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*Hub Health - Bay Area*

## Biotech's Birthplace Fights to Preserve Innovation, Education

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*(Editor's note: This is part two of a five-part series looking at how the current economic climate is affecting the industry by focusing on the nation's top biotech clusters.)*

Ever since Cetus, the world's first biotech, opened its doors in Emeryville in the mid-1970s, followed shortly by Genentech Inc. in South San Francisco, the life sciences industry has continued booming in the Bay Area, marking the largest and most productive life sciences cluster in the U.S.

The greater Bay Area, which encompasses 7,000 square miles and nine counties – Alameda, Contra Costa, Marin, Napa, San Francisco, San Mateo, Santa Clara, Solana and Sonoma – and has a population of about 7.2 million

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according to 2006 Census estimates, is the birthplace of American counterculture, which set a backdrop for innovation and entrepreneurship that spawned the lucrative biotech industry.

The area is home to more than 1,300 companies, including such biotech stalwarts as Gilead Sciences Inc., of Foster City. Big pharma, meanwhile, continues to make ingress, with Roche Holdings AG's recent buyout of Genentech and Pfizer Inc.'s plans to open a biotech research unit on the University of California at San Francisco's Mission Bay campus.

Overall, it's a region in which innovation has reigned supreme. BayBio, northern California's nonprofit biotech trade association, has reported that, on average, about 30 new firms are founded in the Bay Area each year.

And from a distance, the sector looks as though it's weathering the economic downturn pretty well.

While venture capital funding is down – that's true across the board – the numbers aren't quite as depressing as some have feared . . . at least not yet. Though it certainly helps that a third of the country's VC firms are located in northern California, giving biotech firms in the region a bit of an edge over their counterparts across the country.

For the first four months of 2009, 11 privately held Bay Area biotechs closed VC rounds, bringing in about \$228 million altogether for an average of \$20.7 million per round. (Those figures include disclosed rounds only; Arcxis Biotechnologies, of Pleasanton, Calif., did not disclose the amount raised in its January financing.)

But a closer look reveals a less pristine picture. As of the middle of last year, about half of San Francisco-based biotechs had less than a year of cash on hand, and the life sciences cluster here, as in other areas, has been forced to make cuts to staff, as well as shelve programs and tighten overhead costs in a mad scramble to preserve that precious cash as the industry faces bleak capital markets ahead.

agitation in patients with schizophrenia or bipolar disorder.

Cerus Corp., of Concord, Calif., eliminated 31 positions, about 30 percent of its staff, in March, followed a few days later by Cortex Pharmaceuticals Inc., of Irvine, Calif., which cut its headcount by half, leaving it with about 13 employees, as well as reduced executive salaries, and it shelved a few programs to stay afloat.

The recent cuts and shifts in the industry have made it difficult for BayBio to get an accurate count on the number of employees who have lost jobs this year. "There's a lot of chaos out there now," said Matt Gardner, BayBio president and CEO.

But, he said, in San Mateo County, the seat of big employers such as Gilead, Genentech, Takeda and Elan, about 3,000 jobs were lost in the first part of the year.

Within the local biotech community, "we see companies shut down even in good times," usually after clinical failures, but those people often are able to find work quickly at other biotech firms in the area, Gardner said. The current economy, however, means that it is "taking longer to absorb the people who have been displaced."

On top of the cost-cutting moves, other employees and executives have found themselves out of a job following the spate of big-name acquisitions, such as Roche's buyout of Genentech. While the Basel, Switzerland-based pharma firm has stressed that it intends to preserve the biotech's innovative culture, some corporate changes already have been implemented, with Genentech CEO Arthur Levinson stepping down, along with Susan Desmond-Hellmann, president of product development; David Ebersman, executive vice president and chief financial officer; and Steve Juelsgaard, the company's chief compliance officer.

And the recent news that Corey Goodman will be departing Pfizer's planned biotech research unit in the wake of the New York-based firm's merger agreement with Wyeth, has raised doubts about the future of that research facility, though Pfizer has maintained that the 100-employee unit still intends to occupy the Mission Bay facility in 2010.

## Local Industry Feeling the Crunch

"Everybody is in a cash conservative mode," said Gabrielle Lajoie, managing director and leader of the pharmaceutical and biotechnology practice at executive search firm Russell Reynolds Associates. "Life sciences companies of all sizes are trying to be as careful as possible about headcount because everyone is trying to survive 2009 with as much cash as possible."

A number of firms already have made some drastic personnel cuts this year, such Mountain View, Calif.-based Alexza Pharmaceuticals Inc., which slashed its work force by a third in February, laying off a total of 52 workers, in an effort to stretch its cash – \$78 million as of Sept. 30 – to the second quarter of 2010. By then it hopes to file a new drug application for lead product AZ-004 in acute treatment of

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developing their lead programs," she said.

