



September 22, 2008

The Honorable Arnold Schwarzenegger
Governor
State of California
State Capitol, First Floor
Sacramento CA 95814

Dear Governor Schwarzenegger:

We write to express our strong concerns and disappointment about the very significant changes to the California research and development tax credit included in AB 1452 as part of the budget deal, changes that will prohibit companies engaged in research and development from using up to 50% of their tax credits for two years. While we understand the need for shared sacrifice in confronting California's enormous fiscal challenges, these changes disproportionately raise the tax burden on the technology-intensive sectors, which fuel much of California's economic engine and create many of the state's high-wage employment opportunities.

Research and development has been and remains the cornerstone of California's continued leadership in innovation. Without question, the research and development tax credit is one of California's most important and effective incentives for retaining high wage and skilled jobs in this state. In addition to the extraordinary talent of our California workers, the fact that California has maintained a strong, permanent research and development tax credit is a foundational reason why California accounts for one of every five research dollars spent in the United States and one out of every four U.S. patents.

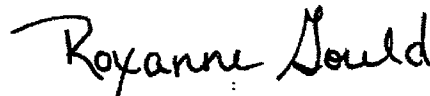
Much of the value of the California credit is the fact that it is permanent and its continued availability predictable. Companies and investors are more willing to make long-term investment decisions in an environment where rules are well-understood and where the risk of policy change is low. The changes included in AB 1452 will not only increase the real cost of research and development in California at a time of economic difficulty, but they will adversely affect confidence about the availability and usefulness of the credit itself. In short, the investment climate in California will become a great deal more uncertain as a result of these changes. In a highly competitive world where states and countries compete for investment, this is not a good result for California.

The state confronts difficult times. We are prepared to work with you and Legislative leaders for a solution. We earnestly hope that the emphasis going forward can be on solutions that pose less risk to the innovation climate and long-term growth.

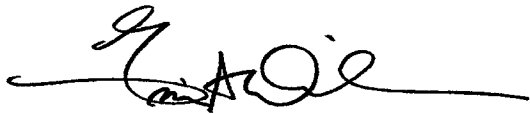
Very truly yours,



Tim Valderrama
Executive Director, CA
TechNet



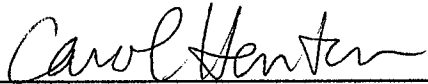
Roxanne Gould
Senior Vice President
AeA



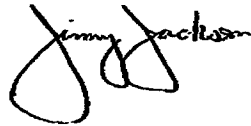
Eric A. Daniels
Director
State & Local Government Relations
CA Space Authority



Greg Hines
Legislative Director /
Tax & Corporate Counsel
CA Manufacturers & Technology
Association



Carol Henton
Vice President, State & Local
Information Technology Assoc. of
America



Jimmy Jackson
Vice President
Public Policy & Communications
BIOCOM



David Gollaher, Ph.D.
President & CEO
California Healthcare Institute