

OFFICE OF PERFORMANCE MANAGEMENT & OVERSIGHT

FISCAL 2012 ANNUAL REPORT

The Office of Performance Management & Oversight (OPMO) measures the performance of all public and quasi-public entities engaged in economic development. All agencies are required to submit an Annual Report. The annual reports of each agency will be published on the official website of the Commonwealth, and be electronically submitted to the clerks of the senate and house of representatives, the chairs of the house and senate committees on ways and means and the house and senate chairs of the joint committee on economic development and emerging technologies.

1) AGENCY INFORMATION

Agency Name	Massachusetts Technology Development Corporation d/b/a MassVentures		
Agency Head	Walter M. Bird	Title	President
Website	Mass-Ventures.com		
Address	40 Broad Street Suite 230 , Boston MA 02109		

2) MISSION STATEMENT

Please include the Mission Statement for your organization below.

The purpose of MTDC is to provide financial and other assistance to innovative enterprises in Massachusetts that have the potential to expand and generate new jobs and tax revenue.

3) OPERATIONS AND ACCOMPLISHMENT DETAILS

Please provide details on the agency's operations and accomplishments for Fiscal Year 2012 as **Attachment A**. Questions 5 through 10 will provide guidance on the type of information required under Chapter 240 of the Acts of 2010.

4) ACCOUNTING

Please provide financial information for your agency. Below please give a summary of *Receipts and Expenditures* during the fiscal year, and include the *Assets and Liabilities* at the end of the fiscal year. Please include the most recent audited financial report for the agency as **Attachment B**.

	AMOUNT
Receipts	\$4,346,024
Expenditures	\$2,258,164
Assets	\$22,352,453
Liabilities	\$1,305,971

5) INVESTMENTS OR GRANTS TO BUSINESSES OR INDIVIDUALS

Does your agency make **investments** and/or provide **grants** to businesses or individuals? Yes No
 If **Yes**, please provide detailed information on investments and/or grants made during FY12 in the Operations and Accomplishments Section of this report. Information should include the number, nature and amounts of investments made and grants awarded by your agency along with job, investment and/or other economic development impact. Please list the name(s) of the investment and/or grant programs offered by your agency in the space provided below:

START: The SBIR Targeted Technologies Program

6) DEBT OR EQUITY INVESTMENT DETAILS

Is your agency involved in **debt** or **equity investments** for businesses? Yes No
 If **Yes**, please provide detailed information on debt and/or equity investments made during FY12 in the Operations and Accomplishments Section of this report along with job, investment and/or other economic development impact. Please list the name(s) of the debit and/or equity investments programs offered by your agency in the space provided below:

Traditional Investment Program

Commonwealth Fund III Investment Program

7) LOAN DETAILS

Is your agency involved in **real estate loans**, **working capital loans**, or any **other type of loan** or **guarantee**? Yes No
 If **Yes**, please provide detailed information on loan(s) and/or guarantee(s) made during FY12 in the Operations and Accomplishments Section of this report along with job, investment and/or other economic development impact. Please list the types of loan(s) and/or guarantee(s) offered by your agency in the space provided below:

Federal Revolving Loan Fund

8) OTHER FORMS OF FINANCING OR FINANCIAL ASSISTANCE?

If your agency provides any other form of financing or financial assistance please include FY12 details in the Operations and Accomplishments Section of this report along with job, investment and/or other economic development impact. Please list the types of other forms of financing offered by your agency in the space provided below:

N/A

9) PATENTS OR PRODUCTS

Does your agency track **patents** or **products** resulting from agency-funded activities? Yes No

If **Yes**, please include details in the Operations and Accomplishments Section of this report along with job, investment and/or other economic development impact. Please list the agency-funded activities of your agency that promote patent and product advancement in the space provided below:

Traditional Fund Investment Program

10) TECHNICAL ASSISTANCE

If your agency provides technical assistance, please provide detailed information on technical assistance provided during FY12 in the Operations and Accomplishments Section of this report along with job, investment and/or other economic development impact. Please list the name(s) of the technical assistance programs offered by your agency in the space provided below:

Management Assistance Program

PLEASE NOTE:

THE FISCAL YEAR 2013 ANNUAL REPORT WILL REQUIRE DETAILS OF ABOVE MENTIONED CATEGORIES AS WELL AS PERFORMANCE TO PLAN AS OUTLINED IN YOUR AGENCY'S FISCAL 2013 BUSINESS PLAN. THE OFFICE OF PERFORMANCE MANAGEMENT AND OVERSIGHT WILL ANNUALLY RE-EVALUATE THE GOALS AND MEASURES ESTABLISHED BY THE AGENCIES. THE OFFICE WILL RECOMMEND CHANGES TO GOALS AND MEASURES AS ARE APPROPRIATE TO ALIGN WITH THE STATEWIDE ECONOMIC DEVELOPMENT POLICY AND PLAN.

FILING INSTRUCTIONS:

THE FISCAL YEAR 2012 REPORT IS DUE NO LATER THAN MONDAY, OCTOBER 1ST. AN ELECTRONIC COPY OF THE REPORT AND ATTACHMENTS A & B SHOULD BE E-MAILED TO ROB.ANDERSON@STATE.MA.US. THE OFFICE OF PERFORMANCE MANAGEMENT AND OVERSIGHT WILL REVIEW REPORTS PRIOR TO FILING WITH LEGISLATURE AND POSTING TO THE WEBSITE.



ANNUAL REPORT—
FYE JUNE 30, 2012

Executive Summary

It was a busy year at Massachusetts Technology Development Corporation, the venture capital arm of the Commonwealth of Massachusetts. First and foremost the company announced that it is now operating under a new name, MassVentures, to support the formation and fuel the growth of innovative technology-driven companies in Massachusetts. This new name reflects new capital received to help identify and support promising entrepreneurs developing high-growth, technology-driven companies.

