CREATIVE FINANCING FOR BIOTECH AND PHARMA DRUG DEVELOPMENT AND COMMERCIALIZATION

New York Biotechnology Association
Annual Meeting - April 17, 2006

Morgan Lewis
COUNSELORS AT LAW

INTRODUCTION

- Speakers
  - David R. King, *Chief Executive Officer,* BioRexis Pharmaceutical Corporation
  - Gregory Brown, *Partner,* Paul Capital Partners
  - Mary Fisher, *Chief Operating Officer,* Acorda Therapeutics, Inc.
  - Andrew J. Weisenfeld, *Managing Director, Biotech Investment Banking,* Banc of America Securities

CREATIVE BIOTECH FINANCING

- Summary Trends
  - Pace of life sciences financing declined along with all other venture financing in the wake of the overall technology market decline
  - The rate of FOPOs has increased while IPOs have continued to decline
  - VCs continue to raise the bar
  - VC interest has shifted from platform technology to drug development

CREATIVE BIOTECH FINANCING

- Financing Goals
  - Near-term cash
  - Long-term value
  - Drug development program
  - Product commercialization
  - Manufacturing capability
  - Retention of control

CREATIVE BIOTECH FINANCING

- Types of Financing Sources
  - Venture Capital – Alternatives to Traditional VCs
  - Private Equity
  - Leveraged Recap
  - IPO and Follow-on/Registered Direct Offering
  - PIPEs
  - Corporate Partnering and Collaborations
  - M&A/Sale of Product Line

CREATIVE BIOTECH FINANCING

- Venture Capital -- Alternatives to Traditional VCs
  - State-sponsored funds and greenhouses
  - Pharma in-house VC arms
  - Strategic investor / pharma corporate partner
  - Look for added value, from industry expertise and relationships

CREATIVE BIOTECH FINANCING

- Private Equity
  - Sale of partial interest to private equity firm
  - Late stage development funding with royalty return
  - Royalty stream monetizations
  - Revenue interest monetizations
  - Restrictive covenants
  - Product asset and IP ownership
  - Accounting treatment

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CREATIVE BIOTECH FINANCING

- Leveraged Recap
  - Leverage with debt
  - Cash raised with no equity dilution
  - Convertible debt
  - Control retained

CREATIVE BIOTECH FINANCING

- IPO and Follow-on / Registered Direct Offering
  - Public “currency” for future deals
  - Use of Internet in pricing and distribution
  - Going public on foreign stock exchanges

CREATIVE BIOTECH FINANCING

- PIPEs
  - Private investment in public equity
  - Placement agent
  - Private placement rules
  - Discount to market or discounted conversion rate
  - Nasdaq shareholder approval requirements
  - Registration rights vs. shelf registration

CREATIVE BIOTECH FINANCING

- Corporate Partnering and Collaborations
  - Collaboration with ‘virtual’ elements of joint venture
  - Up-front fees
  - Milestone payments
  - Development cost-sharing
  - Use of collaboration IP in other programs
  - Partnering / at-risk arrangements with service providers

CREATIVE BIOTECH FINANCING

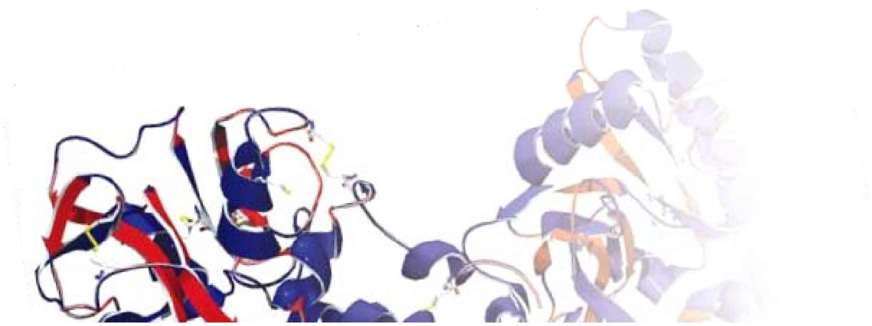
- M&A/Sale of Product Line
  - Sale of single product or product line vs. Sale of entire company
  - Cash consideration vs. cash or equity in company sale
  - Contingent and performance-based pay-outs
  - Retention of control if single product sale
  - Reverse mergers
  - SPACs

CREATIVE BIOTECH FINANCING

- Keys to Successful Financing *Whatever the Creative Model*
  - Sustainable Business Model
  - Scientific/Technical Edge
  - Protect-able Intellectual Property
  - Compatible Development Timetable
  - Achievable Commercialization Plan
  - Management Team – Entrepreneurial and Experienced
  - Capital Use Match – Amount Needed and Amount Raised
  - Reasonable Valuation
  - Roadmap for Exit

BioRexis

Pharmaceutical Corporation



New York Biotechnology Association

April 17, 2006

My background

- Lawyer representing both VC firms and venture backed companies for over 26 years
- Left in 2000 to become CEO of Principia Pharmaceuticals, which was acquired by HGSI
  - Traditional venture financing, combined with equity investment from pharma that spun-off key technology
- In 2001 became CEO of Delsys, which was acquired by Elan
  - Two financings with Elan
- Co-founder and CEO of BioRexis in July 2002

State of early stage financing from venture funds today

- Much harder for early stage companies
- Experienced management <u>team</u> that has delivered returns to investors means even more today
- Due diligence is far more extensive
  - Your plan assumptions will be extensively analyzed
  - Extensive (and expensive) reviews by consultants
  - Personal background checks

State of early stage financing from venture funds today (cont.)

- Capital efficiency is in
  - Product focused – how quickly and cheaply can you get human data to support products that can be sold to pharma
  - Grand dreams are out
  - In many respects, moving closer to what we have historically seen in device financings
- Management "skin in the game" is also back in
- Exit strategies can <u>not</u> rely on the IPO market
- Listen to what the VC's are saying, and understand what sells and what does not
  - Role of the fund's last worst experience

Creative use of non-venture fund financing

- Angels (make sure that you have maximum flexibility for future financing from venture funds)
- Quasi-public sources (e.g., BioAdvance in Philadelphia, etc.)
- Pharma funding

Early stage product licensing as a financing strategy

- Ideal strategy is to have products ready for licensing early enough so that you can choose between
  - Licensing and using up-fronts (and reduced burn) to help fund company: <u>*or*</u>
  - Raising additional venture funding to further develop products.
- Must have strong pipeline so that investors are comfortable that you are not licensing too early the company’s key assets.

