

ATTACHMENT

**PLAN FOR THE DEVELOPMENT OF A
FOCUSED ULTRASOUND PROGRAM
AT THE UNIVERSITY OF VIRGINIA**

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The Focused Ultrasound program will be facilitated by the investments provided by the Commonwealth and the Focused Ultrasound Foundation (FUSF). The funds will provide the necessary infrastructure to allow clinical and translational research as well as leverage the provision of clinical procedures as they are approved by the U.S. Food and Drug Administration.

Initial Investment

The initial investment will be roughly \$8.7 million and will be provided as follows:

- \$4.0 million allocated by the Commonwealth - \$1.0 million for the modular facility and \$3.0 million in Ultrasound equipment;
- \$4.0 million from an external foundation, Focused Ultrasound Foundation (FUSF) - \$2.5 million for a consigned MRI for 5 years and \$1.5 million in operating cash; and
- \$0.680 million to be shared by the School of Medicine, Medical Center, and FUSF for facility and other contingencies not provided in the sources above.

Operational Plan

The assumptions used in the model are all based on conservative estimates for both revenues and expenses. We have worked to limit the future risk to the University by using the external funding for the fixed expenses. To the degree that revenue assumptions are not accomplished, the expenses associated with this endeavor will not be incurred. Aside from the initial investment - all expenses are variable. Even the maintenance contract is considered to be a long-term variable expense. As a result, the University and its faculty have an ideal opportunity for a research operation with a strong upside and limited risk exposure.

Year One: We plan to initiate research and trials in the areas of fibroids, breast cancer, palliative bone, and the brain. Research funding is assumed to come from the National Institutes of Health, the ultrasound equipment manufacturers, and the FUSF.

In addition, we estimate that we will provide 25 uterine fibroid ablations that will be reimbursed by commercial insurance payers. Revenues from these activities will be \$403,225. Aside from the research support, an additional \$500,000 will be provided by the FUSF for operational cash needs, resulting in a total of \$903,225. Expenses in the first year \$436,099 and are made up entirely of variable costs associated with the projected research and procedures.

Year Two: We plan to continue the studies above and add research in the areas of the liver and prostate. Procedures in all areas grow and the estimated revenues from those procedures will increase from \$403,225 to \$736,450. Total revenues, including the FUSF support, will grow to \$1,236,450. Variable expenses also grow with the increased procedures and in Year Two the maintenance contracts on the equipment (\$420,000/year) begin. Total expenses will increase from \$436,099 to \$1,222,977.

Year Three: Research and clinical volumes continue to increase and research involving kidneys is projected to begin. In order to avoid being overly optimistic, we have assumed that one of the clinical trials areas stops. Total revenues are estimated to increase from \$1,236,450 to \$1,329,675. Expenses grow at a commensurate rate, increasing from \$1,222,977 to \$1,333,732.

Years Four and Five: While we have projected changes in the mix of services, we have not projected growth in total procedure volumes. The major change that occurs in Year Four is that the \$500,000 annual commitment from the FUSF will be complete and the program will depend upon reserve cash (from the Year One surplus) and competitive educational and research awards to replace the operating cash commitment.

Alternative Financial Plan

If a consigned MRI is unavailable, the capital plan would be revised as follows:

- The FUSF will provide an additional \$1.6 million in cash support in the first year.
- GE and Insightec will include additional years of free maintenance in the purchase agreements equivalent to \$0.600 million - a reduction in the expenses listed in the previous plan.
- The University will purchase the specified GE MRI for \$2.2 million

Under the new strategy, the University would not have any incremental capital or operating expense and would own the MRI rather than use it on consignment.