

## Chem-Med Company

April 9, 2004: Dr. Nathan Swan, age 40, chairman of the board of directors, chief executive officer, and founder of the Chem-Med Company, sat back in his chair and wondered if he wouldn't have been better off staying in his old job of teaching biochemistry at Harvard University. This business, he thought, was getting to be a headache. Just a short time ago, it seemed, he was able to spend most of his time in the company's lab comfortably working with test tubes and formulas. Lately, though, all his waking hours (or so it seemed) were taken up with columns of figures, dollars, and spreadsheets. It was true that he wanted the company to make money and grow; but he had no idea that the financial end of the business, about which he knew so little, would take up so much of his time.

Dr. Swan was a little mystified by financial matters. How did one describe a company in financial terms anyway? How did one tell if the company was in good or bad shape? (The amount of cash in the company's checking account didn't seem to be a sufficient indicator.) What on earth would one use to convince a bunch of hard-nosed investors that the company was capable of making a lot of money in the next few years if it just had some more

money now? (Dr. Swan was always puzzled by the fact that Chem-Med was growing and making money, but it never seemed to have enough cash.)

Dr. Swan reflected back over Chem-Med's origins and the events that led up to today. Chem-Med began operations in 1996 after Dr. Swan completed the development of commercial-scale isolation of sodium hyaluronate (hereafter referred to as HA), a naturally occurring biological fluid that is useful in eye surgery and other medical and veterinary uses. The isolation process, complex and proprietary to the company, involves extracting and purifying HA from rooster combs. Initial seed money for the enterprise came from research grants from Harvard University and the U.S. Department of Agriculture (Food and Drug Administration), plus contributions from Dr. Swan's colleague and associates, who were now classified as the company's stockholders (254 as of April 2004, all closely held—not traded publicly).

In mid-2001, Chem-Med commenced the manufacture and distribution of its first product, VISCAM, which is used to hold tissues in place during and after surgery of the retina. In March 2001, Chem-Med received regulatory approval to market