

CONSOLIDATED FINANCIAL STATEMENTS, SUPPLEMENTAL SCHEDULES
AND REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

**GEORGIA TECH RESEARCH CORPORATION AND ITS SUBSIDIARY,
GEORGIA TECH APPLIED RESEARCH CORPORATION**

Year ended June 30, 2005

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Report of Independent Certified Public Accountants

Board of Trustees
Georgia Tech Research Corporation
Atlanta, Georgia

We have audited the accompanying consolidated statement of financial position of Georgia Tech Research Corporation (a not-for-profit component of the Georgia Institute of Technology) and its subsidiary, Georgia Tech Applied Research Corporation, as of June 30, 2005, and the related consolidated statements of activities and cash flows for the year then ended. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America as established by the Auditing Standards Board of the American Institute of Certified Public Accountant 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 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 Corporation'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, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe 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 consolidated financial position of Georgia Tech Research Corporation and its subsidiary, Georgia Tech Applied Research Corporation, as of June 30, 2005, and the consolidated changes in its net assets and its 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 September 12, 2005 on our consideration of Georgia Tech Research Corporation's and its subsidiary, Georgia Tech Applied Corporation'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.

Our audit was made for the purpose of forming an opinion on the financial statements of Georgia Tech Research Corporation and its subsidiary, Georgia Tech Applied Research Corporation, taken as a whole, for the year ended June 30, 2005. The supplemental information, on pages 16 through 19, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the audit procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.



Atlanta, Georgia
September 12, 2005

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**Georgia Tech Research Corporation and its Subsidiary,
Georgia Tech Applied Research Corporation**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

June 30, 2005

ASSETS

CURRENT ASSETS

Cash and cash equivalents (Note B-3)	\$ 35,665,205
Investments (Note B-4)	1,387,956
Accounts receivable:	
Research contracts	31,275,075
Other receivables	945,846
Less allowance for doubtful accounts	<u>(3,010,296)</u>
	66,263,786

Prepaid expenses	17,310
Research projects in process (Note B-9)	<u>31,409,896</u>

Total current assets 97,690,992

EQUIPMENT (Note B-8)	4,917,280
Accumulated depreciation	<u>(2,488,388)</u>
	<u>2,428,892</u>

Total assets \$ 100,119,884

The accompanying notes are an integral part of this statement.

**Georgia Tech Research Corporation and its Subsidiary,
Georgia Tech Applied Research Corporation**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

June 30, 2005

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable	
Georgia Institute of Technology	\$ 34,387,628
Other	1,967,310
	<u>36,354,938</u>
 Deferred research contract revenue (Note B-9)	 <u>26,989,798</u>
 Total current liabilities	 <u>63,344,736</u>

COMMITMENTS (Notes C and D)

-

NET ASSETS - UNRESTRICTED

Net assets designated to research pursuant to Board of Regents Agreement	34,404,668
Net assets designated for grants to Georgia Institute of Technology	1,372,644
Net assets designated for working capital	<u>997,836</u>
 Total net assets	 <u>36,775,148</u>
 Total liabilities and net assets	 <u>\$ 100,119,884</u>

The accompanying notes are an integral part of this statement.

**Georgia Tech Research Corporation and its Subsidiary,
Georgia Tech Applied Research Corporation**

CONSOLIDATED STATEMENT OF ACTIVITIES

Year ended June 30, 2005

Gross revenue from research contracts (Note B-2)	\$ 324,990,728
Direct costs	230,695,556
Georgia Institute of Technology overhead charges	82,155,020
	<u>312,850,576</u>
Excess of research revenue over direct costs and Georgia Institute of Technology overhead charges	12,140,152
Other operating revenue, net	3,401,304
Administrative and general expenses	<u>(6,026,754)</u>
Operating revenue	9,514,702
Other revenue (expense)	
Interest income	822,611
Lease income (Note C)	4,724,833
License income	3,238,530
License expense	(3,959,606)
Lease expense (Note C)	(4,724,833)
Unrealized loss on investments (Note B-4)	(65,906)
Realized gain on sale of investments	675,390
Miscellaneous income	6,233
Total other revenue (expense), net	<u>717,252</u>
Change in net assets before grants to Georgia Institute of Technology	10,231,954
Grants to Georgia Institute of Technology (Note B-10)	<u>(5,385,669)</u>
Change in net assets	4,846,285
Net assets, beginning of year	<u>31,928,863</u>
Net assets, end of year	<u>\$ 36,775,148</u>

The accompanying notes are an integral part of this statement.

