MassDevelopment

Emerging Technology Fund

Quarterly Report to the Legislature

April 1, 2012 to June 30, 2012

Summary

Since 2004, the Emerging Technology Fund (ETF) has targeted facilities, equipment, and working capital needs at emerging technology and advanced manufacturing companies. This investment has helped numerous cutting-edge companies locate or expand in Massachusetts, providing employment opportunities and stimulating economic activity. Thirty-two loans and guaranties have closed through June 30, 2012.

Through these financings, the ETF has leveraged private investment for these companies and maintained its ability to serve as an "evergreen fund," one that provides non-conventional risk capital in the form of debt to development-stage emerging technology companies seeking to commercialize their products. In 2010, the Commonwealth passed legislation allowing MassDevelopment to add a working capital term loan financing product to help growing companies address staffing and other working capital needs to help them to increase both employment and production. The new capability has been well received and is increasing pipeline activity. Three term working capital financings had closed as of June 30, 2012.

In March 2012, the Fund committed $5 million to a new equity investment fund that MassVentures, formerly the Massachusetts Technology Development Corporation, will manage. This partnership will allow the ETF to invest equity in earlier-stage companies while leveraging existing resources at MassVentures.

The Fund was last recapitalized in 2007 and, per Chapter 240 of the Acts of 2010, $15 million was granted to launch the new Massachusetts Growth Capital Corporation. With a high level of performance, success in developing initiatives, and incoming financing requests, the ETF is running low on funds. ***To ration the remaining cash in the fund, the maximum financing for companies entering the pipeline has been reduced from $2,500,000 to $1,000,000 as of June 2012. Without additional recapitalization, the Fund will be likely to cease to take new applications beginning in mid-2013.***

Background

Chapter 141 of the Acts of 2003 created the ETF. The statute requires submission of this quarterly report to certain legislative committees. Established to leverage private investment and to recruit and retain technology-based and advanced manufacturing companies in the Commonwealth, the approximately $50 million Fund provides loans and guarantees for the purchase, expansion, or improvement of real estate, equipment purchases, and working capital needs. The Fund was initially capitalized with $24.75 million, recapitalized in September 2006 with $10 million as a result of an Economic Stimulus bill passed by the Legislature, and then recapitalized again in November 2007 with an additional $15 million. In November 2010, $15 million was transferred from the Fund to capitalize the Massachusetts Growth Capital Corporation in accordance with signed legislation. As of June 30, 2012, the Fund had $7,019,368 available to make new loan commitments with a pipeline of $11.75 million of projects that are either considering applying or are in the underwriting process.

The Fund is governed by an Advisory Committee that has adopted the following mission statement:

> ***The mission of the Emerging Technology Fund is to create jobs in Massachusetts by providing financing for facilities, equipment and working capital that leverages private financing to growing companies employing or commercializing emerging technologies.***

ETF Activity Summary

As of June 30, 2012, the ETF had made loans and guaranties to 31 companies totaling $51,622,115. In addition, three loans totaling $5 million were approved, committed, and are in the closing process. Potential loans of another $11.75 million were in the ETF pipeline as of June 30, 2012. While the Agency has closed 32 loans and guaranties, eleven of those loans have been paid off in full and are no longer in the portfolio. The Fund also received partial proceeds after liquidation of certain assets on loans provided to four companies in the portfolio and charged-off $3,139,785. One of the companies involved has ceased to exist.

Closed Loan Activity

Loans Closed

Company	Loan Amount	Date Closed	Municipality	Industry
Acacia Communications, Inc.	$3,000,000	2/25/11	Maynard	Information Technology
Advanced MicroSensors, Inc.	$2,000,000	10/13/11	Shrewsbury	Microelectronic Sensor Devices
Biomedical Research Models, Inc.	$700,000 (Guaranty)	11/17/10	Worcester	Contract Research (Biotechnology)
ConforMIS, Inc.	$1,445,000	6/28/11	Burlington	Medical Device
Court Square Group, Inc.	$500,000	3/28/12	Springfield	Software & IT
CryoXtract Instruments, LLC	$800,000	5/15/12	Woburn	Medical Device
ECI BioTech	$400,000	11/16/07	Worcester	Health Care Products
Konarka Technologies, Inc.	$2,500,000	2/11/09	New Bedford	Solar Power Consumer Product Manufacturer
Lilliputian Systems, Inc.	$2,500,000	11/13/09	Wilmington	Portable Fuel Cell Power Developer
Luminus Devices	$2,500,000	12/26/07	Billerica	Solid State Lighting
MicroTest, Inc	$799,340 (Loan) $367,500 (Mortgage Guaranty)	7/6/05	Agawam	Contract Manufacturer (Biopharma)
Middleton Aerospace Corporation	$2,000,000	8/11/06	Haverhill	Military and Commercial Aircraft Component Manufacturer
PowerHouse Dynamics, Inc.	$1,000,000	3/30/12	Newton	CleanTech
Scenic Technology Corporation	$2,500,000	1/26/12	Devens	eCommerce and Fulfillment Systems
T2 Biosystems, Inc.	$1,687,500	5/9/11	Lexington	Medical Device
Valeritas, Inc.	$2,500,000	1/12/07	Shrewsbury	Medical Device

