

2010

ECONOMIC REPORT



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in association with...

Deloitte.

ABOUT THE 2010 SURVEY

The HealthCare Institute of New Jersey (“HINJ”) commissioned the first economic impact study of the New Jersey biopharmaceutical and medical technology industry in 1997. Since then, the study has served as an annual benchmark for one of the state’s leading economic drivers. This is HINJ’s 14th consecutive economic survey and the seventh performed by Deloitte*. HINJ would like to thank Deloitte for its assistance in compiling the economic data included in this report. Deloitte is responsible for aggregating the economic data presented in this report and for providing the related tables. HINJ is responsible for all commentary regarding this economic data.



The 2010 survey is compiled from 24 of the leading biopharmaceutical and medical technology companies that comprise HINJ’s membership. The sample group, which was surveyed regarding 2009 calendar year data, includes 20 of the 22 HINJ companies that participated in the previous year’s study and also captures data from new study participants. Prior year results were not adjusted to reflect the removal of the two companies that no longer participate in the HINJ survey. This survey is a compilation of the economic activity of current HINJ member participants.

The data elements presented in this year’s report remain consistent with those in the prior year’s report, highlighting the year-to-year fluctuations in a variety of key economic metrics.

In conclusion, the study seeks to identify the various elements of the state of New Jersey’s economy that retain the biopharmaceutical and medical technology industry as a core part of its economic engine and then to quantify the economic impact of this vital industry. This study employs on a consistent basis widely accepted economic multiplier formulas.

* About Deloitte

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A MESSAGE FROM THE HEALTHCARE INSTITUTE OF NEW JERSEY

Thank you for your interest in the HealthCare Institute of New Jersey’s 2010 Annual Economic Impact Report.

Like many industry sector reports, ours reflects the economic challenges facing the state, national and world economies. Although New Jersey’s life science industry remains the most influential driver of the state’s workforce and economy, our 2010 report reminds us that we are immune to neither the prevailing economic climate nor changes to the business model that has helped our industry develop life-saving treatments and cures for patients around the world.

Several New Jersey-based life science companies completed well-publicized mergers and acquisitions in 2009 that impacted their global operations. Not surprisingly, their impact was disproportionately felt in New Jersey.

While the number of full-time life science employees in New Jersey contracted by approximately 4,600 last year to 55,366, our industry’s total economic impact on the state has reached its highest level ever, at \$29.2 billion. This figure was bolstered by \$1.7 billion in economic impact that was generated by survey participants who did not provide their comparable activity in the prior year survey. Excluding this figure, our industry’s total economic impact on the state was \$27.5 billion. The loss of jobs shows that even robust industries are influenced by larger economic forces and broad policy changes that impact the business community.

Despite these challenges, our industry once again demonstrated good corporate citizenship by increasing global philanthropy during the economic downturn. In 2009, our companies’ donations to important causes increased by more than \$600 million.

New Jersey’s biopharmaceutical and medical technology community continues to face significant challenges. Although we remain New Jersey’s premier industry, we are committed to working with our state’s elected officials and policy makers to ensure New Jersey remains the “Medicine Chest of the World” and the center of the development of medical breakthroughs and discoveries that enhance global human health.

The HealthCare Institute of New Jersey

To learn more about the HealthCare Institute of New Jersey and the contributions we make to the state economy, please visit www.hinj.org.

NEW JERSEY'S BIOPHARMACEUTICAL AND MEDICAL TECHNOLOGY INDUSTRY

Good Corporate Citizens

The economy of New Jersey has long thrived on the concentration of life science businesses in the state. Despite the impact of consolidation and strategic realignments, New Jersey's biopharmaceutical and medical technology industry still remains a leading economic sector within the state.

In 2009, HINJ member companies had an estimated overall economic impact of \$29.2 billion on New Jersey's economy. This amount increased from last year's estimated overall economic impact of \$28.7 billion (including the benefit of \$1.7 billion of economic impact generated in calendar year 2009 for which comparable activity was not submitted in the prior year) and provides an indication of relative stability in the industry over the course of the past several years. Direct HINJ member company spending was approximately \$22.8 billion and economic activity resulting from the industry's presence and investment in the state resulted in an additional \$6.4 billion.