In 2012, MassVentures was able to secure additional capital for investment in high growth technologies companies. Through MassDevelopment's Emerging Technology Fund, MassVentures will manage a new \$5 million traditional investment capital fund to fill capital gaps (1) in emerging market segments not adequately served by the venture community, (2) of first-time entrepreneurs, and (3) with companies transitioning from seed to Series A funding. MassVentures expects to invest in four to seven new companies each year using this new pool of capital.

From its existing traditional investment program, MassVentures invested \$2.2 million in eleven Massachusetts companies, leveraged by over \$45 million of private capital. The company was able to exit or begin to exit from 9 other investments which returned \$2.2 million that can be used for future investments. The existing portfolio of investments is valued at approximately \$17 million and had a net increase in value of over \$3 million during the year.

In 2012 MassVentures also announced the 10 winners of the 2012 START program. START is a \$6 million initiative funded by the Patrick-Murray Administration to help growing companies commercialize technologies developed under Small Business Innovation Research (SBIR) contracts. The program is intended to help high-growth companies grow employment opportunities, promote manufacturing and commercialization, and stimulate innovation across the Commonwealth.

Another initiative promoted by Mass Ventures during 2012 was the MassChallenge Fast Track program to further fuel the success of the MassChallenge 2011 finalists and make it easier for those companies to remain in the Commonwealth. Following the MassChallenge Awards Ceremony, where the top MassChallenge companies were awarded a total of \$1,000,000, MassVentures selected fourteen of the twenty-six top companies to participate in the Fast Track program. MassVentures put the five companies through an accelerated diligence process selecting two companies for additional seed funding. The two companies selected and funded by MassVentures in 2012 have gone on to secure further financing.

CANDIDATE ACTIVITY REVIEW

Fiscal 2012

Summary

- Overall, MV evaluated 228 companies in FY 2012
 - Completed 3 new deals (Incentive Targeting, Libboo, Vsnap)
- Evaluated 92 companies for START Program
 - Selected 10 winners
- The funnel has seen a big increase in the number of tech companies reviewed

12 Months to 6/30/12 By Sector

- The vast majority of opportunities reviewed this year have been in:
 - Internet Technology / Services
 - Life Sciences
 - Clean/Green Energy
 - Mobile
- Internet took over the top spot in 2011 vs clean tech in 2010
 - Note that Life Sciences and Clean Energy Deals came from consultants or are referred because the Life Science Center or Clean Energy Center didn't offer the type of capital needed.
- Mobile also a big gainer

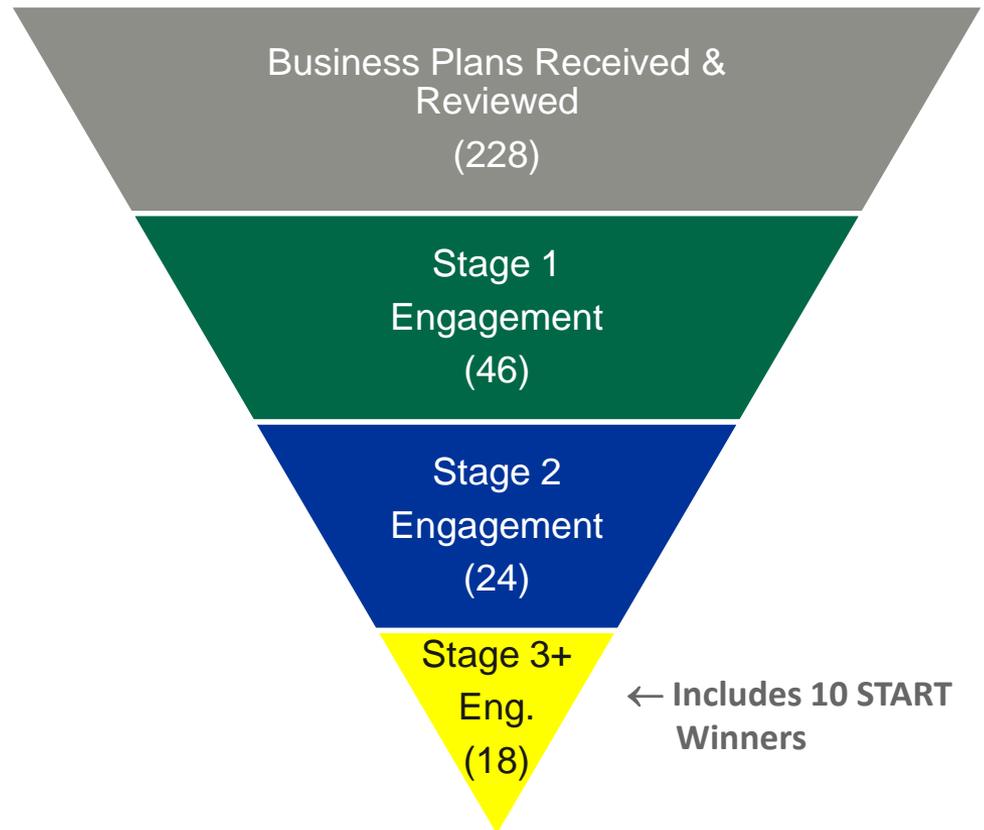
FY 2012 Candidates By Sector

Sector	Total	Percent
INTERNET TECHNOLOGY / SERVICES	78	34%
LIFE SCIENCES	32	14%
CLEAN ENERGY / GREEN TECH	25	11%
MOBILE	25	11%
HARDWARE	15	7%
SOFTWARE	15	7%
CONSUMER	11	5%
INDUSTRIAL TECHNOLOGY / AUTOMATION	9	4%
TELECOMMUNICATIONS	7	3%
OTHER	6	3%
BIOTECH / PHARMACEUTICALS	3	1%
MATERIAL SCIENCE	2	1%
Grand Total	228	100%

