

**MARYLAND TECHNOLOGY DEVELOPMENT CENTER,
A PROJECT OF MARYLAND ECONOMIC
DEVELOPMENT CORPORATION**

**Management's Discussion and
Analysis and Financial Statements
Together With Independent Auditors' Report**

For the Years Ended June 30, 2009 and 2008

**MARYLAND TECHNOLOGY DEVELOPMENT CENTER,
A PROJECT OF MARYLAND ECONOMIC DEVELOPMENT
CORPORATION (MEDCO)**

Table of Contents

	Page
Management's Discussion and Analysis	1-5
Independent Auditors' Report	6
Financial Statements:	
Balance Sheets as of June 30, 2009 and 2008	7
Statements of Revenues, Expenses and Changes in Net Assets for the Years Ended June 30, 2009 and 2008	8
Statements of Cash Flows for the Years Ended June 30, 2009 and 2008	9
Notes to Financial Statements	10-17

MARYLAND TECHNOLOGY DEVELOPMENT CENTER, A PROJECT OF MEDCO

Management's Discussion and Analysis For the Years Ended June 30, 2009 and 2008

As management of Maryland Technology Development Center (the Project), a project of Maryland Economic Development Corporation (MEDCO), we offer readers of the Project's financial statements this narrative overview and analysis of the financial activities of the Project for the fiscal years ended June 30, 2009 and 2008. Management's Discussion and Analysis (MD&A) is designed to (a) assist the reader in focusing on significant financial issues, (b) provide an overview of the Project's financial activity, and (c) identify changes in the Project's financial position. We encourage readers to consider the information presented here in conjunction with the Project's financial statements and accompanying notes.

Financial Highlights

The financial highlights of the Project for the year ended June 30, 2009 were as follows:

- The assets of the Project exceeded its liabilities by \$5,166,000 as of June 30, 2009 (net assets).
- Operating loss increased \$204,000 in 2009 primarily due to a decrease in license fees and an increase in allowance for doubtful accounts and utility expense, partially offset by a decrease in personnel costs. License fees decreased primarily due to occupancy as several spaces were vacant and being reconfigured to meet the long term use and leasing strategy for the Project. Allowance for doubtful accounts expense increased primarily due to two licensees who were unable to satisfy the financial terms of their licenses and vacated the Project. The increase in utility expense was primarily due to a rise in energy rates. Personnel costs decreased primarily as a result of the Project not incurring the expense for costs paid by Montgomery County's Department of Economic Development for staffing, reimbursable by the Project to the county per Amendment No. 2 of the Interagency Grant Agreement.
- On March 26, 2009 the Project entered into a note payable with a financial institution in the amount of \$3,300,000. The proceeds of the note payable were used to repay the Project's outstanding bonds payable and to fund related offering expenses. In conjunction with the redemption of the bonds, the repurchase agreement was terminated and the reserve securities sold.
- Pursuant to the terms of the trust indenture and Montgomery County grant agreement, operating surplus funds were deposited by MEDCO into a separate account for use by the Montgomery County Department of Economic Development. This is reflected as non-operating grant expense in the Project's financial statements.

The financial highlights of the Project for the year ended June 30, 2008 were as follows:

- The assets of the Project exceeded its liabilities by \$5,663,000 as of June 30, 2008 (net assets).
- Operating loss decreased \$249,000 in 2008 primarily due to a decrease in utility, repair, and personnel costs. Utility expenses decreased primarily due to steps taken to increase the energy efficiency of the Project, including improvements made to the heating, ventilation, and air conditioning system, motion sensors installed on certain lighting, and a more energy efficient boiler on a timer. Repair expenses necessary to maintain the HVAC system were also lower in 2008 as a result of the improvements that were made to the system. Personnel costs were lower in 2008 as staffing levels were reduced.

MARYLAND TECHNOLOGY DEVELOPMENT CENTER, A PROJECT OF MEDCO

Management's Discussion and Analysis
For the Years Ended June 30, 2009 and 2008

Overview of the Financial Statements

This MD&A is intended to serve as an introduction to the Project's financial statements. The Project provides office and laboratory space and technical assistance to early stage biotechnology and information technology companies. The Project is intended to be a self-supporting entity and follows enterprise fund reporting; accordingly, the financial statements are presented using the economic resources measurement focus and accrual basis of accounting. Enterprise fund statements offer short-term and long-term financial information about the activities and operations of the Project. These statements are presented in a manner similar to a private business such as a commercial real estate project. The Project's statements consist of two parts: the financial statements and notes to the financial statements.

The Financial Statements

The Project's financial statements are designed to provide readers with a broad overview of its finances, in a manner similar to a private sector business.