And though it makes sense for firms to concentrate dwindling resources on the products closest to market, Lajoie added, "it's really unfortunate, because most of the promise and excitement of biotech comes out of research innovation."

So research might not be the place to be right now. But experienced clinical development executives are "still very much in demand, since that is the key to [a company's] success," she told *BioWorld Today*. Firms also "continue to need senior business development executives. The name of the game is bringing in nondilutive financing through partnerships, so the BD person becomes even more important."

Manufacturing, an expensive undertaking for biotech firms, particularly in the high-cost real estate market in the Bay Area, also has been affected.

In January, XOMA Ltd., of Berkeley, Calif., cut 144 positions, or 42 percent of its work force, with most of those cuts coming from its biologic manufacturing operations. While previously one of the firm's most successful components, the firm "just couldn't find the demand" going forward in 2009, Chairman and CEO Steven Engle told *BioWorld Today* earlier this year.

## Innovation, Education at Risk

With 30-plus years of investment at its core, the Bay Area's biotech industry is hardly a fly-by-night business. And it's survived its share of downturns in the past – the bursting of the so-called genomic bubble at the turn of the century, for example, sent (admittedly inflated) valuations plummeting back to earth. But if financial prognosticators are right in predicting a multiyear economic slide, the biotech industry in northern California could face some serious long-term challenges.

Perhaps the most critical is the potential loss of a healthy R&D engine to keep pace with the need for new products and technology.

If the economic slump "keeps up for a longer period of time, you'll see long-term stress to pipelines" as firms

Other changes are coming as companies try to become more cash-efficient. One of the most prominent trends Gardner has seen among local biotechs is the elimination of certain business divisions, from accounting to human resources to preclinical and clinical development, in favor of contracting out those jobs "to limit long-term overhead buildup," he said.

But, no question, there "are a lot more people out there looking [for jobs]," said Russell Reynolds' Lajoie, who specializes in recruiting senior executives. "We've seen a big increase in unsolicited resumés."

While she said senior management has been less at risk of losing their jobs overall, there are certain areas that have been more affected than others, particularly research. "Companies are cutting research spending to focus on

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For its part, BayBio is working with the university system and maintaining a "running dialogue with the government to get them to apply stimulus funds" to support education, he said.

The state got some good news last month when Gov. Arnold Schwarzenegger announced a \$32 million public-private partnership called the Allied Health Initiative, which is aimed at adding thousands of health care professionals to the state's hospitals and facilities over the next three years. That plan, set to start in the fall with 25 community colleges expected to enroll more than 700 additional allied health students, "could be a great part of a solution set," Gardner said.

## New Opportunities Emerging?

If there are any bright spots to be found in the gloomy economic forecast, it's that the difficult times could end up spawning a host of young, start-up firms. After all, there are talented professionals out there looking for new jobs. Despite the high cost of living in the San Francisco area, many likely will opt to stay in the region, taking advantage of local networking opportunities to land new gigs, rather than transferring to areas with less robust biotech sectors.

Genentech's former head of product development, Desmond-Hellmann, for instance, is staying in the area. She recently accepted the position of chancellor at the University of California, San Francisco.

The economy might even result in a drop in the area's high-cost real estate market, making it easier for fledgling firms to find lab space.

In the meantime, it looks as though promising companies in the Bay Area are holding steady. After all, "biotech product cycles are not necessarily obedient to economic cycles," Gardner said, since product development often takes 15-plus years and economic cycles usually run seven to 10 years.

"There still are a group of companies that are getting on with the job," he added. "I think if you start seeing companies flame out in mid-Phase III testing, while they have promising data, [because they run out of money], then you can worry. But we're not seeing that; we're nowhere close to that." ■

realign to focus only on top priority programs, and "we may see a lot of promising science just sitting on the sidelines," Gardner said.

But another big concern, from BayBio's perspective, is the decreasing flow of funds to education, as the state deals with its own budget crunch. Less education money means a less skilled work force in an already shrinking talent pool.

It's ironic that education programs are being cut "at a time when the government is looking at industries like biotech to bring us out of this," Gardner said, calling it "absolutely counterintuitive. When there's a demand for jobs, government relies upon industry, yet we don't necessarily see the dots being connected there."

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## OTHER NEWS TO NOTE

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• **Idera Pharmaceuticals Inc.**, of Cambridge, Mass., reported preclinical data showing that IMO-3100 inhibited Toll-like receptor ligand-induced increases in the expression of key immune response genes such as tumor necrosis factor-alpha, interferon-alpha, interleukin-17 and interferon-inducible protein 10. The study evaluated expression of more than 400 genes in human peripheral blood mononuclear cells in response to a ligand of TLR9, a dual ligand of TLR7TLR8 and IMO-3100. Data were presented at the American Association of Immunologists meeting in Seattle.