FY 2012 Activity Review

- Through June 30, 2012, MV Staff received and reviewed 228 business plans
- MV met with 46 companies and devoted meaningful time and assistance to 42 companies
- Stage 1 Engagement involves introductory meeting, targeted introductions, and advice
 - ~8 hours of staff time
- Stage 2 Engagement involves detailed follow-up meeting(s) and analysis, mentoring, and introductions
 - ~15 hours of staff time
- Stage 3 Engagement involves significant work vetting the business – checking references, customer calls, etc. over a long period of time
- Stage 4 Engagement involves presentation to MTDC Board for funding
 - Three new deals: Incentive Targeting, Libboo, VSNAP
- In addition, MV touched 92 companies via START program; yielding 10 winners

FY 2012 Candidate Summary



INVESTMENT ACTIVITY & IMPACT

Fiscal 2012

Portfolio Transaction Summary

	No. of Companies	\$ Amount (000s)
Portfolio Value at July 1, 2011		\$13,609
Investments	11	\$2,204
Exits	9	\$(2,161)
Appreciation in value of Investments		<u>\$3,455</u>
Portfolio Value at June 30, 2012		\$17,108

Closer Look at Investments

- Invested \$280k in 3 new companies
(Liboo, Vsnap & Incentive targeting)
- Invested \$1,924k in 8 existing companies
(Harvest, LifelImage, OwnerIQ, Utest :72%)
- Total \$2.2 million of investment leveraged
with \$45 million of outside capital

Employment Data

Jobs

- 19 Portfolio companies have 529 employees in MA.
- Est. jobs created in MA from inception w/ average 8 yr tenure: >7,000

Taxes and Wages

- Total est. 2011 Gross MA Payroll from current and former portfolio companies: \$217million
- Total est. 2011 MA Payroll Tax from current and former companies: \$13million

Efficiency

- Avg. current (since 2004) investment cost per job year created: \$12,741

Proud Supporters of:

Mass Challenge

WPI Venture Forum

The Capital Network (TCN)

State Science and Technology
Institute

Mass Technology Leadership Council

NVCA

Merrimack Valley Venture Forum

NEVCA

Nat. Assoc of Seed & Venture Funds

Associated Industries of MA

SBANE

MIT Enterprise Forum of Cambridge

Angel Capital Association

START Program Recipients

Company Name	Business Description	Location
Artaic	Custom artistic tile mosaics, using proprietary CAD software and advanced robotic manufacturing systems	Boston
BioMimetic Systems	Design and manufacturing of digital acoustic detection and localization systems	Cambridge
CapeSym	Novel materials for advanced radiation detection	Natick
CeraNova	Providing technological advantages with advanced nanograin, transparent ceramics for optical, structural and electrical applications	Marlborough
Incom	Supplier of rigid fused fiber optics for commercial applications	Charlton
KaZak Composites	Value-added composite materials engineering and production	Woburn
Locately	Mobile technology to engage with shoppers while they're making decisions	Boston
Metamagnetics	Advanced materials and electronics to develop novel microwave materials and device solutions	Canton
Muzzy Lane	Creator of innovative, award-winning educational games	Newburyport
Physical Sciences Inc.	Developing Instant Eye - a personal micro-air vehicle for surveillance and security applications	Andover

Traditional Investment Program

Investments

Company Name	Location	Investment Purpose	Investment	Private Investment
Forerun, Inc	Waltham	Equity Investment to Fund Operations	\$ 250,000	\$ 2,388,709
Harvest Automation Inc	Billerica	Equity Investment to Fund Operations	\$ 435,842	\$ 7,475,911
Illume, Inc	Needham	Equity Investment to Fund Operations	\$ 35,000	\$ 336,000
Incentive Targetting, Inc	Cambridge	Equity Investment to Fund Operations	\$ 199,999	\$ 1,149,932
Liboo, Inc	Boston	Debt Investment to Fund Operations	\$ 40,000	\$ 710,000
Lifelimage, Inc	Newton	Equity Investment to Fund Operations	\$ 300,000	\$ 7,750,000
Owner IQ, Inc	Boston	Equity Investment to Fund Operations	\$ 291,863	\$ 7,208,316
Polatis, Inc	Andover	Equity Investment to Fund Operations	\$ 12,140	\$ 2,689,285
Segterra, Inc	Boston	Debt Investment to Fund Operations	\$ 50,000	\$ 622,965
Utest, Inc.	Southborough	Equity Investment to Fund Operations	\$ 549,452	\$ 14,450,548
Vsnap, Inc	Boston	Equity Investment to Fund Operations	<u>\$ 40,000</u>	<u>\$ 710,000</u>
			\$ 2,204,296	\$ 45,491,666

Portfolio Patent and Product List

Company Name	Product and Patent Technology
Cambridge Viscosity -	Developed fluid sensing and analysis tools for high value capital equipment using patented technology.
Clarity Imaging Systems, Inc -	Manufactures high efficiency laser toner cartridges using patented technology.
Courion -	Developed password and directory management software to increase security and decrease costs.
Forerun -	Developed software support systems for hospital emergency departments enabling clinical team to deliver high quality outcomes, high patient satisfaction at efficient costs.
Harvest Automation, Inc. -	Developed team of agile mobile robots used in large commercial nurseries using patented technology.
Illume Software, Inc. -	Developed mobile application to address distracted driving due to phone email and text using patent pending technology.
Impress Systems, Inc -	Designed specialty, digital printing equipment and consumables.
LifelImage, Inc -	Invented a secure medical imaging inbox for use by patients and referring physicians using patented technology.
MedAptus, Inc -	Developed an array of hand-held solutions for physicians to reduce administrative workload.
Ntirety, Inc. -	Developed remote database administration software using patented technology.
OwnerIQ, Inc. -	Provides data analysis and marketing services to internet advertisers.
Segerra, Inc. -	Developed proprietary software that provides web-based personalized nutrition and exercise plans for customers.
Terratherm, Inc. -	Provides remediation services of volatile and semi-volatile contaminated soils using In-Situ Thermal Desorption processes.
Tomophase Corp. -	Developed a minimally invasive diagnostic tissue imaging system.
Utest, Inc. -	Developed a web based global marketplace for software application testing.

