

Hartford Business.com

Bridging the 'valley of death'

Struggling startup could be among first to seek help from new fund

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Special to the Hartford Business Journal

11/28/11

Synaptic Dynamics, Inc., a University of Connecticut startup company, is screening a compound to stimulate the brain to use its own defenses to fight off Alzheimer's disease, a neurodegenerative condition that has remained for the most part untreatable. But even with its slick ideas, the company has staggered in its efforts to raise capital.

Now there may be a white knight on the horizon — a new angel investment fund at UConn aimed at just such companies struggling to emerge into the marketplace.

Synaptic has had a tougher time in the business world than in the science realm. It lost its COO, saw a potential partnership dissolve, and has yet to attain venture capital. None of that is unusual for companies with technology or patent-ready ideas as they move from the sheltered university system and into the marketplace, say technology leaders at the school.



PHOTO/PABLO ROBLES

Dennis Wright, an associate professor of medicinal chemistry at UConn, is one of the co-founders of Synaptic Dynamics. He and Ben Bahr, now at the University of North Carolina, started the company in 2006 on pocket money but now need \$1 million to push their promising concept forward.

"We face this thing all the time at UConn. This is the tough part," said Mark Van Allen, president of the Office of Technology Commercialization.

The commercialization gap is the period from the point that researchers have a proof-of-principal to the point at which they have a sellable product. This is the period, sometimes dubbed the "valley of death," when startup companies are most at risk. Typically, a company is short on cash after burning through university startup funds and small grants — such as SBIR or STTR grants. The

solution often lies in securing venture capital or stable partnerships that can move the technology to market.

Van Allen is acting as temporary management at Synaptic Dynamics along with James Heym from the UConn R&D Corp. As more startups come out of the university's incubator network into a skittish investment climate, the UConn system is preparing to help hoist those startups into the market.

Just weeks after the state legislature authorized a \$25 million-a-year recapitalization of Connecticut Innovations, Van Allen has emerged with the final documents that will enact the R&D



Life in UConn's incubator space is designed to be informal and collaborative as teams from various disciplines swap perspectives.

Corp's first-ever angel venture fund, which is marked at \$2.5 million to fund startup companies in the network. The fund is primed to make its first investments in the first quarter of next year, he said.

"This is a threshold moment for us," Van Allen said. "This is going to change the business climate for startup companies in Connecticut." The fund will back startups with up to \$150,000, and the grants will only be available to those technology companies within the network.

The fund is an agreement between The University of Connecticut Foundation, Inc. and the UConn R&D Corp., according to John Martin, president of the foundation, who penned the agreement early this month.

The foundation typically takes donor money from alumni and charitable sources and channels it into the university system's endowment, or for purposes such as the creation of a department chair. Martin said a small group of donors approached the foundation and proposed setting up an angel investment fund, which is something the system did not have before.

So far, six donors are involved, he said.

The donors will be "separated at arms-length" and neither they, nor the university, will have a say on the target of investments, Martin said. Instead, a disinterested panel will be appointed to determine the investments the fund embraces. The members of the panel have not yet been named.

It could take a year for the fund to become fully solvent, he said.

The fund would “expect some form of ownership in the startups it invests, but the terms will be made on a deal-by-deal basis,” Martin said.

Van Allen declined to say whether Synaptic would gain any of the fund’s initial investments, but called the company, “a candidate,” one of the type of companies the fund was set up to support through its uncertain, transitional phases.

Synaptic says it needs \$1 million to move to the next stage of development but even a smaller grant would keep the company moving forward. The company was founded by University of Connecticut biochemist Ben Bahr, now at University of North Carolina, and chemist Dennis Wright, also at the school, in 2006 on pocket money. So far, it has raised \$500,000 in public grant monies in its quest to develop the Alzheimer’s drug.

In 2009, Synaptic was housed in the Storrs incubator when the company secured a Small Business Technology Transfer grant for \$165,000. That money allowed the company to bring in Pfizer veteran Kathryn Smith as its chief operating officer. She drafted a business plan and negotiated a lease for the incubator space, which was funded with the grant. Smith was part-time. After she departed, the company left the incubator when its funds began to run short.

Synaptic is screening a compound that stimulates one of the body’s natural garbage men, the lysosome, to do a more expedient job at clearing cell garbage — the kind of plaques that build up in the brains of Alzheimer’s patients. But the company — now decentralized into Wright’s and Bahr’s offices — does not have the infrastructure to take the compound into clinical trial. The company must license or form a partnership with a pharmaceutical company to try its drug candidate, Bahr said.

The company entered talks with multiple investors, including Atlas Ventures in Boston, but has yet to attract capital. Talks on a partnership with German firm Merz Pharmaceuticals, Gmbh have dissolved.

The fight against Alzheimer’s disease is among the most favored by grants. About 5.3 million Americans have the disease, according to the Alzheimer’s Association, but it is also one of the most baffling. Scientists are not yet resolved on the mechanisms for how it starts or progresses, and have yet to conceive of a silver bullet treatment.

That makes alternative strategies, like the one that Synaptic is advancing, both a risk to investors and attractive to many scientists in the field. Aubrey de Grey, founder and chief science officer for the SENS Foundation for rejuvenation

biotechnology, called the research “promising, especially if combined with other approaches.”

Van Allen said he cannot disclose the companies the new fund will put money into, but said that synergy between the fund and the tech and commercialization offices at UConn means it will have deep knowledge of technology coming into the pipeline.

Matthew Nemerson, president of the Connecticut Technology Council, called the fund a new paradigm. Whereas university-donor relations are based on ‘capital inflow,’ the fund sets up a new situation where donation results in ‘capital outflow.’

“The university is now the location of startup companies,” he said. The fund, “is a big deal, a powerful means for the university system to support its startups.”