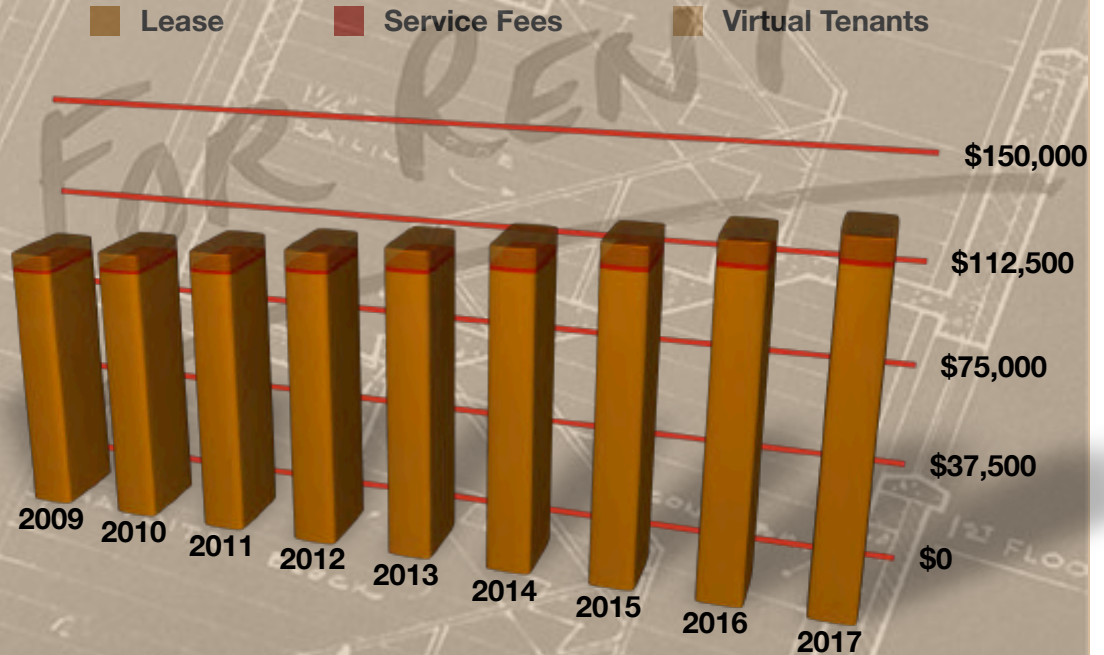


MARKET ANALYSIS

Projected Annual Income



Projected Annual Income at 85% occupancy at competitive lease rates

Montanans recognize the importance of technology and innovation.

- In the period 2000-2002, Montana ranked 10th in the nation in the average annual number of Small Business Innovation Research Awards awarded, receiving 30.
- Companies in the state received about \$7 million annually, ranking it 6th in the nation in average annual SBIR awards per \$1,000 of Gross State Product.

Montana is also business friendly:

- The Milliken Institute rates Montana as the 4th least costly state in which to do business.
- The Tax Foundation ranks Montana as having the 12th lowest state and local tax burden in the U.S.
- The Foundation ranks Montana 9th best tax structure for business in the U.S. (Governor's Office of Economic Development, 2005-2006).

Many communities are competing to attract some sector of the technology industry by stressing their own unique advantages. The most successful communities have used an established university research wing to provide the intellectual infrastructure to support an information technology oriented business entrepreneurial center (Smith, 2006). This "knowledge base asset" has been critical to survival of most high-tech entrepreneurial centers.

Analyzing the market potential for a life-sciences business entrepreneurial center outside of the established university-linked model is challenging because there are very few comparable sites to review for similar experiences and track records. Since the Bitterroot Valley has a unique situation, this study compiled data on national, state, regional and local trends in this sector and conducted local research utilizing interviews and focus groups to compile data.

Focus Group and Interview Findings



Focus groups and interviews were conducted with several leading local institutions, businesses, and individuals in order to assess local demand (See Attachment 3). Group discussions were held with representatives of RML, GSK, Marcus Daly Memorial Hospital (MDMH), and interviews with local business leaders, civic groups and national business startup consultants.

Analysis of the data from these discussions has identified several overlapping market segments common to services and products needed by RML, GSK and MDMH. This provides ready business opportunities for new companies. It was clear from the interviews that there are services the “big three” would purchase immediately if available, from a viable startup operation.

Participants raised concerns about technology transfer from the two established biotech institutions and the cost of building and occupancy rates of proposed wet labs. However participants believed that these issues were not insurmountable.

It was clear from the interviews that the “big three” were very interested in lending their financial support to the Center through commercial means and anchor tenant-ships. The response from focus group participants confirmed what had to this point been “believed to be true” by supporters of the REC – that Ravalli County needs a center that

supports and catalyzes entrepreneurship, with a particular focus on promoting life-science, biomedical and technology companies.

State Support for Biotech

The State’s commitment to education is shown by Montana’s rank of fourth in the nation in state and local expenditures for education per \$1,000 of personal income. Montana students score consistently above the national average SAT and ACT. Montana’s universities spent over \$185 million on research last year, making a significant contribution to the state’s economy. In 2001 Montana ranked 6th in the nation in expenditures for University Research and Development per \$1,000 of gross state product. During that year the state received over \$100 million in Federal research funds (Governor’s Office of Economic Development, 2005-2006). The universities and the state government are working with the private sector to promote innovation and technology transfer opportunities.

Montana has several excellent organizations to help companies grow and be productive. One example is the Montana Manufacturing Extension Center (MMEC). The MMEC has regional staff engineers that manufacturers can access for expert help on any aspect of their manufacturing process. The staff engineer is also able to call on the expertise of engineers from both Montana State University and The University of Montana.

Montana also has an office of Technology Transfer at The University of Montana that was created in 1993 in response to a growing need to provide assistance and advice to UM faculty, staff and students. The function of technology transfer is to aid clients in managing their innovative processes. The UM innovation process covers everything from basic discovery to tracking inventions available for licensing and

transferring the technology to private industry. The University of Montana views their clients as the “inventors, developers, and creators” as well as students, and the taxpayers of the State of Montana.