Management Assistance Recipients

Company	Location
Advanced Space Monitor, Llc	Fall River
Artaic	Boston
Aspen Aerogels, Inc.	Northborough
Binj Laboratory, Inc.	Scituate
Biomimetic Systems, Inc.	Cambridge
Capesym, Inc.	Natick
Ceranova Corp.	Marlborough
George Guest	Somerville
Incom, Inc.	Charlton
Incrowd, Llc	Chestnut Hill
Kazak Composites, Inc.	Woburn
Locately	Boston
Metamagnetics, Inc.	Canton
Muzzy Lane Software, Inc.	Newburyport
Myomo, Inc.	Cambridge
Netblazr, Inc.	Boston
Physical Sciences, Inc.	Andover
Startup Blvd.	Newton
Teach Point	Boston

**Massachusetts Technology
Development Corporation**

Financial Statements

Years Ended June 30, 2011 and 2010

Massachusetts Technology Development Corporation
Financial Statements
Years Ended June 30, 2011 and 2010
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K A T Z
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SOLOMON, P C
CERTIFIED PUBLIC ACCOUNTANTS
BUSINESS CONSULTANTS + ADVISORS

Independent Auditors' Report

To the Board of Directors
Massachusetts Technology Development Corporation
Boston, Massachusetts

In our opinion, the accompanying balance sheets and the related statements of revenues, expenditures and changes in fund balances and cash flows present fairly, in all material respects, the financial position of Massachusetts Technology Development Corporation (the "Corporation") at June 30, 2011 and 2010, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Corporation's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

Katz, Nannis + Solomon, P.C.

October 12, 2011

Massachusetts Technology Development Corporation

Balance Sheets

June 30,

	2011	2010
Assets		
General Support		
Cash, cash equivalents and short-term investments	\$ 353,459	\$ 116,534
Restricted cash	-	102,329
Receivable for management fees	-	14,886
Interest receivable	1,653	1,652
Prepaid expenses and deposits	18,596	11,342
Office equipment and software at cost, less accumulated depreciation and amortization of \$61,074 in 2011 and \$49,194 in 2010	10,603	22,483
Capitalized interest on note conversion	66,983	88,067
Internally designated - cash, cash equivalents and short-term investments	231,615	731,615
Total General Support	682,909	1,088,908
Restricted for Investment Programs		
Internally designated - cash, cash equivalents and short-term investments	5,071,377	7,318,203
Investments, at cost	16,411,877	17,966,576
Unrealized net loss on investments	(2,802,477)	(4,106,241)
Total Investments, at Market	13,609,400	13,860,335
Total Restricted for Investment Programs	18,680,777	21,178,538
Total Assets	\$ 19,363,686	\$ 22,267,446
Liabilities and Fund Balances		
General Support		
Accounts payable and accrued liabilities	\$ 390,317	\$ 222,482
Distribution payable to Commonwealth of Massachusetts	-	11,000
Fund balance	292,592	855,426
Total General Support	682,909	1,088,908
Restricted for Investment Programs		
Fund balance	18,680,777	21,178,538
Total Liabilities and Fund Balances	\$ 19,363,686	\$ 22,267,446

See accompanying notes.

Massachusetts Technology Development Corporation
Statements of Revenues, Expenditures and Changes in Fund Balances
Years Ended June 30,

	2011			2010		
	General Support	Restricted for Investment Programs	Total	General Support	Restricted for Investment Programs	Total
Revenues						
Realized gains on equity investments	\$ -	\$ -	\$ -	\$ 156,042	\$ -	\$ 156,042
Realized losses on debt equity & investments	-	(2,965,871)	(2,965,871)	-	(2,975,224)	(2,975,224)
Change in unrealized net loss on investments	-	1,303,764	1,303,764	-	(181,025)	(181,025)
Interest	138,589	-	138,589	87,041	-	87,041
Dividends	31,250	-	31,250	-	-	-
Management fees and other	-	-	-	31,713	-	31,713
Total Revenues	169,839	(1,662,107)	(1,492,268)	274,796	(3,156,249)	(2,881,453)
Expenditures						
Grants	-	-	-	200,000	-	200,000
General support	1,568,327	-	1,568,327	1,364,596	-	1,364,596
Total Expenditures	1,568,327	-	1,568,327	1,564,596	-	1,564,596
Deficiency of Revenues Over Expenditures	(1,398,488)	(1,662,107)	(3,060,595)	(1,289,800)	(3,156,249)	(4,446,049)
Distributions to Commonwealth of Massachusetts	-	-	-	(11,000)	-	(11,000)
Interfund transfers	835,654	(835,654)	-	-	-	-
Fund balances, beginning of year	855,426	21,178,538	22,033,964	2,156,226	24,334,787	26,491,013
Fund Balances, End of Year	\$ 292,592	\$ 18,680,777	\$ 18,973,369	\$ 855,426	\$ 21,178,538	\$ 22,033,964

See accompanying notes.

