

Georgia Tech Research Corporation
Financial Statements
With
Independent Auditors' Report
For the Year Ended June 30, 2011

Georgia Tech Research Corporation

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Independent Auditors' Report

To the Board of Trustees of
Georgia Tech Research Corporation:

We have audited the accompanying financial statements of the business-type activities and each major fund of the Georgia Tech Research Corporation ("GTRC"), a component unit of the State of Georgia, as of and for the year ended June 30, 2011, which collectively comprise GTRC's basic financial statements as listed in the table of contents. These financial statements are the responsibility of GTRC's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with the auditing standards generally accepted in the United States of America as established by the American Institute of Certified Public Accountants and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and each major fund of GTRC as of June 30, 2011, and the respective changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 31, 2011 on our consideration of GTRC's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 3 through 6 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Cherry, Bekaert & Holland, LLP

Atlanta, Georgia
August 31, 2011

Georgia Tech Research Corporation

Management's Discussion and Analysis

June 30, 2011

Introduction

The Georgia Tech Research Corporation ("GTRC") was chartered on April 13, 1937, as the Industrial Development Council, a not-for-profit corporation affiliated with the Georgia Institute of Technology ("GIT" or "Georgia Tech"), a unit of the University System of the State of Georgia. GTRC was established for the purpose of engaging in sponsored research for scientific, literary and educational purposes, or related objectives. On February 9, 1946, the corporate charter was amended and included a provision to change the name from the Industrial Development Council to the Georgia Tech Research Institute ("GTRI"). On April 6, 1984, GTRI amended its corporate charter to change the name to the Georgia Tech Research Corporation.

GTRC serves as the contracting entity for the GIT which performs research under the Office of Management and Budget ("OMB") Circulars A-21 and A-110.

Effective July 1, 1998, the Georgia Tech Applied Research Corporation ("GTARC") was established as a component of GTRC. GTARC was organized as the contracting entity for units of the GIT performing research under the cost principles of OMB Circular A-122 and Federal Acquisition Regulations ("FAR") 31.2.

GTRC, and its component unit, GTARC (hereinafter collectively referred to as GTRC), enter into contracts and grant agreements with various organizations, including Federal agencies, and subcontracts with GIT to provide services in connection with these agreements. As part of the relationship, payments occur between GIT and GTRC for certain sponsored project expenditures and research administration.

In a Memorandum of Understanding ("MOU") dated April 1, 1953, the Board of Regents of the University System of Georgia authorized GTRC (then GTRI) to serve as the official grantee for all contracts and grants for the conduct of sponsored research at the GIT. The MOU also assigned all intellectual property developed through the performance of contracts subcontracted to the GIT to GTRC. GTRC is the administrative organization for discoveries, innovations, inventions, patents and copyrights and is responsible for intellectual property management including patenting and licensing. The ongoing objective of GTRC is to provide services to the GIT and, through those services, to enhance GIT's programs and goals as a research institution.

Description of the Financial Statements

The statements of net assets, revenues, expenses and changes in net assets, and cash flows are designed to provide information which will assist in understanding the financial condition and performance of GTRC. The net assets are an indicator of GTRC's financial health. Over time, increases or decreases in net assets are another measure of the changes in GTRC's financial condition when considered with other non-financial facts.

The statement of net assets presents the assets, liabilities and net assets of GTRC.

Georgia Tech Research Corporation

Management's Discussion and Analysis – Continued

June 30, 2011

The statement of revenues, expenses and changes in net assets presents the revenues earned and the expenses incurred during the year. Activities are reported as either operating or nonoperating. The financial reporting model classifies investment earnings and changes in the fair value of investments as nonoperating revenues. As a result, the financial statements may show operating losses that are then offset by nonoperating revenues from a total financial perspective.

The statement of cash flows presents information in the form of cash inflows and outflows summarized by operating, capital and related financing activities, and investing activities.