The REC plans to complement the Montana University System’s successful promotion of technology transfer. This will be accomplished primarily through collaboration with the UM, not only with the main campus in Missoula, but also with the new “technology” Education Center the University plans to build next to the Center. The REC policy for Technology Transfer will be to work through UM Vice President for Research to make appropriate resources available on an ad hoc basis. The REC liaison to the University is Dr. Tony Rudbach, Director of Technology Transfer and Associate Vice President for Research and Economic Development. Dr. Rudbach lives in Hamilton, is an alumnus of the Rocky Mountain Laboratories, and was an executive officer with Ribi ImmunoChem, the locally grown precursor to GSK.

Dr. Rudbach is the architect of the NorCor concept, the Northern Rockies Research Park and Technology Corridor. The NorCor project envisions economic growth through selective technology development in a contiguous four county area; Flathead, Lake, Missoula, and Ravalli counties.

Most local entrepreneurs and companies do not know these services exist. These resources will be promoted by the Center through presentations by guest speakers and peer to peer networking.

Research areas at Rocky Mountain Laboratories
 Burkholderia (Melioidosis and Glanders)
 Chlamydia • Coxiella burnetii (Q fever)
 Electron microscopy (DIR core facility)
 Flea-borne diseases • Genomics (DIR core facility)
 Group A Streptococcus • Lyme disease
 Mouse retroviruses (murine leukemia virus)
 Mouse retroviruses (CasBrE, similar to TSE)
 Neutrophils • Parvovirus • Plague • Prions
 Rickettsia • Rocky Mountain Spotted Tick Fever
 Salmonella • Scrapie • Tularemia
 Staphylococcus (aureus and epidermidis)
 Tickborne diseases & encephalitis

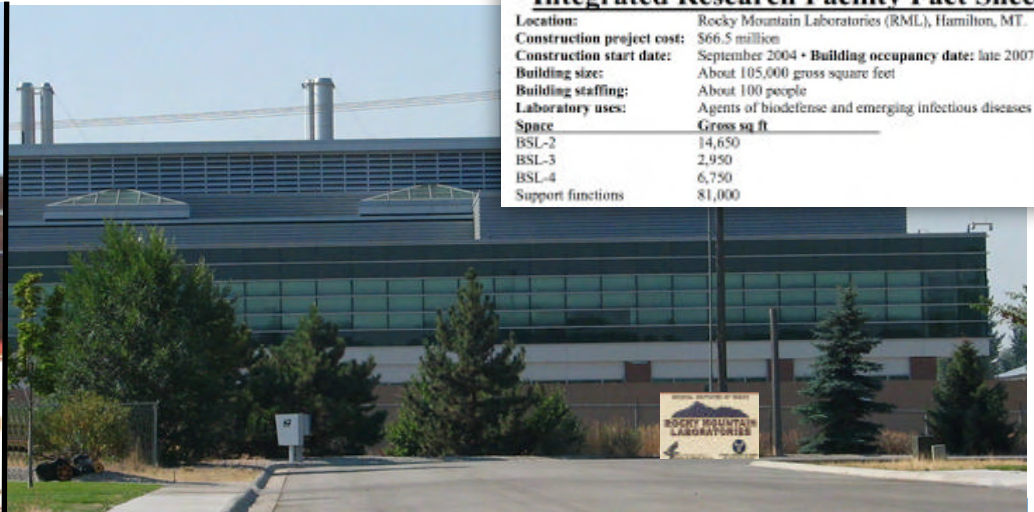
Integrated Research Facility Fact Sheet	
Location:	Rocky Mountain Laboratories (RML), Hamilton, MT.
Construction project cost:	\$66.5 million
Construction start date:	September 2004 • Building occupancy date: late 2007
Building size:	About 105,000 gross square feet
Building staffing:	About 100 people
Laboratory uses:	Agents of biodefense and emerging infectious diseases
Space:	Gross sq ft
BSL-2	14,650
BSL-3	2,950
BSL-4	6,750
Support functions	81,000



TOP: Existing NIH Rocky Mountain Laboratories in Hamilton (Top left) has expanded to add BioSafety Level 4 Lab (Top right)

CENTER: Marcus Daly Hospital is the center of an active medical community in Hamilton

BOTTOM: GSK Research Facility is adding a major manufacturing wing to their existing site 1.5 miles north of Hamilton



Potential Customers

There are rural towns that have successful entrepreneurial centers, such as Amarillo, Texas and Salmon, Idaho. They focus on creating successful, traditional businesses. The Bitterroot’s unique knowledge and technology-based assets, along with a strong need for traditional business incubation services, led the business study team to propose multi-tiered market targeting for the REC.

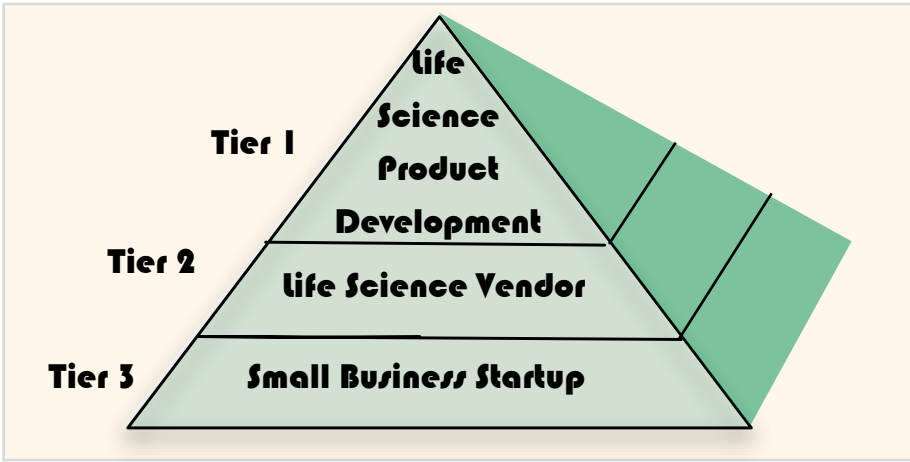
Three different “tiers” or types of clients who would be suitable candidates for the entrepreneurial center.

