



November 30, 2016

William Welch, Clerk of the Senate
Massachusetts Senate
State House, Room 335
Boston, Massachusetts 02133

Dear Mr. Welch:

I am pleased to present to you the results of the operations of MassVentures, also known as Massachusetts Technology Development Corporation (MTDC) for the fiscal year ended June 30, 2016. In June 2012 MTDC started doing business as MassVentures to better reflect the organization's commitment of supporting promising entrepreneurs developing high-growth, technology-driven companies.

Presented below are the significant actions and accomplishments of MassVentures during this past fiscal year. In addition, accompanying this letter are the annual audited financial statements for MassVentures, which as part of this annual report we are submitting pursuant to the requirements of MGL 40G, Section 6.

This report includes the following highlights:

- [Overview of MassVentures' role in the Commonwealth](#)
- [The MassVentures' START program to fuel previously funded SBIR companies](#)
- [MassVentures' investment cycle and harvest plan](#)
- [The economic benefits](#)
- [Our investment programs](#)
- [Our exit strategy and financial returns](#)
- [Conclusion](#)

Overview of MassVentures' Role

Since the commencement of its investment program in FY80, the Corporation has played a consistent and effective role in the Commonwealth's economic development strategy by assisting the start-up and expansion of promising Massachusetts-based technology companies. These firms provide both direct jobs and indirect employment for local vendors who sell products and services to these companies.

MassVentures does not receive annual appropriations from the Commonwealth. The Corporation is an "evergreen" organization that is largely funded by the gains generated from past investments. Over its 38-year history, MassVentures has received \$15 million in state funding and \$3 million in federal funding and has used those funds to invest \$87.6 million in 144 Massachusetts companies.

MassVentures START Program

In 2012, the Corporation entered into an agreement with The Massachusetts Growth Capital Corporation (“MGCC”) to administer the SBIR Targeted Technologies (“START”) Program. The START program is designed to assist in the commercialization of technologies that were previously awarded federal SBIR grants. Under the terms of the program MGCA has funded the program with \$6,450,000 to be dispersed in three phases. In 2015 that program was extended for an additional 2 years with \$6.45 million in funding. In 2016, MassVentures awarded \$1,000,000 of Phase III, \$1,000,000 of Phase II and \$1,000,000 of additional Phase III grant awards to 17 Massachusetts’ companies.

Fiscal 2016 Investment Activity

MassVentures’ investment cycle from first round to exit in each company follows the general pattern of most venture capital firms. The Corporation applies a portfolio approach, spreading its investment risks across a number of companies in different industries. As an early stage investor, MassVentures expects that financial returns will generally be realized 7 to 10 years after initial investment in a company and as with typical venture capital returns, the majority of proceeds will come from a small percentage of these investments. Historically, these gains provided over 80% of MassVentures’ funding.

MassVentures closed three new investments and five follow-on investments, totaling \$570,879 from its Traditional Investment Fund Program and \$766,318 from its Commonwealth Fund III program into the following companies:

- Board onTrack, Inc. of Concord
- Content Raven, Inc. of Framingham
- Curoverse, Inc. of Somerville
- Grapevine Logic, Inc. of Boston
- Harvest Automation, Inc of Billerica
- iRecover, Inc. of Boston
- Jebbit, Inc. of Boston
- Machine Metrics, Inc of Northampton

Economic Benefits

The principal objective of MassVentures’ Investment Program has been to assist early-stage technology companies start and/or expand in the State by commercializing technology developed in local corporations and research institutions. These new Massachusetts firms can become aggressive competitors in the global marketplace very early in their life cycles.

Through its investment gains, MassVentures has leveraged \$15M of state funding into \$87.6 M of its own investments. More importantly, because of the capital and commitment of over 50 venture funds and angel groups with whom we partnered, more than \$1.2 billion has been invested in 144 portfolio companies, contributing to the growth of the Massachusetts economy.

These early-stage companies provide significant employment growth opportunities and long-term value to the Massachusetts economy. As of December 31, 2015, it was estimated that:

- 25 current and former portfolio companies still doing business employed 2,479 people in the Commonwealth.
- This employment equates to an estimated Massachusetts annual payroll for these companies of \$212 million, and annual estimated payroll-related tax revenue of \$119.7 million to the Federal government and \$12 million to the State.

In addition to its Investment Program, MassVentures provides management assistance to Massachusetts early-stage technology companies. The entrepreneurs launching these companies are usually experienced technologists, but inexperienced business people. Therefore, MassVentures's Management Assistance Program focuses on strategies to increase the visibility and successful presentation of these companies to potential investors.

MassVentures Commonwealth Fund Investment Program

In FY2012, MassVentures announced that it was launching Commonwealth Fund III with MassDevelopment's Emerging Technology Fund committing \$5 million to the program. The objective of the program is to fill capital gaps not adequately served by the private investment community such as (1) emerging market segments (2) first-time entrepreneurs, and (3) companies transitioning from seed to Series A funding.

The Commonwealth Fund Investment Program (CF) serves as a vehicle for MassVentures to help finance the growth stage of new technology enterprises in the Commonwealth while at the same time seeking attractive financial returns. Under the Program, MassVentures manages an investment pool comprised of funds from MassVentures and private co-investors. MassVentures distributes a share of net realized gains from its portion of the Program to the General Fund of the Commonwealth of Massachusetts.

The CF has previously raised two investment pools with outside private co-investors. The Commonwealth Fund I Program I was launched in FY1995 with \$2,000,000 our outside capital. Since that time the funds have been fully invested and the investments exited. That program is now closed. During FY2001, the Commonwealth Fund Investment Program II was launched with the goal of creating a \$15 million investment pool. MassVentures committed \$12 million, BancBoston Investments Inc. committed \$2 million and Essex Regional Retirement Board committed \$1,000,000. The Commonwealth Fund III program was launched in 2012 as a partnership with MassDevelopment, another state quasi public state agency focused on economic development. The program is in the process of deploying its \$5.1 million of committed funds.

Exit Strategy and Financial Returns

As of June 30, 2016, MassVentures had exited or begun to exit, 128 of the 144 companies in which it had invested. Returns came from 16 companies that had become publicly traded and 41 had either been merged with or had been acquired by other firms, settled through litigation, or bought back their securities from MassVentures. Losses were realized from 31 companies that were acquired and 40 that ceased operations. The active portfolio at year-end included 16 companies.

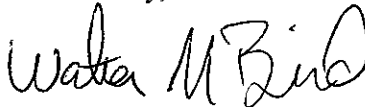
MassVentures' total realized and unrealized gain in FY16 totaled \$3,034,392. Cumulative realized gains on investments since 1980 totaled \$66,997,130 while cumulative realized losses totaled \$39,631,593, for total realized net gains of \$27,365,537. The funds provided from these realizations continue to support the Corporation's operating expenses and replenish the Investment Fund.

Conclusion

MassVentures continues to play a unique role among the economic development organizations of the Commonwealth. The financial performance of the MassVentures Portfolio has provided the Corporation with a base level of investment funds to continue to support the growth of Massachusetts-based companies and to create jobs.

Additional funding would enable MassVentures to expand its reach and impact in the innovation economy. As such, MassVentures continues to explore new funding sources through expansion of the Commonwealth Fund program and additional funding by the State. By steadily pursuing its long-term investment strategy, MassVentures continues to successfully serve its shareholders, the citizens of the Commonwealth.

Sincerely,

A handwritten signature in black ink that reads "Walter M. Bird". The signature is written in a cursive, flowing style.

Walter M. Bird
President

Enclosure

cc: MassVentures Board of Directors