Massachusetts Technology Development Corporation
Statements of Cash Flows
Years Ended June 30,

	2011				2010			
	General Support		Restricted for Investment Programs	Total	General Support		Restricted for Investment Programs	Total
	Unrestricted	Internally Designated			Unrestricted	Internally Designated		
General Support Activities								
Deficiency of revenues over expenses	\$ (1,398,488)	\$ -	\$ (1,662,107)	\$ (3,060,595)	\$ (1,289,800)	\$ -	\$ (3,156,249)	\$ (4,446,049)
Adjustments to reconcile deficiency of revenues over expenses to net cash general support activities								
(Gains) losses on sales of investments	-	-	2,965,871	2,965,871	(156,042)	-	2,975,224	2,819,182
Change in unrealized net gain (loss) on investments	-	-	(1,303,764)	(1,303,764)	-	-	181,025	181,025
Depreciation and amortization	11,880	-	-	11,880	11,558	-	-	11,558
Increase (decrease) in cash from:								
Receivable for management fees	14,886	-	-	14,886	(2,283)	-	-	(2,283)
Prepaid expenses and deposits	(7,254)	-	-	(7,254)	16,378	-	-	16,378
Accrued interest on notes receivable and capitalized interest	21,083	-	-	21,083	19,853	-	-	19,853
Accrued liabilities	167,835	-	-	167,835	(78,835)	-	-	(78,835)
Net Cash General Support Activities	(1,190,058)	-	-	(1,190,058)	(1,479,171)	-	-	(1,479,171)
Capital Activities								
Purchase of office equipment	-	-	-	-	(2,892)	-	-	(2,892)
Net Cash Capital Activities	-	-	-	-	(2,892)	-	-	(2,892)
Restricted for Investment Programs Activities								
Purchases of investments	-	-	(2,568,225)	(2,568,225)	-	-	(2,035,155)	(2,035,155)
Interfund transfers	1,335,654	(500,000)	(835,654)	-	1,000,000	(1,000,000)	-	-
Distributions to the Commonwealth of Massachusetts	(11,000)	-	-	(11,000)	(107,479)	-	-	(107,479)
Proceeds of investments								
Gains	-	-	-	-	156,042	-	-	156,042
Costs recovered from equity investments	-	-	83,991	83,991	-	-	198,671	198,671
Principal repayments from fixed income investments	-	-	1,073,062	1,073,062	-	-	84,896	84,896
Net Cash Restricted for Investment Programs Activities	1,324,654	(500,000)	(2,246,826)	(1,422,172)	1,048,563	(1,000,000)	(1,751,588)	(1,703,025)
Increase (Decrease) in Cash, Cash Equivalents and Short-Term Investments	134,596	(500,000)	(2,246,826)	(2,612,230)	(433,500)	(1,000,000)	(1,751,588)	(3,185,088)
Cash, cash equivalents and short-term investments, beginning of year	218,863	731,615	7,318,203	8,268,681	652,363	1,731,615	9,069,791	11,453,769
Cash, Cash Equivalents and Short-Term Investments, End of Year	\$ 353,459	\$ 231,615	\$ 5,071,377	\$ 5,656,451	\$ 218,863	\$ 731,615	\$ 7,318,203	\$ 8,268,681
Supplemental Disclosure of Noncash Financing:								
Conversion of fixed income investments to equity investments	\$ -	\$ -	\$ -	\$ 352,689	\$ -	\$ -	\$ -	\$ 391,614

See accompanying notes.

Massachusetts Technology Development Corporation
Notes to Financial Statements
June 30, 2011 and 2010

A. Description of Business

Massachusetts Technology Development Corporation was created as a body politic and instrumentality of The Commonwealth of Massachusetts (the "Commonwealth") on October 19, 1978, pursuant to Chapter 497 of the Acts of 1978. The purpose of the Corporation is to provide financial and other assistance to innovative enterprises in Massachusetts that have the potential to expand and generate new jobs and tax revenues. The Corporation is governed by a Board of Directors consisting of eleven members, eight of whom are appointed by the Governor of Massachusetts from the private sector and three of whom are public officials.

B. Summary of Significant Accounting Policies

1. Basis of presentation and accounting - The financial statements of the Corporation have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to a government unit considered to be a "proprietary fund." Proprietary fund reporting focuses on the determination of operating income, changes in net assets, financial position and cash flows. The Government Accounting Standards Board ("GASB") is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

Fund balances (i.e., total net assets) are segregated into General Support and Restricted for Investment Programs components. Proprietary fund-type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in total net assets.

The accrual basis of accounting is utilized for all funds. Under this method, revenues are recorded when earned and expenses are recorded at the time the related liability is incurred.

2. Fund accounting - Proprietary funds are used to account for activities similar to those found in the private sector, where the determination of net income is necessary or useful for sound financial administration.
3. Use of estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America as applied to government units requires management to make estimates and assumptions that affect the reported amounts of assets and contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.
4. Cash and cash equivalents - The Corporation considers all highly liquid investments purchased with an original maturity or remaining maturity at date of purchase of three months or less to be cash equivalents.
5. Short-term investments - Short-term investments consist of bankers acceptances and certificates of deposit with original maturities in excess of three months but less than one year and are valued at amortized cost, which approximates market.

Massachusetts Technology Development Corporation
Notes to Financial Statements
June 30, 2011 and 2010

B. Summary of Significant Accounting Policies (continued)

6. Leasehold improvements, office equipment and depreciation and amortization - Leasehold improvements and office equipment are stated at cost. Office equipment is depreciated using the straight-line method over the estimated useful lives of the related assets, ranging from three to five years. Leasehold improvements are amortized on a straight-line basis over the shorter of the improvement's useful life or the term of the related lease. Depreciation and amortization expense for the years ended June 30, 2011 and 2010 amounted to \$11,880 and \$11,558, respectively.

Upon retirement or sale, the cost of the assets disposed and the related accumulated depreciation or amortization are removed from the accounts and any resulting gain or loss is included in the determination of the excess (deficiency) of revenues over expenses.

7. Investments - The Corporation's investment securities are purchased in the name of the Corporation and are maintained in a vault at a financial institution. These investments are generally in early-stage technology companies.