Financial Highlights

The condensed statement of net assets at June 30, 2011 and 2010 is shown below:

			<u>2011</u>	<u>2010</u>
	Georgia Tech Research Corporation	Georgia Tech Applied Research Corporation	Total Business-type Activities	Total Business-type Activities
Assets				
Current assets	\$ 95,488,234	\$ 60,746,187	\$ 156,234,421	\$ 143,994,477
Noncurrent assets	<u>1,567,191</u>	<u>-</u>	<u>1,567,191</u>	<u>1,268,635</u>
Total assets	<u>\$ 97,055,425</u>	<u>\$ 60,746,187</u>	<u>\$ 157,801,612</u>	<u>\$ 145,263,112</u>
Liabilities and Net Assets				
Current liabilities	<u>\$ 75,541,601</u>	<u>\$ 39,588,199</u>	<u>\$ 115,129,800</u>	<u>\$ 108,083,894</u>
Net assets:				
Invested in capital assets	1,331,003	-	1,331,003	1,189,387
Unrestricted	<u>20,182,821</u>	<u>21,157,988</u>	<u>41,340,809</u>	<u>35,989,831</u>
Total net assets	<u>21,513,824</u>	<u>21,157,988</u>	<u>42,671,812</u>	<u>37,179,218</u>
Total liabilities and net assets	<u>\$ 97,055,425</u>	<u>\$ 60,746,187</u>	<u>\$ 157,801,612</u>	<u>\$ 145,263,112</u>

Current assets increased by \$12,239,944 or 9% from fiscal 2010, due primarily to an increase in cash and research receivables. Research revenue increased and cash collections improved, which in turn increased cash and current receivables.

Noncurrent assets consist of investments and capital assets net of the associated accumulated depreciation. Noncurrent assets increased by \$298,556 or 24% from fiscal 2010, primarily due to the addition of a note receivable related to the sale of an investment and the addition of donated capital assets.

Georgia Tech Research Corporation

Management's Discussion and Analysis – Continued

June 30, 2011

Current liabilities increased \$7,045,906 or 7%, primarily due to an increase in accounts payable for direct research costs incurred and advanced payments on research contracts.

Net assets represent the difference between GTRC's assets and liabilities. There was an increase in net assets of \$5,492,594 or 15%, which can primarily be attributed to increases in operating revenue which was partially offset by increases in operating expenses.

The condensed statement of revenues, expenses and changes in net assets for the years ended June 30, 2011 and 2010 is shown below:

			<u>2011</u>	<u>2010</u>
	Georgia Tech Research Corporation	Georgia Tech Applied Research Corporation	Total Business-type Activities	Total Business-type Activities
Operating revenues	\$ 311,790,249	\$ 208,807,788	\$ 520,598,037	\$ 473,228,020
Operating expenses	<u>(308,101,055)</u>	<u>(208,629,980)</u>	<u>(516,731,035)</u>	<u>(472,503,536)</u>
Income				
from operations	3,689,194	177,808	3,867,002	724,484
Nonoperating revenues, net	<u>1,619,562</u>	<u>6,030</u>	<u>1,625,592</u>	<u>33,339</u>
Increase in net assets	<u>5,308,756</u>	<u>183,838</u>	<u>5,492,594</u>	<u>757,823</u>
Net assets, beginning of year	<u>16,205,068</u>	<u>20,974,150</u>	<u>37,179,218</u>	<u>36,421,395</u>
Net assets, end of year	<u>\$ 21,513,824</u>	<u>\$ 21,157,988</u>	<u>\$ 42,671,812</u>	<u>\$ 37,179,218</u>

Operating revenues consist primarily of research contracts, licensing fees and royalty revenues. During fiscal 2011, operating revenues increased by \$47,370,017 or 10%, primarily due to increased research project revenues.

Operating expenses increased by \$44,277,499 or 9%, primarily due to increased direct research costs resulting from increased research contract activity.

Nonoperating revenues increased by \$1,592,253 or 4,775%, primarily due to the gain on the sale of an investment.

Georgia Tech Research Corporation

Management's Discussion and Analysis – Continued

June 30, 2011

Economic Outlook

Georgia Tech received a record \$567 million in sponsored research awards in fiscal year 2011 continuing a trend of accelerated growth in external research support. A relatively small portion of the growth in awards is accounted for by funding through the American Recovery and Reinvestment Act ("ARRA") and growth would have been positive in the absence of ARRA funding. The conclusion of the stimulus program in 2011 will not unduly influence research funding since a large component of Georgia Tech's ARRA funding involved construction of a new facility. Interest earned on deposits remains low due to the prevailing low interest rates on secured deposits. Georgia Tech continues to be proactive in working with a diverse set of public and private sponsors to support growth across a spectrum of topics. Certain areas of research continue to promise opportunities for funding for innovative research. These include energy/alternative energy, medical device innovation, nanotechnology, high performance computing and computational sciences, and medical records informatics. Georgia Tech has aligned Institute Research Centers with these economic areas.