The industry continues to contribute greatly to New Jersey's economy and, as a result, many businesses in the state depend on biopharmaceutical and medical technology companies for their continued growth.

Economic Impact on NJ by HINJ Survey Participants
(amounts in \$ billions)

Activity Area	2009		2008	
	Direct Economic Impact	Total Economic Impact	Direct Economic Impact	Total Economic Impact
Payroll * – NJ residents only	\$6.672	\$8.088	\$7.086	\$9.100
Benefits	1.750	1.750	2.123	2.123
Vendor spending – NJ to NJ	4.677	8.400	3.820	6.910
Capital spending	1.535	2.809	1.616	2.773
R&D	7.989	7.989	7.543	7.543
Charitable donations	0.214	0.214	0.221	0.221
Estimated \$ Impact	\$22.837	\$29.250	\$22.409	\$28.670

Note: Multiplier effects are only calculated for the following activities and are based on the 2008 IMPLAN model: payroll, vendor spending, and capital spending

*Direct economic impact includes pretax dollars paid to NJ residents



EMPLOYMENT

In 2009, HINJ member companies participating in the survey accounted for 55,366 New Jersey-based jobs. This figure represents a decrease compared to 59,948 in the prior year.

HINJ Employment by Function

While many HINJ member companies maintain their worldwide or US corporate headquarters in the state, a significant portion of that employment – 29% – is devoted to research and development, which illustrates the industry's continuing commitment to discovering new medicines and devices. As noted in the chart below, 29% of New Jersey-based employees are employed in corporate administration functions, whether it is finance, philanthropy or some other role that supports the overall member companies' corporate mission.

In addition to the employment numbers noted below, many HINJ member companies rely on contract employees to perform various services and roles, including highly specialized services, to support their operations. In 2009, 11 out of the 24 companies surveyed reported that approximately 13,700 contract employees were providing services to their companies.

NJ Employment Share

Employment by Function	NJ Employment Share			
	2009		2008	
	FTE	% of Total	FTE	% of Total
Research	10,634	19%	8,237	14%
Clinical Development	5,710	10%	9,122	15%
Corporate Administration	15,789	29%	17,390	29%
Manufacturing/Quality Control	8,113	15%	7,775	13%
Sales & Marketing	9,410	17%	11,651	19%
Others	5,710	10%	5,773	10%

PAYROLL

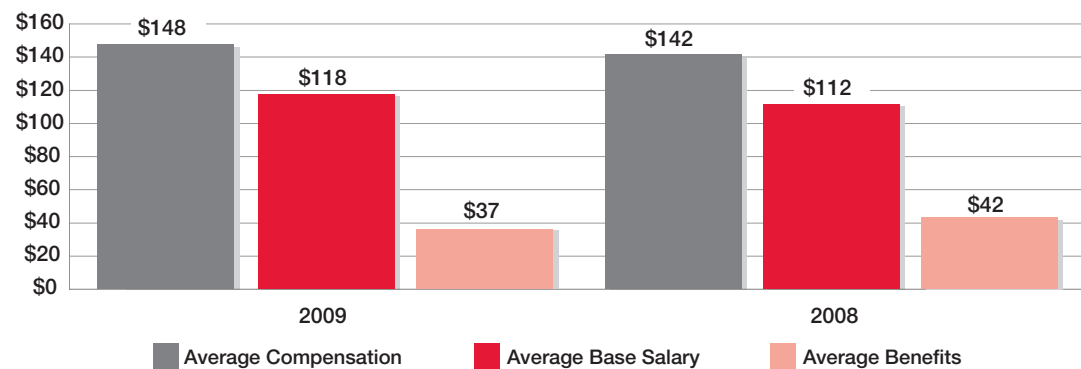
In 2009, New Jersey's economy benefited from the approximately \$7.9 billion aggregate payroll earned by HINJ survey participants for jobs based within the state. Although these jobs attract many residents from neighboring states such as Pennsylvania or New York, New Jersey state residents held 86% of state-based jobs.

NJ Payroll for HINJ Survey Participants

2009	2008
\$7.9 billion	\$8.5 billion

In 2009, biopharmaceutical and medical technology industry workers received competitive wages and benefits, commensurate with their education and skill levels. The average base salary was \$118,391 (a 5.4% increase over 2008) and total compensation for industry employees was approximately \$147,908 (a 4.5% increase over 2008). HINJ member companies continue to provide competitive benefits to employees, paying approximately \$37,000 per employee per year.

