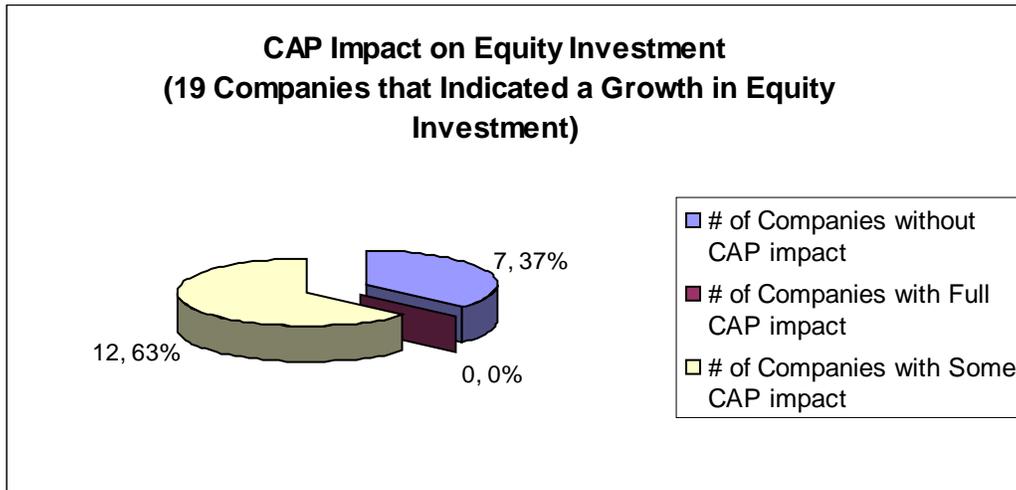
“... We have recently acquired new customers partly due to the business strategy we gained from the CAP program. This has increased our opportunities to keep our cash flow consistent, which helps us continue the pursuit of commercializing the Phase II work.”

“We consider the CAP program part of our strategic plan to add device sales to our services component. We believe that "big things move slow" and expect the major impact to be realized in the next calendar year.”

“The NIH grant funding program has advanced innovation and product sales have become a major impact on revenues. As a part of this process, the CAP was very valuable. However, the

most significant impact came from the NIH grant funding, because it advanced the technology and product, which increased sales revenue. Another relevant revenue number is the sales of products associated with NIH SBIR program (from innovation grants and CAP). Revenues from products directly associated with NIH SBIR program/funding for Q3 and Q4 2006 was approximately \$100,000. Revenues from products directly associated with NIH SBIR program/funding for Q1 2007 was approximately \$200,000.”

Growth in Equity Funding



The above chart shows the impact of CAP on equity investment for those companies that showed a growth in equity investment.

Key observations:

- 63% of the 19 companies that indicated a growth in equity investment attributed the CAP with some impact compared with 31% of the 13 companies that indicated a growth in equity investment in the baseline period, a significant improvement!

Comments from these companies that attributed the CAP with some impact include:

“We only sought the amount of capital we received. There was value in the CAP with regard to the thinking and planning aspects of this effort. When larger investment funding amounts are sought within the next 12 months we expect that the CAP experiences will also add value at that time.”

“Although we have received no outside equity funds to date, we are more prepared to both seek funding at any opportunity and to make more appropriate strategic decisions, based on short and long term considerations.”

“The CAP played significant role in shaping up the company profile that attracted the investor. Also added a business consultant.”

Summary

The 2005-06 tracking effort yielded an encouraging response rate of 71%. Commercialization progress in terms of partnership and financing activity stands at a healthy 72 companies or 85% of the companies. Partnership and deal related activity has significantly increased in intensity when compared to the baseline with first interval results exceeding baseline numbers in all

categories of partnership and deal related activities. 55 companies or 64% of the responding companies have stated revenue for the first interval period and none of the responding companies have reported negative total revenue. R&D Grants/Contracts remain the largest source of total revenue for 69% of companies. 19 companies or 22% indicated an increase in equity funding, an increase from the baseline when 13 companies or 17% reported an increase in equity funding. Strategic investment accounted for the largest source of equity funding followed by angel funding. In total, \$60.7 million was raised by 19 CAP companies that were successful with equity investment compared with \$45.6 million by 13 companies in the baseline period. The CAP continues to have a significant influence and impact on partnering and financing activities. The impact of the program on revenue in comparison remains modest.

Key results are summarized below as well as a comparison to the baseline:

2005-06 NIH-CAP Company Growth by Categories
Baseline vs. First Interval

	BASELINE	FIRST INTERVAL
Revenue Growth (Baseline) and Revenue (First Interval) Number of Companies	23	55
Revenue Growth (Baseline) and Revenue (First Interval) Amount	\$28.7M	\$84.9M
Equity Investment Number of Companies	13	19
Equity Investment Amount	\$45.6M	\$60.7M
Employment Growth Number of Companies	40	46
Employment Growth Amount of Growth	-8	89
Contacts with Investors and Partners Number of Companies	65	67
Contacts with Investors and Partners Number of Contacts	334	441
Meetings with Investors and Partners Number of Companies	55	58
Meetings with Investors and Partners Number of Meetings	233	616
CDAs Signed Number of Companies	42	56

	BASELINE	FIRST INTERVAL
CDA Signed Number of CDAs	141	185
Negotiations with Investors and Partners Number of Companies	35	44
Negotiations with Investors and Partners Number of Negotiations	60	117
Initial Proposals and Term Sheets Number of Companies	41	28
Initial Proposals and Term Sheets Number of Proposals	40	60
Deals Number of Companies	37	17
Deals Number of Deals	15	44