**Georgia Tech Research Corporation and its Subsidiary,
Georgia Tech Applied Research Corporation**

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended June 30, 2005

Cash flows used by operating activities:

Change in net assets	\$ 4,846,285
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation expense	674,442
Increase in accounts receivable - research contracts	(4,776,735)
Increase in research projects in process	(3,497,512)
Increase in prepaid assets	(15,083)
Increase in accounts payable and accrued liabilities	6,119,505
Increase in advance payments	712,871
Net cash provided by operating activities	<u>4,063,773</u>

Cash flows from investing activities:

Capital expenditures	(54,863)
Unrealized loss on investments	<u>65,906</u>
Net cash used in investing activities	11,043

Net increase in cash and cash equivalents 4,074,816

Cash and cash equivalents, beginning of year 31,590,389

Cash and cash equivalents, end of year \$ 35,665,205

The accompanying notes are an integral part of this statement.

**Georgia Tech Research Corporation and its Subsidiary,
Georgia Tech Applied Research Corporation**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2005

NOTE A - NATURE 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 any one or more of any such stated purposes. On April 6, 1984 Georgia Tech Research Institute ("GTRI") amended its corporate charter to change the Industrial Development Council's name to Georgia Tech Research Corporation.

Effective July 1, 1998, Georgia Tech Applied Research Corporation ("GTARC") was established as a wholly-owned subsidiary of GTRC. GTARC was organized as the contracting arm to engage in sponsored research for scientific purposes for work to be performed by GTRI.

GTRC, and its wholly-owned subsidiary, GTARC, (collectively hereinafter referred to as the "Corporation") enter into contracts and grant agreements with various organizations, including Federal agencies, and subcontracts with GIT to provide services in connection with these agreements. The Corporation is largely a conduit organization, subcontracting performance of all contracts it enters into to GIT. As such, the Corporation is an affiliated entity of GIT. As part of the relationship, transfers of funds occur between GIT and the Corporation for certain sponsor project expenditures and research administration.

The Board of Regents of the University System of Georgia and Georgia Institute of Technology implemented Governmental Accounting Standards Board ("GASB") Statement No. 39, *Determining Whether Certain Organizations are Component Units, an amendment of Statement No. 14*, for the year ended June 30, 2004. This statement requires the inclusion of the financial statements for foundations and affiliated organizations that qualify as component units in the annual report of the institution. These statements are reported as a discretely presented component unit in the Georgia Institute of Technology's Annual Financial Report.

NOTE B - SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements of the Corporation have been prepared in conformity with accounting principles generally accepted in the United States of America as applicable to not-for-profit organizations. The following is a summary of certain significant accounting policies followed in the preparation of the consolidated financial statements:

1. Principles of Consolidation

The consolidated financial statements of the Corporation include the accounts of GTRC and its wholly-owned subsidiary, GTARC, after the elimination of intercompany transactions.

**Georgia Tech Research Corporation and its Subsidiary,
Georgia Tech Applied Research Corporation**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2005

NOTE B - SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

2. Revenue

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

3. Cash and Cash Equivalents

Cash and cash equivalents consist of demand deposit accounts and highly liquid investments with original maturities of less than 90 days. Cash equivalents are stated at cost, which approximates market value.

4. Investments

Investments consist of equity securities, which are stated at fair value. Realized and unrealized gains and losses on these investments are reflected in the statement of activities.