Creative Financing for Biotech and Pharma Drug Development and Commercialization

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PAUL
CAPITAL
PARTNERS

27 Investments: $670MM invested since 2000

PHARMING
$30,000,000
February 2006

a.p. pharma
$30,000,000
January 2006

ACORDA THERAPEUTICS
$15,000,000
(at closing)
$10,000,000
(contingent payments)
December 2005

THE WISTAR INSTITUTE
$45,000,000
November 2005

Researchers at Cincinnati Children's Hospital Medical Center
$10,000,000
November 2005

AVANT IMMUNOTHERAPEUTICS, INC.
$61,000,000
May 2005

verus Pharmaceuticals
$30,000,000
March 2005

Aventis
$115,000,000
August 2004

Global Pharma Company
$34,000,000
December 2003

GUILFORD PHARMACEUTICALS
$42,000,000
October 2003

LABioMed
$25,000,000
September 2003

Cancer Research Technology
$20,000,000
April 2003

MCRI
$15,000,000
November 2002

European University
$1,900,000
July 2002

European University
$7,400,000
July 2002

SkyePharma
$30,000,000
March 2002

PHRI THE PUBLIC HEALTH RESEARCH INSTITUTE at the International Center for Public Health
$7,600,000
February 2002

ML LABORATORIES PLC
$7,500,000
February 2002

ORTHOVITA
$10,000,000
October 2001

U.S. Research Institute
$3,050,000
October 2001

Ortec International
$15,000,000
August 2001

ML LABORATORIES PLC
$25,000,000
June 2001

GLIATECH
$7,500,000
April 2001

SkyePharma
$30,000,000
December 2000

U.S. University
$20,000,000
September 2000

anthra
$8,000,000
July 2000

U.S. Pharma Company
$15,000,000
May 2000

Paul Royalty Fund's Investment Attributes

1. We provide a **significant** source of capital
   - *"Sweet Spot" = $20MM – $100MM*
2. We invest in **product revenues**
   - *≥ 90% in marketed products*
3. We have a **long-term** investment horizon
   - *Term ranges from 5 to 10 years*
4. We make **product-based** investments that minimize dilution to shareholders
   - *Royalty and revenue interests are the cornerstone of our investments*
5. Our investments are **flexible** and **customized** to each company's needs
   - *Tailor terms and structures to address specific company circumstances: equity and revenue interest financing*

Case Study: Revenue Interest with Acorda Pre-IPO

Investment Size: $25MM in fixed and milestone payments

Product: Zanaflex tablets and Capsules

Use of Proceeds: Fund sales force expansion

Situation: Closed and funded Revenue Interest with Acorda Therapeutics

in December 2005 prior to IPO pricing in February 2005

ACORDA THERAPEUTICS

% of Zanaflex Sales

Up to $25 MM

PAUL ROYALTY FUND

Purchased a portion of Acorda's revenue on all Zanaflex products

- **Extra cash allowed Acorda to enter IPO roadshow in a strong financial position**
- **New investors saw large long-term investment by PRF as validation of Zanaflex**
- **Equity investors will reap the benefits of PRF-funded sales force expansion for Zanaflex and future marketed products**

Case Study:
Sale of a Passive Royalty by AVANT

Investment Size: $61MM in fixed and milestone payments
(Investment completed: May 2005)

Product: Rotarix

Use of Proceeds: Fund vaccine pipeline products

Recipient of Rotarix Royalty:

AVANT IMMUNOTHERAPEUTICS, INC.

Marketer of Rotarix:

gsk GlaxoSmithKline

Entitled to royalty on Rotarix

$61 MM

PAUL ROYALTY FUND

- Purchased a portion of AVANT's royalty stream on Rotarix.

Paul Royalty Fund to receive royalty stream on Rotarix

Legend

Indicates pre-transaction royalty flow

Indicates post-transaction royalty flow

Case Study:
Sale of a Passive Royalty by Aventis

Investment Size: $115MM in fixed and milestone payments upon U.S. commercial launch of Lunesta (Investment completed: August 2004)

Product: Lunesta (Formerly Estorra; FDA approved in December 2004)

Rationale: FTC mandated divestiture of royalty

Recipient of Lunesta Royalty:

Aventis

Marketer of Lunesta:

SEPRACOR

Entitled to royalty on Lunesta;

FTC required Aventis to divest royalty prior to approving Sanofi's $64B acquisition