APPENDIX A

2005-06 CAP companies relieved from tracking:

Company Name	Notes
[REDACTED]	Only being tracked for 2004-05 participation as company withdrew from the 2005-06 program too early for progress tracking.
[REDACTED] [REDACTED]	<p>[REDACTED], CEO and CAP leader, passed away. Since [REDACTED] CAP participation was solo and no one else was familiar with his CAP progress, the company is not able to provide the commercialization data we have requested on the tracking forms.</p> <p>[REDACTED] was acquired by [REDACTED] and although the company still uses the '[REDACTED]' name, the new company has more than 50% VC investment and not qualify for a small organization.</p>

APPENDIX B

NIH-CAP 2005/2006

COMMERCIALIZATION PROGRESS TRACKING FORM- FIRST INTERVAL

July 1 2006- March 31 2007

PLEASE RETURN BY **JUNE 27, 2007** TO ksood@larta.org

Company Name:
CAP SBIR Grant #:
Name of Individual Completing Form:
Position:
E-Mail:
Telephone:

Please fill in the **COMPANY COMMERCIALIZATION PROGRESS TRACKING** form below. NIH is very interested in your commercialization progress and if the CAP program was helpful. You have already been asked for your inputs about your commercialization progress from September 1, 2005 until June 30, 2006 to serve as a base. We are now asking for information for the period **July 1 2006 to March 31 2007**. Again, we believe that such tracking can be beneficial to you as a management tool to periodically assess your company's progress and growth.

The tracking form is divided into four parts: (1) partnerships and financing deals, (2) revenue (3) equity investment, (4) and other success indicators (employees, acquisitions). It's difficult to measure the impact the CAP may have had on you progress, however, questions have been included to allow for your opinion to be expressed.

1. PARTNERSHIPS AND FINANCING DEALS

- a) As it relates to your CAP-related technology, please indicate your company's progress with respect to partnerships and financing deals. State the number of partnership and deal-related activities in which your company has engaged between July 1 2006 and March 31 2007. If you are pursuing both partnering and financing, add the numbers together.

	Number of Partnership and Deal Related Activities Your Company Has Engaged in Between July 1 2006 and March 31 2007	Describe Significant Outcomes
Contacts with Investors and Partners Count only contacts you had a meaningful conversation with about your mutual interests		
Meetings with Investors and Partners Meetings can be face-to-face or by phone/web but should involve exploration of potential deals in some detail.		

	Number of Partnership and Deal Related Activities Your Company Has Engaged in Between July 1 2006 and March 31 2007	Describe Significant Outcomes
Confidential Disclosure Agreements signed CDA (NDA) agreements are generally a pre-requisite for any serious discussion with potential partners. Investors generally do not sign CDAs.		
Negotiations with Investors and Partners At this stage, all parties are interested in the deal and you are exploring various give and take.		
Initial Proposals and Term Sheets These are non-binding proposals of key terms of the deal.		
Deals Signed legal documents and money in the bank. Please indicate the dollar amount of each deal.		

- b) Please indicate the impact of the CAP on your partnering and financing activities for the period July 1 2006 to March 31 2007.

Major Impact Valuable Impact Minor Impact No Impact

Comments:

2. REVENUE

Please report the results for the whole company and not just your CAP-related technology. Do not include SBIR grants or other government contracts (except when asked about R&D Grants/Contracts in c) below).

- a) Please state the total company revenue in Q3 and Q4, 2006

_____ (\$millions)

- b) Please state the total company revenue in Q1, 2007

_____ (\$millions)

- c) Please indicate the largest source of revenue (Choose one)

R&D Grant/Contracts _____ Products or Services _____ Licensing Fees & Royalties _____

d) Please indicate the impact of the CAP on the change in company revenue for the period

July 1 2006 to March 31 2007.

_____ Major Impact _____ Valuable Impact _____ Minor Impact _____ No Impact

Comments:

3. EQUITY INVESTMENT

a) Please state the total amount of equity investment received by the whole company INCLUDING your CAP-related technology in the time period July 1 2006 to March 31 2007.

	Amount of Equity Investment
Friends & Family	
Angels High net worth individuals; always invest as individuals although may belong to angel organizations.	
VCs Institutional investors	
Strategic Investors Investors that are looking to achieve other goals in addition to financial returns. Typically corporations seeking to fill or expand their product lines.	

b) Please indicate the impact of the CAP on equity investment received for the period

July 1 2006 to March 31 2007

_____ Major Impact _____ Valuable Impact _____ Minor Impact _____ No Impact

Comments:

4. OTHER SUCCESS INDICATORS (EMPLOYEES, ACQUISITIONS)

a) Have the number of employees in your company increased since July 1 2006? If yes, please specify the number of employees in July 1 2006, versus the current number of employees, and the titles/positions of the new employees.

	Employee Information
Number of Employees as of July 1, 2006	
Current Number of Employees	

b) Has your company been acquired? Yes ____ No ____

If yes, NIH would like to continue tracking the progress of the SBIR-developed technology for the next 9 months, therefore please provide the following information.

	Acquisition Information
Name of the Acquiring Company	
Change in Company Name as a Result of the Acquisition	
Change in Company Contact Information as a Result of the Acquisition	
Additional Details	

THANK YOU ONCE AGAIN FOR YOUR PARTICIPATION IN THE 2005/2006 CAP AND FOR YOUR FEEDBACK. IT WAS A DELIGHT TO WORK WITH YOU AND WE WISH YOU THE BEST OF SUCCESS.