- Tier 1 Clients are biotech scientists, engineers or post doctorate fellows that need lab and office space for research through pilot manufacturing.
- Tier 2 Clients are startup vendors/ suppliers to one or more of the already established biotech, life-science or medical facilities that are

currently outsourcing many products and services.

- Tier 3 Clients are the business persons or entrepreneurs who need traditional business startup and technical assistance services.

During all of the focus group sessions the “if you build it they will come” idea arose, inferring that if the facility were built, a ready market would emerge. While this may be too nebulous an idea on which to base demand projections, in mid-July of 2007 a post doctorate researcher at



RML, having seen the sign on the site location for the REC, contacted the RCEDA. Within a few days this scientist had gathered five colleagues and met with the business study team to discuss the advantages of associating with the proposed REC. This group wanted to know how soon the facility would be available and what services would be offered.

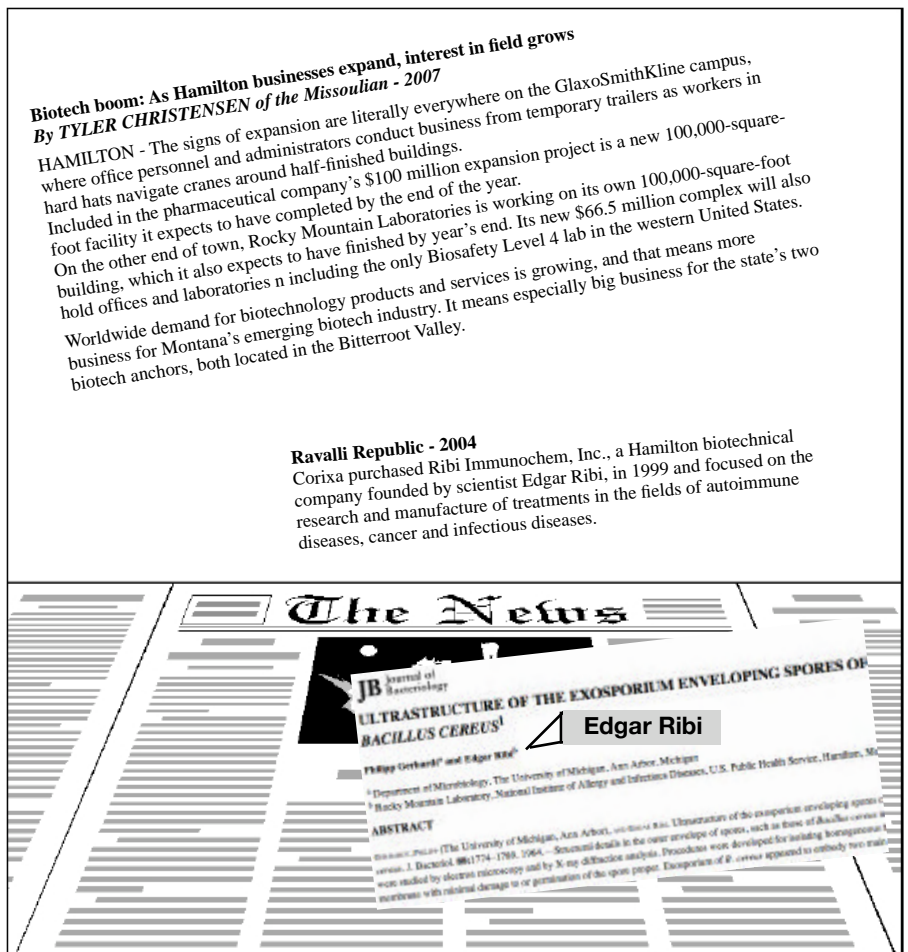
If past history alone was a definitive guide to the future we could easily expect to fill proposed lab space. Edgar Ribí, a NIH scientist working at the Rocky Mountain Labs in Hamilton, discovered a cure for a type of bovine and equine cancer. Unable to get his research funded at RML, he started a pioneering Biotech company in Hamilton, Montana. Ribí ImmunoChem went on, after Dr. Ribí's untimely death, to attract attention and eventually acquisition by Corixa and now GSK. We do not yet know if there is another Edgar Ribí out there who will break away from one of the established institutions to form another biotech lab that will grow to the likes of GSK. We do know that the process Dr. Ribí went through in the late 1970s has changed drastically and there is much more stringent regulation of "technology transfer". This is precisely the kind of support the REC plans to offer its Tier 1 clients. Preliminary market research has shown several opportunities for Tier 2 type startup businesses that would have an instant customer base in the

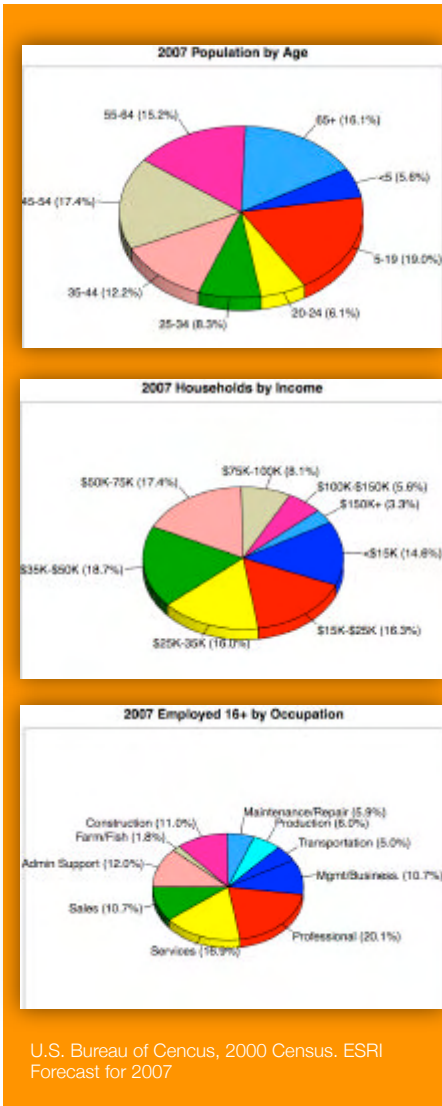
local life-science institutions. A few examples of these opportunities are calibration specialists, bio-waste disposal (animal bedding and sharps), specialized Heating Ventilation and Air Conditioning, and production of components necessary for manufacturing at GSK and RML among others (See Attachment 2).

