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ArQule discovery arm carries on as Boston Biomedical

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Dr. Chiang Li could see the writing on the wall.

As chief scientific officer at ArQule Inc. (Nasdaq: ARQL) in Woburn, he was aware of the Darwinist nature of biotechnology companies. His 26-employee R&D team would soon become vulnerable to downsizing as the company accelerated away from drug discovery and toward drug development. And so he came up with another idea.

"I proposed that I could take a risk with the scientists and form a new company ... to create a future for them," he said.

That was several months ago. Today, Li leads Boston Biomedical Inc., a 26-person Woburn company consisting of the old ArQule drug discovery research scientists. They launched at the end of January with \$5 million in initial funding from ArQule in the form of an eight-month research contract that will enable Boston Biomedical to finish conducting tests on ArQule drug candidates now in clinical trials.

The deal, according to Li, will give Boston Biomedical breathing room to identify potential investors once it is solely on its own later this year and focused on cancer-related drug discovery.

Li had been head of research at Cyclis Pharmaceuticals Inc. of Norwood when ArQule bought the company in 2003 for \$23 million in a bid to transform from a chemistry services company for larger pharmaceutical companies to a biopharmaceuti-

cal drug and development company. Since then, Li has headed the research operation at ArQule, which has generated some of ArQule's lead compounds, with two potential cancer treatments now in clinical trials.

Li knew that as those drugs advance, ArQule would have to focus on downsizing the discovery arm he ran and shift more financial resources toward development.

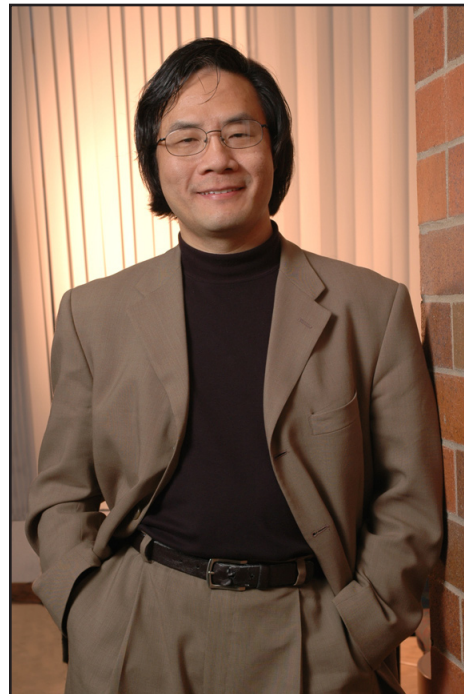
He was also aware of ArQule's history since its founding in 1993. The company once employed as many as 428 people, but those numbers dropped as it shifted business models.

Today, excluding the discovery arm spun off into Boston Biomedical, ArQule employs about 100. The latest job shifts were necessary for ArQule's transformation, said ArQule CEO Stephen Hill, who added he was happy that he could help create a safe landing for Li's group in a separate company.

"Layoffs in biotech are so prevalent, and if you can ever find a solution that avoids that, it's a socially constructive approach to take," Hill said.

Still, such a solution isn't necessarily just for altruistic reasons. Stephen Gaudet, a biotechnology intellectual property attorney with the law firm McDermott Will & Emery LLP in Boston, says many biotech, once they have evolved to a different business model, choose to spin off divisions rather than lay off the players.

In other cases, both parties maintain a corporate relationship, he said, because "there is synergy that can take place between a spinoff and parent."



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Chiang Li, sensing that his 26-team R&D team at ArQule would fall victim to the vagaries of the biotech industry, spun the team out into Boston Biomedical Inc.

In Boston Biomedical's case, ArQule is not taking an equity position in the company. But it will retain rights to research conducted by BBI employees under its contract with ArQule, and Li will continue to chair ArQule's scientific advisory board.

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