<u>Schedule of Investments</u>	<u>Cost</u>	<u>Fair Market Value</u>	<u>Unrealized Gain (Loss)</u>
Mphase Technologies	\$ 1,447,808	\$ 1,385,912	\$ (61,896)
Cybercare	6,014	2,004	(4,010)
Applied Global Technologies	1	1	-
ArdeX Technologies, Inc.	1	1	-
BioValve Technologies, Inc.	1	1	-
CAMotion, Inc.	1	1	-
CAMotion, Inc.	1	1	-
CAMotion, Inc.	1	1	-
CAMotion, Inc. Cert #35	1	1	-
CAMotion, Inc. Cert #39	1	1	-
CAMotion, Inc. Cert #46	1	1	-
CAMotion, Inc. Cert #52	1	1	-
CAMotion, Inc. Cert #64	1	1	-
CAMotion, Inc. Cert #70	1	1	-
CAMotion, Inc. Cert #84	1	1	-
CardioMEMS, Inc.	1	1	-

**Georgia Tech Research Corporation and its Subsidiary,
Georgia Tech Applied Research Corporation**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2005

NOTE B - SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

4. Investments - Continued

<u>Schedule of Investments</u>	<u>Cost</u>	<u>Fair Market Value</u>	<u>Unrealized Gain (Loss)</u>
Cenomed, Inc	1	1	-
Channelogics, Inc.	1	1	-
Custom Composite Materials	1	1	-
CyberCare	1	1	-
EG Technology, Inc.	1	1	-
Enkia Corporation	1	1	-
Fast-Talk Communications, Inc.	1	1	-
Georgia Composites, Inc.	1	1	-
GTRONIX, Inc.	1	1	-
Maya Interventional LLC	1	1	-
MedSensor LLC	1	1	-
Medanoia, Inc.	1	1	-
Mphase Technologies	1	1	-
Photonic Sensor Systems, Inc.	1	1	-
Photonic Sensor Systems, Inc.	1	1	-
Qcept Technologies. Inc.	1	1	-
Quellan, Inc.	1	1	-
Salumedica, LLC	1	1	-
Sensatex, Inc.	1	1	-
Stheno Corporation	1	1	-
Systine Inc.	1	1	-
Tapistron International, Inc.	1	1	-
Vechicle Monitoring Technologies	1	1	-
Virtually Better	1	1	-
Vivonetics	1	1	-
Wang Electro-Opto Corp.	1	1	-
Totals	<u>\$ 1,453,862</u>	<u>\$ 1,387,956</u>	<u>\$ (65,906)</u>

On January 31, 2005 the Corporation exchanged the Mphase Technologies stock warrant with a value of \$1,447,808, for 4,949,684 shares of Mphase Technologies common stock.

**Georgia Tech Research Corporation and its Subsidiary,
Georgia Tech Applied Research Corporation**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2005

NOTE B - SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

5. Major Clients and Concentration of Credit Risk

During the fiscal year ended June 30, 2005, the Corporation derived approximately 82.5 percent of its revenue from contracts with the U.S. government. At June 30, 2005, approximately 44 percent of accounts receivable were from the U.S. government. Management does not believe these receivables represent significant credit risk at June 30, 2005.

6. Federal Income Taxes

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

7. Allowance for Doubtful Accounts

The corporation has reserved all account receivables greater than 180 days.

8. Equipment

Equipment is capitalized at cost. Donated assets, if any, are recorded at their estimated fair market value at the date of the gift. The Corporation has established a threshold of \$5,000 for capitalizing equipment. All capitalized equipment purchased under the terms of equipment and facilities grants are donated to GIT when fully depreciated. The Corporation donated fully depreciated equipment with an original cost of \$713,555 to GIT during fiscal 2005.

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 equipment.

9. Research Projects in Process and Deferred Research Contract Revenue

Research contracts in process represent 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.

10. 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 the Corporation and the Board of Regents of the University System of the State of Georgia, dated April 1, 1953, the Corporation 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 the Corporation may see fit, for the promotion of research at GIT.