$115 MM

PAUL ROYALTY FUND

- Purchased royalty stream from Aventis

Paul Royalty Fund to receive royalty stream on Lunesta

Legend

Indicates pre-transaction royalty flow

Indicates post-transaction royalty flow and payments

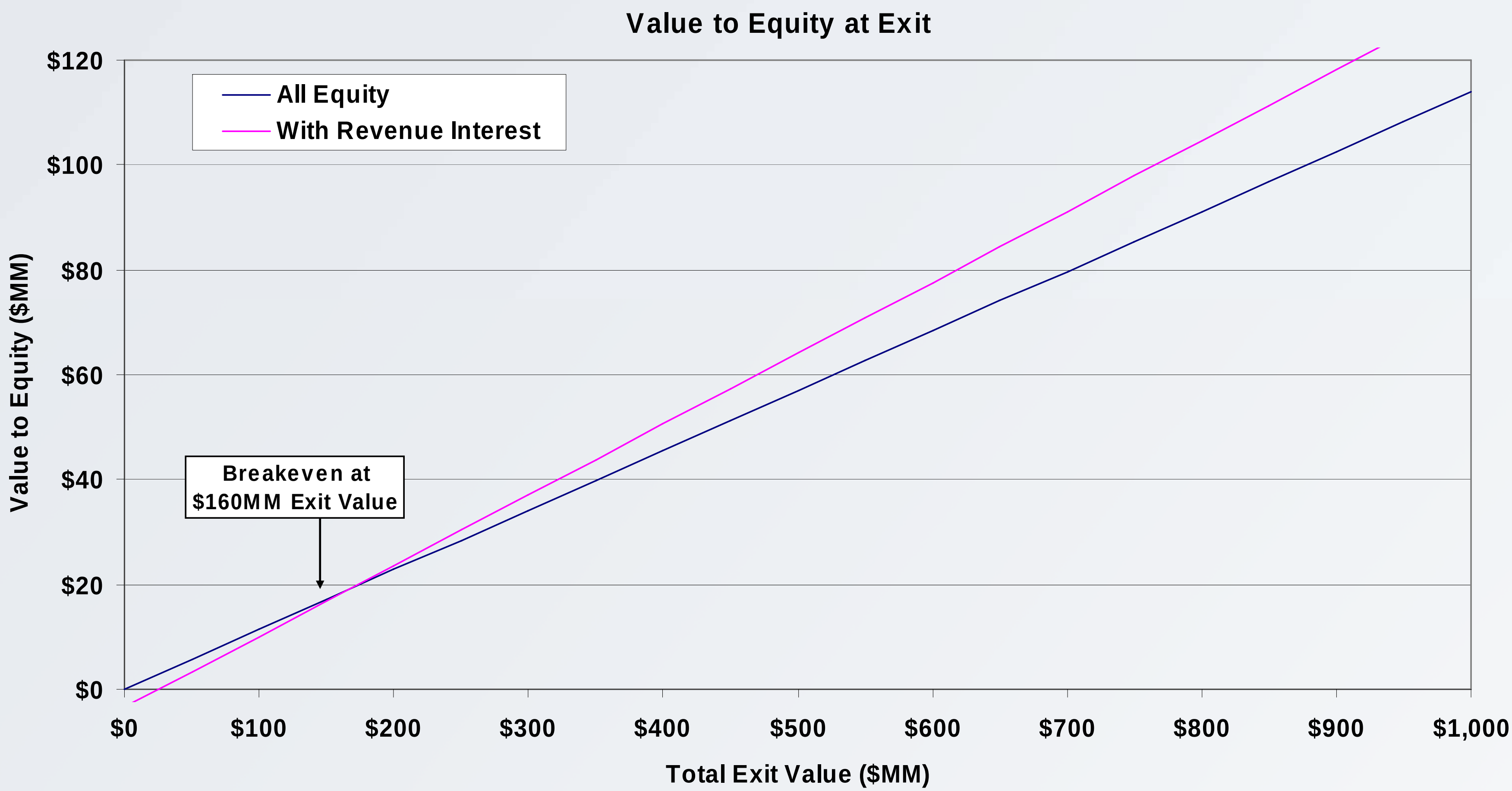
Sample Return Scenarios on Projected Exit

	Without Revenue Interest (all equity)	With Revenue Interest (as structured)
Equity Ownership		
Post Series A	17.3%	21.0%
Post Series B[(1)]	15.1%	17.9%
Post IPO[(2)]	11.4%	13.5%
Exit Valuation	$800.0	$800.0
Less: Price of Call Option[(3)]	-	($25.5)
Equity Value	$800.0	$774.5
% Ownership	11.4%	13.5%
Value to Equity	**$91.1**	**$104.6**

Value to Equity increases by $13.5MM with revenue interest

Notes: **(1) $20MM Series B at 1.25x step up to Series A post-money**
(2) $65MM IPO at $200MM pre-money (1.25x step up to Series B post-money)
(3) Price required to generate 25% IRR; assumes exit in Q4 2008

Value Gained Through Revenue Interest



Case Study:
Equity + Revenue Interest Investment in Verus

Investment Size: $30 MM: $10 MM Equity and $20 MM Revenue Interest (Investment completed: March 2005)

Product: Twinject

Use of Proceeds: To fund pipeline development and commercial launch

$78MM Series A Equity

- **PRF invested $10MM in equity**
- Other investors included: Domain Associates, Prospect Venture Partners, MPM, Montreux Equity Partners, Athenian Venture Partners and Windamere Venture Partners

Paul Royalty Fund provided the largest commitment of capital in the $98MM total financing

$78 MM

verus Pharmaceuticals

$20 MM

$20MM Revenue Interest

- PRF to invest $20MM in exchange for a revenue interest on Twinject once launched

PRF to receive a % of royalties on Twinject once launched

Case Study: SkyePharma
>6-fold Return on Investment to SkyePharma

Investment Size: $30MM (Investment completed: December 2000)

Products: 4 products – DepoCyt, DepoMorphine (renamed DepoDur in U.S.), Solaraze, and Xatral OD

Use of Proceeds: Clinical development

ENZON PHARMACEUTICALS

January 2003

- In-licensed N. American rights to DepoCyt
- $12MM upfront to Skye
- Entered into strategic co-development alliance

ENDO PHARMACEUTICALS

January 2003

- In-licensed N. American rights to DepoMorphine (DepoDur) and Propofol
- $25MM upfront + $95MM in future milestones + % of sales to Skye

zeneus pharma

April 2004

- Strategic marketing agreement for European rights to DepoMorphine
- €100MM in upfront & future milestones + % of sales to Skye

- **Paul Royalty Fund's financing allowed SkyePharma to defer partnering until late stage trials for DepoMorphine were completed**
- **$30MM investment from Paul Royalty Fund translated into > $200MM in total upfront and future milestones to SkyePharma *(in addition to future royalties)***

