

**GEORGIA ADVANCED TECHNOLOGY VENTURES, INC.
AND SUBSIDIARIES**

CONSOLIDATED FINANCIAL STATEMENTS
(with report of independent auditors)

YEARS ENDED JUNE 30, 2006 AND 2005

GEORGIA ADVANCED TECHNOLOGY VENTURES, INC. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2006 AND 2005

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INDEPENDENT AUDITORS' REPORT

Board of Directors and Officers
Georgia Advanced Technology Ventures, Inc.
Atlanta, Georgia

We have audited the accompanying consolidated statements of financial position of Georgia Advanced Technology Ventures, Inc., a nonprofit organization, and subsidiaries (the Organization) as of June 30, 2006 and 2005, and the related consolidated statements of activities, cash flows and functional expenses for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these consolidated 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 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 consolidated 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.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Georgia Advanced Technology Ventures, Inc. and subsidiaries as of June 30, 2006 and 2005, and the changes in net assets and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Tomkiewicz Wright, LLC

August 18, 2006

GEORGIA ADVANCED TECHNOLOGY VENTURES, INC. AND SUBSIDIARIES

 CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
 JUNE 30, 2006 AND 2005

<u>ASSETS</u>	<u>2006</u>	<u>2005</u>
CURRENT ASSETS:		
Cash and cash equivalents	\$ 1,143,025	\$ 1,371,032
Accounts receivable - rents	96,001	13,345
Unconditional promises to give - restricted	650,000	500,000
Other receivables	204,197	-0-
Prepaid expenses	57,985	-0-
Cash restricted for predevelopment expenses	<u>212,745</u>	<u>212,745</u>
TOTAL CURRENT ASSETS	<u>2,363,953</u>	<u>2,097,122</u>
PROPERTY AND EQUIPMENT:		
Land	10,725,522	10,725,522
Buildings	69,405,973	66,740,013
Leasehold improvements	978,739	626,626
Furniture and fixtures	<u>1,047,396</u>	<u>1,047,396</u>
	82,157,630	79,139,557
Less accumulated depreciation	<u>4,409,505</u>	<u>2,554,452</u>
	<u>77,748,125</u>	<u>76,585,105</u>
OTHER ASSETS:		
Investment in limited liability company, at cost	<u>1,000,000</u>	<u>1,000,000</u>
TOTAL ASSETS	<u>\$ 81,112,078</u>	<u>\$ 79,682,227</u>

(Continued)

GEORGIA ADVANCED TECHNOLOGY VENTURES, INC. AND SUBSIDIARIES

 CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (CONTINUED)
 JUNE 30, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES:		
Accounts payable	\$ 266,832	\$ 206,455
Subscription payable - limited liability company	500,000	500,000
Deferred revenue	75,520	-0-
Accrued interest payable - current	236,596	56,875
Obligation under line of credit	1,600,000	1,500,000
Current portion of long-term notes payable	29,380	14,374
Refundable tenant deposits	332,711	162,028
Short-term note payable	<u>2,753,716</u>	<u>-0-</u>
TOTAL CURRENT LIABILITIES	<u>5,794,755</u>	<u>2,439,732</u>
NOTES PAYABLE, less current portion	6,324,344	6,215,939
ACCRUED INTEREST PAYABLE- NONCURRENT, capital lease obligations	981,386	605,641
CAPITAL LEASE OBLIGATIONS	49,631,945	49,631,945
NET ASSETS:		
Unrestricted	17,516,903	20,076,225
Restricted	<u>862,745</u>	<u>712,745</u>
TOTAL NET ASSETS	<u>18,379,648</u>	<u>20,788,970</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 81,112,078</u>	<u>\$ 79,682,227</u>

See notes to financial statements.

