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**Remarks to the  
Maryland Business Tax Reform Commission  
Business Incentives in the Tax Code Subcommittee  
David S. Block, MD  
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Chairman Wacks and Members of the Subcommittee,

Thank you for the opportunity to appear before you this afternoon. My name is David Block, Chairman and CEO of Gliknik. I am a biotechnology serial entrepreneur. After 12 ½ years at DuPont Merck Pharmaceuticals (all the time living in Maryland), I was the COO of Celera in Rockville, then founded the venture capital-backed Hopkins-spinout Ruxton Pharmaceuticals before founding my current UMB-spinout Gliknik Inc. Both start-up companies were created in Maryland from Maryland-based university research. While I know this Subcommittee is looking at all business tax incentives, I will focus my remarks today on the Maryland Biotechnology Investment Incentive Tax Credit (MBIITC) as this is the incentive that has directly benefitted my company as well as many other Maryland start-up biotech firms.

Governor Martin O'Malley in his BioMaryland 2020 Initiative stated a goal to support and grow the bioscience industry. Assuming the legislature supports this key initiative, then the single most important support the State can provide is through its existing MBIITC program. This is not just my opinion. This view is also supported by MD Bio and by the Greater Baltimore Committee. In fact, in a statewide survey of all the biotech companies, the GBC received responses from 110 and more than half of the responders indicated that access to capital, specifically in the form of the MBIITC, was the most important thing the State could do to help grow the industry. The program is unique among all Maryland programs designed to create substantial new private investment in young biotechnology companies. My understanding is that the program is also unique among all states, though numerous states and even policy makers at the federal level apparently are looking at how they can emulate the successful Maryland program. It is a phenomenal program.

The MBIITC program creates new private investor demand and therefore jobs, the high paying jobs that typify biotechnology, with relatively modest state investment. It is important to note that the program brings new capital into Maryland from other states and even from other countries. This happens because the tax credit goes to individual investors and investing LLCs, not to the biotech companies. Almost half of Gliknik's recent investments through the program came from outside of Maryland even while creating Maryland jobs and contributing to building a biotechnology critical mass in Maryland that is not yet adequately established.

From the individual perspective, the MBIITC is critically important as it reduces the riskiness of a highly risky investment by 50%. We are in an era in which investors seek absolute safety and immediate liquidity for their investments. In other words, there is huge demand for US treasuries. Those of us who are in the high risk business of creating novel drugs for all sorts of unmet medical needs offer investors an 80% chance of losing their money but only after tying that investment up for three to twelve years – not the ideal scenario for most investors. In other words, we offer investors an investment opportunity that they do not want because of the high risks, high costs, and long timelines of biotechnology, especially new drug creation. But the MBIITC makes the risk-reward relationship more attractive for early stage companies.

From the company perspective, the MBIITC program means survival. At Gliknik, in the first two years since our inception we have created new drugs in cancer and autoimmune disease. The lead autoimmune disease drug looks great and will likely be a billion dollar drug in 15 years. But in this economic environment, no matter how great our products and our business model are, it is extremely difficult to raise capital. Even with the MBIITC Gliknik was very challenged this year to raise two thirds of the amount it is allowed under the program. Since then we have secured a National Cancer Institute contract and have moved toward negotiations under confidentiality agreements with two potential big pharma collaborators.

We are not the only company that has realized dramatic benefits from the biotech tax credit. Here are some other examples from 2009:

- One Maryland company that is making new drugs for tuberculosis has successfully won significant competitive federal grants which it uses to pay its researchers but ran out of cash to pay its executive staff four months before the most recent August MBIITC availability. Through the MBIITC, a group of investors put \$1.8 million into the company and would not have made any investment at all without it. The company is back on stable ground.
- Another Maryland company is making a new device to determine which cancer drugs are best to use with any individual patient. The MBIITC program allowed the company to raise \$1.7 million from private investors, including from a local philanthropic group, which it then used to leverage a \$2.3 million federal grant that was recently approved and funded. The company is in the midst of hiring several new employees as a result.
- Another Maryland company that has a preclinical drug was trying to get its venture capital investors to come to closure on an equity round. The venture capital firms were finally brought to the table by the economics of the MBIITC. That company recently announced a large venture financing.

Legislators should remember that the most successful biotech companies usually have critical periods where they need support. No better examples exist than our own MedImmune, which had several near-death experiences both as Molecular Vaccines Inc. and as MedImmune, and Human Genome Sciences which teetered near a perilous financial situation in 2009 with a stock price of 45 cents before announcing positive clinical trial news, having its stock climb to almost \$30, enabling a re-financing. Biotech companies are very high risk / very high reward and create high paying jobs but they need to be supported to a point of stability which can take 15 years. The MBIITC program does this for early stage companies.

With the exception of the Maryland Venture Fund (which itself has been inactive in biotech the past several years), Maryland's biotechnology programs benefit the academic community far more than industry. With the huge increases in federal academic funding over the past year, it is reasonable to assess whether those programs are attracting investments into Maryland companies and creating jobs the way that the MBIITC program is. The biotech community would favor shifting biotech funds from other Maryland programs to the MBIITC in order to maximize private investment in Maryland Qualified Biotechnology Companies with the resulting job creation.

The economic impact of the MBIITC cannot be fully appreciated by looking at number of jobs created within the company.

- At Gliknik we spend a lot of money with a Maryland company that manufactures biotech drugs and with another Maryland company that tests drugs in animal models.
- We spend a lot of money on expert consultants that are based in and around Maryland.
- We also employ a Maryland accounting firm and audit firm and our legal counsel is at Duane Morris and Cooley Godward.
- We also fund a half dozen Maryland academic researchers.
- We were the first tenants by a year into the UMB BioPark incubator facility and we pay a healthy rent for the privilege, supporting that facility.

While the MBIITC program is phenomenal for investors, companies, and the State, one aspect of the biotech tax credit could use improving: biotech executives shouldn't be made to camp out.

- It seems to me to be somewhat degrading to the State, to the Governor, and to the Legislature to have biotech executives camping out for days or weeks in advance of the tax credit window opening.
- This happens because the legislation is currently drafted to be first come / first served and the dollars allocated to the program are insufficient for the investor demand.
- The ideal solution is to shift Maryland biotech dollars into the MBIITC from other programs.
- Other possible solutions require a legislative fix, such as a change in the program to merit-based competition or proportional funding when demand exceeds tax credit supply.

One savvy investor told me a year ago that the goal for the next three years is not to win but to survive. Those biotech companies that survive, he said, will be the winners. The same perspective can be taken at the state level. While our State fiscal situation is currently challenging, the recession's effect on Maryland is not nearly as deep as in other states and Maryland continues to have tremendous technology transfer opportunities. Maryland has a once-in-a-generation opportunity to advance its biotech industry by flexing its economic development muscles against competing states. Maryland can help its companies survive and thrive in the current climate through the MBIITC and can move to critical mass.

I want to thank the Subcommittee for allowing me the opportunity to speak about this very important tax incentive for economic development.