**Georgia Tech Research Corporation and its Subsidiary,
Georgia Tech Applied Research Corporation**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2005

NOTE B - SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

11. Use of Estimates in Preparation of Consolidated Financial Statements

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE C - LEASE COMMITMENTS

Research Facilities

The Corporation is committed to two operating leases with The University Financing Foundation, Inc. for the Cobb County Research Facility and Centennial Research Building. The leases carry successive two-year lease terms that are automatically renewed at prevailing market rates in effect at the time of the renewal. The Corporation may cancel either lease upon notice given during July of any lease year to be effective as of June 30 of the then-current lease year. The present monthly rentals for the Cobb County Research Facility and the Centennial Research Building are \$105,056 and \$125,870, respectively.

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 are \$105,056 and \$125,870, respectively.

Institute for BioEngineering and BioSciences Complex

The Complex was developed by Georgia Tech Foundation Facilities, Inc. ("GTFF") and funded by the issuance of thirty year, fixed rate, Series B bonds through the Fulton County Development Authority. On December 1, 1997, the Corporation agreed to guarantee these bonds by entering into an agreement to lease the Complex from GTFF. The lease term extends from December 1, 1997 until 30 years after the issuance of a certificate of occupancy. GTRC is obligated to pay rent in an amount equal to the principal, premium (if any) and interest on the Series 1997B Bonds when due and upon any redemption or acceleration there under.

In connection with this lease agreement, the Corporation 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 the Corporation and GTFF.

**Georgia Tech Research Corporation and its Subsidiary,
Georgia Tech Applied Research Corporation**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2005

NOTE C - LEASE COMMITMENTS - CONTINUED

Office Space

The Corporation leases office space under operating leases for research activities in Fairborn, Ohio and Arlington, Virginia. The Arlington lease requires a base rent of \$15,625 per month for the year ended June 30, 2005 and expires June 30, 2008. The Fairborn lease requires a base rent of \$15,463 per month for the year ended June 30, 2005 and the lease expires June 30, 2011.

The Corporation also leases office space in Orlando, Florida. The Orlando lease term began July 1, 2004 and will expire June 30, 2007. For the year ended June 30, 2005, the Orlando lease requires a base rent of \$3,144 per month.

Residential Space

The majority of GTRC's leases are 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 timing and amount of rental payments under the subleases are substantially the same as those under their corresponding lease agreements between the Corporation and third-party lessor.

<u>Year ending June 30,</u>	<u>Commitments</u>	<u>Sublease Rental Receipts</u>	<u>Net Rental Commitment</u>
2006	\$ 4,631,344	\$ 4,607,344	\$ 24,000
2007	4,642,672	-	4,642,672
2008	4,595,845	-	4,595,845
2009	4,398,262	-	4,398,262
2010	2,891,739	-	2,891,739
Thereafter	<u>30,904,864</u>	<u>-</u>	<u>30,904,864</u>
Total	<u>\$ 52,064,726</u>	<u>\$ 4,607,344</u>	<u>\$ 47,457,382</u>

Net rent expense for the year ended June 30, 2005 was computed as follows:

Minimum rentals	\$ 4,631,344
Less: sublease rentals - Georgia Institute of Technology	(4,607,344)
Less: sublease rentals - other	<u>(24,000)</u>
Net rent expense	<u>\$ -</u>

**Georgia Tech Research Corporation and its Subsidiary,
Georgia Tech Applied Research Corporation**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2005

NOTE D - CONTINGENT LIABILITIES

As of June 30, 2005, the Corporation guarantees approximately \$139,213 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.