This is a perfect example of economic gardening. The REC will act as a

clearinghouse for such identified business opportunities. Tier 3 includes entrepreneurs or small business people with proven ideas or ventures that need assistance to enhance their chances of success. The REC will be a centralized location for services already provided by the RCEDA, as well as a locus for professional business service contractors.

The Center will target Ravalli County residents for Tier 1 and 2 entrepreneurial center clients, although we recognize that GSK and RML and the local market they have created will attract people from outside the county. Tier 3 candidates will in all likelihood be local people, mirroring the client profile of most business entrepreneurial centers.





Market Size

The Ravalli Entrepreneurship Center will be the facility for the provision of business incubation services by the RCEDA. The demand for these services has increased dramatically with 70 local businesses assisted in the last 12 months up from 36 the previous year (Foster, 2007).

This increased activity by the RCEDA is partly the result of significant recent demographic trend. The Bitterroot Valley population increased 44% from 1990 to 2000 and 12.5% between 2000 and 2006. Bitterroot cities have been growing faster than Ravalli County as a whole. Hamilton, the largest community in the Bitterroot with 4,343 people, increased 17.2% from

2000 to 2004. Darby and Stevensville's population increased by 14.6% and 17.8%, respectively, in the same period (US Census Bureau, 2007).


The number of potential clients for the REC has also no doubt been influenced by the \$110 million expansion of GlaxoSmithKline Biologicals (GSK), the pharmaceutical giant that purchased the Hamilton pharmaceutical Research and Development (R&D) company, Corixa, in 2005 (Pearson, 2006). An economic boost is also being provided by the \$66 million dollar expansion at the National Institutes of Health's Rocky Mountain Laboratories (RML) to become the only Bio-Safety Level 4

Laboratory in the western U. S. region (Pearson, 2005).

The overall market for REC clients is determined by the number of entrepreneurs and potential entrepreneurs as a percentage of the total workforce existing in Ravalli County. Both Montana and the Bitterroot Valley have a higher percentage of entrepreneurs than the national average (Sonoran Institute 2007). Many people start their own businesses in order to make a living wage because there have been few large employers providing good wages and benefits, much less career employment. People here have always been willing to start and work hard at new business ventures because there hasn't always been another choice.

- RML's staff includes about 90 people with advanced degrees (M.D., D.V.M. or Ph.D.).
- 60 are research trainees, such as post-doctoral researchers and university students.
- 315 people work at RML.

RML Fact Sheet, 2006

 U.S. Department of Health and Human Services NIH News National Institutes of Health		National Institute of Allergy and Infectious Diseases (NIAID) http://www.niaid.nih.gov/
FOR IMMEDIATE RELEASE Thursday, June 3, 2004		Media Contact: Ken Pekoc (406) 375-9690 kpekoc@niaid.nih.gov
“Unprecedented Research Opportunity” Awaits UM Doctoral Students The National Institutes of Health (NIH) is helping enhance doctoral-level programs in biomedical sciences at the University of Montana (UM) by providing students with access to scientists and equipment from Rocky Mountain Laboratories (RML) in Hamilton. RML is part of the National Institute of Allergy and Infectious Diseases, one of the NIH institutes. The arrangement, part of the NIH’s Graduate Partnerships Program, is intended to help universities recruit and instruct exceptional science students and to help NIH train those students for		

New businesses are the engines of opportunity and overall economic resiliency.

The National Commission on Entrepreneurship found that 4-5% of businesses are entrepreneurial growth companies. These businesses generate two-thirds of all job creation, two-thirds of all business growth, and over half of all business innovation (National Commission on Entrepreneurship, Nov. 2000).

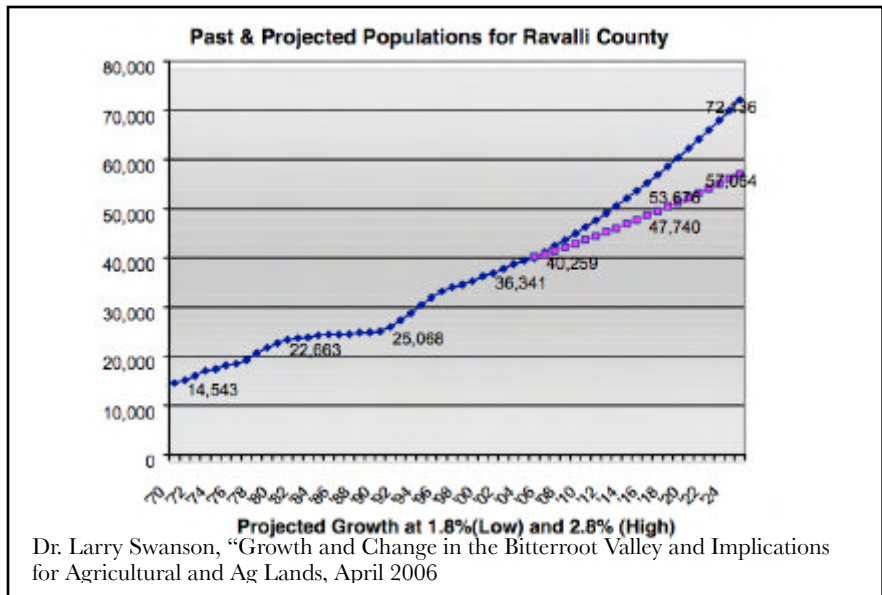
Additionally, 25% of the Ravalli County workforce currently commutes to Missoula; this is a trend that could easily be reversed when good paying jobs are available locally (Swanson, 2007). Job seekers may believe that wages and benefits in the larger city of Missoula are better, but a preliminary survey of Ravalli County businesses by the Ravalli BEAR study team indicates Bitterroot employers are paying the same wages with significantly better benefits (BEAR, 2007). RCEDA will help local employers to market this little known aspect. In a labor market where unemployment is 2.9% this will be important as employers compete for the best workers (US Census Bureau, 2007).