The balance sheets present information on all of the Project's assets and liabilities, with the difference between the two reported as net assets. MEDCO issued limited obligation revenue bonds to provide capital financing for development of an office building and laboratory spaces designed for use by biotechnology and information technology companies. The proceeds were deposited with a trustee and invested, generally in United States government or agency securities, guaranteed investment contracts or repurchase agreements, until disbursed for the acquisition or construction of capital assets or retained for the establishment of certain required reserves. The revenue bonds were issued in MEDCO's name; however, MEDCO had no obligation for the bonds beyond the resources of the Project. In 2009 the original bonds were redeemed with the proceeds of a note payable to a financial institution.

The statements of revenues, expenses and changes in net assets present the operating activities of the Project and sources of non-operating revenues and expenses and capital contributions.

The statements of cash flows present summarized sources and uses of funds for the Project. Cash flows from operating activities generally represent the results of operating the office building, exclusive of interest income and expense. Cash flows from capital and related financing and investing activities generally reflect the incurrence of debt obligations or receipt of capital grants, the subsequent investment in the Project, periodic principal and interest payments on the debt and earnings on investments.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements can be found on pages 10-17 of this report.

**MARYLAND TECHNOLOGY DEVELOPMENT CENTER,
A PROJECT OF MEDCO**

**Management's Discussion and Analysis
For the Years Ended June 30, 2009 and 2008**

Financial Analysis of Maryland Technology Development Center

The following table summarizes the Project's financial position as of June 30:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Current assets	\$ 988,450	\$ 634,478	\$ 521,926
Net capital assets	7,285,301	7,580,286	7,853,615
Other assets	75,768	759,610	792,123
Total Assets	<u>\$ 8,349,519</u>	<u>\$ 8,974,374</u>	<u>\$ 9,167,664</u>
Current liabilities	\$ 547,016	\$ 436,382	\$ 446,679
Note and bonds payable	2,636,972	2,875,000	3,090,000
Total Liabilities	<u>\$ 3,183,988</u>	<u>\$ 3,311,382</u>	<u>\$ 3,536,679</u>
Invested in capital assets, net of related debt	\$ 4,394,097	\$ 4,623,803	\$ 4,710,596
Restricted under loan agreement for debt service, working capital and repairs and replacements	500,000	1,039,189	920,389
Unrestricted net assets	271,434	-	-
Total Net Assets	<u>\$ 5,165,531</u>	<u>\$ 5,662,992</u>	<u>\$ 5,630,985</u>

Significant factors in the changes in the Program's financial position for the year ended June 30, 2009 include the following:

- Current assets increased by \$354,000 and other assets decreased by \$684,000 primarily as a result of liquidating the non-current portion of deposits with bond trustee following the repayment of the bonds payable.
- Net assets decreased by \$497,000 and increased by \$32,000 for the years ended June 30, 2009 and 2008, respectively, as a result of the Project's earnings (losses) for the respective years.

**MARYLAND TECHNOLOGY DEVELOPMENT CENTER,
A PROJECT OF MEDCO**

**Management's Discussion and Analysis
For the Years Ended June 30, 2009 and 2008**

Financial Analysis of Maryland Technology Development Center – continued

The following table summarizes the Project's revenues and expenses for the years ended June 30:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Operating Revenues:			
License fees	\$ 1,192,042	\$ 1,279,915	\$ 1,217,252
Expense recovery and other	25,671	28,022	33,311
Total Operating Revenues	<u>1,217,713</u>	<u>1,307,937</u>	<u>1,250,563</u>
Operating Expenses:			
Operating expenses	604,093	654,010	791,930
Management fee and expenses	192,200	170,000	182,400
Administrative and general	337,499	197,913	246,001
Depreciation	302,818	300,425	293,323
Total Operating Expenses	<u>1,436,610</u>	<u>1,322,348</u>	<u>1,513,654</u>
Operating Loss	(218,897)	(14,411)	(263,091)
Net Non-operating Revenues (Expenses)	<u>(278,564)</u>	<u>46,418</u>	<u>40,101</u>
Increase (Decrease) in Net Assets	(497,461)	32,007	(222,990)
Net Assets, beginning of year	<u>5,662,992</u>	<u>5,630,985</u>	<u>5,853,975</u>
Net Assets, end of year	<u>\$ 5,165,531</u>	<u>\$ 5,662,992</u>	<u>\$ 5,630,985</u>

Significant factors in the results for the year ended June 30, 2009 include:

- A \$90,000 decrease in operating revenues primarily due to a decrease in license fees as a result of lower occupancy as several spaces were vacant and being reconfigured to meet the long term use and leasing strategy for the Project.
- A \$114,000 increase in operating expenses in 2009. Allowance for doubtful accounts expense increased primarily due to two licensees who were unable to satisfy the financial terms of their licenses and vacated the Project. Utility expense increased primarily due to a rise in energy rates. Personnel costs decreased primarily as a result of the Project not incurring the expense for costs paid by Montgomery County's Department of Economic Development for staffing, reimbursable by the Project to the county per Amendment No. 2 of the Interagency Grant Agreement.
- A \$325,000 increase in non-operating expenses in 2009. Grant expense increased due to cash proceeds disbursed to MEDCO as a result of the redemption of the bonds and liquidation of the deposits with bond trustee.