SUPPLEMENTAL INFORMATION

**Georgia Tech Research Corporation and its Subsidiary,
Georgia Tech Applied Research Corporation**

CONSOLIDATING STATEMENT OF FINANCIAL POSITION

June 30, 2005

ASSETS

	<u>Georgia Tech Research Corporation</u>	<u>Georgia Tech Applied Research Corporation</u>	<u>Total</u>	<u>Consolidations and Eliminations</u>		<u>Consolidated Totals</u>
				<u>Debit</u>	<u>Credit</u>	
CURRENT ASSETS						
Cash and cash equivalents	\$ 15,985,415	\$ 19,679,790	\$ 35,665,205	\$ -	\$ -	\$ 35,665,205
Investments	1,387,956	-	1,387,956	-	-	1,387,956
Accounts receivable:						
Research contracts	16,176,652	15,098,423	31,275,075	-	-	31,275,075
Other receivables	930,723	15,123	945,846	-	-	945,846
Less allowance for doubtful accounts	<u>(779,751)</u>	<u>(2,230,545)</u>	<u>(3,010,296)</u>	-	-	<u>(3,010,296)</u>
	33,700,995	32,562,791	66,263,786	-	-	66,263,786
Prepaid expenses	17,310	-	17,310	-	-	17,310
Intercompany receivable	1,903,702	-	1,903,702	-	1,903,702	-
Research projects in process	<u>17,762,442</u>	<u>13,647,454</u>	<u>31,409,896</u>	-	-	<u>31,409,896</u>
Total current assets	53,384,449	46,210,245	99,594,694	-	1,903,702	97,690,992
EQUIPMENT						
Accumulated depreciation and amortization	4,917,280	-	4,917,280	-	-	4,917,280
	<u>(2,488,388)</u>	<u>-</u>	<u>(2,488,388)</u>	-	-	<u>(2,488,388)</u>
	<u>2,428,892</u>	<u>-</u>	<u>2,428,892</u>	-	-	<u>2,428,892</u>
	<u>\$ 55,813,341</u>	<u>\$ 46,210,245</u>	<u>\$ 102,023,586</u>	<u>\$ -</u>	<u>\$ 1,903,702</u>	<u>\$ 100,119,884</u>

**Georgia Tech Research Corporation and its Subsidiary,
Georgia Tech Applied Research Corporation**

CONSOLIDATING STATEMENT OF FINANCIAL POSITION

June 30, 2005

LIABILITIES AND NET ASSETS

	Georgia Tech Research Corporation	Georgia Tech Applied Research Corporation	Total	Consolidations and Eliminations		Consolidated Totals
				Debit	Credit	
CURRENT LIABILITIES						
Accounts payable:						
Georgia Institute of Technology	\$ 22,760,911	\$ 11,626,717	\$ 34,387,628	\$ -	\$ -	\$ 34,387,628
Other	1,967,310	-	1,967,310	-	-	1,967,310
	<u>24,728,221</u>	<u>11,626,717</u>	<u>36,354,938</u>	-	-	<u>36,354,938</u>
Intercompany payable	-	1,903,702	1,903,702	1,903,702	-	-
Accrued liabilities	-	-	-	-	-	-
Deferred research contract revenue	<u>22,266,888</u>	<u>4,722,910</u>	<u>26,989,798</u>	-	-	<u>26,989,798</u>
						-
Total current liabilities	46,995,109	18,253,329	65,248,438	1,903,702	-	63,344,736
NET ASSETS - UNRESTRICTED						
Net assets designated to research	6,447,752	27,956,916	34,404,668	-	-	34,404,668
Net assets designated for grants to Georgia Institute of Technology	1,372,644	-	1,372,644	-	-	1,372,644
Net assets designated for working capital	<u>997,836</u>	<u>-</u>	<u>997,836</u>	-	-	<u>997,836</u>
Total net assets	<u>8,818,232</u>	<u>27,956,916</u>	<u>36,775,148</u>	-	-	<u>36,775,148</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 55,813,341</u>	<u>\$ 46,210,245</u>	<u>\$ 102,023,586</u>	<u>\$ 1,903,702</u>	<u>\$ -</u>	<u>\$ 100,119,884</u>