GEORGIA ADVANCED TECHNOLOGY VENTURES, INC. AND SUBSIDIARIES

 CONSOLIDATED STATEMENTS OF ACTIVITIES
 YEARS ENDED JUNE 30, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
CHANGES IN UNRESTRICTED NET ASSETS:		
Revenues and support:		
Rental income	\$ 7,003,759	\$ 5,377,562
Unrestricted donations	243,952	23,142
GATV memberships	49,194	23,783
Special events	81,782	9,058
Management services revenue	634,000	1,009,611
Grants	-0-	14,195
Interest	40,723	19,494
Net assets released from restrictions	80,000	500,000
Other	<u>541,604</u>	<u>7,078</u>
Total unrestricted revenues	<u>8,675,014</u>	<u>6,983,923</u>
Expenses:		
Program services	11,192,700	7,907,976
Management and general	<u>41,636</u>	<u>346,918</u>
Total expenses	<u>11,234,336</u>	<u>8,254,894</u>
Decrease in unrestricted net assets	<u>(2,559,322)</u>	<u>(1,270,971)</u>
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS:		
Contributions	230,000	1,000,000
Net assets released from restrictions	<u>(80,000)</u>	<u>(500,000)</u>
Increase in temporarily restricted net assets	<u>150,000</u>	<u>500,000</u>
Decrease in net assets	(2,409,322)	(770,971)
Net assets, beginning of year	<u>20,788,970</u>	<u>21,559,941</u>
Net assets, end of year	<u>\$ 18,379,648</u>	<u>\$ 20,788,970</u>

See notes to financial statements.

GEORGIA ADVANCED TECHNOLOGY VENTURES, INC. AND SUBSIDIARIES

 CONSOLIDATED STATEMENTS OF CASH FLOWS
 YEARS ENDED JUNE 30, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Decrease in net assets	\$ (2,409,322)	\$ (770,971)
Adjustments to reconcile changes in net assets to net cash (used in) provided by operating activities:		
Depreciation	1,855,053	1,461,968
Changes in operating assets and liabilities:		
Accounts receivable - rents	(82,656)	151,871
Unconditional promises to give - restricted	(150,000)	(500,000)
Other receivables	(204,197)	-0-
Prepaid expenses	(57,985)	-0-
Accounts payable	60,377	4,174
Deferred revenue	75,520	(42,975)
Accrued interest payable - current	179,721	43,046
Refundable tenant deposits	170,683	51,036
Accrued interest payable - noncurrent	375,745	308,528
Cash restricted for particular purposes	<u>-0-</u>	<u>200,000</u>
Net cash (used in) provided by operating activities	<u>(187,061)</u>	<u>906,677</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment in limited liability company	-0-	(500,000)
Purchase of property and equipment	<u>(3,018,073)</u>	<u>(6,015,967)</u>
Net cash used in investing activities	<u>(3,018,073)</u>	<u>(6,515,967)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from short term note	2,768,722	-0-
Proceeds from long term debt	108,405	6,136,887
Drawings on line of credit	<u>100,000</u>	<u>200,000</u>
Net cash provided by financing activities	<u>2,977,127</u>	<u>6,336,887</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(228,007)	727,597
CASH AND CASH EQUIVALENTS, beginning of year	<u>1,371,032</u>	<u>643,435</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 1,143,025</u>	<u>\$ 1,371,032</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the year for interest	\$ 2,871,862	\$ 2,412,254

See notes to financial statements.

GEORGIA ADVANCED TECHNOLOGY VENTURES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES
YEARS ENDED JUNE 30, 2006 AND 2005

	Program Services	Management and General	Total	
			Year Ended June 30, 2006	2005
Salaries	\$ 76,924	\$ -0-	\$ 76,924	\$ 29,715
Fringe benefits	18,076	-0-	18,076	7,221
Total compensation and benefits	95,000	-0-	95,000	36,936
Bank charges	\$ -0-	\$ 6,215	\$ 6,215	12,117
Dues and subscriptions	-0-	-0-	-0-	1,323
Insurance	66,356	-0-	66,356	102,723
Legal, accounting, and consulting	330,319	-0-	330,319	254,155
Management expenses	1,554,074	-0-	1,554,074	927,366
Marketing and sponsorship	125,749	-0-	125,749	32,959
Non-capitalized equipment	260,441	-0-	260,441	161,403
Office supplies	-0-	31,271	31,271	21,744
Property repairs and maintenance	454,378	-0-	454,378	518,613
Registration fees	-0-	4,150	4,150	444
Rent	2,282,814	-0-	2,282,814	1,550,219
Special events	17,442	-0-	17,442	7,500
Taxes- property	222,122	-0-	222,122	67,936
Travel and entertainment	3,992	-0-	3,992	7,980
Utilities	443,410	-0-	443,410	316,448
Depreciation	1,855,054	-0-	1,855,054	1,461,968
Interest	3,427,328	-0-	3,427,328	2,763,828
Other expenses	54,221	-0-	54,221	9,232
Total expenses	\$ 11,192,700	\$ 41,636	\$ 11,234,336	\$ 8,254,894

See notes to financial statements.