**MARYLAND TECHNOLOGY DEVELOPMENT CENTER,
A PROJECT OF MEDCO**

**Management's Discussion and Analysis
For the Years Ended June 30, 2009 and 2008**

Financial Analysis of Maryland Technology Development Center – continued

Significant factors in the results for the year ended June 30, 2008 include:

- A \$57,000 increase in operating revenues primarily due to an increase in license fees as a result of increased lab occupancy.
- A \$191,000 decrease in operating expenses in 2008. Utility expenses decreased primarily due to the steps taken to increase the energy efficiency of the Project, including improvements made to the heating, ventilation, and air conditioning system, motion sensors installed on certain lighting, and a more energy efficient boiler on a timer. Repair expenses necessary to maintain the HVAC system were also lower in 2008 as a result of the improvements that were made to the system. Personnel costs were lower in 2008 as staffing levels were reduced.

Capital Assets and Debt Administration

Capital Assets

In 1998 MEDCO was requested to assist in the development of office and laboratory space through issuance of its tax-exempt revenue bonds. The proceeds of the bonds were used for the initial design, construction and furnishing of the Project.

During 2008, a new security surveillance system was installed and repairs were made to the Project's roof mounted exhaust system. There were no other major capital asset events during the years ended June 30, 2009 and 2008.

At the termination of the ground lease, the project will revert to Montgomery County.

Debt

As of June 30, 2009 and 2008, the Project had total debt outstanding of \$3,245,000 and \$3,090,000, respectively. None of this debt is backed by the full faith and credit of the State of Maryland, MEDCO or Montgomery County. The debt is secured solely by the revenues and assets of the Project.

During 2009 the bonds were redeemed, including a 1% prepayment premium, with the proceeds from a \$3,300,000 ten year note payable. Additional information relating to debt is provided in Note 4 to the financial statements. There were no other major debt events during the years ended June 30, 2009 and 2008.

Contacting Management of MEDCO

This report is designed to provide Maryland citizens and taxpayers, and our customers, clients, investors and creditors, with a general overview of the finances of Maryland Technology Development Center. If you have questions about this report or need additional information, contact Maryland Economic Development Corporation, 100 North Charles Street, Suite 630, Baltimore, MD 21201.

Independent Auditors' Report

The Board of Directors of
Maryland Economic Development Corporation:

We have audited the accompanying balance sheets of Maryland Technology Development Center (the Project), a project of Maryland Economic Development Corporation (MEDCO), as of June 30, 2009 and 2008 and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Project's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, the accompanying financial statements present only the financial position, changes in financial position and cash flows of the Project and do not purport to, and do not, present the financial position of MEDCO as of June 30, 2009 and 2008 and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Maryland Technology Development Center, a project of MEDCO, as of June 30, 2009 and 2008 and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 1 through 5 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.

Stout, Causey + Horning, P.A

October 16, 2009

**MARYLAND TECHNOLOGY DEVELOPMENT CENTER,
A PROJECT OF MEDCO**

		Balance Sheets	
<i>As of June 30,</i>		<i>2009</i>	<i>2008</i>
Assets			
Current Assets:			
Cash and cash equivalents	\$	888,149	\$ 462,281
Current portion of deposits with bond trustee – restricted		-	42,242
Accounts receivable, net		65,304	92,887
Related party receivable		27,208	27,208
Prepaid expenses and other current assets		7,789	9,860
Total Current Assets		988,450	634,478
Non-current Assets:			
Non-current portion of deposits with bond trustee – restricted		-	626,093
Capital assets:			
Buildings and improvements		9,477,425	9,477,425
Furnishings and equipment		545,000	537,167
		10,022,425	10,014,592
Less: accumulated depreciation		2,737,124	2,434,306
Net Capital Assets		7,285,301	7,580,286
Deferred financing costs, net of accumulated amortization of \$1,942 and \$135,760 in 2009 and 2008, respectively		75,768	133,517
Total Non-current Assets		7,361,069	8,339,896
Total Assets	\$	8,349,519	\$8,974,374
Liabilities and Net Assets			
Current Liabilities:			
Accounts payable and other accrued expenses	\$	71,452	\$ 69,086
Accrued interest		6,289	20,366
Security deposits		139,275	131,930
Current portion of note and bonds payable		330,000	215,000
Total Current Liabilities		547,016	436,382
Note and bonds payable, net of current portion		2,636,972	2,875,000
Total Liabilities		3,183,988	3,311,382
Commitments (Note 5)			
Net Assets:			
Invested in capital assets, net of related debt		4,394,097	4,623,803
Restricted under loan agreement for debt service, working capital and repairs and replacements		500,000	1,039,189
Unrestricted net assets		271,434	-
Total Net Assets		5,165,531	5,662,992
Total Liabilities and Net Assets	\$	8,349,519	\$8,974,374

