

# Summary of Act 215 for Qualified High Technology Businesses



## Summary

Act 215 grants investors in a Qualified High Technology Business ("QHTB") a tax credit towards Hawaii State income tax owed. The credit is taken over five years, with 60% realized in the first two years.

## Meaning for Tissue Genesis, Inc. ("TGI")

TGI is a QHTB, and thus investors benefit from this State of Hawaii tax credit. TGI has established Tissue Genesis Research Investment I, LLC that has three investment choices for units in the LLC. One is a Tax Advantaged choice, where the investor is allocated up to two times their investment in tax credits for their investment, and has 30% of their equity allocated to the LLC or the Equity Advantaged investor, who is not allocated any tax credits, however, receives up to 30% of additional equity for their investment if allocated. The third choice in investment is the Direct Investment choice, where the investor receives equity and an equal amount of tax credit allocation. See in the table below a two times tax credit example.

## Example of Act 215 for Tax Advantaged Investor at TGI

Year	% of Available Tax Credit	\$ Amount (Outflow)/ Inflow(1)	Adjusted Investment Basis		IRR of Tax Benefit Only(2)
			\$ Aggregate	\$ Per Share	
0		(600,000)	600,000	1.71	
1	70%	302,400	297,500	0.85	
2	50%	216,000	81,600	0.23	
3	40%	172,800	(91,200)	(0.26)	
4	20%	86,400	(177,600)	(0.51)	
5	20%	86,400	(177,600)	(0.75)	
	200%	864,000			18%

(1) Tax credit inflow adjusted to reflect 72% value recapture, to account for the loss of the State tax deduction for Federal income tax.

(2) Assumes share price remains constant; therefore, for this illustration, the only return is from the tax benefit of Act 215, and also reflects the Federal impact of note (1) above.

## Assumptions

Two for one tax credits relative to investment.

While an investor receives 200% of its investment back in tax credits, assuming the investor is a U.S. Federal tax payer, it will lose the deduction that State taxes would otherwise provide. Thus the economic benefit is to receive back 144% of the investment (assuming a 28% Federal tax rate for illustrative purposes).

This investor would have 30% of its equity allocated by the LLC to the LLC or the Equity Advantaged investor for its double tax credit choice.

Illustrated are the economics of this investment in the table below, assuming a \$600,000 investment at \$1.20 per share, yields to this investor an allocation of 350,000 shares.

**Note:** This information is not an offer to sell securities. Potential investors should only make an investment decision based on independent investigation of TGI, the information packet presented and any other information investor deems pertinent to rendering a decision to purchase. In addition, potential investors must meet net worth requirements to be eligible to invest. Please contact Anton Krucky, President and CEO for TGI at (808) 539-9331 with any questions.