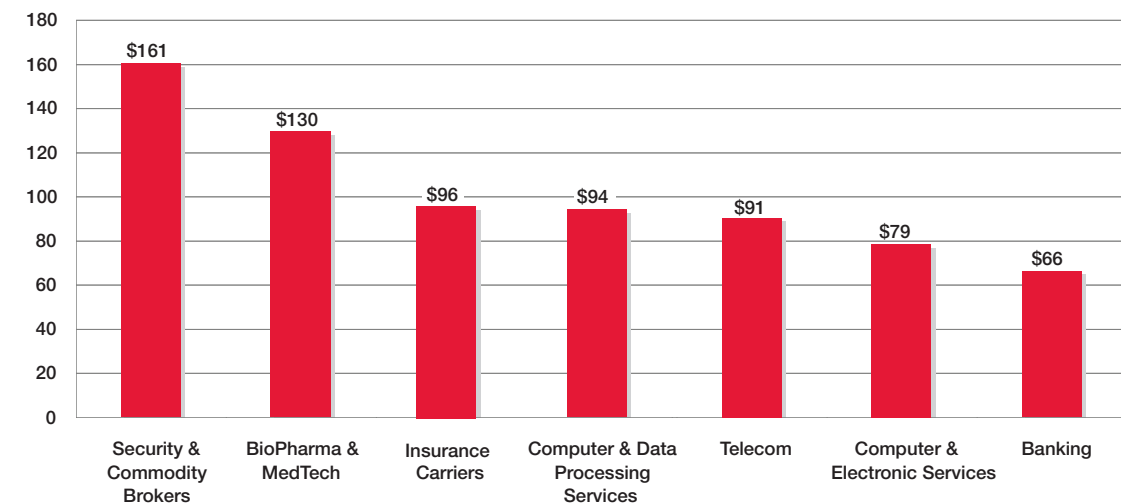
Labor Income & Benefits of NJ Biopharmaceutical & Med Tech Firms (\$ thousands)



How Industry Employees Compare to Other Sectors

The following chart illustrates the biopharmaceutical and medical technology industry's position among other major New Jersey employment industries, according to the Bureau of Labor Statistics. With average compensation of \$130,000 for all such companies in New Jersey, biopharma/medtech employees benefit from the second highest annual compensation figure among the listed industries. This average compensation figure is commensurate with the high skill and education levels of biopharma/medtech personnel, and is largely consistent with HINJ member companies surveyed.

Average Compensation - 2009 (in \$ thousands)



NJ Payroll Impacts

(amounts in billions)	2009
NJ-based payroll going to NJ residents ¹	\$6.7
NJ income created from after-tax spending ²	\$1.4
NJ-based payroll impact	\$8.1

Workers directly employed by the industry are also active consumers, receiving pre-tax payroll of \$6.7 billion and contributing \$1.4 billion of additional income to New Jersey's economy. Industry workers represent diverse communities, geographically and economically, and as such spending impacts are felt throughout the entire state.

¹ Results of surveyed companies indicate that 85% of the NJ workforce's compensation was earned by state residents in 2009.
² An effective tax rate of 27% for 2009 was used to estimate disposable income from the industry's NJ based payroll a Disposable income multiplier is from the 2008 NJ IMPLAN model