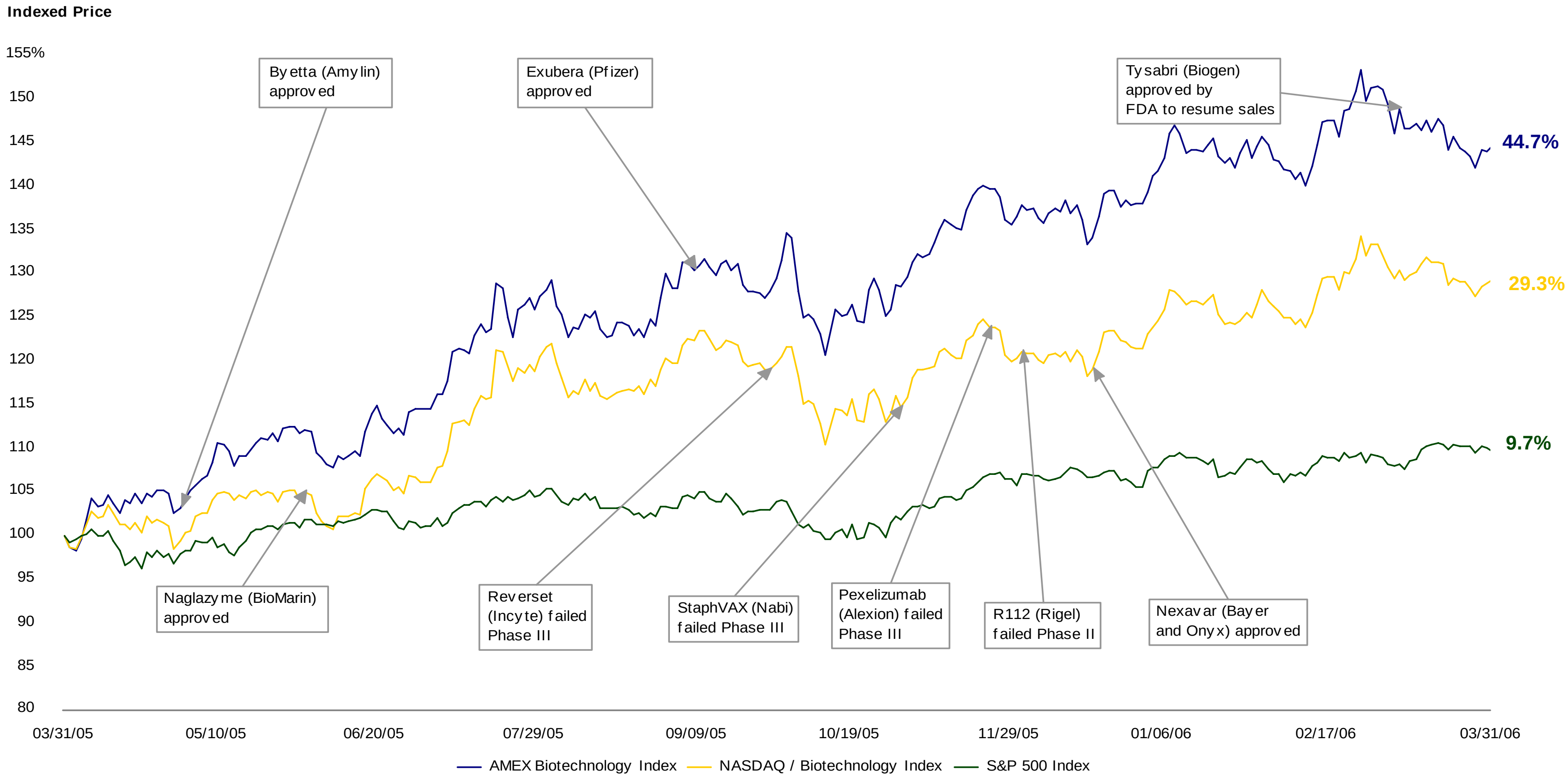
Mary Fisher's slides to be inserted

Andrew Weisenfeld

Managing Director - Head of Biotechnology Investment Banking

The Biotech Market Has Improved Steadily Over The Last Twelve Months

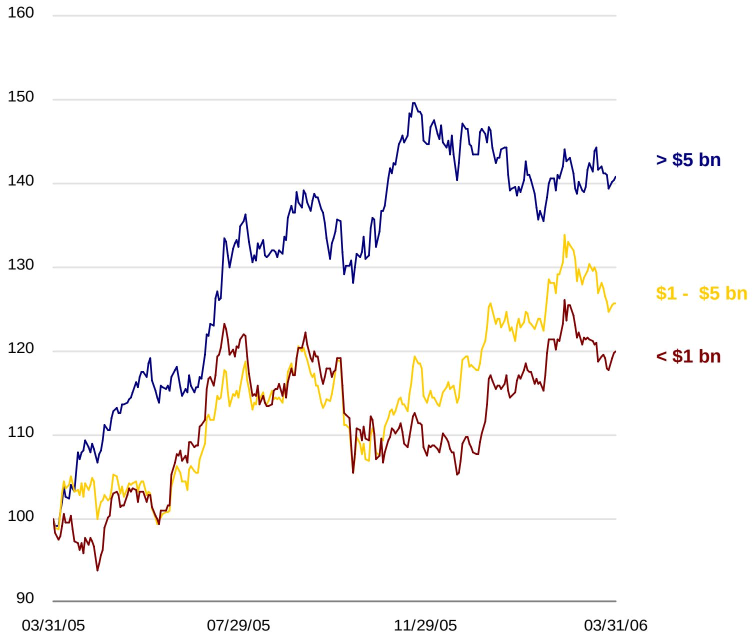
LTM INDEXED PRICE PERFORMANCE



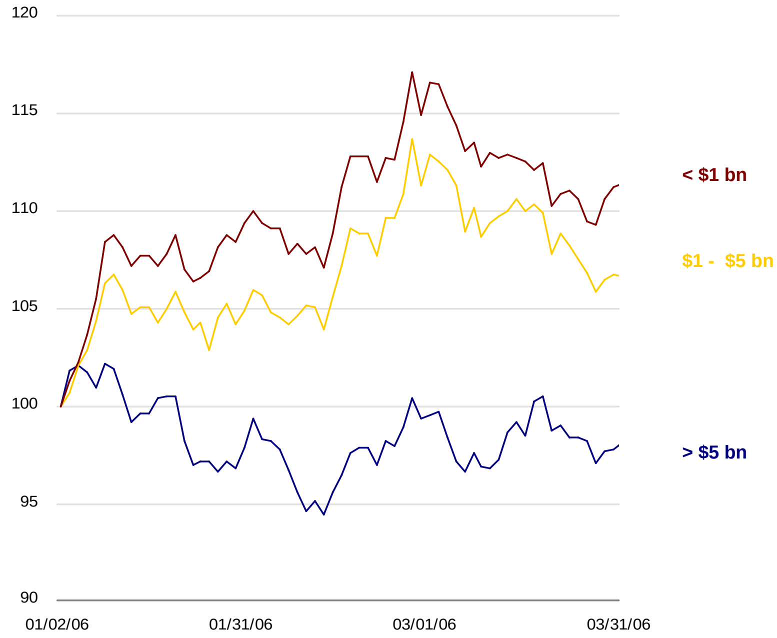
Source: FactSet, as of 03/31/06.