Overall Montana has a good supply of talented workers. According to

the 2004 State Science & Technology Indicators published by the US Department of Commerce, Montana ranked:

- 1st in the percent of Bachelor’s Degrees granted in Science & Engineering for 2000-01
- 5th in the Life and Physical Scientists employed per 10,000 civilian workers in 2001.
- 8th in the percent of the population that has completed High School 2002.
- 9th in Bachelor’s degrees granted as a percent of the 18-24 population 2000-01.

Post-doctorial fellows with temporary residency at RML, as mentioned before, are another source of entrepreneurship as they often fall in love with the Bitterroot Valley and don’t want to leave when their tenure is up. Every year RML has a turnover of post doctoral researchers. This provides a ready supply of possible Tier 1 clients that could perhaps follow in the foot steps of Edgar Ribic to found the next Ribic Imunicheim.



Market Trends

The 2005 report “Building a Stronger Montana Technology Economy” commissioned by the Governor’s Office of Economic Opportunity states that the life sciences sector, the smallest of the overall technology sector nationally, is the one believed to have the greatest potential here (Koppel Group, 2005). The Biotechnology market is growing rapidly in Ravalli County. RML is in the process of completing a BSL-4 laboratory and planning a further expansion. GSK is expanding its research facility to include a production facility. Together, they plan to add over 120 jobs (Pearson, 2005 & 2006). The medical community is also expanding to meet the needs of the growing population and adapting to advances in medical technology. This is exemplified by the opening of Ravalli County’s first MRI facility.

The Bitterroot Valley has a unique opportunity to capitalize on biotechnology growth due to two very unique life-science cluster giants, RML and GSK. The National Institutes of Health facility, Rocky Mountain Laboratories (RML) in Hamilton, was established in the early 1900s and has been an historic anchor employer for the valley. RML has a distinguished history and currently serves an important and expanding role within the larger federally funded NIH system of laboratories. RML is in the process of completing a \$66 million expansion to a Bio-safe Laboratory Level 4 rating to handle the world’s most virulent pathogens.

A resident and RML research scientist launched the biotech firm Ribi Imunichem in the 1980s, which, through acquisition, is now owned by GlaxoSmithKline Biologicals (GSK). GSK’s Hamilton manufacturing facility is the largest biosciences installation in Montana, built by world’s largest immunotherapeutics

The State of Montana and its universities are actively supporting and providing funding assistance for Biotech

research and production companies. GSK is well into a \$110 million expansion of its Hamilton facility.

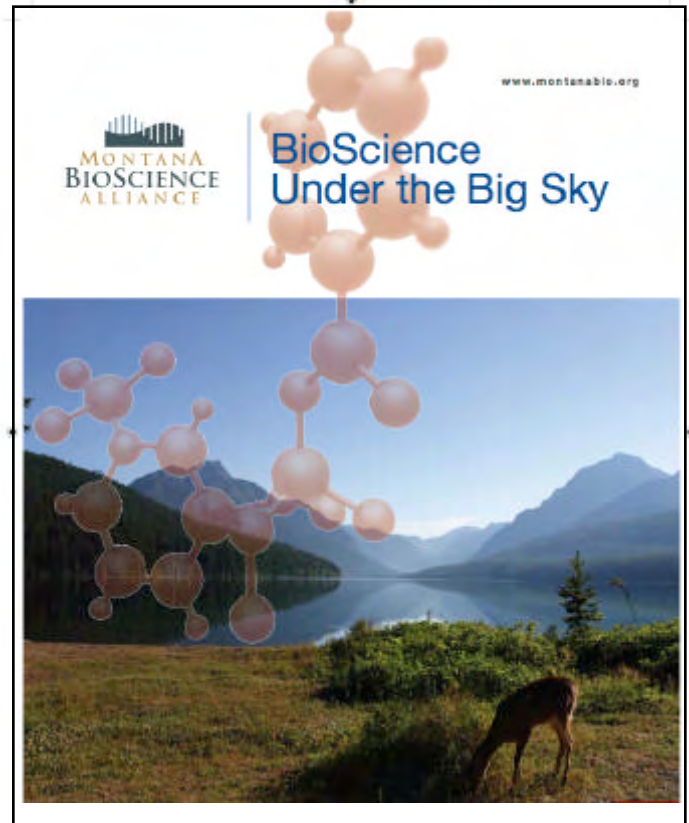
These two world-class research and manufacturing facilities are situated a few miles from one another in the rural setting of unparalleled beauty and recreational opportunity. Both facilities provide quality employment for a highly educated and well-trained workforce and are responsible for a large infusion of capital into the valley. Bioscience and bioengineering are a part of a nationwide technology sector prominent for strong growth, and this certainly has been the case in Ravalli County.

Another reason for optimism about the future of biotech in the valley is the complementary research being conducted 50 miles to the North at The University of Montana (UM) in Missoula, and at Montana State University (MSU) in Bozeman. There has been a significant commitment by the Universities to work closely with the life-science clusters and to spin off companies from these

collaborations(See www.mtbusinessandtechnology.com).

Barriers for Montana startups often center on access to capital; when Montana companies do find sources of funding, those sources many times require the fledgling companies to relocate. However, progress has been made in this area. Several Angel Investment firms have been formed including: Bridger Private Capital Network, and the RAIN Fund. The State Board of Investments also contributes to the finance pool by partnering with other investment firms.

Both the UM’s Education Center, to be located next to the REC site, and the forthcoming Bitterroot Community College are new popularly supported developments in the County. REC will work closely with both to provide the educational support the Center’s clients will need to compete. Both of these institutions will add to the RCEDA goal of a knowledge-based community. The REC can provide a focal point where the assets of the educational system will mesh with the



Natural amenities are an important factor in economic development in Western Montana



needs and opportunities of the business community in Ravalli County.

In a Needs Assessment, authored by Dr. Larry Swanson, of the O'Connor Center for the Rocky Mountain West, the following needs were identified:

1. Improve the quality of jobs in the valley and, in so doing, improve the quality of life.
2. Cultivate economic growth that won't degrade the amenities that make the Bitterroot Valley an attractive place to live (Swanson, 2002).