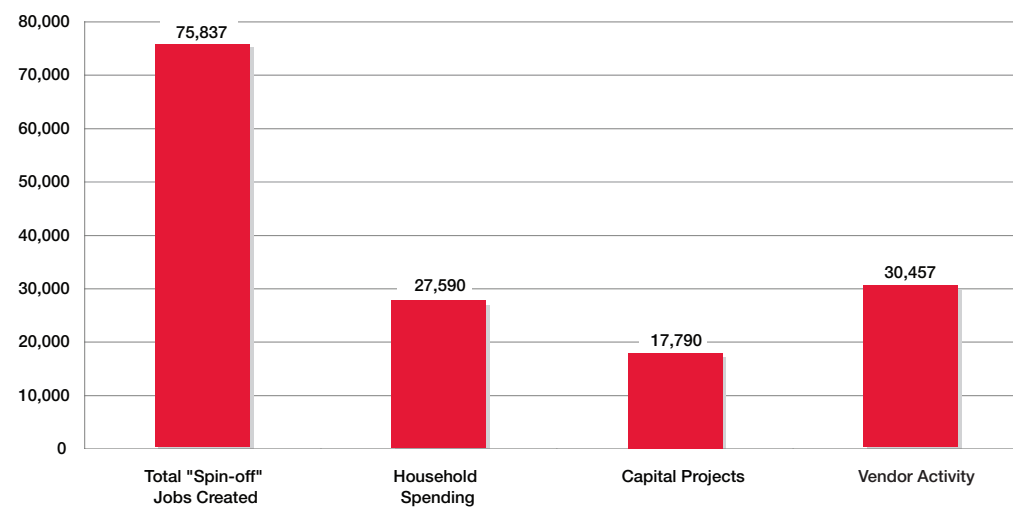


INDUSTRY SPENDING, SPIN-OFF JOBS AND RELATED IMPACTS

As is evident from the survey results reported herein, the biopharmaceutical and medical technology industry is a significant employer within New Jersey. In addition to the direct employment figures noted previously, the industry continues to have a substantial indirect impact on the development of other employment throughout the state.

In 2009, approximately 75,900 “spin-off” jobs were supported as a result of industry activity. The spending of disposable income by biopharmaceutical and medical technology company employees supported nearly 27,600 jobs. The investment in capital projects by biopharmaceutical and medical technology companies supported approximately 17,790 jobs, and the purchase of goods and services supported almost 30,500 jobs across many business sectors.

Other NJ Jobs Tied to BioPharma & Med Tech Activities



IN TOTAL,
HINJ member companies supported...
131,203 jobs throughout New Jersey:
55,366 through direct employment and
75,837 “spin-off” jobs.

Said another way, for each HINJ member job,
another 1.4 jobs are created in the state economy.

Payroll Spending

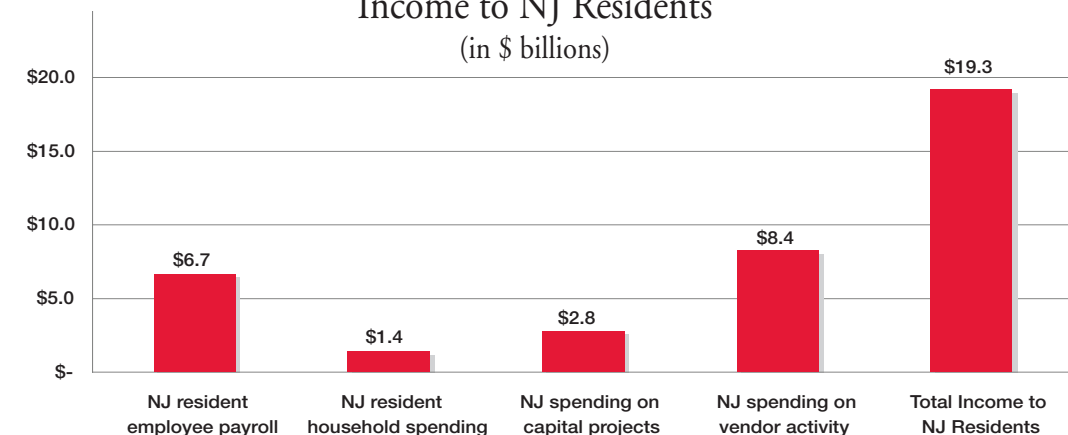
Payroll spending by biopharmaceutical and medical technology companies benefited New Jersey residents beyond those directly employed by the industry.

For example in 2009, HINJ member company payroll expenses generated \$6.7 billion in income for direct employees who were state residents. In turn, expenditures of disposable income by direct employees resulting from this payroll figure generated \$1.4 billion in income for other state residents who provided consumer goods and services.

These income gains generated significant sales across state-based businesses, also improving the income gains for their employees. It is important to note that the income gains below exclude the impact of HINJ member companies’ employees who are residents of border states that commute daily and spend at New Jersey based businesses.