Larger Biotechnology Companies Have Performed Better in the Past Year But Small to Midcaps Have Outperformed in 2006

LTM INDEXED PRICE PERFORMANCE



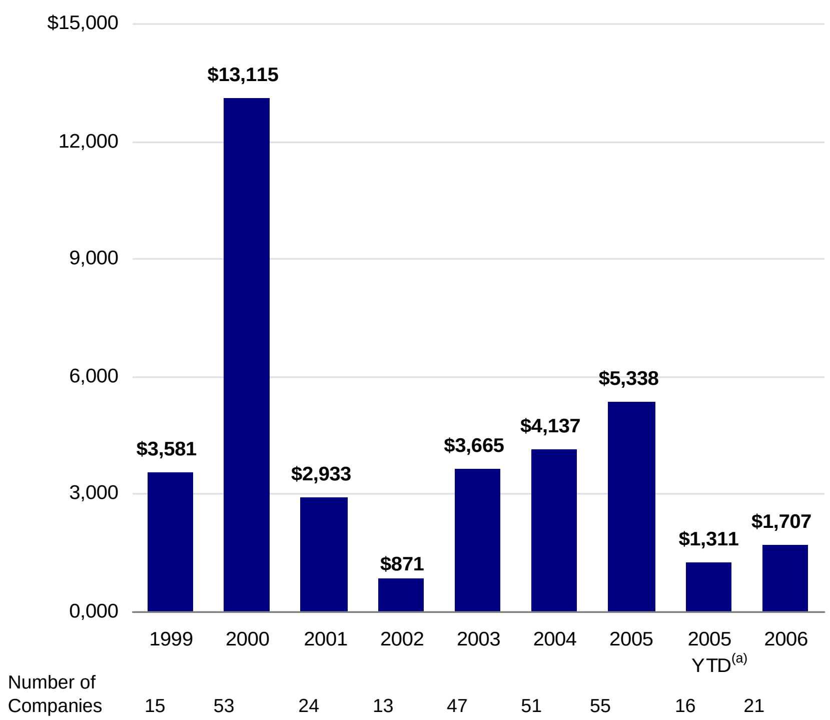
YTD INDEXED PRICE PERFORMANCE



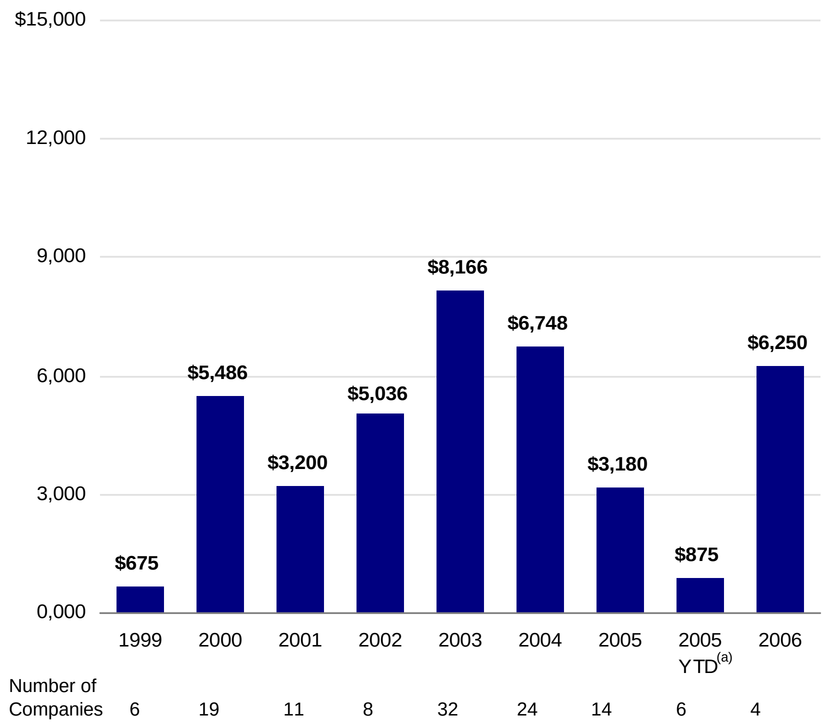
Source: FactSet, as of 3/31/06. Based on market capitalization of NBI and BTK components.

After a Strong 2H05, the Financing Markets Continue to be Busy in 2006

FOLLOW-ON ISSUANCE 1999-2006



EQUITY-LINKED ISSUANCE 1999-2006

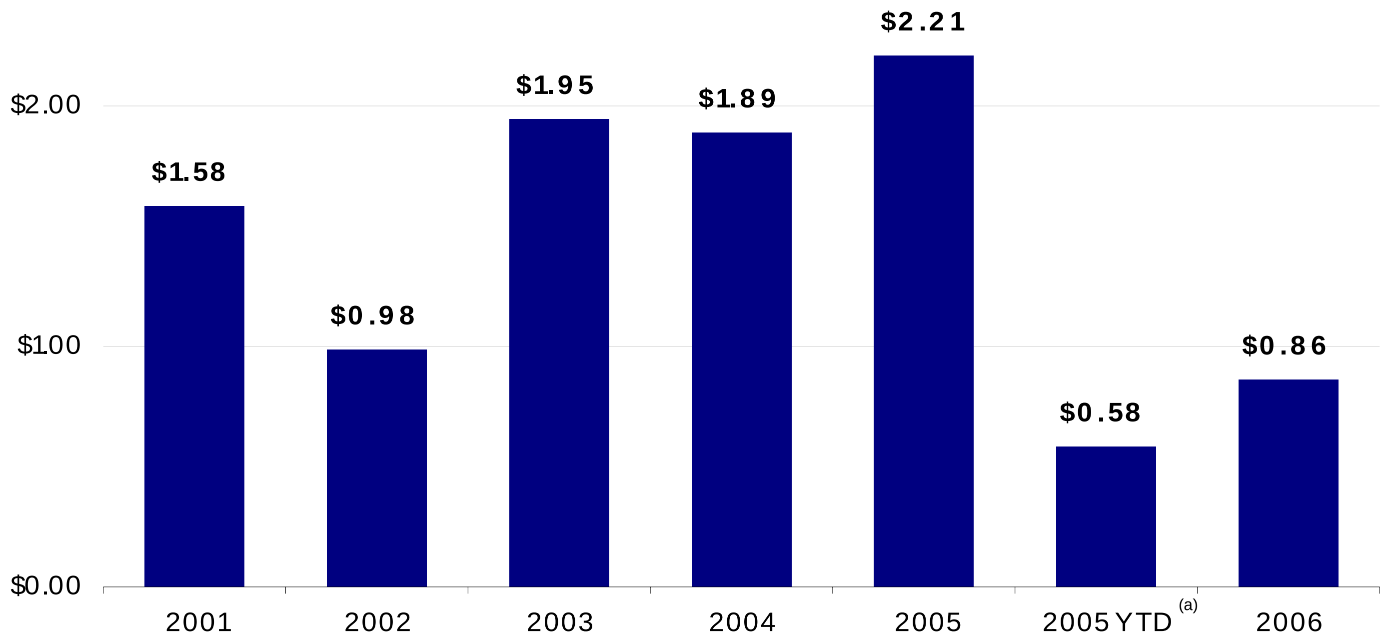


Note: As of 3/31/2006.
(a) Represents deals from 1/1/2005 through 3/31/2005.

