Bio
BIOTECHNOLOGY
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The Ongoing Financial Markets Crisis and Lack of Access to Capital Threatens America's Biotechnology Industry and the Development of Innovative New Therapies for Patients

a) The financial crisis has had a profound impact on biotech companies and, as such, continued innovation in biotechnology.

b) Small biotech companies typically fund research and development for a decade or more with investor capital prior to having product revenue. These companies are highly dependent on well functioning capital markets and are especially vulnerable to a market crisis.

c) When credit markets seize up, as has occurred in the past 14 months, there is less capital available for investors to put at risk; and the capital that is put at risk is dedicated to shorter term, lower risk options.

d) Because biotech investing is higher-risk in nature, this means that while some areas of the economy have seen a slowdown, biotech has seen a near-freeze.

e) Consider that:

- The amount of new capital raised by biotechnology companies has fallen 55% in 2008 relative to 2007. (source: BioCentury).
- IPO funding has fallen by 97%. There has been only 1 biotech initial public offering (IPO) in 2008 which raised \$5.8M. This compares to 28 IPOs that raised a total of \$1.7B in 2007. (source: Bloomberg).
- 120 companies (30%) are now trading with less than 6 months of cash on hand. <u>This represents a jump of 90% more companies that have less than 6 months cash on hand vs. 2007</u>. (source: BIO)
- 180 companies (45%) have less than 1 year of cash remaining" <u>This represents a jump of 65% more companies that have less than 1 year cash on hand vs. 2007</u>. (source: BIO)
- From the start of 2008 through November 24, U.S. biotech stock prices were down an average of 51%. For smaller public biotechs, the decline in stock price averaged 53%.

f) The markets are effectively closed for public biotech companies: both for initial public offerings and follow-on (secondary) financings. This means that many biotech companies – especially smaller public companies – are in a precarious situation: they must continue on their development projects, but are unable to attain additional financing from investors.

g) Biotech companies developing new therapies, without product revenue, <u>cannot postpone raising capital indefinitely</u>. If they cannot raise new funds, they will have no choice but to downsize, lay off researchers, delay and cancel research projects, or even declare bankruptcy.

Unless Action is Taken in the Near Term to Assist the U.S. Biotech Industry, the Consequences will likely be Substantial Job Losses and a Loss of U.S. Intellectual Capital and Global Competitiveness

a) There are examples, unfortunately at an accelerating pace, of companies that are mothballing important research projects to conserve resources. This development threatens the more than 400 biotech therapies currently in clinical trials targeting more than 200 diseases, including various cancers, Alzheimer's disease, heart disease, diabetes, multiple sclerosis, AIDS and arthritis.

b) In the month of October alone, 20 companies publicly announced layoffs; many others are making programmatic adjustments to reduce their cash burn rates.

c) In November alone, 5 U.S. biotech companies have sought bankruptcy protection.

d) Biotech companies accounted for 86 (25%) of the 344 companies that, as of Oct. 9, were in danger of being delisted by Nasdaq because of inadequate market valuation. (source: New York Times).

e) Companies with promising research into therapies for Multiple Scleroris, AIDS, diabetes and various types of cancers have all recently announced major layoffs.

f) Many of the high-value, high-wage jobs in biotechnology are at risk in the next 6 months if the capital markets to do not rebound. Biotechnology has been an engine in the innovation economy.

g) The failure of substantial numbers of U.S. biotech companies will have a serious impact on America's ability to address pressing healthcare, global warming, environmental, energy security and agricultural issues.

As Congress and the Administration Formulate an Economic Stimulus Package, it is Critical they Consider Policies to Assist Struggling Biotech Companies in the Near Term.

a) Congress should consider allowing emerging companies to temporarily elect to receive a refund of their accumulated net operating losses (NOLs) at a discounted rate, to be spent on qualified research expense, in exchange for permanently foregoing the opportunity to use these NOLs at their full value in the future.

b) Congress should consider a one-time monetization of existing tax credits for tax year 2008.

c) Congress should extend and expand the opportunity for loss companies to utilize R&D tax credits in lieu of bonus depreciation to offset either the cost of capital investments or qualified research expenses.

d) In addition, Congress should consider short term stimuli for new investments, such as zero or reduced capital gains for funds invested in cutting-edge, high-paying industries.