The Corporation applies GASB Statement No. 31 ("GASB 31"), *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. GASB 31 requires entities to carry investments at fair value if such values are readily available. Accordingly, unrestricted publicly traded securities are carried at fair value.

Investments, consisting of notes receivable and investments in capital stock that are not publicly traded or have restrictions as to resale, are recorded at fair value as determined in good faith by management. The values assigned to the investments are considered to be the amounts which could be realized from the orderly sale or other disposition of the investments. In estimating these values, MTDC management takes into account the cost of the investments, developments since the acquisition of the investments, and other factors pertinent to the valuation of investments. Investments that are publicly traded and free from trading restrictions are valued at market value as determined by their respective stock exchange prices as of the close of trading on June 30, 2011 and 2010. The Corporation held publicly traded stock at June 30, 2011 with a market value of \$155,120 and a cost basis of \$176,778. The Corporation applies a discount of up to 30% of market value due to liquidity and trading restrictions. Realized gains on investments are credited against the Corporation's Unrestricted General Support Fund Balance. Realized losses are charged against the Restricted for Investment Programs Fund Balance. Unrealized net gain (loss) on investments resulting from changes in the market value of investments at balance sheet date are credited (charged) to the Restricted for Investment Programs Fund Balance.

Repayments of principal and proceeds from the sale of equity investments (to the extent of the cost basis) remain in funds restricted for investment programs. Investment interest is credited to the Corporations' General Support Fund Balance when received.

During the years ended June 30, 2011 and 2010, the Corporation realized gains on sales of investments totaling \$0 and \$156,042, respectively. At June 30, 2011 and 2010, the Corporation recorded unrealized net increases in portfolio value of \$1,303,764 and unrealized net decreases in portfolio value of \$181,025, respectively.

Massachusetts Technology Development Corporation
Notes to Financial Statements
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B. Summary of Significant Accounting Policies (continued)

8. Income taxes - The Corporation, as an instrumentality of the Commonwealth, is not subject to federal or state income taxes.
9. Postemployment benefits other than pensions - The Corporation accounts for postemployment health benefits in accordance with GASB Statement No. 45 ("GASB 45"), *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The Corporation has elected to calculate its actuarial accrued liability and funded status using the alternative simplified method.
10. Subsequent events - The Program has evaluated all subsequent events through October 12, 2011, the date the financial statements were available to be issued.

C. Investment Program

1. Source of funds - The Corporation's original investment funds were provided in 1979 by a \$2,000,000 grant (including \$28,000 in start-up costs) from the Economic Development Administration ("EDA"), U.S. Department of Commerce. Under this grant, the Corporation makes loans from a revolving loan fund to eligible borrowers, defined as Massachusetts-based businesses with operations involving a significant amount of technology, which are located in EDA Title IV redevelopment areas and which meet the requirements of the Corporation's enabling act.

During the year ended June 30, 1981, the Corporation was awarded a \$1,000,000 grant under the Corporations for Innovation Development ("CID") program of the U.S. Department of Commerce. The grant award was for the purpose of establishing a second revolving loan fund to assist in the creation and development of small, innovative high-technology companies in Massachusetts. In addition, the Commonwealth appropriated \$1,000,000 to the Corporation as matching funds for the federal grant. The Commonwealth appropriation is restricted to equity investment. The CID program was cancelled during the year ended June 30, 2003. Restricted cash for investment programs of \$407,839 was returned to the U.S. Department of Commerce representing their portion of the remaining grant.

Each year from fiscal years 1982 to 1988, the Commonwealth appropriated additional amounts to supplement the Corporation's investment fund. There were no geographical limitations within Massachusetts for these funds. The Commonwealth appropriated an additional \$2,500,000 to the Corporation's investment fund in fiscal year 2007. The cumulative amount of all appropriations received from the initial funding in 1981 through June 30, 2011 totaled \$12,700,000.

Massachusetts Technology Development Corporation
Notes to Financial Statements
June 30, 2011 and 2010

C. Investment Program (continued)

1. Source of funds (continued) - Under the terms of the grants of investment funds from the federal government and the Commonwealth, principal repayments and costs recovered are returned to the Restricted for Investment Programs Fund to be reinvested in accordance with the criteria required by the grants' provisions and the Corporation's enabling legislation and policies. In addition, the Corporation has transferred \$40,362,970 cumulatively through fiscal year 2011 to the Restricted for Investment Programs Fund to be reinvested in accordance with the criteria required by the Corporation's enabling legislation and policies. The transferred funds were derived from earnings and gains realized on past investments by the Corporation.

The total funds since inception of the Corporation that have been made available for investments are as follows:

Economic Development Administration of the U.S. Department of Commerce, net of start up costs	\$ 2,972,000
Commonwealth of Massachusetts	12,700,000
Realized gains on sales of equity securities allocated to General Support Fund	\$ 61,700,836
Portion of gains used for General Support Activities	<u>(21,337,866)</u>
Transfers to the Restricted for Investment Programs Fund	<u>40,362,970</u>
Total funds made available for investments	\$ 56,034,970
Realized losses on investments	(34,143,877)
Distributions to U.S. Department of Commerce	(407,839)
Unrealized net losses on investments	<u>(2,802,477)</u>
Restricted for Investment Programs Fund Balance	\$ <u>18,680,777</u>

Massachusetts Technology Development Corporation
Notes to Financial Statements
June 30, 2011 and 2010

C. Investment Program (continued)

2. MTDC Commonwealth Fund - Section 105 of Chapter 110, MGL Acts of 1993 was enacted to authorize the Board of Directors to establish the MTDC Commonwealth Fund. The investments made by MTDC through the Commonwealth Fund are included in the Restricted for Investment Programs Fund Balance. Pursuant to the guidelines of the Chapter, the investment criteria for funds managed under the Commonwealth Fund are less restrictive than those of the Corporation's traditional programs.