Requests for Information

This financial report is designed to provide a general overview of Georgia Tech Research Corporation's finances for all those with an interest in the corporation's finances. Questions concerning any of the information provided in this report or requests for additional financial information, including the separately issued financial statements for Georgia Tech Applied Research Corporation should be addressed to the Office of the Director of Accounting, Georgia Tech Research Corporation, 505 Tenth Street, Atlanta, Georgia, 30332-0415.

Georgia Tech Research Corporation

Statement of Net Assets

For the Year Ended June 30, 2011

	Major funds		Total Business - Type Activities
	Georgia Tech Research Corporation	Georgia Tech Applied Research Corporation	
Assets			
Current assets:			
Cash	\$ 55,320,401	\$ 21,650,834	\$ 76,971,235
Accounts receivable:			
Research contracts - Billed	16,284,166	19,865,995	36,150,161
Research contracts - Unbilled	24,033,078	21,944,972	45,978,050
Other receivables	922,415	-	922,415
Less - allowance for doubtful accounts	(1,952,938)	(1,999,594)	(3,952,532)
Accounts receivable, net	39,286,721	39,811,373	79,098,094
Due from (to) component unit	716,020	(716,020)	-
Prepaid expenses	165,092	-	165,092
Total current assets	95,488,234	60,746,187	156,234,421
Noncurrent assets:			
Investments	36,188	-	36,188
Note receivable	200,000	-	200,000
Capital assets, net	1,331,003	-	1,331,003
Total noncurrent assets	1,567,191	-	1,567,191
Total assets	\$ 97,055,425	\$ 60,746,187	\$ 157,801,612
Liabilities and net assets			
Current liabilities:			
Accounts payable:			
Georgia Institute of Technology	\$ 33,241,474	\$ 18,365,901	\$ 51,607,375
Other	570,650	6,203,692	6,774,342
Accounts payable	33,812,124	24,569,593	58,381,717
Funds held on behalf of Georgia Institute of Technology	-	11,808,853	11,808,853
Deferred research contract revenue	41,729,477	3,209,753	44,939,230
Total current liabilities	75,541,601	39,588,199	115,129,800
Net assets:			
Invested in capital assets	1,331,003	-	1,331,003
Unrestricted	20,182,821	21,157,988	41,340,809
Total net assets	21,513,824	21,157,988	42,671,812
Total liabilities and net assets	\$ 97,055,425	\$ 60,746,187	\$ 157,801,612

See accompanying notes to financial statements.

Georgia Tech Research Corporation

Statement of Revenues, Expenses and Changes in Net Assets

For the Year Ended June 30, 2011

	Major funds		Total Business - Type Activities
	Georgia Tech Research Corporation	Georgia Tech Applied Research Corporation	
Operating revenues:			
Research contracts	\$ 303,031,082	\$ 208,807,788	\$ 511,838,870
Licenses and royalties	2,797,875	-	2,797,875
Lease income	5,960,403	-	5,960,403
Other	889	-	889
Total operating revenues	311,790,249	208,807,788	520,598,037
Operating expenses:			
Research contract costs	287,280,166	206,542,496	493,822,662
Depreciation	335,341	-	335,341
Administrative and general expenses	4,512,263	1,692,499	6,204,762
Licenses and royalties expenses	5,273,204	-	5,273,204
Lease expenses	5,960,403	-	5,960,403
Payments to or on behalf of Georgia Institute of Technology	4,739,678	394,985	5,134,663
Total operating expenses	308,101,055	208,629,980	516,731,035
Income from operations	3,689,194	177,808	3,867,002
Nonoperating revenues (expenses):			
Interest income	76,554	6,030	82,584
Gain on sale of investment	1,483,571	-	1,483,571
Unrealized losses on investments	(43,063)	-	(43,063)
Donated assets	102,500	-	102,500
Total nonoperating revenues (expenses), net	1,619,562	6,030	1,625,592
Increase in net assets	5,308,756	183,838	5,492,594
Net assets, beginning of year	16,205,068	20,974,150	37,179,218
Net assets, end of year	\$ 21,513,824	\$ 21,157,988	\$ 42,671,812

See accompanying notes to financial statements.

