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Tax credits fuel region's biotech expansion

Premium content from Business First - by Tracey Drury

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Cleveland BioLabs Inc. received more than \$30 million in federal grants and contracts in recent years to support research into oncology therapies and anti-radiation drugs.

But though the contracts are valuable, there are many limitations on exactly how the money can be used. That's why a smaller federal grant awarded last fall for \$244,479 was seen as such a huge bonus. **Yakov Kogan**, chief operating officer, says the funds awarded through the Qualifying Therapeutic Discovery program – which are reimbursed to companies as a tax credit – basically came with no strings attached.

"The beauty of this money – you can use it pretty much for everything," he says. "That's very important for a company which works on public contracts."

Most of its other contracts – many coming through the Department of Defense and the National Institutes for Health – include zero budgets for equipment, computers or infrastructure costs. But the government also requires that the company have everything in place to begin work on a contract immediately.

Cleveland BioLabs was among a dozen firms in Western New York approved for \$2.5 million in combined tax credits and grants through the federal Qualifying Therapeutic Discovery program. Awards totaling \$1 billion in tax credits and grants were approved for projects that show significant potential to produce new therapies, reduce long-term health-care costs or significantly advance the goal of curing cancer.

Created by the Affordable Care Act, the program will help nearly 3,000 small biotechnology companies in nearly every state create cost-saving therapies. In New York, 222 New York companies received about \$48.5 million in grants and tax credits.

In the months following the awards, positive results have been reported nationwide, according to a survey of small biotech CEOs sponsored by the Biotechnology Industry Organization (BIO).

The survey, conducted by global research firm Penn-Schoen-Berland, interviewed 226 executives nationwide whose companies received credits or grants through the program. On average, the grants helped companies create six jobs and retain seven.

Among the findings of the survey: Nearly two-thirds (62 percent) of CEOs indicated the funds are likely to advance the progress of their project(s); while 80 percent agreed the federal program is important to the survivability and viability of their companies.

"The program was very important to us – I would say critical," says **Michael Zwick**, executive director of AndroBiosys Inc., which received \$244,479 in grants.

The money helped the company retain jobs and add a position, bringing total employment to six. He says it's unlikely that new hire would have been possible without the federal grant.

"Especially in our region, where it's challenging to get funding from private sources, it's really critical to have this type of funding," Zwick says. "This funding had very few strings attached to it – no strings, actually. To us, it was really critical for things like intellectual property, overhead costs – things that we're not able to utilize our traditional grant contract monies for."

Jim Greenwood, president and CEO of the Washington, D.C.-based BIO, said in the report that the program is helping companies answer President Obama's call for investments in innovation.

"The Therapeutic Discovery Project awards are fostering U.S. innovation, creating and saving jobs and helping companies accelerate progress toward new breakthroughs," he said. "To maintain and strengthen our global leadership in the life sciences, this is precisely the kind of investment that should be renewed and expanded."

Companies with fewer than 250 employees were eligible for tax credits or grants covering up to 50 percent of the cost of qualifying biomedical research, with companies eligible for multiple awards. Locally, grants ranged from \$22,679 to Oncology Research Therapeutics Inc. to \$733,437 awarded to [Kinex Pharmaceuticals](#).

"I didn't think our chances were too great until I realized how much money they were giving away," says **Joseph Pandolfino**, CEO of 22nd Century Group Inc.

The Clarence company used \$244,000 in grants it received to help fund the upcoming Phase II-B clinical trial for its main product, a prescription smoking-cessation aid. With six employees, the company recently underwent a reverse public offering through a merger.

"It definitely expedited the process," Pandolfino says. "It was a small fraction of what we needed, but it definitely helped."

Despite some criticism by larger pharmaceutical companies that the \$1 billion could have been better spent in funding later-stage research, Kogan of Cleveland BioLabs says the small grants may result in a larger, long-term benefit.

"With this money, we may end up with new innovations, which may have died without this quarter of a million dollars," he says.