Also pursuant to this Chapter, the Corporation established the Commonwealth Fund Investment Program I ("Program I"). During fiscal year 1995, two financial institutions agreed to participate in the Program, committing \$1,000,000 each. During fiscal year 2001, two financial institutions agreed to participate in the Commonwealth Fund Investment Program II ("Program II"), one committing \$2,000,000 and the other \$1,000,000. Funds from co-investors are separately maintained and these funds are not included in MTDC's Restricted for Investment Programs Fund Balance.

The Corporation manages the Programs and receives management fees based on formulas stipulated in its agreements with co-investors. The Corporation earned \$31,713 in management fees during the year ended June 30, 2010. No management fees were earned in 2011.

Pursuant to an agreement between the Corporation and the Commonwealth of Massachusetts, a share of the net realized gains from the Corporation's investments in the Commonwealth Funds shall be distributed to the General Fund of the Commonwealth of Massachusetts. During fiscal year 2010, net realized gains on Commonwealth Fund investments totaled \$55,001. Accordingly, at June 30, 2010 the Corporation recorded an accrued liability to the Commonwealth of Massachusetts in the amount of \$11,000, or 20% of the fiscal year net realized gains. This amount was distributed to the Commonwealth of Massachusetts in fiscal year 2011. The cumulative amount paid to the General Fund under the agreement is \$839,169.

3. Investments - During the years ended June 30, 2011 and 2010, the Corporation made debt and equity investments in aggregate amounts of \$2,568,225 and \$2,035,155, respectively. The notes in the portfolio of investments have interest rates varying from 6.5% to 10% per year. The terms of certain notes include an equity participation feature such as rights to convert to stock at a predetermined price or warrants to purchase common stock. Repayment of principal is generally due on demand, in a balloon payment, or in monthly installments ranging from twelve to eighty-four months. Such principal payments, however, are generally subordinated to the payment of senior debt of the borrowers. The Company does not recognize interest income on the notes until it is collected or an event has occurred which ensures collectability. Interest on the notes that has been accrued and fully reserved against during the years ended June 30, 2011 and 2010 totaled \$9,239 and \$73,668, respectively.

Massachusetts Technology Development Corporation
Notes to Financial Statements
June 30, 2011 and 2010

C. Investment Program (continued)

3. Investments (continued) - A summary of investment activity is as follows:

	Notes receivable	Equity investments	Total
Investments made 1980 through 2009	\$ 33,745,263	\$ 42,908,479	\$ 76,653,742
2010	342,764	1,692,391	2,035,155
2011	<u>423,166</u>	<u>2,145,059</u>	<u>2,568,225</u>
Total Investments	\$ <u>34,511,193</u>	\$ <u>46,745,929</u>	\$ <u>81,257,122</u>
Conversion of loan principal to equity	<u>(15,809,653)</u>	<u>15,809,653</u>	<u>-</u>
Loan principal repayments and equity investments cost recovered	(10,662,752)	(20,038,616)	(30,701,368)
Realized gains on equity investments' sales 1982 through 2011	-	61,700,836	61,700,836
Allocation of realized gains to General support Fund	-	(61,700,836)	(61,700,836)
Realized losses on investments ⁽¹⁾			
1983 through 2009	(6,674,807)	(21,527,975)	(28,202,782)
2010	(164,400)	(2,810,824)	(2,975,224)
2011	<u>(475,709)</u>	<u>(2,490,162)</u>	<u>(2,965,871)</u>
Total realized losses	<u>(7,314,916)</u>	<u>(26,828,961)</u>	<u>(34,143,877)</u>
Unrealized net gain(loss) on investments	<u>227,606</u>	<u>(3,030,083)</u>	<u>(2,802,477)</u>
Investment balance, June 30, 2011	\$ <u>951,837</u>	\$ <u>12,657,563</u>	\$ <u>13,609,400</u>

(1) Net of recovered losses from prior periods.

As of June 30, 2011, the investment portfolio consisted of the following types of securities as a percentage of the General Support and Restricted for Investment Program Fund Balances ("Fund Balance"): common stock 1.72%, preferred stock 64.99%, and notes receivable 5.02%.

Massachusetts Technology Development Corporation
Notes to Financial Statements
June 30, 2011 and 2010

C. Investment Program (continued)

3. Investments (continued) -

At June 30, 2011, MTDC had the following investments that represented more than 5% of the Fund Balance:

Clarity Imaging Corp.	7.95%
Courion Corp.	7.04%
Life Image, Inc.	7.98%
Utest, Inc.	15.72%

As of June 30, 2011 and 2010, there were pending loans and equity investments approved by the Board of Directors totaling \$50,000 and \$850,000, respectively.

D. Cash, Cash Equivalents and Short-Term Investments

The Corporation maintains operating cash accounts and other short-term investment securities to fund operations and provide appropriate reserves for the Corporation's investment programs. The Corporation's short-term investment securities include certificates of deposit, money market accounts, banker's acceptances, commercial paper, treasury bills, repurchase agreements and government agencies.

As of June 30, 2011, the carrying amount of all of the Corporation's cash, cash equivalents and short-term investments, which includes the General Support and Restricted for Investment Programs cash balances, totaled \$5,656,451 all held in financial institutions. Of that total, \$4,553,773 was insured or collateralized under various federal, state and private insurance programs, and \$1,095,101 was uninsured and uncollateralized on deposit with the Massachusetts Municipal Depository Trust, and \$7,577 was invested in an uninsured money market fund.

Included in the cash, cash equivalents and short term investments Restricted for Investment Programs are funds sequestered by the EDA under the Corporation's revolving loan program of \$70,510. This cash has been sequestered under the EDA's under utilization guidelines for federal debt funds. The Corporation has a number of opportunities they are evaluating for this program and anticipate the sequestration to be removed over the next six to nine months.

