- Four-square

**Compensation** is a touchy issue. On one hand, most company CEOs probably cannot avoid thinking about their company 24/7. There is significant value to shareholders when a CEO has that focus. Most small-company CEOs will acknowledge that they spend a disproportionate amount of time "...telling the story, telling the story and ...telling the story." If they are on a road-show raising capital, they may tell that story ten times a day. Being the CEO is hard work. But (you knew there was a "but"), a company should reward its employees for results, tangible, economically valuable results. A company that pays a bloated salary to the same senior management that year after year overpromises and under-delivers will be a poor investment. A handpicked or inexperienced Board of Directors may argue that they pay their senior managers based on "comparable" salaries. In my opinion, this only leads to an industry-wide death spiral of overpayment for subpar performance. Unlike the fine children of Lake Wobegon, all CEOs cannot be above average.

- Most often, *nepotism* is a liability if only because it hints at something less than a bona fide meritocracy at work. Similarly, if you uncover a preponderance of 1) alumni from the same college, 2) brothers or sisters from the same fraternity/sorority or 3) any other hiring pattern that suggests a silly but systematic bias, be hesitant.

- Be wary when there are two classes of common stock. Often, Founders, family members, or a few early investors will own the super voting class (e.g., 10 votes per share) while the rest of us may only buy regular voting shares (one vote per share). Family-run businesses often take this approach in order to maintain control. Problems can arise when family issues do not align with investors' best interests. Count the votes because they are what count when important decisions are to be made.

- With several thousand biotech ventures formed over the past 30 years, coming up with a catchy, informative *company name* has always been a challenge. There are only so many Greek gods and goddesses from which to choose. Clearly, the nova- prefix and -gen suffix have run their course. Early stage companies will often go through a name or two before settling down. However, for other companies, a name change can be more telling. Like people, companies *change their name* when 1) they get married, 2) they get divorced or 3) they are hiding from their past. To paraphrase the Bard of Avon, "That which we call a rose (or stinkweed)/By any other word would smell as sweet (or fetid)." Some name changes are innocuous, e.g., reflecting a changed business model; others really are camouflage for an inglorious past.

**Clinical Trials**

Predicting clinical trial outcomes is perhaps the most difficult skill to develop for evaluating a drug company's potential. It is a skill that requires constant fine tuning and monitoring of current events. Nevertheless, for late-stage trials there are several good clues predictive of success or failure. First, some background:

An adage among drug inventors goes that the best way to discover a new drug is to start with an old drug. Penicillin was the first antibiotic, with wide use beginning in 1943 (no prescription needed). Today we have ampicillin, methicillin, cloxacillin and many other derivatives still in use. Arguably even better than starting with an old molecule is to discover the archetype molecule's target site, i.e., how does it work, why is it effective. Since the first HMG-CoA reductase inhibitor, Merck's Mevacor (FDA approved in August 1987), the FDA has approved seven more of these enzyme inhibitors. Known as statins, they all treat hypercholesterolemia. Pfizer's Lipitor was the fifth approved statin yet it has sold more than any drug in history.