GEORGIA ADVANCED TECHNOLOGY VENTURES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2006 AND 2005

1. Organization and Summary of Significant Accounting Policies:

Georgia Advanced Technology Ventures, Inc. (the Organization), is a Georgia non-profit organization formed to support Georgia Institute of Technology's technology transfer and economic development mission and its Advanced Technology Development Center (ATDC) incubator program. The Organization provides capital and operating support for technology transfer and economic activities including ATDC incubator facilities and services to ATDC affiliated companies. The Organization is the single member of four limited liability companies: VLP 1, LLC, which holds ownership to property at 555 and 575 14th Street; VLP 2, LLC, which holds ownership to properties at 720 14th Street, 673 and 650 Ethel Street, and 1115 Howell Mill Road; VLP 3, LLC, which holds ownership to property at 395 North Avenue; and Technology Enterprise Park 1, LLC, which is intended to be lessee under a capital lease upon completion of capital improvements at 395 North Avenue.

Basis of Accounting

The financial statements of the Organization have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables and other liabilities.

Basis of Consolidation

The consolidated financial statements include the accounts of Georgia Advanced Technology Ventures, Inc., and its wholly owned subsidiaries. All material inter-company balances and transactions have been eliminated in consolidation.

Basis of Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Cash and Cash Equivalents

The Organization considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Property and Equipment

It is the Organization's policy to capitalize at cost personal property additions in excess of \$30,000. Lesser amounts are expensed. Real property and leasehold improvements are capitalized at cost. Donations of property and equipment are recorded as contributions at their estimated fair value. Such donations are reported as unrestricted contributions unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted contributions. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies temporarily restricted net assets to unrestricted net assets at that time. Property and equipment are depreciated using the straight-line method.

Deferred Revenue

Rental payments received from lessees in advance of the periods to which they pertain are deferred and recognized over the periods to which the rental payments relate.

1. Organization and Summary of Significant Accounting Policies (continued):

Revenue Recognition

The Organization has adopted SFAS No. 116, *Accounting for Contributions Received and Contributions Made*, whereby contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions.

Unconditional promises to give are recognized as receivables and as revenues in the period in which the Organization is notified by the donor of his or her commitment to make a contribution. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

Expense Allocation

The costs of providing various programs and other activities have been summarized on a functional basis in the Statement of Activities and in the Statement of Functional Expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Income Taxes

The Organization is a not-for-profit corporation and is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no income taxes are reflected in the accompanying financial statements.

Estimates and Assumptions

The Organization uses estimates and assumptions in preparing financial statements in accordance with generally accepted accounting principles. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were used.

2. Concentrations:

The financial instruments which potentially subject the Organization to concentrations of credit risk are cash and short-term cash equivalents. The Organization has cash deposits in a financial institution in excess of the \$100,000 limit federally insured by the Federal Deposit Insurance Corporation. The excess amount totals \$754,906 at June 30, 2006. Short-term cash equivalents are held in an investment institution and are not federally insured. The amount of this uninsured investment is \$605,229 at June 30, 2006.

The Organization receives significant resources from Georgia Institute of Technology and related organizations. An interruption of this support could cause substantial doubt in the Organization's ability to continue as an independent entity.

3. Cash Restricted for Predevelopment Expenses:

During the year ended June 30, 2004, the Organization received \$500,000 from Georgia Tech Foundation Funding Corporation, to be used for development and operations of real property. At June 30, 2006 and 2005, the unexpended balance of \$212,745 was included in Restricted Net Assets.