Massachusetts Technology Development Corporation
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E. Office Equipment and Software

Office equipment and software consist of the following at June 30, 2011 and 2010:

	<u>2011</u>		<u>2010</u>
Office equipment	\$ 68,837	\$	68,837
Software	<u>2,840</u>		<u>2,840</u>
Total	71,677		71,677
Less accumulated depreciation and amortization	(61,074)		(49,194)
Net office equipment and software	\$ <u>10,603</u>	\$	<u>22,483</u>

F. General Support Expenditures

The General Support expenditures for the years ended June 30, 2011 and 2010, were as follows:

	<u>2011</u>		<u>2010</u>
Personnel costs	\$ 1,046,352	\$	890,991
Occupancy costs	157,983		151,728
Professional expenses	45,456		83,173
Post retirement benefits - health	67,320		(8,179)
Office services and supplies	50,967		47,527
Travel, meetings and conferences	45,795		39,293
Public relations, publications and advertising	21,681		41,865
Depreciation and amortization	11,880		11,558
Miscellaneous	9,696		3,401
Consultants	<u>108,458</u>		<u>99,162</u>
Total expenditures	\$ <u>1,568,327</u>	\$	<u>1,364,596</u>

Massachusetts Technology Development Corporation
Notes to Financial Statements
June 30, 2011 and 2010

G. Postemployment Benefit Plan (Other Than Pension)

During fiscal year 1998 the Board of Directors voted to designate General Support funds to establish a Post Retirement Health and Dental Insurance Plan (“The Plan”). The Plan is designed to provide postretirement health care benefits to all employees who retire from the Corporation on or after attaining age 59 ½ and who have been employed continuously by the Corporation, or its predecessor organization, the Massachusetts Science and Technology Foundation, for a combined total of at least 20 years. The Corporation will pay a portion of the premiums for health and dental insurance plans of the retiree’s choice. The initial annual benefit payment upon adoption of the plan was \$2,500 annually, per eligible retiree. That amount is indexed for inflation each year in an amount equal to the change in the Consumer Price Index (“CPI”). The annual benefit payment for the years ended June 30, 2011 and 2010 was \$2,832 and \$2,584, respectively.

The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and changes to the CPI. Amounts determined regarding the funded status of the plan and the annual required contributions of the Corporation, if any, are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Methods and Assumptions: Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the type of benefit provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The following simplifying assumptions were made:

Retirement age for active employees: Active members are assumed to retire at age 59 ½.

Marital status: marital status is not a factor in determining eligibility for, or the amount of, benefits.

Mortality: Life expectancies are based on mortality tables maintained by the National Center for Health Statistics. The 2006 United States Life Tables for Males and the United States Life Tables for females were used. Life expectancies that included partial years were rounded to the nearest whole year. The calculation of postemployment health insurance coverage for each year is based on the assumption that all participants will live until their expected age displayed in the mortality tables.

Turnover: Non-group-specific age-based turnover data from GASB Statement 45 were used as the basis for assigning active employees a probability of remaining employed until the assumed retirement and eligibility dates and for developing an expected future lifetime assumption for purposes of allocating to future periods the present value of total benefits to be paid.

Healthcare cost trend rate: Under the provisions of the plan, increases in future benefit payments are limited to changes in the CPI. A rate of 2.2%, based on a five year average of the CPI, has been used.

Massachusetts Technology Development Corporation
Notes to Financial Statements
June 30, 2011 and 2010

G. Postemployment Benefit Plan (Other Than Pension) (continued)

Health insurance premiums: The 2011 benefit amount for retirees of \$2,832 was used as the basis for calculation of the present value of total benefits to be paid.

Inflation rate: An inflation rate of 2.2% was used.

Discount rate: Based on the historical and expected returns of the Corporations short-term investment portfolio, a discount rate of 4.18% was used.

Funding progress: As of June 30, 2011, the actuarial accrued liability (simplified entry age) was \$239,745, which is included in the Corporation's liabilities on the accompanying balance sheet. The Plan is being funded with amounts designated by the Corporation and related interest income. As of June 30, 2011, the Board approved funding commitment is \$282,500, of which \$231,615 has been reserved through fiscal year 2011, resulting in an unfunded liability of \$8,130.

H. Internally Designated – General Support

The following table represents the components of the Internally Designated – General Support cash, cash equivalents and short-term investments balance at June 30:

	<u>2011</u>		<u>2010</u>
Operating reserve	\$ -	\$	500,000
Post retirement health and dental insurance plan	<u>231,615</u>		<u>231,615</u>
General Support Internally Designated cash, cash equivalents and short-term investments	\$ <u>231,615</u>	\$	<u>731,615</u>

Massachusetts Technology Development Corporation
Notes to Financial Statements
June 30, 2011 and 2010

I. Commitments

Operating leases

The Corporation has a non-cancelable lease commitment for office space extending through September 30, 2013. The agreement provides for base rent plus operating expenses and tax escalation clauses. Rent expense for the years ended June 30, 2011 and 2010, was \$148,087 and 143,654 respectively.

Future minimum lease payments under this non-cancelable operating lease are as follows for the years ending June 30:

2012	151,641
2013	155,184
2014	<u>39,018</u>
Total	\$ <u>345,843</u>

J. Employee Retirement Plan

The Corporation provides retirement benefits for substantially all employees through a simplified employee pension plan ("SEP"). The Corporation makes contributions to individual retirement accounts ("IRAs") of employees in amounts equal to 10% of an employee's gross annual salary, not to exceed the maximum amount allowable by federal law. Quarterly contributions are distributed to the eligible employees' IRA at Fidelity Investments. The Corporation has no fiduciary responsibility for these investments. Contribution expenses for fiscal years 2011 and 2010 were \$76,495 and \$75,394, respectively.