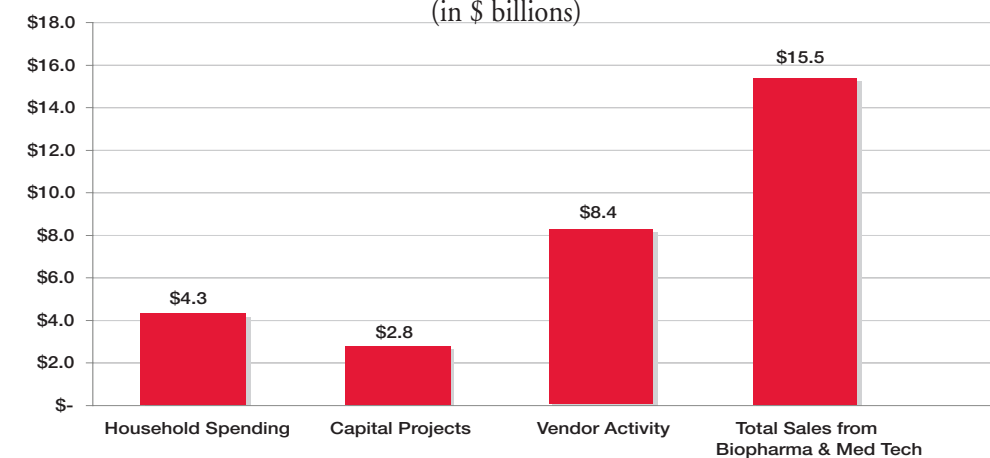
The HINJ member companies’ economic impact generated \$15.5 billion in NJ business sales, representing a tremendous impact on local communities, privately-owned businesses, and public corporations.

Income to NJ Residents
(in \$ billions)



NOTE: Multipliers are from the 2008 NJ IMPLAN model

Sales from NJ Businesses Due to Biopharma & Med Tech
(in \$ billions)



NOTE: Multipliers are from the 2008 NJ IMPLAN model

Vendor-Related Spending

To support their day-to-day operations, HINJ member companies rely on a tremendous number of vendors who provide a wide array of goods and services. Vendor-related spending originating from New Jersey-based facilities exceeded \$29.8 billion in 2009, of which an estimated \$4.7 billion was spent on vendors located within the state. The \$4.7 billion spent on New Jersey-based vendors resulted in an estimated \$3.7 billion of additional New Jersey sales, for a total state impact of approximately \$8.4 billion. In 2009, vendor-related spending tied to NJ facilities increased from \$28.9 billion to \$29.8 billion, an increase of \$0.9 billion. This includes \$0.7 (\$1.3 billion including multiplier impact) billion of favorability due to a new survey respondent in the calendar year.

Capital Projects

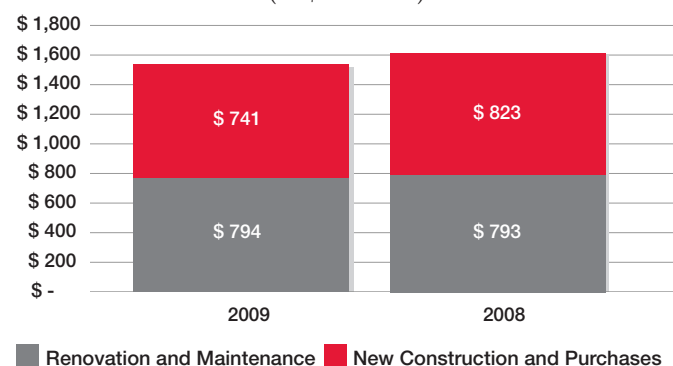
Once again, the biopharmaceutical and medical technology industry has shown itself a leader in capital construction spending. Over the next two years, the industry is expected to spend an aggregate of \$2.6 billion on construction activity in New Jersey, generating more jobs and facilities in the state. Overall capital expenditures in 2009 were \$1.5 billion, a positive sign of the industry's commitment to New Jersey. This resulted in an estimated \$1.3 billion of additional New Jersey sales, for a total state impact of \$2.8 billion. This capital spending included construction of new facilities (48%), as well as the renovation and maintenance of existing facilities (52%).