4. Unconditional Promises to Give - Restricted:

The Organization received a commitment from Georgia Institute of Technology (GIT) to fund the Organization's remaining \$500,000 balance due as a capital contribution to a limited liability company of which the Organization is a member (see Note 5), from funds available to GIT for that purpose. The balance of the commitment was included in Restricted Net Assets at June 30, 2006 and 2005.

At June 30, 2006, the Organization had received a commitment from the State of Georgia for a \$150,000 contribution to be used for incentives to attract a specific tenant to one of its properties. The balance was included in Restricted Net Assets at June 30, 2006.

5. Investment in Limited Liability Company and Subscription Payable - Limited Liability Company:

During the year ended June 30, 2005, the Organization entered an agreement to purchase a limited liability membership interest in Georgia Venture Partners, LLC (the LLC), a seed capital fund established to make seed and early-stage investments in life sciences enterprises related to Georgia. Other limited liability members include Emory University, The University of Georgia, and The University Financing Foundation, Inc. Each member owns an equal interest in the LLC. The Organization agreed to contribute capital of \$1,000,000 in exchange for its membership interest. The subscription agreement was finalized during the year ended June 30, 2005. No further substantial activity occurred during the years ended June 30, 2006 and 2005, and the investment is reflected at the full value of the Organization's capital contribution commitment as of those dates.

To fulfill this agreement, \$500,000 was provided during the year ended June 30, 2005 by a contribution from the Wallace H. Coulter Foundation. The remaining \$500,000 has been committed by Georgia Institute of Technology (see Note 4).

6. Line of Credit:

The Organization has a line of credit arrangement with The University Financing Foundation, Inc. (TUFF), with a limit of \$1,900,000. Interest at the prime rate plus 2% is payable each December 31, but the Organization currently chooses to make interest payments on a quarterly basis. Principal is payable within 30 days of demand by TUFF. No collateral is specified, but the Organization is required to obtain the consent of TUFF before granting a security interest in its general assets to any other entity. At June 30, 2006 and 2005, advances under this line of credit total \$1,600,000 and \$1,500,000. Interest expense of \$39,485 and \$0 is accrued in association with this liability at June 30, 2006 and 2005.

7. Short Term Note Payable:

The Organization, as VLP 3, LLC, entered a loan agreement with The University Financing Foundation, Inc., for the purpose of financing improvements to a building located at 395 North Avenue. Under the agreement, the Organization can draw up to \$3,105,000 for these improvements. Interest accrues at the rate of 8%. This loan is due in full no later than December 31, 2006, and no payments are required until maturity. The loan is secured by the property being improved. At June 30, 2006, draws under the note total \$2,753,716.

8. Long Term Notes Payable:

	June 30,	
	<u>2006</u>	<u>2005</u>
Loan from The University Financing Foundation; monthly payments of \$4,164 through October 2015; interest at 6%; unsecured	\$ 353,724	\$ 230,313
Loan from The University Financing Foundation; interest varies at LIBOR plus 5.10%; monthly interest-only payments; principal matures September 2009; secured by real property acquired by VLP3 (North Ave.)	<u>6,000,000</u>	<u>6,000,000</u>
	6,353,724	6,230,313
Less current portion	<u>29,380</u>	<u>14,374</u>
	<u>\$ 6,324,344</u>	<u>\$ 6,215,939</u>

9. Capital Lease Obligations:

The Organization is party to a lease agreement with TUFF ATDC LLC under which the Organization leases space on the first through third floors of the Centergy One Building on Fifth Street in Atlanta. The Organization subleases this space to organizations compatible with its mission. The lease extends for thirty years, after which the Organization may purchase the property for a nominal charge. The leased space was occupied in August 2003.

The Organization is also party to a lease agreement with TUFF GATV45 LLC under which the Organization leases space on the fourth and fifth floors of the Centergy One Building, which it subleases to organizations compatible with its mission. This lease commenced April 1, 2005, and extends to December 2034, at which time the Organization may purchase the property for a nominal charge. Additionally, the Organization may purchase the property during the lease term at an amount determined by a formula accounting for interest rates and the total previous payments made.

