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9-25-08

Biotech cheers state budget

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Article Last Updated: 09/25/2008 03:33:56 PM PDT

The California state budget signed by Gov. Arnold Schwarzenegger this week included a provision that would help dampen the financial burden of Bay Area biotech companies trying to get products to market.

The budget provision increases the period of deductibility for net operating losses (NOLs) from 10 years to 20 years for life sciences companies.

This extra 10 years is important for biotech companies because it typically takes about 15 years, and almost \$1 billion in investments, to successfully develop a product.

Originally the hope was to get the extension passed through Assembly Bill 1370, often referred to as the NOL bill, but that was tabled in August. Nonetheless, including it in the state budget achieves the same goal.

"California's legislators made a conscious effort to support an innovative industry that in the Golden State is responsible for more than 1,000 treatments used in the fight against cancer, diabetes, and other conditions that afflict people worldwide," said Matt Gardner, chief executive and president of trade association BayBio. "This sends a strong and positive signal to the global life sciences community that California is listening."

The deductions only apply to future taxes on profit. So companies that aren't able to successfully bring a drug to market will not be rewarded. Companies also will be unable to deduct NOLs from net income in 2009 and 2010. Any losses set to expire during those years will be automatically carried forward to 2011.

"What's amazing about our industry is how many risks there are and how many moguls we have to overcome," Paul Hastings, chief executive of OncoMed Pharmaceuticals in Redwood City, said in August. "Because drug development time lines are enormously long, the longer you can benefit from deductibility for net operating losses the better."

Life science companies in California are investing about \$50 billion over the next five years to manufacture 230 treatments in late stage development and are expected to create more than 12,000 jobs per year in the process, BayBio said.

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