Vendor-Related Spending

	(in billions)
Vendor-related spending tied to NJ facilities	\$29.8
...portion procured from NJ suppliers	4.7
Additional NJ sales created from biopharma/med tech	3.7^a
Total NJ sales created from biopharma/med tech	\$8.4

^a Multiplier is from the 2008 NJ IMPLAN model

NJ Capital Expenditures by HINJ Members (in \$ millions)



New Jersey Capital Spending Impacts

	(in billions)
Capital spending tied to NJ facilities	\$1.5
Additional NJ sales created from biopharma/med tech	1.3^a
Total NJ sales created from biopharma/med tech	\$2.8

^a Multiplier is from the 2008 NJ IMPLAN model

RESEARCH AND DEVELOPMENT

A Robust Pipeline

New Jersey has long distinguished itself as a leader in R&D activity. Research and development is the "life blood" of the industry...an industry focused on saving, improving and enhancing lives.

In 2009, HINJ member companies participating in this year's survey invested \$8.0 billion in research and development activity in New Jersey, an increase of approximately \$450 million from prior year's survey (an increase of \$35 million after adjusting for the impact of a new HINJ survey respondent). This level of spending evidences the industry's commitment to research and development, and provides the funding to support the various projects and initiatives being worked on by the 29% of New Jersey based employees devoted to research and development.

Throughout the industry, the future is primed with promise. Within biopharmaceuticals, there are 864 potential products in development which included 55 New Drug Applications ("NDAs") that have been submitted.

Biopharma Products in Development

Products/Studies in Year 2009	Products in Development	Studies/Trials Underway or Planned
Pre-Clinical	258	1,499
Phase I	143	585
Phase II	148	346
Phase III	142	416
Phase IV	118	152
NDAs Submitted	55	43
Total	864	3,041

In the medical technology field, 9 new HINJ member company product applications ("PMAs") are currently on file with the Food and Drug Administration. A total of 44 significant improvements to existing medical devices, known as 510(k)s, were also approved in 2009. Overall, these developments in products and technologies promote the long-term sustainability of the industry.

Med Tech New Product Applications

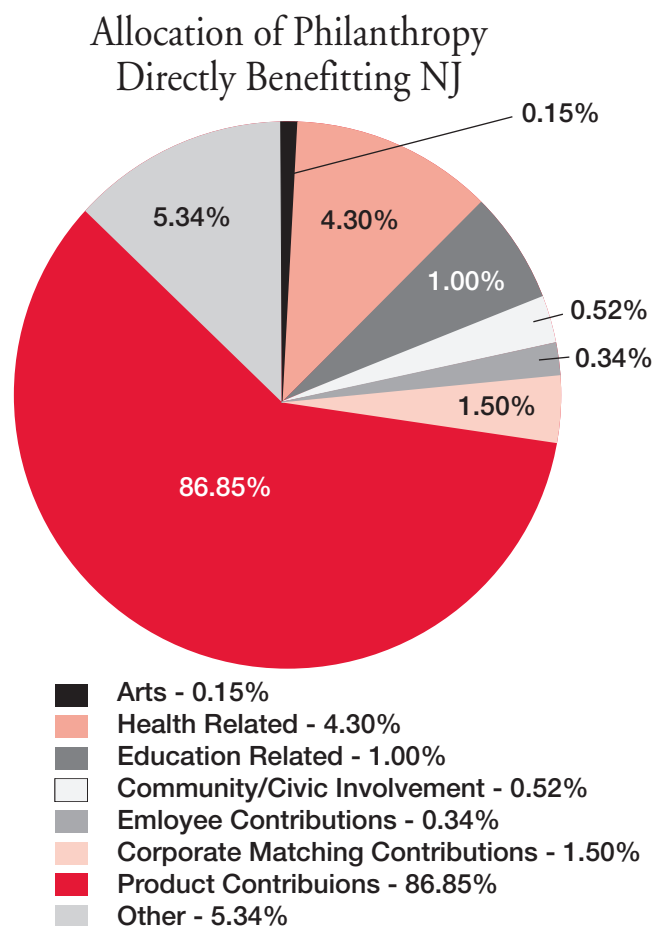
Medical Technology	2009
PMA	9
510(k)	44
Total	53

CHARITABLE CONTRIBUTIONS

HINJ member companies care about their communities and their commitment to being exemplary corporate citizens is reflected in their extensive efforts to improve access to healthcare, fund unique and innovative education programs, and partner with the arts community through support of both local and global initiatives.

