

Motion 07-12

Move that the Board endorse the SURAfund proposal (attached) with no specific dollar commitments to be made without Board approval.

Date: November 10, 2006

Attest: < Original Signed and Sealed >
Elizabeth L. Lawson, Corporate Secretary

DRAFT Development Committee Proposal to the SURA Board of Trustees for SURA Co-Investment in *SURAFund* Companies

NOTE: The SURAFund Initiative is a seed stage investment funding program run by SURA that connects private venture capitalists with startups in our region (please see accompanying SURAFund brochure). The present document requests an enhancement to that program, namely the ability for SURA to co-invest its own monies into SURAFund startups.

This request was put forward from the Development Committee to the SURA Executive Committee at its September 2006 meeting. The Executive Committee endorsed bringing this proposal to the full Board of Trustees for review and decision at the November 2006 meeting.

***SURAFund* Overview**

As part of our ongoing technology commercialization activities in support of Jefferson Lab and our member universities, in Spring 2006 the SURA Development Committee launched a pilot program to generate seed stage investment funds for startup companies in our region, now named *SURAFund* (please see attached brochure). This pilot program, which was carried out in cooperation with the Venture Capital (VC) firm DFJ Mercury, has proven to be very successful. We now are in the process of rolling out the fully operational version of the program this fall (2006), adding numerous other VCs and formalizing the processes into a quarterly solicitation.

The benefits for investors, startups, and universities are enumerated in the accompanying brochure. However, the bottom line is that *SURAFund* is an attempt to “bridge the valley of death” by providing a new source of deal flow to investors, and a new avenue for funding to startups, ultimately benefiting the lab or university from which the company has licensed technologies.

The purpose of this document is to request funding for an additional aspect of the *SURAFund* initiative, namely SURA co-investment of capital into the selected startup companies.

Program Operational Funding

It is envisioned that the funding for the operation of the *SURAFund* initiative will initially come from two sources:

- A reimbursement fee for SURA’s time, paid by the startups only if selected by the VCs for funding and only payable AFTER they receive funding from one of our VC partners (the VCs are well-accustomed to this arrangement for other legal and consulting fees, as well as the startups, who do not mind paying for a service that nets them capital)
- SURA internal technology commercialization support funds

Ultimately, it is envisioned that this program will become self-sustaining through the returns on investments that SURA makes in these startups.

Co-Investment Proposal

The primary purpose of the *SURAFund* is to bring university spinouts and private investors together. All investment decisions will be determined using market-based criteria and all deals will be led by one of our VC partner firms. However, in order to leverage our efforts and provide added benefit to the SURA community, the Development Committee recommends that SURA have the ability to invest alongside the funds from the VC investors.

Specifically, we request the Executive Committee to endorse the co-investment of SURA financial capital into SURAfund startup companies, subject to the quality of the opportunity, the investment criteria to be established by a joint Development-Finance Subcommittee, and the final approval of the SURA President.

It is important to note that, as for the VC investors, these SURA investments will be made on a “call” basis – that is, no actual cash outlay will be required until the deals are complete and money is actually put into the companies of choice. All deals will be initiated by the VCs, not SURA; we will simply have the opportunity to be a co-investor under the same terms as the VCs. SURA would not be the lead investor and we would not be required to invest in any opportunity.

Investment recommendations within SURA will be forwarded to the President of SURA by a new *SURAfund* Evaluation & Selection Committee comprised of members of the Finance Committee and Development Committee with staff input from SURA’s CFO and its Director of Business Development (or comparable arrangements).

Benefits

The benefits of SURA co-investments would include:

- *Leverage.* SURA already will be managing the *SURAfund* process: soliciting deals from startups, working directly with our university tech transfer offices, and managing the administrative aspects of the initiative. By having the ability to co-invest alongside the participating VCs, SURA leverages its invested time with its monetary resources for a greater overall return on its investment.
- *Potential Higher ROI.* Very little of our current investment portfolio is in high-risk, high-reward investments. Most large funds allocate a small portion of their portfolio towards such investments. By allowing for investment in these *SURAfund* companies, SURA has the potential to achieve high return on invested capital.
- *DOE Contract Goals.* According to the technology transfer goals of JSA’s Performance Evaluation and Measurement Plan (PEMP), JSA’s performance in the operation of JLab can exceed expectations if we take “extra measures to build technology transfer activities at the lab, such as providing unique opportunities for its spin-out companies to obtain outside funding from venture capitalists and other private sources [and] providing JSA funding for investment or commercialization assistance.” Allowing the *SURAfund* to utilize internal capital would provide for an opportunity to surpass expectations that may result in higher fee payments from DOE.
- *Increased Private Investment.* It is always more attractive to other investors to know that an organization is putting its own resources, both time and money, into such a program. By having SURA funds available for co-investment, it will make attracting top-flight VCs easier and will also lend an extra amount of credibility to the program in the eyes of our universities and JLab.

Risk

As with any investment in startup companies, there is always a chance that little or no return on investment will be seen for any particular investment. However, this is mitigated by two facts: one, SURA will be co-investing alongside VCs who have the market and financial expertise to make quality investments; and two, as we broaden our efforts and make further investments, it actually decreases overall investment risk profile.