Q: When we left off last time, you guys has just left Hybritech, and had gotten some money from Ted Greene and Tim Wollaeger. What I’d like to ask you about this time is how you built this company.

I don’t remember... Well, it’s a typical story. We wrote a business plan and tried to figure out how much money we were going to need, and set off trying find, you know, financial people, venture capitalists to come in for second, third, and fourth rounds of financing. So, we were sort of out in the market raising money along with Tim and Ted’s other companies that they started, so we were crossing paths with Pyxis, and Cytel, and Vical, and Amylin, and I think Neurex was in that mix. So, there was a lot of sort of crossover, and as they were learning what was sort of a hot deal and how to present yourself and so forth, we learned quite a bit in that time frame. And it’s sort of funny because at that time, back in 1989, or 1988, biotech was hot, fairly hot, and biomedical devices, and we were in the device category, was not quite so sexy, because, at that time, you know, devices were not seen as being like pharmaceuticals in that they, you know, if you had a good device that avoided other downstream costs, it could be a pretty interesting story, and that wasn’t a hot concept then. And it was hard to raise money for a company that was in diagnostics, or in devices, like Pyxis, so it was hard trying to figure out what was the way to sort of frame the company, you know, what sort of business and what segment it was in, and I think both Pyxis and Biosite suffered in that time period because devices weren’t hot. But I think later on, from like 1990 on, as some of the device companies, actually, 1992 on, as some of the device companies became more attractive, like some of the pacemaker companies, the angioplasty companies, now the
stent companies, cardiovascular stents, and devices, disposable devices in healthcare that are sort of high-tech are seen as being an attractive investment, so we were able to raise money, I think, by framing the story properly. It changed over that time period, but like any other company, we raised around four or five rounds of venture financing before we went public last February. You know, all told we raised about $55 million as we sort of marched up the line. And we started out, really, as just a one product concept company. If you look at our prospectus, the original idea was really this drug test, and we didn’t know exactly how big of a product it could be, but we thought it could be a twenty to forty million dollar product, and ultimately that’s what it is. We sell some forty million dollars worth of it, at retail value every year, so it’s right about what we thought in terms of product potential. And it’s funny how the business plan has worked out. It really had worked as we predicted it would. We became profitable very quickly, and we were then able to turn around and take the proceeds off of that product and reinvest heavily in some new ideas that we hadn’t even thought of in the original business plan. So, there was sort of this one idea which gave the resources to come up with five more ideas, and that’s really the point at which we did our offering last year, was to finance the launch of these five new products. So, that’s how it really happened, and maybe not atypical for start-up companies, what you started out to do is not always what ends up making you successful, and I think that we’re sort of in that bracket a little bit. I mean, certainly, the core business plan we executed beautifully, but then it’s sort of like, ‘What do you do next?’ So, we sort of stepped back and looked at what our larger strategy was, and we sort of cloned this, and came up with five more ideas, and hopefully they’ll be able to build the company to the next level, which will be, you know, multi-hundred million in sales.

Q: In the very early days, when you were thinking about starting the company, this was shortly after the 1987 stock crash, were you far enough removed from that? Did it have
an impact on raising money after the first round?

Well, it personally scared the hell out of us. You know, there was this feeling that all of your financial assets were now worth twenty to thirty percent less, and you know, our own personal feelings of well-being were diminished, and our abilities to take the risks to do this suddenly was diminished. It heightened our fear factor, and then in a larger scope, you know, what were the stock markets doing? What would happen to the IPO markets, and so forth? And it killed all that, I mean, literally, when we started the company, there were no IPOs going on in the medtech arena, so we sort of tailored our business to say that we would grow up to be acquired, not grow up to be public. So, you don’t have to worry about there not being these public markets out, that’s not what we need to do. We don’t need to raise three hundred million dollars from public markets to get downstream. We only need to raise, you know, ten to fifteen, we can do that with private capital, and we’ll probably be acquired. So, we changed the model of our business plan, because of this sort of looming lack of market access, because it was post-1987 crash. So, I mean, that helped us a lot to raise money, you know, people said, ‘Here’s someplace I can put my money and I don’t have to worry about whether the stock markets are coming back or not.’ Those were the two impacts. But it was a very scary time, though. People literally, you know, it was like, you know, Amylin’s stock just went down 43% because of clinical trials, and what that does to you on a personal basis is, you know, it’s hard, and to have that feeling that we were ready to leave Lilly, Lilly/Hybritech, and to suddenly have 30% less nest egg to do this thing gives you a feeling of sort of fear. You know, if it had gone down 30%, how much lower was it going to go. There was some of that overhanging the market. You know, so, it made it bad. It made it worrisome.
Q: When you settled on the ideas of drugs of abuse, did that come from the idea that you would have to look at small molecules because of what Hybritech was doing, to sort of separate the technology?

No, you know, it sort of came from a bunch of avenues. The whole drug area, because of the small molecules and the fact that the sandwich wouldn’t work, was sort of a mysterious area that the company avoided because of the technology, and almost, I don’t know how to describe it, it was, ‘We can’t do that. That’s something that Syva does, and our technology won’t do it, therefore, we’ll stay away from it.’ And I looked at it, just on a broad basis, you can get these mulit-client studies that look at the various categories like cancer markers and hormones and drugs and therapeutic drugs, and they were big, and it was all big instruments, and to me, I just looked at it and said, ‘There are no rapid tests here. This is a gold mine.’ And that’s really the thought process that went through it, and the thing that was comforting was that Hybritech considered it a domain that they couldn’t compete in because of the technology, so it wasn’t a business, it wasn’t a technology that they had anything for, so to me, it looked like a gold mine, and I said, ‘That’s great. We’re not going to be in conflict with Hybritech. Even though it’s diagnostics, it’s an area in which they’ve chosen not to compete, and we’re bold enough, let’s go at it.’ And that’s how it all happened.