Georgia Tech Research Corporation

Statement of Cash Flows

As of and for the Year Ended June 30, 2011

	Major funds		Total Business - Type Activities
	Georgia Tech Research Corporation	Georgia Tech Applied Research Corporation	
Cash flows from operating activities:			
Receipts from grantors	\$ 303,513,330	\$ 207,696,184	\$ 511,209,514
Receipts of license fees and royalties	2,797,875	-	2,797,875
Receipts from leases	5,960,403	-	5,960,403
Miscellaneous receipts	427,101	-	427,101
Payments for licenses and royalties	(5,273,204)	-	(5,273,204)
Payments for leases	(5,960,403)	-	(5,960,403)
Payments to or on behalf of Georgia Institute of Technology	(4,739,678)	(394,985)	(5,134,663)
Payments for research contract costs	(288,750,678)	(206,117,900)	(494,868,578)
Net cash provided by operating activities	7,974,746	1,183,299	9,158,045
Cash flows from capital and related financing activities:			
Purchase of capital assets	(374,459)	-	(374,459)
Net cash used in capital and related financing activities	(374,459)	-	(374,459)
Cash flows from investing activities			
Realized gain on sale of investment	1,283,571	-	1,283,571
Interest income	76,554	6,030	82,584
Net cash provided by investing activities	1,360,125	6,030	1,366,155
Net increase in cash	8,960,412	1,189,329	10,149,741
Cash, beginning of year	46,359,989	20,461,505	66,821,494
Cash, end of year	\$ 55,320,401	\$ 21,650,834	\$ 76,971,235
Reconciliation of operating income (loss) to net cash provided by operating activities:			
Operating income	\$ 3,689,194	\$ 177,808	\$ 3,867,002
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	335,341	-	335,341
Changes in assets and liabilities:			
Accounts receivable	(1,114,987)	(1,111,604)	(2,226,591)
Due to/from component unit	(116,557)	116,557	-
Prepaid expenses	136,388	-	136,388
Accounts payable to Georgia Institute of Technology	4,037,932	3,859,466	7,897,398
Accounts payable other	(879,625)	(2,862,931)	(3,742,556)
Funds held on behalf of Georgia Institute of Technology	-	1,195,632	1,195,632
Deferred research contract revenue	1,887,060	(191,629)	1,695,431
Net cash provided by operating activities	\$ 7,974,746	\$ 1,183,299	\$ 9,158,045
Schedule of noncash investing activities:			
Decrease in the fair value of investments	\$ (43,063)	\$ -	\$ (43,063)
Note receivable related to sale of investment	200,000	-	200,000
Net noncash investing activities	\$ 156,937	\$ -	\$ 156,937
Schedule of noncash capital and related financing activity:			
Donated assets	\$ 102,500	\$ -	\$ 102,500

See accompanying notes to financial statements.

Georgia Tech Research Corporation

Notes to Financial Statements

As of and for the Year Ended June 30, 2011

NOTE 1 – DESCRIPTION OF ORGANIZATION

The Georgia Tech Research Corporation (“GTRC”) was chartered on April 13, 1937, as the Industrial Development Council, a not-for-profit corporation affiliated with the Georgia Institute of Technology (“GIT”), a unit of the University System of the State of Georgia. GTRC was established for the purpose of engaging in sponsored research for scientific, literary and educational purposes, or related objectives. On February 9, 1946, the corporate charter was amended and included a provision to change the name from the Industrial Development Council to the Georgia Tech Research Institute (“GTRI”). On April 6, 1984, GTRI amended its corporate charter to change the name to the Georgia Tech Research Corporation.

GTRC serves as the contracting entity for the GIT which performs research under the Office of Management and Budget (“OMB”) Circulars A-21 and A-110.