The accompanying notes are an integral part of these financial statements.

**MARYLAND TECHNOLOGY DEVELOPMENT CENTER,
A PROJECT OF MEDCO**

Statements of Revenues, Expenses and Changes in Net Assets

<i>For the Years Ended June 30,</i>	<i>2009</i>	<i>2008</i>
Operating Revenues:		
License fees	\$ 1,192,042	\$ 1,279,915
Expense recovery and other	25,671	28,022
Total Operating Revenues	1,217,713	1,307,937
Operating Costs and Expenses:		
Operating expenses	604,093	654,010
Management fee and expenses	192,200	170,000
Administrative and general	337,499	197,913
Depreciation	302,818	300,425
Total Operating Costs and Expenses	1,436,610	1,322,348
Operating Loss	(218,897)	(14,411)
Non-operating Revenues (Expenses):		
Grants from Montgomery County, Maryland	500,000	270,000
Grants from Maryland Technology Development Corporation and others	17,000	8,000
Grant expense	(586,582)	-
Interest income	12,524	39,561
Interest expense	(221,506)	(271,143)
Net Non-operating Revenues (Expenses)	(278,564)	46,418
Increase (Decrease) in Net Assets	(497,461)	32,007
Net Assets, beginning of year	5,662,992	5,630,985
Net Assets, end of year	\$ 5,165,531	\$ 5,662,992

The accompanying notes are an integral part of these financial statements.

**MARYLAND TECHNOLOGY DEVELOPMENT CENTER,
A PROJECT OF MEDCO**

Statements of Cash Flows		
<i>For the Years Ended June 30,</i>	<i>2009</i>	<i>2008</i>
Cash Flows from Operating Activities:		
Cash received from licensees	\$ 1,135,465	\$ 1,259,290
Cash paid for operating and administrative costs	(1,014,688)	(1,056,459)
Net Cash Provided by Operating Activities	120,777	202,831
Cash Flows from Non-capital Financing Activities:		
Grants from Montgomery County, Maryland and Maryland Technology Development Corporation	517,000	278,000
Grants to Montgomery County, Maryland	(586,582)	-
Net Cash Provided by (Used in) Non-capital Financing Activities	(69,582)	278,000
Cash Flows from Capital and Related Financing Activities:		
Furnishing and equipment expenditures	(7,833)	(27,096)
Proceeds from issuance of note payable	3,300,000	-
Repayment of bonds payable	(3,120,900)	-
Note and bond principal payments	(55,000)	(200,000)
Deferred financing costs paid	(77,710)	-
Interest paid on note and bonds payable	(236,040)	(258,887)
Net Cash Used in Capital and Related Financing Activities	(197,483)	(485,983)
Cash Flows from Investing Activities:		
Net sales of deposits with bond trustee	557,123	147,480
Interest received	15,033	41,016
Net Cash Provided by Investing Activities	572,156	188,496
Net Increase in Cash and Cash Equivalents	425,868	183,344
Cash and Cash Equivalents, beginning of year	462,281	278,937
Cash and Cash Equivalents, end of year	\$ 888,149	\$ 462,281
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	\$ (218,897)	\$ (14,411)
Adjustment to reconcile operating loss to net cash provided by operating activities:		
Depreciation	302,818	300,425
Provision for doubtful accounts	114,667	5,276
Changes in operating assets and liabilities:		
Accounts receivable	(89,593)	(66,892)
Related party receivable	-	139
Prepaid expenses and other current assets	2,071	2,383
Accounts payable and other accrued expenses	2,366	(42,334)
Security deposits	7,345	18,245
Net cash provided by operating activities	\$ 120,777	\$ 202,831
Non-cash capital and related financing activities:		
Amortization of deferred financing costs	\$ 12,040	\$ 13,464
Write off of deferred financing costs associated with early repayment	123,419	-

The accompanying notes are an integral part of these financial statements.

