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February 12, 2008

## Senate Committee on Economic Development and Taxation

Senator Carol Fukunaga, Chair

Senator Will Espero, Vice Chair

Testimony of David G. Watumull

Chair Fukunaga and members of the Committee,

I write this letter in wholehearted support of SB2326 with the amendments proposed by Bill Kaneko, including language to make sure that local QHTBs do not claim both an R&D credit under Act 221/215 and a credit under SB3236 for the same clinical trial(s).

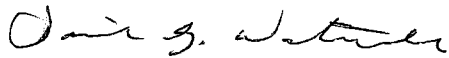
This bill will help local biopharmaceutical companies, most of whom will not be able to claim an R&D credit under Act 221/215 for clinical trials conducted in Hawaii. Why? Clinical trials are generally carried out in three phases and all but the shortest and least expensive (Phase I safety trials) normally require multiple institutions. Hawaii does not have enough institutions to supply all the sites necessary for Phase II and III trials, so Hawaii based bio pharmaceutical QHTBs must contract many institutions nationally or even internationally to perform these trials. The resulting costs (most of which are outside Hawaii) could cause most Hawaii based biopharmaceutical companies to lose their QHTB status.

But, prior to the introduction of this bill, the DoTax ruled that QHTBs do not have to include clinical trials as part of the QHTB calculation because QHTBs do not conduct clinical trials as part of their normal business. Clinical trials, while paid for by the QHTB or pharmaceutical/biotech company, are almost always run by independent organizations (even at big pharmaceutical and biotech companies) such as hospitals, university medical centers, etc. In other words, biopharmaceutical QHTBs (and large pharmaceutical and biotech companies) discover and develop new treatments or drugs "in-house" but "outsource" clinical trials, just as they often might outsource accounting and legal functions. While this ruling allows Hawaii based biopharmaceutical companies who conduct Phase II and III trials to maintain their QHTB status, the ruling also means that QHTBs cannot receive an R&D credit for clinical costs in Hawaii.

This bill would allow such a credit on the costs of clinical trials conducted in Hawaii by Hawaii based QHTBs and would incent such companies to maximize their clinical trial expenditures in Hawaii. The R&D credits received by QHTBs for clinical trials conducted in Hawaii would also help equalize the perceived disadvantage that Hawaii based biopharmaceutical companies have when seeking financing from Mainland financing sources, such as venture capital funds.

Also, this bill will help incent large national and international biopharmaceutical companies to conduct some of their clinical trial work in Hawaii, which is good for local hospitals and other clinical trial service providers. It will also help build the clinical trial infrastructure in Hawaii, which is good for Hawaii based biopharmaceuticals QHTBs.

Respectfully,



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February 12, 2008

The Honorable Carol Fukunaga and Will Espero  
Committee on Economic Development and Taxation  
Hawaii State Capitol  
415 South Beretania Street  
Honolulu, HI 96813

The Honorable Fukunaga and Espero:

On behalf of the Biotechnology Industry Organization (BIO), please accept this letter in support of Hawaii Senate Bill 3236, legislation to create a clinical trials tax credit in Hawaii.

BIO has long been an advocate for the development of the growing life sciences industry across the nation and especially in Hawaii. This legislation identifies an area that is critical to the state's efforts to accelerate research for unmet medical needs and continue the creation of quality technology jobs for Hawaii citizens.

In the next 10 years, combined advances in several fields – medical devices and diagnostics, drugs and drug delivery systems and informatics – will revolutionize medical care in the US. With its world-class health care institutions and strong research and development competencies, Hawaii is in a strategic position to be a leader in leveraging those resources to stimulate new investment and foster growth of new and existing companies.

Clinical trials are a vital component in the research and development continuum from academic laboratory to delivering a medical treatment that can benefit thousands, if not tens of thousands of people suffering from injuries or disease. Hawaii's unique culture and diverse population as well as its proximity to Pacific Rim nations are significant assets that hold opportunities for added growth of the bioscience industry. As with similar legislation enacted previously to support technology-based industries, this legislation appropriately addresses the need for tax considerations over a period of time to help mitigate the significant costs bioscience companies incur when they conduct clinical trials.

BIO commends the Legislature for considering this important legislation.

Respectfully submitted,

A handwritten signature in black ink that reads "Peter M. Pelletto". The signature is written in a cursive, flowing style.

Senior Policy Consultant  
State Government Relations & University/Industry Outreach



**SENATE BILL 3236, SD1 RELATING TO LIFE SCIENCES**

**DATE:** February 12, 2008  
1:15 PM., Conference Room 224

**TO:** Senate Committee on Economic Development and Taxation  
The Honorable Carol Fukunaga, Chair  
The Honorable Will Espero, Vice Chair

**FROM:** Lisa H. Gibson  
President  
Hawaii Science & Technology Council

**RE: Testimony in support of the intent of SB3236, SD1.**

Aloha Chair, Vice Chair, and Members of the Committee:

The Hawaii Science & Technology Council (HISciTech) supports the purpose and intent SB3236, SD1 relating to life sciences. HISciTech supports the growth of clinical trials in Hawaii.

The Hawaii Science & Technology Council is a private tax-exempt 501(c)6 industry association with a 28-member board. The council serves Hawaii companies engaged in ocean sciences, agricultural biotechnology, astronomy, defense aerospace, biotech/life sciences, information & communication technology, energy, environmental technologies, and creative media.

Thank you for the opportunity to testify on this important bill.

Lisa H. Gibson  
President