Those amenities were identified as:

1. Exceptional natural beauty and recreational opportunities
2. Proximity to a large and growing regional center (Missoula)
3. Presence of a highly adaptive wood products industry
4. Presence of an important National Institutes of Health research lab (Rocky Mountain Labs, RML)
5. Long-standing presence and area relationship with the U.S. Forest Service

6. Matured and experienced work force
7. Proximity to a major university
8. Proximity to an area college of technology
9. High-level of self-employment
10. Area farmers and ranchers
11. Vastly improving highway connections

Among the recommendations in Dr. Swanson's report was strong promotion by area leaders of economic opportunities associated with RML and, by inference, with GSK. "The mere presence of such a lab in the expanding field of bio-science research creates an environment for certain types of business development" (Swanson, 2002).

Data gathered through the BEAR (Business Expansion and Retention) program shows that Ravalli County businesses believe the business climate is good and improving.

The area is experiencing higher than average increase in older more financially secure people (Swanson, 2007). Many of these individuals bring a wealth of knowledge from the

corporate world as well as capital. Many are interested in starting or investing in businesses even though they do have the financial ability to remain retired.

Ravalli County is unique in that it is a relatively small marketplace with a much higher than average diversity of businesses. Ravalli County wages are lower than average but increasing at a higher rate than the average wage growth in Montana or the U.S. (See Demographic Data on Pages 16 and 17).

Existing large, high-tech employers are in place. This provides a built-in source of economic development potential in a growing economic sector. RML, GSK and Marcus Daly Memorial Hospital require a variety of goods and services which are now filled by out-of-state vendors. This can and will be served in the future by local businesses. In addition, RML and GSK employ a significant percentage of highly educated professionals in a county with a tradition of entrepreneurship that is steadily transitioning from a rural economy (Swanson, 2002 & 2007).

Competition

There are two areas of potential competition for the REC: Other Business Entrepreneurial Centers and the general commercial office and lab space for lease.

The potential Business Entrepreneurial Center competitors for the Ravalli County Business Entrepreneurial Center could be MonTEC in Missoula, 50 miles north of Hamilton and affiliated with The University of Montana, and Tech Ranch in Bozeman.

Tech Ranch in Bozeman has been found not to be a viable competitor, in that they are serving a different client base, namely companies with high growth potential and a need for venture capital (Tech Ranch, 2007). They are also too far away for local entrepreneurs, and their focus is primarily finance. While traditional services are available to customers by Tech Ranch, REC Tier Three type customers are not viable Tech Ranch clients due to the distance.

More realistic competition arises from two primary sources:

- 1) Proximity of the nearest Business Entrepreneurial Center, MonTEC.
- 2) Inventory of available office space.

The nearest Business Entrepreneurial Center is in Missoula, 50 miles north of Hamilton. Both economic data and traffic flow shows that the local county seat Hamilton, is a differentiated center of jobs and commerce from Missoula (Montana Department of Transportation, 1997)

Thus, the Missoula area entrepreneurial center is not a viable competitor. Moreover the geographic relationship actually provides the potential for synergy and collaboration for developing regional relationships with little or no concern about competition

There is no competition for Business Incubation in Ravalli County. Other Biotech entrepreneurial centers in Montana provide synergy rather than competition.

between the Ravalli Entrepreneurship Center and the Missoula based MonTEC.

Competition for office space generally would come from the local inventory in Hamilton and surrounding areas. When the business study team analyzed the services provided by major competitors we found that we are well situated to compete in the leasing market and dominate the market for incubation in Ravalli County.

The Ravalli Entrepreneurship Center will operate and compete for customers within the Ravalli County commercial office space market. The market does have a moderate level of vacancies overall, but has very few vacancies of premium office space (See Attachment 5).

The Ravalli Entrepreneurship Center
Office Lease Pricing
 (See Rental Survey in Attachment 5)

	Low	High	Med -ian
Hamilton Rental Survey (Office Space per sq ft)	\$0.75	\$2.00	\$1.00
Est. Occupancy Rate			85%
Hamilton Rental Survey (Premium Office Space per sq ft)	\$1.30	\$2.00	\$1.50
Est. Occupancy Rate			96%
MonTEC			\$1.45
REC Price Point			\$1.45
Occupancy Rate			85%

Economic Demographic Information

Ravalli County, Montana

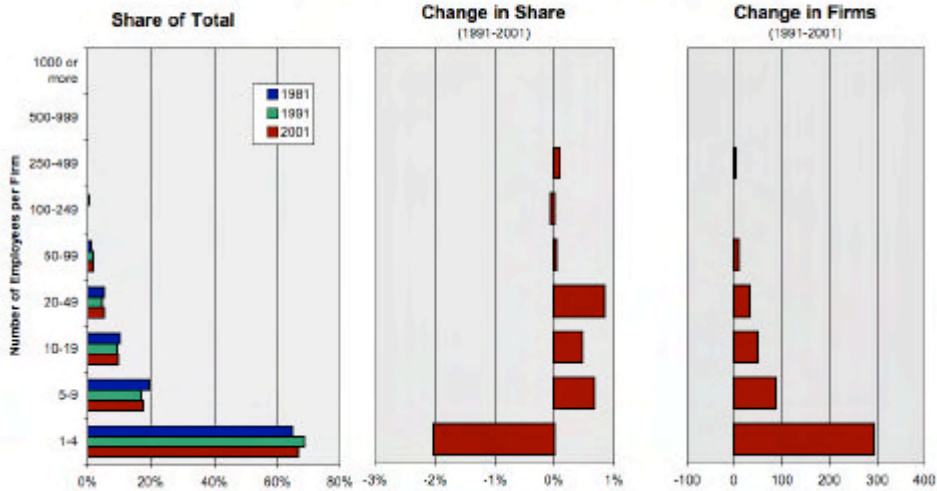
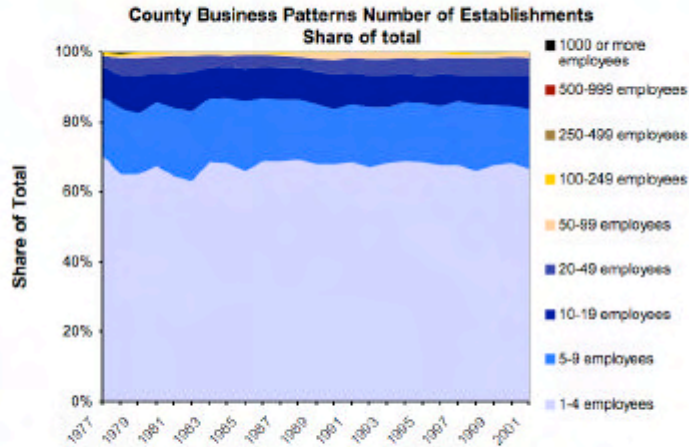
Firms by Size

Firms by Size

The size category that grew the most was 1-4 employees.

