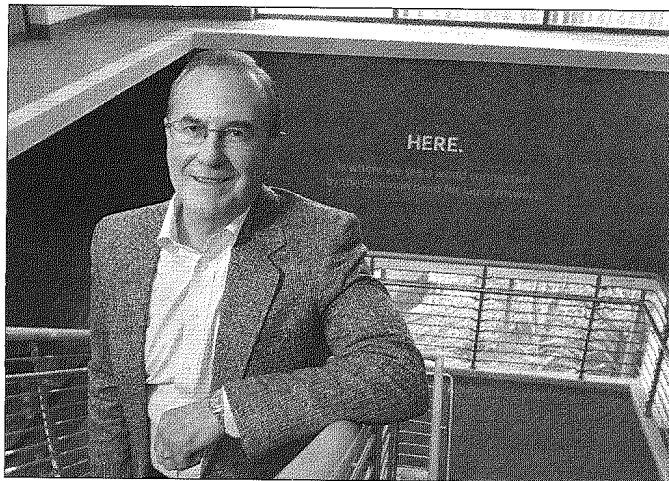


**ROAD TO RECOVERY**



VICKI THOMPSON

**WELL POSITIONED:** Cepheid CEO John Bishop says it makes sense to keep the company's growth in the state.

## Tax law revision may entice firms to expand in the valley

BY LISA SIBLEY

The state's recent decision to revise a corporate income tax formula is expected to encourage big pharmaceutical companies such as Genentech Inc. to stay in Silicon Valley.

For South San Francisco-based Genentech, which chose Oregon over California to build a commercial drug facility in 2006, the opportunity comes too late. But others will most likely benefit.

California had based its corporate income tax on a percentage of a company's sales, payroll and property within the state. With this formula, companies were discouraged from adding jobs and facilities within California because doing so would increase their tax rate, said Matt Gardner, CEO of BayBio, a Northern California trade organization representing the life sciences.



Matt Gardner

The new rule, passed in the state budget, changes that. Corporations can now base their taxes solely on sales within the state, under the so-called single sales factor. Companies that have a lot of sales in California but few or no offices or employees can stay with the old formula if it's more advantageous.

"It puts California in a better, more competitive situation with other states such as Oregon," said Gardner, adding that BayBio has been lobbying on behalf of the formula since 2003. The incentive will go into effect Jan. 1, 2011.

Under the prior law, California's tax structure penalized decisions to keep or expand Genentech's operations in the state, said Genentech Executive Vice President and CFO David Ebersman.

"We ultimately made the decision to construct a \$400 million facility in Hillsboro, Ore.," Ebersman said. "Although we had land suitable for expansion at

our existing California locations, California's tax structure didn't support in-state growth."

The Oregon site is expected to be licensed and operational in 2010 and will employ about 300 people by 2015.

"We are very pleased with the adoption of single sales factor," Ebersman said. "For Genentech, this puts California back into play as an option for locating our facilities."

The revision affects major California companies, including biotech firms, that are already profitable. But companies approaching profitability and thinking about expansion have also been encouraged. Among those are Cepheid, a Sunnyvale molecular diagnostics company, and South San Francisco's Monogram Biosciences Inc., which specializes in products to help guide and improve treatments of infectious diseases, cancer and other serious disorders.

Monogram CEO Bill Young said his company had revenue of about \$63 million in 2008 and expects to break even by year-end, so executives are thinking about the financial implications of expansion.

Young said with the old formula, he would be encouraged to add facilities and employees outside the state.

"It's very illogical," Young said. "Now the system is where the actual sales are."

Cepheid CEO John Bishop said his approximately 500-person company is well-positioned for growth, closing in on profitability, and has a number of diagnostics nearly ready for the market. He said it will now make sense to keep Cepheid's growth in-state.

The company has grown from one facility to four in Sunnyvale. Bishop said it occupies about 120,000 to 130,000 square feet, but he believes it will need about a half million square feet over the next several years.

LISA SIBLEY can be reached at 408.299.1841 or lsibley@bizjournals.com.