The properties under the above capital leases are recorded as assets in the accompanying financial statements at the value of certain pre-occupancy payments plus the present value of the future minimum lease payments. The obligations under the capital lease have been recorded at the present value of future minimum lease payments, discounted at an interest rate appropriate to the Organization's estimated borrowing rate at the time of lease inception. These interest rates are 6.25% for floors one through three and 7.75% for floors four and five. Interest expense on the discounted capital leases of \$981,386 and \$605,641 is accrued at June 30, 2006 and 2005.

At June 30, 2006 and 2005, properties under these capital leases total \$56,622,871 and are included in the Buildings account. Related accumulated depreciation at June 30, 2006 and 2005 is \$3,474,994 and \$2,023,125. Related depreciation expense for the years ended June 30, 2006 and 2005 is \$1,451,869 and \$1,119,783.

9. Capital Lease Obligations (continued):

Future minimum lease payments under the capital leases, and the net present value of future minimum lease payments, are as follows at June 30, 2006:

Year Ending June 30,	
2007	\$ 3,112,687
2008	3,200,365
2009	3,288,293
2010	3,383,249
2011	3,481,178
Thereafter	<u>106,919,156</u>
	123,384,928
Less amounts representing interest	<u>(72,771,597)</u>
Present value of future minimum lease payments	<u>\$ 50,613,331</u>

10. Operating Lease Obligations:

During the year ended June 30, 2006, the Organization, as lessee, entered into two operating lease agreements with Centergy One Associates, LLC, for spaces on the seventh and eighth floors of the Centergy One Building on Fifth Street in Atlanta. Each lease has a term of five years, after which possession of the spaces reverts to Centergy One Associates, LLC.

Future minimum lease payments under the operating leases are as follows at June 30, 2006:

Year Ending June 30,	
2007	\$ 592,682
2008	607,499
2009	622,687
2010	638,254
2011	549,848
Thereafter	<u>-0-</u>
	<u>\$ 3,010,970</u>

11. Rental Income:

The Organization's rental income is generated primarily by leasing facilities to tenants under various cancelable leases and subleases. Rental income from all sources is \$7,003,759 and \$5,377,562 for the years ended June 30, 2006 and 2005. Many of the leases provide tenants the option to terminate these leases at any time by giving the Organization 30 days written notice.

12. Management Services Revenue:

The Organization provides management services to the GIT and to ATDC. Services include management of the facilities used by the technology start-up companies participating in the ATDC program. In exchange for these services, the Organization receives the use of facilities from GIT, estimated at a fair rental value of \$634,000 and \$972,674 for the years ended June 30, 2006 and 2005. These amounts are included in management services revenue and program services expense in the accompanying consolidated statements of activities.

12. Management Services Revenue (continued):

The Organization historically received the use of ATDC and GIT employees' time, estimated at \$36,936 for the year ended June 30, 2005, based on time spent rendering services to the Organization at the employees' compensation rates. This amount is included in management services revenue and program services expense in the accompanying June 30, 2005, Consolidated Statement of Activities.

As the Organization's scope of operations has increased and its revenue sources have expanded, the Organization, under various agreements, reimburses ATDC and GIT for administrative services received, including the estimated value of employees' time spent performing services for the Organization. These reimbursements are included as program service expenses in the June 30, 2006 consolidated statement of activities. Management believes that, as a result of these reimbursements, management services revenues from donated employees' time are no longer meaningful or material to the financial statements, and no such estimate has been included in the financial statements for the year ended June 30, 2006.

13. Contingent Liabilities:

To guarantee performance under the capital lease described in Note 9, the Organization is required to maintain a letter of credit payable to the Landlord with a face amount of \$4,800,000. Draws under the letter of credit bear interest at the rate of prime plus 2%. The letter of credit is collateralized by a limited guaranty equal to its face amount by Georgia Tech Foundation, Inc. The letter of credit expires June 10, 2009. There are no outstanding draws against the letter of credit at June 30, 2006 and 2005.

14. Payments to Affiliates:

During the year ended June 30, 2006, the Organization remitted payments, or accrued liabilities for balances due, to GIT in the amount of \$238,500, including \$95,000 for reimbursed salaries and fringe benefits, \$24,500 for parking expenses, and \$119,000 for furniture purchases.