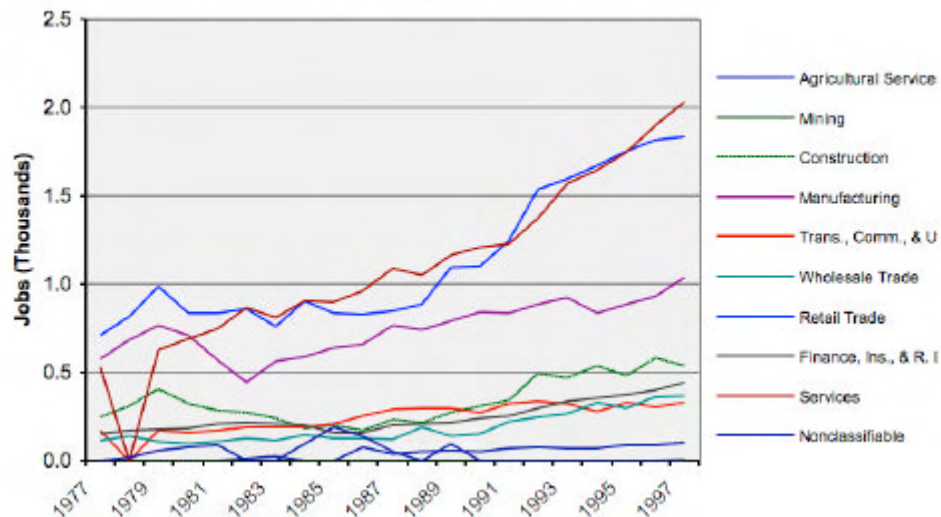
As a share of total, the size category that gained the most was 20-49 employees.

In 2001, 93% of the firms had fewer than 20 employees.



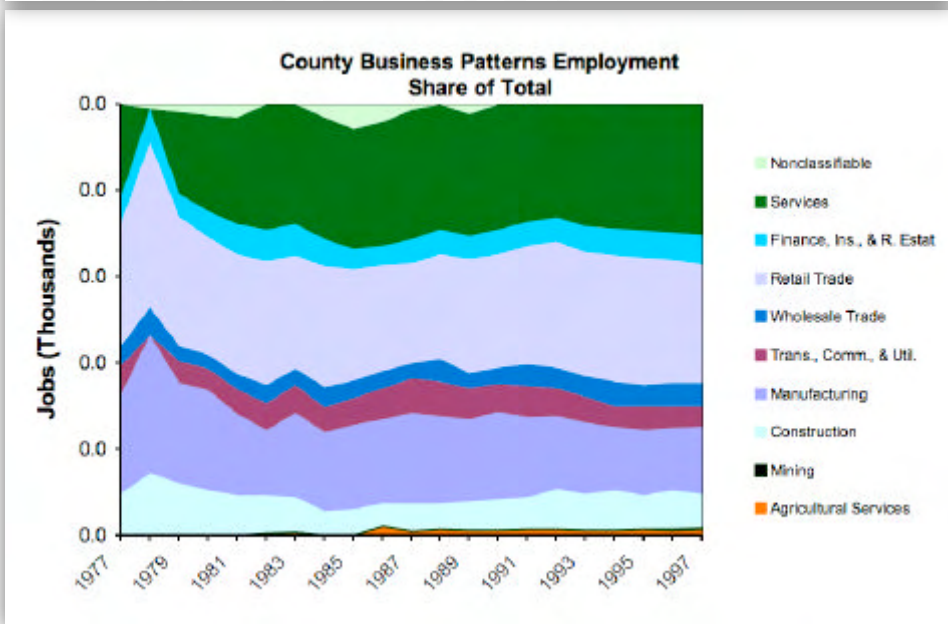
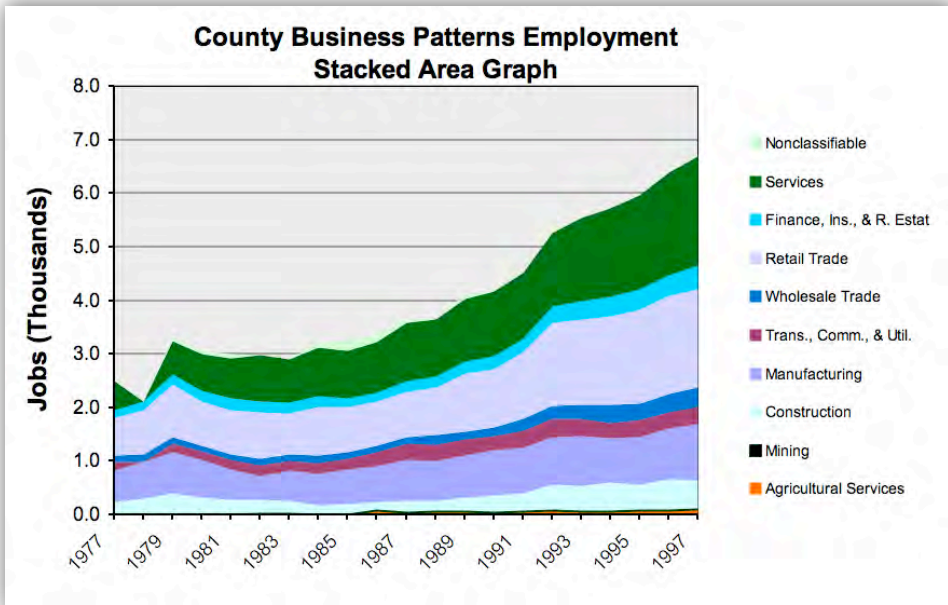
Source: Census County Business Patterns