Life Sciences PIPE / Registered Direct Issuance Remains Strong in 2006

($ in billions)

LIFE SCIENCES PIPE ISSUANCE 2001 – 2006 YTD



Number of Deals	49	29	66	66	71	47	26

Source: PrivateRaise (excludes prepaid warrants, non-convertible instruments, and equity lines)
Note: As of 3/31/2006.
(a) Represents deals from 1/1/2005 through 3/31/2005.

The Life Sciences IPO Market Continues to be Challenging

($ in millions)

BIOTECHNOLOGY PRICINGS (As of 3/31/06)

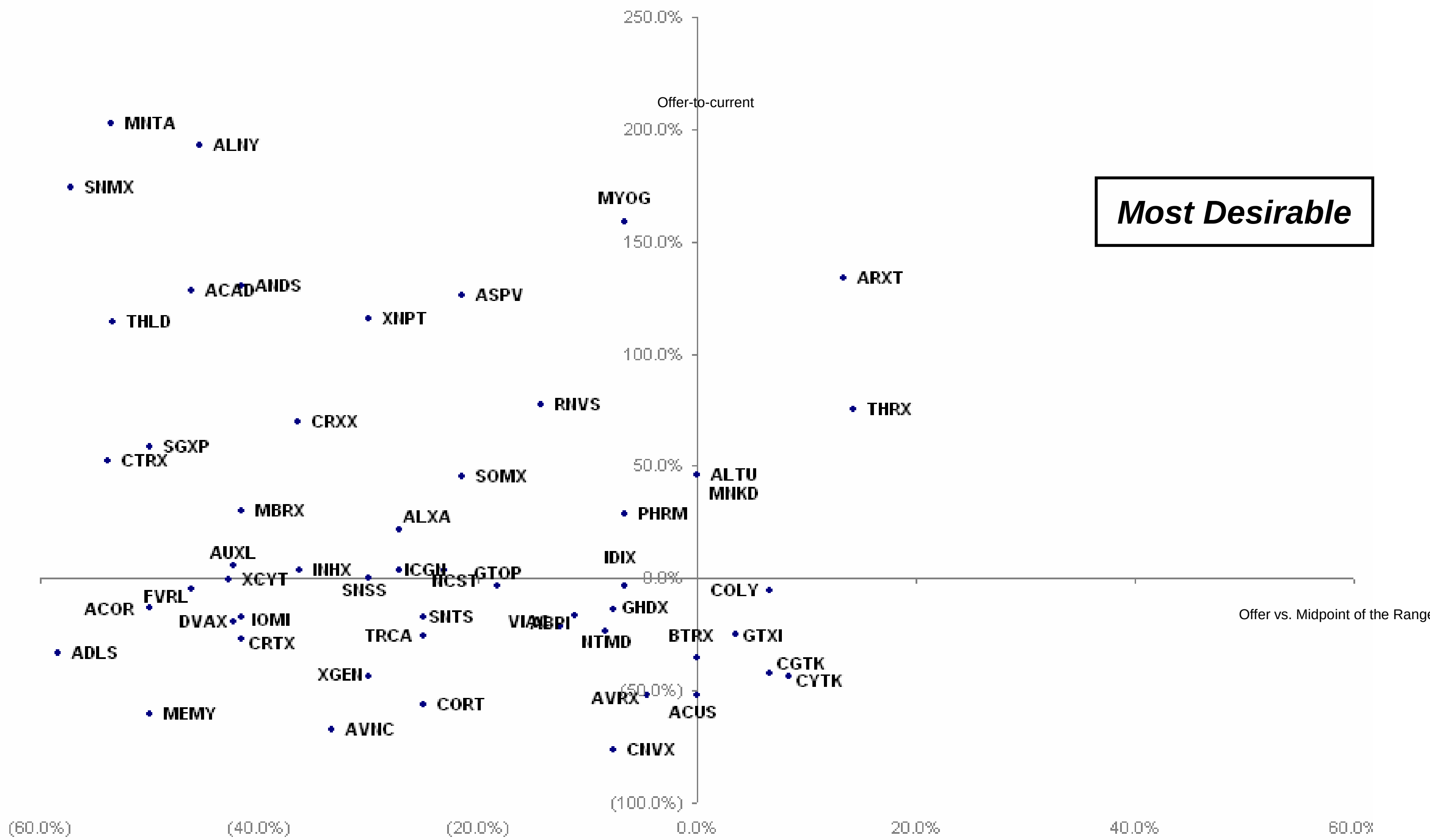
				Pre $ Value	Offer Size	Post $ Value	Current Valuation	% Chg. vs. Offer
2003	**Count**	**7**	**Mean**	**$223.4**	**$62.5**	**$287.1**	**$303.1**	**(5.1%)**
	Total Capital Raised	**$437.5**	**Median**	**234.6**	**66.0**	**300.6**	**155.5**	**(23.6%)**
	Average Capital Raised	**62.5**						
2004	**Count**	**26**	**Mean**	**$227.2**	**$59.0**	**$285.7**	**$319.8**	**28.8%**
	Total Capital Raised	**$1,535.0**	**Median**	**137.4**	**44.4**	**180.9**	**221.2**	**(0.2%)**
	Average Capital Raised	**83.3**						
2005	**Count**	**16**	**Mean**	**$187.4**	**$53.3**	**$240.8**	**$347.6**	**29.2%**
	Total Capital Raised	**$853.5**	**Median**	**154.3**	**46.7**	**206.3**	**238.9**	**2.1%**
	Average Capital Raised	**53.3**						
2006	**Count**	**6**	**Mean**	**$124.6**	**$45.8**	**$170.4**	**$209.6**	**18.3%**
	Total Capital Raised	**$274.8**	**Median**	**103.4**	**34.4**	**137.7**	**149.3**	**17.3%**
	Average Capital Raised	**45.8**						

Source: Company filings.
Note: market data as of 03/31/06.