In 2009, the estimated total worldwide giving by HINJ member companies was approximately \$5.1 billion, of which an estimated \$213.8 million directly benefited New Jersey causes. The most significant category of giving in 2009 was product contributions, which worldwide amounted to \$4.4 billion and in New Jersey amounted to \$128 million.

The chart to the right, illustrates the allocation of the \$213.8 million directly benefiting New Jersey amongst the various categories of giving:



HINJ member companies responding to this year's survey noted examples of their contributions to various philanthropic activities throughout 2009 which included, but were not limited to, the following organizations and institutions:

- American Red Cross
- Arthritis Foundation, New Jersey Chapter
- Cancer Care, Inc.
- Capital Health Regional Medical Center
- Caucus Educational Corporation
- Changing Lifestyles Program
- Children's Aid and Family Services
- Community Foundation of New Jersey - The New Jersey AIDS Partnership
- Foundation of the University of Medicine & Dentistry of New Jersey
- Hepatitis C Association
- Highlands Health Van
- Hyacinth AIDS Foundation
- Interreligious Fellowship for the Homeless
- Lawrence-Hopewell Trail
- Liberty Science Center
- Make A Wish Foundation of NJ
- Merck Institute for Science Education
- Montclair State University
- New Jersey Institute of Technology
- New Jersey Performing Arts Center Corporation
- New Jersey Science Education Leadership Association
- New Jersey Symphony Orchestra
- Overlook Hospital
- Paterson Education Foundation, Inc.
- Rider University
- Rutgers University
- Students 2 Science
- Susan G. Komen for the Cure
- Teach for America Inc.
- Technical Training Project Inc.
- The American Society of Transplantation
- The Bristol-Myers Squibb Children's Hospital at Robert Wood Johnson University Hospital
- The College of New Jersey, EOF Scholarship
- Trinitas Hospital
- United Way
- University Medical Center of Princeton
- Val Skinner Foundation
- YMCA

TAXES

HINJ member companies and their workforces contribute significantly to the tax revenue that provides many state services. For 2009, estimated total state, local, and municipal taxes paid by HINJ member companies participating in this year's survey were estimated to be \$811.9 million and were comprised of the following amounts:

Industry Taxes Paid

	Total State, Local, and Municipal Tax Paid to NJ	
(amounts in \$ millions)	2009	2008
New Jersey Withholding	373.8	\$411.8
Income and Franchise Tax	110.9	117.0
Corporate Business Tax	87.2	67.0
Sales and Use Tax	84.4	113.5
Disability and Unemployment	29.5	28.5
Other	1.5	1.0
New Jersey Local and Municipal Taxes		
Property Taxes	122.5	129.2
Other		
Environmental Permits, Fees, and Licenses	2.1	2.3
Total Taxes	\$811.9	\$870.3

Note that taxes paid by HINJ member companies are not included in the overall economic impact figures presented in this report. This exclusion is consistent with prior years' Annual Reports.



REBATES

In addition to the taxes paid by HINJ member companies and their employees, the industry also pays rebates to the state and federal government for medications used by recipients of the prescription programs shown below. Rebates were developed in the federal OBRA '90 legislation as a mechanism that would allow governmental purchasers the same pricing available to large commercial purchasers. For programs sponsored by state government, the rate of these rebates is written into the state budget.

Based on the most recent data available, the entire industry paid the following rebates to the state of New Jersey:

NJ Rebates

Rebate Type	Dollars
Medicaid	\$181,195,900
PAAD	29,438,700
Senior Gold	440,700
Total Rebates Paid	\$211,075,300

Rebate dollar amounts represent amounts received from April 2009 through March 2010, as provided by HINJ.

The Pharmaceutical Assistance to the Aged and Disabled program ("PAAD") and the Senior Gold program were started in New Jersey in 1975 and 2001, respectively. PAAD was the first ever state-sponsored drug program for seniors in the United States. (Source: HINJ)

Total rebates paid to the state of New Jersey in the current year were approximately \$211.1 million, resulting in an increase of \$32.4 million from the prior year of \$178.7 million.

Note that rebates paid by HINJ member companies are not included in the overall economic impact figures presented in this report. This exclusion is consistent with prior years' Annual Reports.