County Business Patterns Employment



Sonoran Institute's Economic Profit System based on 2000 Census Data

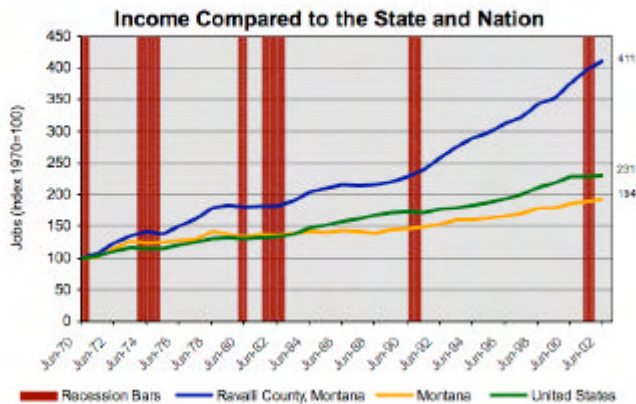
Economic Demographic Information



Income Growth Compared to the State and the Nation

Over the last 32 years, income growth in Ravalli County, Montana has outpaced that of the state and the nation.

Some areas can experience income gains even during the recessions. If so, check to see how much of the change is due to changes in earnings per job, employment, migration and population changes.



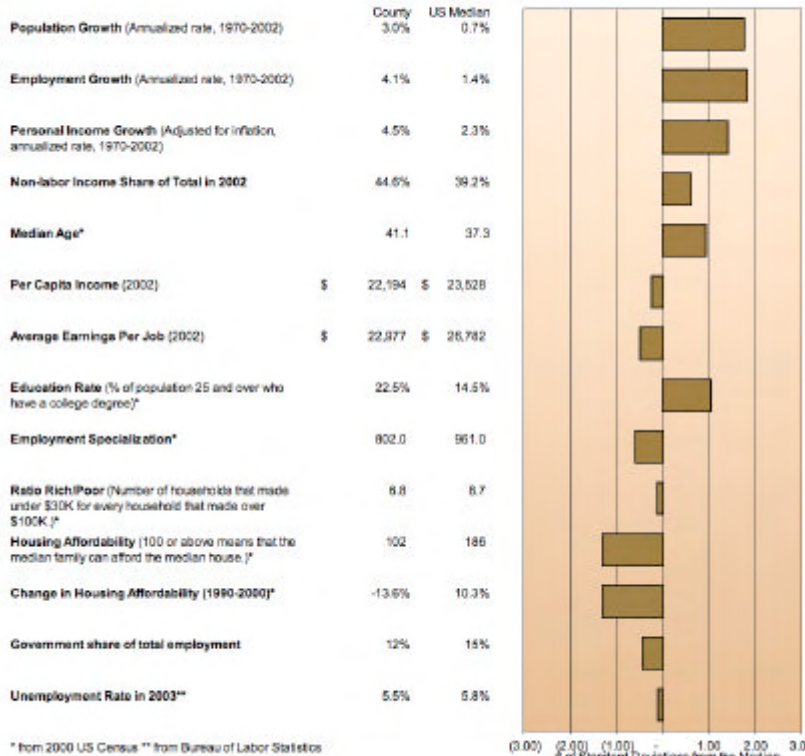
Sonoran Institute's Economic Profit System based on 2000 Census Data

Economic Demographic Information

Ravalli County, Montana Performance Comparisons

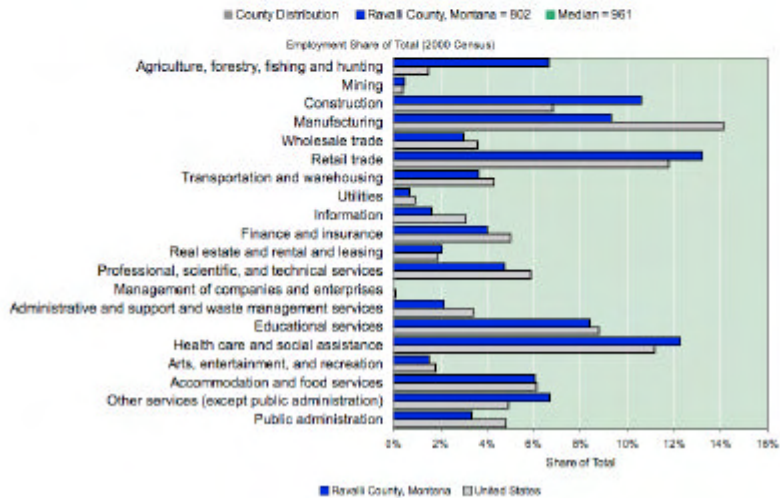
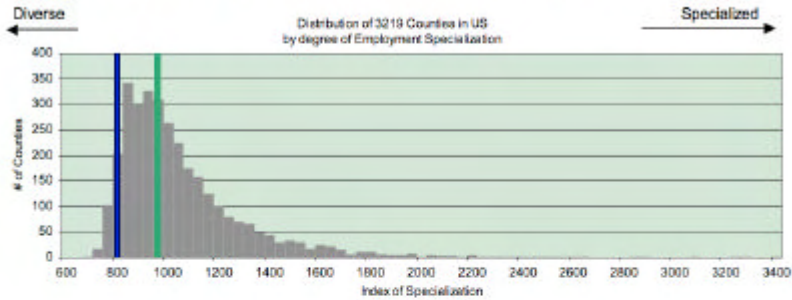
Benchmark = Median of all Counties in U.S.**

Compared to benchmark area, the counties:
 ← Less Than | More Than →



Ravalli County, Montana Employment Diversity Index

One measure of economic success is economic diversity, or the lack of specialization. Communities that are heavily reliant on only a few industries are economically vulnerable to disruptions. This page documents one measure of specialization based on employment data from the 2000 Census.



Sonoran Institute's Economic Profit System based on 2000 Census Data