Effective July 1, 1998, the Georgia Tech Applied Research Corporation (GTARC) was established as a component of GTRC. GTARC was organized as the contracting entity for units of the GIT performing research under the cost principles of OMB Circular A-122 and Federal Acquisition Regulations (FAR) 31.2.

GTRC, and its component unit, GTARC (hereinafter collectively referred to as GTRC), enter into contracts and grant agreements with various organizations, including Federal agencies, and subcontracts with GIT to provide services in connection with these agreements. As part of the relationship, payments occur between GIT and GTRC for certain sponsored project expenditures and research administration.

In accordance with accounting principles generally accepted in the United States of America (“GAAP”) applicable to governments the financial statements present the individual financial statements of GTRC and GTARC as major funds. In addition, the accompanying financial statements present a total column which represents the entity-wide financial statements of GTRC. Transactions and balances between GTRC and GTARC are eliminated in the entity-wide financial statements. Separately issued financial statements for Georgia Tech Applied Research Corporation can be obtained by contacting to the Director of Accounting, Georgia Tech Applied Research Corporation, 505 Tenth Street, Atlanta, Georgia, 30332-0415.

The State of Georgia has determined that GTRC is significant to the State of Georgia for the year ended June 30, 2011, and as such, is a discretely presented component unit in the Comprehensive Annual Financial Report of the State of Georgia.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES

GTRC follows guidance as to governmental proprietary funds and Financial Accounting Standards Board pronouncements issued on or before November 30, 1989. In accordance with GAAP the financial statements of GTRC have been prepared on the accrual basis of accounting and are presented in conformity with GAAP.

Georgia Tech Research Corporation

Notes to Financial Statements

As of and for the Year Ended June 30, 2011

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Continued)

The following is a summary of certain significant accounting policies followed in the preparation of the financial statements:

Revenues

Substantially all of GTRC's revenues are derived from grants and cost reimbursement contracts which provide for the recovery of direct and indirect costs. GTRC recognizes revenue associated with direct and indirect costs as the related costs are incurred for approved research activities. The recovery of indirect costs is generally recorded at fixed rates negotiated with the sponsoring agency. License and royalty revenues are recorded when earned.

GTRC and GTARC classify revenue generated from their normal operational cycle as operating income. Revenue streams such as research contracts, licenses and royalties, and lease income are examples of what are considered to be operating revenues. Revenues that are not generated during the normal operating cycle such as interest income and unrealized gains and losses on investments are classified as nonoperating revenues.

Unbilled Accounts Receivable and Deferred Research Contract Revenue

Unbilled accounts receivable represents costs incurred and charged to projects in excess of amounts invoiced on those projects. Deferred research contract revenue represents amounts invoiced on various projects in excess of costs incurred and charged to those projects.

Overhead Revenue

GTRC receives reimbursement from sponsoring agencies for indirect costs incurred. GTRC retains a portion of the indirect costs which is used for operating expenses, and the remainder, with Board of Trustee approval, is generally granted back to GIT in future periods. The overhead revenue is reported as revenue from research contracts in the accompanying financial statements.

Cash

At June 30, 2011, the bank balance was \$78,286,160 and the book balance was \$76,971,235. At times, cash balances may exceed federally insured amounts. GTRC mitigates this risk by depositing and investing cash with major financial institutions. GTRC has not experienced any loss in such accounts and believes it is not exposed to any significant credit risk on cash. At June 30, 2011 the bank balances were collateralized by a pool of pledged securities administered under the direction of the Georgia Office of Treasury and Fiscal Services.

Investments

GTRC's investments consist entirely of equity securities, which are acquired in exchange for certain licensing fees. Equity security investments are held exclusively in GTRC's name. Equity securities acquired in exchange for licensing fees are not subject to GTRC's investments policy.

Georgia Tech Research Corporation

Notes to Financial Statements

As of and for the Year Ended June 30, 2011

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Continued)

Major Clients and Concentration of Credit Risk

During the fiscal year ended June 30, 2011, GTRC derived approximately 85% of its revenue from contracts with the U.S. Government. At June 30, 2011, approximately 47% of billed research contracts accounts receivable was from the U.S. Government. Management does not believe these receivables represent significant credit risk at June 30, 2011.