Q: When you started as the chief executive of this company, you had a lot of experience in the industry, but it was the first time that you guys had ever really done this, put an organization together. What was it like doing that?

Really, what we tried to do was to sort of recreate the project team that we had back at
Hybritech, so if you look at, it was still really a product oriented project team. And we
got on our board of directors, guys that we had worked for at Hybritech who were really
sort of comfortable with the company-building aspect of it, so it wasn’t really that much
different in the early days, I mean, Gunars and Ken and I, we interacted in the same way
that we did at Hybritech, we did the same sorts of things, you know, in terms of project
management, putting together a timeline and all those sorts of things, and that really
occupied the first year. It was after the first year that it started to be a bit different of a
game, and I had to learn as I went along. I was lucky enough that I had some good board
members and investors that I was able to, you know, learn the art of fundraising, and the
art of writing a business plan and raising capital, and so forth. So, it shifted from being a
single project focus to all of those other aspects, and I think with a good board of
directors that I was comfortable with, that had done this with Hybritech, it was very
similar to the operating feeling that we had at Hybritech. I mean, literally, we had Ted,
Tim, and Tom Adams on our board, and when you look at them, Ted was the Wall Street
wizard, so to speak, Tim was a super operating guy that understood all the aspects of
putting a company together, and Tom was the technical guru, and between the three of
them, they had enough company-building experience that they gave us the guidance to go
from being a project team to being a true company over time. But there was a lot of
growing pain in it. You know, raising money is not an easy thing to do, and a lot of
people looked at me and said I wasn’t a CEO. They looked at me and said that if I had
really built a company like Tom Adams had built, you know, at Gen-Probe, where they
had gone from nothing to revenues and raised twenty or thirty million dollars, then...But
the answer was, no, I hadn’t done that, but I think that the people on my board said, given
what they knew, could I do it? And their answer was unequivocally, ‘Yes,’ and that, with
their guidance, we’d be able to do it successfully, which we ultimately did. So, there was
a question about me and about us, and I think if you look at some of the guys like Gunars
and Ken, they had been research managers, but had they been VPs of R&D, you know, where they had thirty to sixty people reporting to them, and where they had budgets of like ten and twelve million a year? No, they didn’t. Have they adjusted? Yeah, they have. So, it’s a matter of growth and having some of the proper guidance, and you can get there.

Q: Can you remember any particular instances, any particular lessons that you guys learned along the way, you know, problems that popped up that you had to solve?

Technical or business?

Q: Both, in terms of putting the organization together, the research, raising the money, the whole thing. Were there critical junctures?

Yeah. A critical juncture, I think, is the first time you raise money from a larger outside group and you’re getting two or three major funds involved where they’re going to have to follow on for a couple of rounds. You really have to have, as a CEO, a sense of where you’re taking this thing, and the conviction to sit across the table and say, ‘This is the route we’re going.’ You can’t say, ‘Maybe we’ll do this, and maybe we’ll do that.’ I think that in our business plan for the first round, we had a little bit too much equivocation, and I had to learn quickly that we had to say, ‘This is the course. This is where we’re going. This is how we’re going to get there.’ I think that was a lesson that I learned in the first two or three months of fundraising. So, I think that was one lesson we learned. Knowing what’s in vogue is also another issue that you have to sort of get a sense about. You know, where does your business fit into the industry in a larger sense? Not just thinking of yourself as a company and a product. And I didn’t do that exceptionally well in the beginning, and I know how to do that now. I mean, you have to
know what’s getting financed publicly, what’s hot in the minds of the institutional
investors, what the successes are and failures, so you know how to frame yourself in view
of the larger world, you know, not just as a product company. I’ll give you a great
example. When we started the company and went out and tried to raise money, we were
shocked to find out that diagnostics were not in vogue, that diagnostics were considered
to be, you know, people were getting out of investing in them, the failure rates were very
high, and there was a general impression that Hybritech was the last company that was
ever going to rise up to compete with an Abbott, and nobody wanted to put that kind of
money into a diagnostics company again. And that was shocking to me, I mean, I was
stunned to find out that diagnostics were not in vogue, in fact, you know, investment
firms wouldn’t even talk to us on the basis of the industry that we were in, so that ability
to know, early on, whether you were in an attractive area or not, and if you’re not, why
you’re going to be different than the failures in that arena, that make people look down
their noses at that segment, that’s something very important that I learned.

Q: And how did you go about that, keeping tabs on what’s going on?

You know, something that I didn’t have before was the connection to the investment
community, the Wall Street investment community, and the analysts that write about
different industry segments. Knowing who they are, knowing who is held in high regard
on Wall Street, and knowing what they’re saying, what they’re writing about, and being
in the trends and knowledgable about them, was something that I had no access to when I
started the company. And clearly we do now. You know, we’ve attracted some
outstanding banking firms with great analysts, and you know, we’re a part of that
information flow. In fact, I’ve talked to analysts weekly, and they’re asking me stuff, not
only about my company, but what do I know about this guy or that, what do I know this
213 rumor or that rumor, so there’s a connection there that I never had when I started this
214 company. I didn’t even know that was an element in the game.