What Do Investors Look for in IPOs?

- Significant market opportunities
- Proof of principal for lead product candidates or discovery approach
- Validating partnership with a respected partner
- Portfolio of products creating multiple “shots on goal” and news flow
- Product differentiation
- Material accomplishments since last private round to justify step-up in value
- Distinguished management/sponsorship with successful development track record

Few Life Sciences IPOs Have Priced Above the Midpoint of the Range and Performed Well in the After-market



Least Desirable

Source: FactSet and Equidesk as of 3/31/06.

Post IPO Financing Alternatives

	PIPE / Registered Direct	Marketed Follow On
Description	◆ Stock marketed privately ◆ Registered direct requires shelf registration	◆ Broad selling effort utilizing roadshow and Net roadshow ◆ Requires shelf registration
Key Terms	◆ 7-10% discount ◆ PIPEs usually include warrants	◆ Average 2005 biotech file-to-offer (8.9%) ◆ Median 2005 biotech file-to-offer (6.7%) ◆ Average 2005 biotech file-to-offer for <$300MM market cap (12.7%)
Advantages	◆ No offering document preparation ◆ Pricing determined before transaction announced ◆ Ability to raise a smaller amount of capital to minimize dilution ◆ No lock-up provisions for officers, directors or significant shareholders	◆ Maximizes the opportunity to educate investors on the Company ◆ Can execute a significant size transaction and increase float ◆ Opportunity for multiple firms to participate ◆ Targets a wide range of investors ◆ Enables company to expand investor base
Considerations	◆ Limited buyer universe with no retail demand ◆ Pricing may be wider than follow-on offering ◆ For a PIPE, Company will still be required to file an S-3 within 30 days and get it effective within 90 days ◆ For a registered direct, Company must have an effective shelf registration statement and file a prospectus supplement	◆ Share price exposure during marketing ◆ Significant management time and commitment ◆ Potential to dilute the stock
Typical Size	◆ < $50MM	◆ > $50MM
Timing	◆ < 3 Weeks	◆ ~5-6 Weeks without a shelf / ~3 weeks with a shelf

Overview of Process and Timing

Preliminary timetable for a traditional PIPE / registered direct

Initiation / Preparation	Marketing	Evaluation	Execution / Closing
◆ Hold Organizational Meeting ◆ Conduct Due Diligence ◆ Finalize Investor Targets ◆ Develop Management Presentation ◆ Prepare Stock Purchase and Registration Rights Agreements ◆ Prepare / Pass Board Resolution ◆ Prepare and File Listing Application with Applicable Exchange	◆ Contact Potential Investors on Confidential Basis and Schedule One-on-one Meetings/Calls ◆ Conduct Management Presentations ◆ Solicit Terms and Discuss Pricing	◆ Evaluate Offers ◆ Negotiate and Structure Deal ◆ Select Investors ◆ Distribute Draft Closing Documents	◆ Negotiate Final Closing Documents ◆ Conduct Final Due Diligence ◆ Funding and Closing • Execute Final Documents • Wire Funds • Deliver Shares ◆ Company Issues Press Release / Files 8-K ◆ Company Prepares to File S-3 Registration Statement within 30 Days (PIPE)
< 1 Week	**3 Days**	**< 1 Week**	**~ 3 Days**

Timing — **Total < 3 Weeks**

Bank of America

PIPE Process and Overview

Life sciences PIPE / registered direct issuance remains strong in 2006

- 25 Life Sciences companies have raised over $861 million so far in 2006, compared with $2.36 billion raised in all of 2005
- PIPE issuers continue to perform well in the aftermarket