Federal Income Taxes

GTRC is exempt from income taxes as provided by Section 501(c)(3) of the Internal Revenue Code.

Allowance for Doubtful Accounts.

The allowance for doubtful accounts is determined by evaluating the prior experience, nature of the contract and credit rating of the sponsor for each contract with an outstanding balance greater than 180 days. Generally, all account balances greater than 180 days are reserved.

Changes in the allowance for doubtful accounts for the year ended June 30, 2011, were as follows:

	Major funds		
	Georgia Tech Research Corporation	Georgia Tech Applied Research Corporation	Total Business - type Activities
Beginning balance	\$ 2,212,880	\$ 2,086,255	\$ 4,299,135
Recoveries	61,723	41,501	103,224
Write offs	(321,665)	(128,162)	(449,827)
Ending balance	<u>\$ 1,952,938</u>	<u>\$ 1,999,594</u>	<u>\$ 3,952,532</u>

Capital Assets

Capital assets are capitalized at cost. Donated assets, if any, are recorded at their estimated fair value at the date of the gift. GTRC has established a threshold of \$5,000 for capitalizing equipment. All capitalized assets purchased under the terms of equipment and facilities grants are donated to GIT when fully depreciated.

Depreciation is provided for in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives which range from three to ten years. The straight-line method of depreciation is followed for all capital assets.

Georgia Tech Research Corporation

Notes to Financial Statements

As of and for the Year Ended June 30, 2011

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Continued)

Grants to Georgia Institute of Technology

Grants of funds are made from time to time to GIT, as authorized by the Board of Trustees. Pursuant to an agreement between GTRC and the Board of Regents of the University System of Georgia, dated April 1, 1953, GTRC shall hold in trust all unrestricted net assets for GIT who shall use such revenue from time to time and in such manner as the Board of Trustees of GTRC may see fit, for the promotion of research at GIT.

Net Assets

GTRC's net assets are classified as follows: *Invested in capital assets* represent GTRC's total investment in capital assets, net of related depreciation. *Unrestricted net assets* represent resources derived primarily from research contracts, licensing and royalties, and lease income. These resources are used for the ongoing operations of GTRC and may be used at the discretion of the governing board to meet current expenses for those purposes and to enhance programs at GIT.

Use of Estimates in Preparation of Financial Statements

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent Events

Subsequent events have been evaluated through August 31, 2011, the date these financial statements were available to be issued.

NOTE 3 – NOTE RECEIVABLE

On December 10, 2010 GTRC sold 750,250 shares of equity securities of Applied Global Technologies, Inc. (the "Company") back to the Company in exchange for cash in the amount of \$1,283,572 and a subordinated promissory note of \$200,000. The note bears interest at 6% which is to be paid quarterly. Pursuant to the terms of the Subordination the note receivable obligation of the Company to GTRC is subordinate to the payment in full of the Company's senior debt.

Georgia Tech Research Corporation

Notes to Financial Statements

As of and for the Year Ended June 30, 2011

NOTE 4 – CAPITAL ASSETS

Following are changes in capital assets for the year ended June 30, 2011:

	<u>Balance June 30, 2010</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2011</u>
Capital assets not being depreciated:				
Construction in progress	\$ -	\$ 285,397	\$ -	\$ 285,397
Historical treasures and works of art	240,735	-	-	240,735
Total capital assets not being depreciated	240,735	285,397	-	526,132
Capital assets being depreciated:				
Building improvements	127,331	-	-	127,331
Computer software	608,473	25,042	-	633,515
Furniture and equipment	2,316,038	166,518	-	2,482,556
Total capital assets being depreciated	3,051,842	191,560	-	3,243,402
Less accumulated depreciation for:				
Building improvements	(31,602)	(12,733)	-	(44,335)
Computer software	(577,683)	(25,102)	-	(602,785)
Furniture and equipment	(1,493,905)	(297,506)	-	(1,791,411)
Total accumulated depreciation	(2,103,190)	(335,341)	-	(2,438,531)
Total capital assets, net	<u>\$ 1,189,387</u>	<u>\$ 141,616</u>	<u>\$ -</u>	<u>\$ 1,331,003</u>

NOTE 5 – LEASE COMMITMENTS

Research Facilities

GTRC is committed to an operating lease with the University Financing Foundation, Inc. for the Centennial Research Building. The lease carries successive two year terms that are automatically renewed at prevailing market rates in effect at the time of the renewal. GTRC may cancel the lease upon notice given during July of any lease year to be effective as of June 30 of the then-current lease year.