**Georgia Tech Research Corporation and its Subsidiary,
Georgia Tech Applied Research Corporation**

CONSOLIDATING STATEMENT OF ACTIVITIES

Year ended June 30, 2005

	Georgia Tech Research Corporation	Georgia Tech Applied Research Corporation	Consolidated Totals	Consolidations and Eliminations		Consolidated Totals
				Debit	Credit	
Gross revenues from research contracts	\$ 207,466,552	\$ 117,524,176	\$ 324,990,728	\$ -	\$ -	\$ 324,990,728
Direct costs	158,582,730	72,112,826	230,695,556	-	-	230,695,556
Georgia Institute of Technology overhead charges	38,944,315	43,210,705	82,155,020	-	-	82,155,020
	<u>197,527,045</u>	<u>115,323,531</u>	<u>312,850,576</u>	<u>-</u>	<u>-</u>	<u>312,850,576</u>
Excess of research revenue over direct costs and Georgia Institute of Technology overhead charges	9,939,507	2,200,645	12,140,152	-	-	12,140,152
Other operating revenue, net	-	3,401,304	3,401,304	-	-	3,401,304
Administrative and general expenses	<u>(4,566,783)</u>	<u>(1,459,971)</u>	<u>(6,026,754)</u>	<u>-</u>	<u>-</u>	<u>(6,026,754)</u>
Operating revenue	5,372,724	4,141,978	9,514,702	-	-	9,514,702
Other revenue (expense)						
Interest income	377,779	444,832	822,611	-	-	822,611
Lease Income	4,724,833	-	4,724,833	-	-	4,724,833
License income	3,238,530	-	3,238,530	-	-	3,238,530
License expense	(3,794,608)	(164,998)	(3,959,606)	-	-	(3,959,606)
Lease expense	(4,724,833)	-	(4,724,833)	-	-	(4,724,833)
Unrealized loss on investments	(65,906)	-	(65,906)	-	-	(65,906)
Realized gain on sale of investments	675,390	-	675,390	-	-	675,390
Miscellaneous income	4,288	1,945	6,233	-	-	6,233
Total other revenue (expense), net	<u>435,473</u>	<u>281,779</u>	<u>717,252</u>	<u>-</u>	<u>-</u>	<u>717,252</u>
Change in net assets before grants to Georgia Institute of Technology	5,808,197	4,423,757	10,231,954	-	-	10,231,954
Grants to Georgia Institute of Technology	<u>(5,385,669)</u>	<u>-</u>	<u>(5,385,669)</u>	<u>-</u>	<u>-</u>	<u>(5,385,669)</u>
Change in net assets	422,528	4,423,757	4,846,285	-	-	4,846,285
Net assets, beginning of year	<u>8,395,704</u>	<u>23,533,159</u>	<u>31,928,863</u>	<u>-</u>	<u>-</u>	<u>31,928,863</u>
Net assets, end of year	<u>\$ 8,818,232</u>	<u>\$ 27,956,916</u>	<u>\$ 36,775,148</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 36,775,148</u>

**Georgia Tech Research Corporation and its Subsidiary,
Georgia Tech Applied Research Corporation**

**CONSOLIDATING SCHEDULE OF ADMINISTRATIVE
AND GENERAL EXPENSES**

Year ended June 30, 2005

	Georgia Tech Research Corporation	Georgia Tech Applied Research Corporation	Total	Consolidations and Eliminations		Consolidated Totals
				Debit	Credit	
Personal services	\$ 935,438	\$ 387,846	\$ 1,323,284	\$ -	\$ -	\$ 1,323,284
Staff benefits	200,389	92,117	292,506	-	-	292,506
Audit expense	148,372	148,372	296,744	-	-	296,744
Contract development	119,306	-	119,306	-	-	119,306
Insurance expense	207,341	207,341	414,682	-	-	414,682
Legal expense	21,279	1,062	22,341	-	-	22,341
Equipment replacement	931,847	-	931,847	-	-	931,847
Materials and supplies	26,771	26,564	53,335	-	-	53,335
Miscellaneous expense	26,447	382	26,829	-	-	26,829
Moving expense	111,889	76,835	188,724	-	-	188,724
Professional development	7,025	-	7,025	-	-	7,025
Promotion of research and scientific study	765,072	77,181	842,253	-	-	842,253
Systems design service and equipment	110,096	81,538	191,634	-	-	191,634
Travel expense	41,802	-	41,802	-	-	41,802
Provision for bad debts	300,000	300,000	600,000	-	-	600,000
Depreciation expense allocation	613,709	60,733	674,442	-	-	674,442
	<u>\$ 4,566,783</u>	<u>\$ 1,459,971</u>	<u>\$ 6,026,754</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,026,754</u>