

Sweet Charity: New Funds for Discovery

Nonprofit organizations seed biotechs with 'recoverable' grants to fund cures | [By Neil Canavan](#)



Nonprofit foundations are not, by definition, out to make money; but they are making deals. Discontented with more traditional channels of scientific advancement, patient advocacy nonprofits are now working directly with industry to bring ideas to the bench and treatments to the marketplace. For a company in early-stage drug

development, the timing couldn't be better. With seed money rare and willing venture capitalists (VCs) scarce, industry can turn to the succor of venture philanthropy (VP).

A tale of one such journey from woe to rescue sounds like this: "We started our fund raising initiative just at the time that the Internet bubble was bursting," recounts Ely Simon, founder and president of NeuroTrax, based in New York City. "So the timing was just awful." VCs lost interest in early-stage companies or, if they did get involved, it was only on the harshest terms. But coincidentally, the era of VP had just begun. "I didn't know anything about it," continues Simon, "and, of course, it was attractive to us. It gave us money when we needed it."

Simon had discovered the Institute for the Study of Aging (ISOA) and the recoverable grant. The concept is simple: A nonprofit organization gives a company money for a specific project, and if the company makes a profit, the foundation gets a portion of the proceeds. "It's not a grant in the traditional sense," explains Simon, "but, on the other

hand, the terms were built so that the payback wouldn't hurt our cash flow." The idea is that both parties get what they need to pursue their common interests. For ISOA and NeuroTrax, that means a \$320,000 (US) grant for Mindstreams™, an interactive computer program for the detection of early-stage cognitive disorders.

This link between foundation and industry makes sense, but why did it evolve only recently? John Tallman, president and CEO of Helicon Therapeutics, Farmingdale, NY, and ISOA grant recipient, speculates that it was time for charities to advance. "You know, for years the nonprofits have just been interested in funding academic researchers," he says. "But now a lot of the causes of these disorders are known." The next logical step is to support the industry that is developing cures, Tallman adds. Grants became 'recoverable' to advance the mission. The first priority remains: making sure therapies go forward and are developed. A little return on their investment won't hurt the charities either. "If they are going to fund this sort of work, why shouldn't they get a return?" Tallman asks.

HOW DEALS WORK Similar to negotiations with VCs, VP funding applications are vetted through a process of due diligence. The deals, like any financial arrangement, can take many forms. A foundation may partake in a royalty stream. The payback may be a flat multiple, two or three times the grant, or perhaps a licensing agreement relative to the size of the investment. Helicon, which received a \$238,000 grant, exchanged warrants for the ability to continue work on its lead molecule HT-0712. (A warrant is an opportunity to buy stock at a future date.) The key feature of all such deals is that repayment is based on success. "If the compound fails, the warrants are worthless," Tallman says.

Terms aside, the deal is not just about money. Haro Hartounian, president of MicroIslet, San Diego, says his company and the Juvenile Diabetes Research Foundation shared similar plans. JDRF provided MicroIslet \$250,000 in June 2003 to advance MicroIslet-P™, a microencapsulated porcine islet-cell suspension to be used for transplantation in patients with insulin-dependent diabetes. "The

bottom line is that we both have the same goal, the cure for diabetes," he says.

To Hartounian, the JDRF grant is more beneficial than would be a direct financial contribution from a VC. "[The relationship] is more effective in my view, because the data are going back to the diabetes foundation, and they understand the issues that we are facing," Hartounian says. "It's a great relationship."

Relationships with a foundation bring not only experience and resources, but also reputation. Ed Field, president and director of Inologic in Seattle, Wash., a February 2003 recipient of \$1.5 million from the Cystic Fibrosis Foundation (CFF), says that while money from the bank is a check, a grant from a nonprofit is a ticket to receiving more money. "It's a significant validation for a company like ours to get such an award," says Field. Because the community of patients is small, the grant from a respected charity is an extra benefit. "CFF brings credibility. They bring contacts from a clinical perspective ... they even have a research meeting we've been invited to present at," says Field. What more could you ask for? Of course, nonprofit funding isn't the final answer. VC money is strictly project specific, and not for general operations. The sums given are relatively small, and overall, the funding is not considered to be smart money, meaning cash supplied by knowledgeable business people. For instance, Field says, VCs bring management skills, future contacts, and possible corporate partnership introductions. "I don't think just one funding source is sufficient," he adds. "But foundations like CFF, they can really make a difference."

The nonprofits also have become aggressive. "Our philosophy is to try to make progress as soon as possible, and not wait for people to approach us," says Douglas Compton of the Cure Autism Now (CAN) Foundation. Taking its cue from CFF, CAN is embarking on its own industry grant. Though details and participants are confidential at

press time, Compton, who is a scientist and the parent of an autistic son, is eager to get the first deal signed.

RESEARCH TRADITIONS This is not to say that CAN, JDRF, or any of the foundations have abandoned the support of basic science. "One of our biggest pushes is to get young investigators into the field," Compton says. The pursuit of questions, therapies, and cures demands the attention of a wide range of disciplines. "We need to build the entire field; autism is not just one disease."

To that end CAN established the Young Investigator Program, a granting program for postdocs. Now, scientists who hadn't been able to tailor their skills relative to the problems of autism are able to do so with CAN funding.

Michael Jacobs, postdoctoral fellow at the University of Washington Genome Center, Seattle, knows all about it; his daily bread (and agarose gel) is provided by CFF. The grant is competitive, and the income is vital to anyone starting out, but Jacobs says CFF offers other benefits. "[CFF activities] connect you to the larger community," he adds. "I get the benefit from other people's years and even decades of experience. It's great to get insight into what everyone else is doing." So whether you're slaving at the bench or sitting on the board, consider a role for the nonprofit. The money is there and the terms are fair. Is it a handout? No. But don't be shy if you need a hand. You have the science, and the nonprofits have nothing to gain but a cure.

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