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Startups & Venture Capital

Radical science finds savior in Thiel

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In the basement of a ramshackle building in San Francisco's Mid-Market neighborhood — once the home of Miss Marty's Beauty College — a barefoot Todd Huffman is working on radical science enabled by a grant from Breakout Labs.

This unconventional scientist — who sports Santa-suit-themed toenail polish, pink hair and a cheek piercing — found unconventional funding for his venture, 3Scan. The startup is developing advanced microscope technology that will use a diamond knife and fiber optics to simultaneously slice and capture images of human or animal tissue and spit out data on what's inside in a fraction of the time it takes for conventional microscope technology.

The eventual goal is to run a business providing researchers with droves of usable data on tissue samples quickly, saving researchers time and money in the process. But first Huffman and his team have to prove it works.

That's where San Francisco-based Breakout Labs comes in.

The Thiel Foundation's Breakout Labs funds high-risk but potentially disruptive science that would have a hard time attracting funding from conventional sources such as venture firms because it's too complicated, too expensive or too far from commercialization for investors to feel comfortable.

In its first year, Breakout Labs has funded 12 companies, three in December alone and five from the Bay Area, with grants of approximately \$350,000. In return, the nonprofit takes a 1 percent equity stake and a royalty repayment, which it only collects if a company reaches commercialization. Any money it makes goes back into the revolving fund to fuel more disruptive science.

That was part of the appeal, said Huffman, who was granted \$350,000 and is now working to close a Series A round.

Plus, he liked the deal terms. "You couldn't find close to those terms with anyone else, so it's a good deal all around," he said.



PHOTO: SPENCER BROWN

"It's a good deal," says Huffman, about the funding.

The publicity Breakout Labs gets —thanks in part to Foundation namesake Peter Thiel, a co-founder of PayPal and early investor in Facebook — has also been advantageous, Huffman said. 3Scan hired as a consultant a specialized optics engineer just finishing his Ph.D. who reached out to the company after reading about Breakout Labs in the press.

“We would never have found that guy on our own,” Huffman said.

Breakout Labs’ goal is to offer validation for the companies it funds — all vetted by an independent board of science experts — and enough money for funded scientists to reach technical milestones and take some of the risk out of the science.

“We hope our funds are catalyzing dollars so it helps them (funded companies) be better positioned to raise follow-on funding or apply for a grant,” said Lindy Fishburne, executive director of Breakout Labs.

So far so good. Of the 12 companies that received Breakout Labs grants in the past year, five have raised additional capital from outside of the organization. And keep in mind, three of the 12 were just awarded grants in December 2012.

Breakout Labs is continuously evaluating companies and will probably stay on pace offering about 12 grants each year.

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