

For more information contact:

Timothy R. Comerford, PSEG Area Development LLC

e-mail: tcomerford@psegareadevelopment.com • Tel: (877) 241-0692 (toll free)

PSE&G Tax Benefit Purchases Help High Tech Firms Succeed

When Leapstone Systems, Inc., a growing Somerset-based communications software provider, wanted to convert its unused net operating loss (NOLs) carry forwards for an infusion of cash, it turned to PSE&G's tax benefit purchase program. "It's a win-win situation for Leapstone, PSE&G and the State of New Jersey," says Frank A. Sibilla, director of finance at the firm, which builds and markets intelligent service delivery and content management solutions for network operators.

As Sibilla and PSE&G officials explain, the system works like this: To foster high-tech growth, the State of New Jersey offers its Emerging Technology and Biotechnology Financial Assistance Program, often called the Tax Benefit Transfer Program. Life sciences and technology firms can sell unused NOLs and R&D credits (Benefits) to established companies that have need for them. Firms customarily incur these losses and R&D credits during their crucial developmental stage. The fledgling firms thus trade the tax losses for much-needed cash.

PSE&G, the largest purchaser in the program, has bought some \$77 million in benefits from high-tech firms since the State began the program in 1999. In last years program, PSE&G was again a large participant, purchased over \$7.5 million. "We learned about the program from the New Jersey Economic Development Authority (EDA) when we started up some four-plus years ago," recalls Sibilla. "We were leery of dealing with a broker, a middle-man, to match us with a buyer. We'd hear stories of how buyers backed out of deals. We worked with Steve Lapidus at PSE&G and we're extremely happy about how very smooth, professional and efficient the process has been." Sibilla says, "Not only was PSE&G the direct buyer, there were no hidden or additional fees, and each step of the transfer process was completed rapidly." Indeed, the PSE&G Legal Department prepares and processes all transfer documents.

Westhampton-based Lamina Ceramics, Inc., a market leader in the development and production of super-bright LED arrays, has also used the program to great success. "It is a wonderful program for us," says Kathy Boras, controller of the firm which was founded in 2001. "We've been able to use the money for our basic funding for our research, development and production We are extremely happy with it."

Lamina, based in a 50,000 square-foot, state-of-the-art, automated manufacturing facility in the Princeton high-tech corridor, emerged from 12 years of research and development at the Sarnoff Corporation – the same lab that developed such world-changing inventions as color TV, the liquid crystal display technology used in cell phones, laptops and watches, and today's High-Definition Television (HDTV). Lamina, a venture-based corporation is the exclusive licensee of Sarnoff's LTCC-M technology. The company is supported by its investors, which include Morgenthaler Ventures, Sarnoff Corporation, SpaceVest, Granite Global and Kemet Electronics Corporation.

The PSE&G tax benefit purchase program, according to Boras, makes it possible for Lamina to use the funding for its LED production, particularly its propriety multi-layer ceramic on metal packaging solution, which provides unsurpassed thermal management and interconnectivity. Thus, it is able to continue Sarnoff's "spirit of innovation" through its ongoing development and optimization of LED arrays.

To be eligible to sell under the Transfer Program, a company must be a new or expanding life sciences or technology business with a maximum of 225 employees and have at least 75 percent of its workforce in New Jersey. They can sell the credits to other profitable New Jersey corporations for at least 75 percent of their value. A company is deemed ineligible if it had a profit within the two most recent years, if ongoing revenue exceeded 110 percent of expenses, or if it has a profitable parent business. Companies have until June each year to apply. Last year, the State expanded the Tax Credit Transfer program by \$20 million to a total of \$60 million annually.

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In this most recent round of transfers, PSE&G purchased credits from two dozen high-tech firms, ranging from Access Bio, Inc., Monmouth Junction to Alteon, Inc., a Parsippany-based company engaged in the discovery and development of pharmaceuticals for the treatment of diabetes and age-related diseases. Among others in PSE&G's NOL program are: AlgoRx Pharmaceuticals, Inc., Secaucus, an emerging pharmaceutical firm focused on the development and commercialization of various products; Cytogen Corporation, Princeton, an oncology company focused on detection of prostate cancer; and Ocean Power Technologies, Pennington, a leader in cost-effective and environmentally sound offshore wave power technology to generate electrical power.

Leapstone's Sibilla says, "For a small business, this means a great deal." He also points out that when the firm sells the tax credits, it has to pay taxes on any profit, it no longer has those NOLs. Thus, the State of New Jersey is nourishing these firms to be profitable, employ more people and pay taxes. "It has been a real solid program," he says. Boras, of Lamina Ceramics, agrees. "It's a program that works well for us." From PSE&G's point of view, it is another tool in supporting economic development in New Jersey, particularly in the high technology and life sciences industries. "We believe that these cutting-edge business sectors are vital to the state's prosperity and critical to the continued creation of high-level jobs that will sustain New Jersey's future technological leadership and economic growth," says Timothy R. Comerford, Manager – PSE&G Area Development Department.