Loans Closed and Repaid

Company	Loan Amount	Date Closed	Municipality	Industry
Aspen Aerogels, Inc.	$1,500,000	1/12/05	Northborough	Advanced Materials
BioVex, Inc.	$2,500,000	6/29/06	Woburn	Biotechnology
Blue Sky BioTech, Inc.	$150,000	9/24/05	Worcester	Contract Research (Biotechnology)
Celldex Therapeutics, Inc. (formerly Avant)	$903,657	12/12/03	Fall River	Biopharmaceutical
Cytonome, Inc.	$600,000	6/30/05	Boston	Medical Devices
E-Ink Corporation	$1,000,000	5/15/07	Cambridge	Electronic Display
Hyaluron, Inc.	$1,000,000	12/19/05	Burlington	Contract Manufacturer (Biopharma)
Nuvera Fuel Cells, Inc.	$2,500,000	1/31/07	Billerica	Hydrogen Fuel Cell Developer and Manufacturer
Premium Power Corporation	$2,500,000	5/28/09	North Reading	POS Battery Manufacturer
Qteros, Inc	$2,000,000	10/29/09	Chicopee	Biofuel Developer
RenaMed Biologics, Inc.	$2,300,000	6/14/06	Westborough	Bioreplacement Therapies

Loans Closed and Principal Partially or Fully Charged-Off

Company	Loan Amount	Date Closed	Municipality	Industry
Acusphere, Inc.	$2,000,000 ($1,522,133 charged off)	8/16/04	Tewksbury	Specialty Pharmaceutical
Beacon Power Corporation	$2,500,000 ($898,333 charged off)	6/30/08	Tyngsboro	Renewable Energy
Spherics, Inc.	$2,500,000 ($568,458 charged off)	7/12/05	Mansfield	Pharmaceutical
WorkshopLive, LLC	$239,118 ($150,860 charged off)	5/26/05	Pittsfield	Music Software and Technology

Uncommitted Fund Balance

Between April 1, 2012 and June 30, 2012, the Fund received $747,009 in loan repayments, interest income and fees. Investment income for the period totaled $27,336, and operating expenses were $79,877, exclusive of loan loss provision.

The uncommitted balance of the Fund on June 30, 2012 is $7,019,368. Net loans in the amount of $13,592,660 reported under Fund Activity below represent total loan disbursements of $37,966,895 less accumulated principal repayments in the amount of $21,234,450 and loan write-offs totaling $3,139,785.

	As of 6/30/12
Beginning Fund Balance	$ 24,750,000
Fund Recapitalization	10,000,000
Fund Recapitalization	15,000,000
Total Funding	**49,750,000**
Cash Activity (accumulated):	
Loans	(13,592,658)
Loan Write-offs	(3,139,784)
Operating Income	2,872,214
Operating Expenses	(3,075,294)
Transfer to MGCC	(15,000,000)
Investment Income	4,666,060
Accrued Expenses	948
Accrued Interest Income	(17,141)
Prepaid Insurance	0
Unearned Insurance Premium	6,250
Cash Balance	**22,470,594**
Cash Commitments:	
Reserved for Guarantees Closed	(541,667)
Undisbursed Loans	(4,909,559)
Committed Loans (not closed)	(5,000,000)
Committed Equity	(5,000,000)
Uncommitted Cash Balance:	**7,019,368**
Current Pipeline - potential new loans	(11,750,000)
Potential Shortfall	**(4,730,632)**

Financial and Technical Assistance

MassDevelopment assisted Acusphere, Inc., Celldex Therapeutics, Inc. (formerly Avant Immunotherapeutics, Inc.), and Cytonome, Inc. in locating suitable facilities in the Commonwealth. All loan applicants received assistance in structuring financing for their projects with MassDevelopment and other lenders.

Geographic Distribution

As of June 30, 2012, loans and guaranties have been closed with companies in each of the Commonwealth's five geographic regions as follows:

Region	Closed Loans	# of Companies
North	$ 11,500,000	5
South	$ 5,903,657	3
Central	$ 12,280,000	8
West	$ 3,905,958	4
Greater Boston	$ 18,032,500	11
Total	**$ 51,622,115**	**31**

MassDevelopment 160 Federal Street, Boston, MA 02110 800.445.8030 www.massdevelopment.com