GTRC also is committed to an operating lease with TUFF Cobb Research LLC. Pursuant to the terms of the lease agreement for the lease of the Cobb County Research Facility, TUFF Cobb Research LLC is to complete renovations to the facility. Upon substantial completion of the renovations a new lease term of twenty-five years will be effective.

Georgia Tech Research Corporation

Notes to Financial Statements

As of and for the Year Ended June 30, 2011

NOTE 5 – LEASE COMMITMENTS (Continued)

In connection with these lease agreements, both facilities have been subleased to GIT. The subleases carry successive one-year terms that may be renewed upon notice given at least sixty (60) days prior to the end of the sublease term. The present monthly rental receipts on these subleases for the Cobb County Research Facility and the Centennial Research Building approximates the monthly rental payments.

Institute for BioEngineering and BioSciences Complex

The Institute for BioEngineering and BioSciences Complex (the “Complex”) was developed by Georgia Tech Facilities, Inc. (“GTF”), formerly Georgia Tech Foundation Facilities, Inc., and funded by the issuance of 30-year, fixed rate, Series B bonds through the Fulton County Development Authority. On December 1, 1997, GTRC agreed to guarantee these bonds by entering into an agreement to lease the Complex from GTF. On April 1, 2008 the Series 1997B Bonds were refunded by the issuance of \$19,900,000 Development Authority of Fulton County Series 2008B Revenue Bonds. In connection with the refunding GTRC guaranteed the 2008B Revenue Bonds and entered into an Amended and Restated Facility Lease Agreement with GTF. In accordance with the amended and restated lease agreement the lease will expire on September 1, 2028 or at such time as the Revenue Bonds are redeemed. GTRC is obligated to pay rent in an amount equal to the principal, premium (if any) and interest on the Series 2008B Bonds Revenue Bonds when due and upon any redemption or acceleration thereunder.

In connection with this lease agreement, GTRC subleased the complex to GIT. The sublease carries successive one-year terms that may be renewed upon notice given at least sixty (60) days prior to the end of the sublease term. The timing and amount of rental payments under the sublease are substantially the same as those under the lease agreement between GTRC and GTF.

GTRC’s leases are subleased to GIT. The subleases carry successive one-year terms that may be renewed upon notice given at lease sixty (60) days prior to the end of the sublease term. The timing and amount of rental payments under the subleases are substantially the same as those under their corresponding lease agreements between GTRC and third-party lessors.

Future minimum lease payments at June 30, 2011 are as follows:

Year ending June 30:

2012	\$	6,024,557	\$	6,024,557	\$	-
2013		4,535,629		-		4,535,629
2014		4,391,795		-		4,391,795
2015		3,874,505		-		3,874,505
2016		3,531,985		-		3,531,985
2017-2021		17,657,162		-		17,657,162
2022-2026		17,657,804		-		17,657,804
2027-2031		13,292,375		-		13,292,375
2032-2036		10,382,400		-		10,382,400
2037		692,160		-		692,160
		<u>\$ 82,040,372</u>		<u>\$ 6,024,557</u>		<u>\$ 76,015,815</u>

Georgia Tech Research Corporation

Notes to Financial Statements

As of and for the Year Ended June 30, 2011

NOTE 5 – LEASE COMMITMENTS (CONTINUED)

Net rent expense for the year ended June 30, 2011, was as follows:

Minimum rentals	\$ 5,960,403
Less - Sublease rentals - Georgia Institute of Technology	<u>(5,960,403)</u>
Net rent expense	<u><u>\$ -</u></u>

NOTE 6 – CONTINGENT LIABILITIES

As of June 30, 2011, GTRC guarantees approximately \$42,010 of home mortgages of new research faculty members.

Federal and state funded research projects are subject to special audits. Such audits could result in some allocated costs being disallowed or indirect cost rates adjusted. No provision has been made for any liabilities that may arise from such audits since the amounts, if any, cannot be determined at this time.