2006 LIFE SCIENCES PIPEs

							Pricing		Warrants		Price Performance	
Announce Date	Company	Ticker	PlacementType	Security Type	Amount Raised ($MM)	Market Cap ($MM)	Price / Share	Premium / (Discount)	Coverage	Premium / (Discount)	1 Day	Present
3/24/06	Keryx Biopharmaceuticals, Inc.	KERX	PIPE (Registered Direct)	Common Stock	$82.8	$712.1	$18.76	0.0%	0.0%	N/A	2.9%	3.4%
3/21/06	Novavax, Inc.	NVAX	PIPE (Registered Direct)	Common Stock	38.0	402.8	7.30	(0.8%)	0.0%	N/A	(3.0%)	(13.4%)
3/16/06	Nanogen, Inc.	NGEN	PIPE (Registered Direct)	Common Stock	15.0	136.5	2.65	4.3%	0.0%	N/A	(2.7%)	(2.8%)
3/7/06	Genta Incorporated	GNTA	PIPE (Registered Direct)	Common Stock	40.9	246.0	2.15	(17.3%)	0.0%	N/A	6.4%	(2.7%)
2/27/06	Novavax, Inc.	NVAX	PIPE (Registered Direct)	Common Stock	20.0	280.9	4.35	(15.0%)	0.0%	N/A	2.5%	16.8%
2/14/06	YM Biosciences Inc.	YMI	PIPE (Registered Direct)	Common Stock	40.1	192.5	4.25	(19.7%)	0.0%	N/A	(5.1%)	25.0%
2/6/06	Bodisen Biotech Inc.	BBC	PIPE (Registered Direct)	Common Stock	21.2	232.1	12.87	(23.5%)	0.0%	N/A	(6.7%)	(0.9%)
2/2/06	Hollis-Eden Pharmaceuticals, Inc.	HEPH	PIPE (Registered Direct)	Common Stock	26.0	130.1	6.50	(10.0%)	20.0%	21.2%	1.8%	(11.7%)
1/27/06	Biomira, Inc.	BIOM	PIPE (Registered Direct)	Common Stock	16.1	118.2	1.52	(15.1%)	25.0%	39.7%	0.6%	(11.4%)
1/25/06	NitroMed, Inc.	NTMD	PIPE (Registered Direct)	Common Stock	62.5	351.4	10.25	(6.6%)	0.0%	N/A	(0.4%)	(27.6%)
1/18/06	Cytokinetics, Incorporated	CYTK	PIPE (Registered Direct)	Common Stock	33.0	199.8	6.60	(4.2%)	0.0%	N/A	(1.9%)	12.2%
				Mean	**$36.0**	**$273.0**	**$7.02**	**(9.8%)**	**4.1%**	**30.5%**	**(0.5%)**	**(1.2%)**
				Median	**$33.0**	**$232.1**	**$6.50**	**(10.0%)**	**0.0%**	**30.5%**	**(0.4%)**	**(2.7%)**
3/23/06	CombinatoRx Inc.	CRXX	PIPE (non-Rule 144a)	Common Stock	$48.0	$241.1	$10.50	(7.2%)	0.0%	N/A	(3.1%)	7.5%
3/22/06	CardioVascular BioTherapeutics, Inc.	CVBT	PIPE (non-Rule 144a)	Debt: Convertible	20.0	886.0	N/A	(6.0%)	42.4%	18.1%	3.0%	11.8%
3/20/06	XTL Biopharmaceuticals Limited	XTLB	PIPE (non-Rule 144a)	Common Stock	28.0	130.2	6.00	(22.6%)	50.0%	12.9%	0.4%	1.0%
3/17/06	Sunesis Pharmaceuticals, Inc.	SNSS	PIPE (non-Rule 144a)	Common Stock	45.0	133.5	6.21	(0.2%)	30.0%	(0.2%)	(3.5%)	(2.0%)
3/7/06	Favrille Inc	FVRL	PIPE (non-Rule 144a)	Common Stock	45.0	114.6	5.26	(6.7%)	35.0%	(6.7%)	8.3%	19.1%
3/2/06	Novelos Therapeutics, Inc.	NVLT	PIPE (non-Rule 144a)	Common Stock	15.1	51.9	1.35	(32.2%)	75.0%	25.6%	(4.6%)	(5.5%)
3/1/06	Akorn, Inc.	AKN	PIPE (non-Rule 144a)	Common Stock	19.4	178.5	4.50	(3.2%)	35.0%	16.1%	5.2%	11.9%
2/28/06	Advanced Life Sciences Holdings, Inc.	ADLS	PIPE (non-Rule 144a)	Common Stock	36.1	63.0	3.53	(10.2%)	50.0%	(3.1%)	(1.5%)	(2.9%)
2/23/06	GPC Biotech AG	GPCB	PIPE (non-Rule 144a)	Common Stock	43.2	471.3	15.10	(3.5%)	0.0%	N/A	8.6%	1.4%
2/14/06	Chelsea Therapeutics International Ltd.	CHTP	PIPE (non-Rule 144a)	Common Stock	21.5	40.2	3.00	(7.7%)	30.0%	29.3%	7.7%	60.9%
2/9/06	VaxGen, Inc.	VXGN	PIPE (non-Rule 144a)	Common Stock	27.0	281.3	7.70	(18.1%)	20.0%	(1.7%)	(3.4%)	(15.8%)
2/3/06	EntreMed, Inc.	ENMD	PIPE (non-Rule 144a)	Common Stock	30.0	112.7	2.31	(0.3%)	50.0%	7.8%	(1.6%)	5.2%
2/2/06	Tapestry Pharmaceuticals, Inc.	TPPH	PIPE (non-Rule 144a)	Common Stock	25.5	12.0	0.20	(42.9%)	100.0%	(31.4%)	(22.7%)	8.2%
2/1/06	NeoRx Corporation	NERX	PIPE (non-Rule 144a)	Common Stock	61.5	27.5	0.70	(12.5%)	28.9%	(3.7%)	5.0%	44.4%
				Mean	**$33.2**	**$196.0**	**$5.10**	**(12.4%)**	**39.0%**	**5.3%**	**(0.2%)**	**10.4%**
				Median	**$29.0**	**$122.4**	**$4.50**	**(7.5%)**	**35.0%**	**3.8%**	**(0.5%)**	**6.4%**

* All Life Sciences PIPEs over $15 million
Source: PrivateRaise as of 3/31/06. (includes registered directs)

Private Company Financing Options

	Private Round	Royalty Financing	Reverse Merger with SPAC	Venture Debt	IPO
Pros	◆ Significant pool of capital	◆ Immediate cash ◆ Non-dilutive ◆ Cash to source can be capped	◆ Quick way to get public	◆ Debt structure can be flexible with no financial covenants ◆ Can provide additional runway to reach critical milestones ◆ Less dilutive than equity	◆ Provides eventual liquidity to shareholders ◆ Expands future financing alternatives ◆ Broadens investor universe
Cons	◆ Lowest valuation alternative ◆ High cost of capital ◆ No liquidity for current shareholders	◆ How to evaluate fair value? ◆ Sacrifices potential upside of product	◆ Poor reputation historically ◆ No research coverage / sponsorship ◆ Limited float	◆ If IPO window closes, interest rate could be onerous and debt service problematic ◆ Market has not seen a failure	◆ Valuation for early stage IPOs has been difficult ◆ Subject to market risk ◆ Float / liquidity issues

Acorda – Paul Royalty Fund Agreement

- Prior to its IPO, Acorda entered into an agreement with an affiliate of Paul Royalty Fund, or PRF
- Acorda received $15.0 million in cash
- PRF received tiered revenue interests in Zanaflex capsules, Zanaflex tablets and any future Zanaflex products from October 1, 2005 through December 31, 2015
  - 15% of net revenues up to $30.0 million for each fiscal year
  - 6% of net revenues between $30.0 million and $60.0 million for each fiscal year
  - 1% of net revenues in excess of $60.0 million for each fiscal year
- Payments to PRF were capped at $30 million or twice the amount PRF paid the Company
  - Once this cumulative payout is reached, PRF will only be entitled to 1% of Zanaflex net revenues
- If PRF is entitled to 15% of net revenues, the Company will remit 8% of cash payments received from wholesalers to PRF on a daily basis, with a quarterly reconciliation and settlement

Source: Public filings.

Venture Debt

- Venture Debt providers look for companies that have received at least one round of financing from a strong syndicate of venture capital firms
  - Typical interest rate 9% to 12% with 8% to 12% warrant coverage
  - 36 to 48 month term including an interest only period of 3 to 18 months followed by amortization of 18 to 36 months
  - Commitment size typically $5,000,000 to $15,000,000
  - May include lien on Intellectual Property or a negative pledge on IP
  - Things to consider – Material Adverse Change Clause or Investor Abandonment Clause
- Number of Venture Debt providers has created a competitive environment for term sheets;
  - Examples – Horizon Technology Finance, Hercules, GE, Oxford Venture Finance, Lighthouse, etc.