MASSACHUSETTS
LIFE SCIENCES CENTER

Investing in the State of Innovation

To: Kristen Lepore, Secretary, Executive Office for Administration and Finance
Michael Heffernan, Commissioner, Department of Revenue
William Welch, Clerk, Massachusetts Senate
Steven James, Clerk, Massachusetts House of Representatives

By forward: House and Senate Committee on Ways and Means, the Joint Committee on Revenue and the Joint Committee on Economic Development and Emerging Technologies

From: Travis McCready, President and Chief Executive Officer

Date: August 9, 2017

Re: Extension of Time to Determine Certification Status
("Extension Report")

The Center respectfully submits the following Extension Report detailing our decision to extend certified status to certain life sciences companies as permitted under our statutory authority. This report is submitted in fulfillment of the requirements mandated by the General Court pursuant to the Center's enabling statute at Mass. Gen. Laws ch. 23I, § 5(e)(2), as amended by Chapter 130 of the Acts of 2008.

As always, thank you for your ongoing interest and support.

Sincerely,

Travis McCready
President and Chief Executive Officer

The Life Sciences Center's Tax Incentive Program

The Massachusetts Life Sciences Center (the "Center") is authorized by statute to provide up to $25 million in tax incentives annually to encourage companies to locate, invest and create jobs in Massachusetts. To be eligible, companies must have made a qualifying investment under one or more of the tax incentive provisions that are specified in the statute, which includes among others incentives for R&D, capital investment, FDA user fees and orphan drug development. Companies receiving incentives must commit to the creation of a specific number of jobs during the following calendar year. Companies receiving tax incentives from the Center also must commit to retaining these net new jobs, along with their base headcount, for a five year period. Companies must create at least 70% of the net new jobs *and*, in the case of companies awarded the Life Sciences Job Incentive Refundable Credit, must create at least 50 net new jobs or 70% of the net new jobs, whichever is higher, to which they have committed by the end of the calendar year following the award of a tax incentive. More information about the Center's Tax Incentive Program is available at www.masslifesciences.com.

Transparency and Accountability

The Life Sciences Center has designed its tax incentive program to be transparent and accountable. The program's design was authorized by the Center's Board of Directors at a public meeting. The Center accepts applications to its Tax Incentive Program annually based on an open and widely publicized solicitation. Tax incentive awards are discussed and awarded by the Center's Board of Directors in a public meeting, and announced publicly via press release and the Center's web site. Public announcements specify the recipient companies, the amount of the incentive received by each company, and the number of net new jobs that each company has committed to create in a specific calendar year.

To ensure accountability, the MLSC Tax Incentive Program (and the statute authorizing it) has enforcement mechanisms, including strict monitoring and reporting requirements for recipient companies. Within 30 days of the end of each calendar year following the year of award, awardees are required to provide an annual report to the Center that permits the Center to determine whether the awardee's job targets have been met. The statute provides for "clawback" provisions for companies that are found not to be fulfilling their job creation commitment to the state.

Companies that fail to achieve at least 70% of their job targets *and*, in the case of companies awarded the Life Sciences Job Incentive Refundable Credit, that fail to create at least 50 net new jobs or 70% of the net new jobs committed, whichever is higher, are subject to an investigation to determine the cause of this "material variance" (term used in the Life Sciences Statute). The following outcomes are possible:

1. In the event that the Center determines that it is unlikely that the company will achieve its job target, based on a review of the company's financials and other information provided, the Center will de-certify the company and notify the Department of Revenue (DOR), which could initiate "claw-back" procedures to recover the tax value of any award provided.

2. In the event that the Center determines that the company has the potential to achieve its job target by the end of the year following failure to achieve at least 70% of its job target *and*, in the case of companies awarded the Life Sciences Job Incentive Refundable Credit, failure to create at least 50 net new jobs or 70% of the net new jobs committed, whichever is higher, the Center may permit the company an additional year to meet its job targets. In cases where the Center allows the company a second year to meet its job targets, the Center is required to provide in writing its reasons for doing so to the Secretary of Administration and Finance, the Commissioner of DOR,

the clerks of the House and Senate, the Joint Committee on Revenue, and the Joint Committee on Economic Development and Emerging Technologies. The Center is also required to post the reasons for an extension on its website.

The Center is required by statute to de-certify any company that fails to achieve at least 70% of its job or target for two (2) consecutive years. In this case, the Center would notify DOR and DOR could initiate "claw-back" procedures to recover the tax value of any award. A company may also voluntarily terminate its award at any time and return to the Commonwealth any incentives or refunds received.

Companies may apply annually to the MLSC Tax Incentive Program, unless a company has failed to achieve 90% of its job target *and*, in the case of companies awarded the Life Sciences Job Incentive Refundable Credit, failed to create at least 50 net new jobs or 90% of the net new jobs committed in any particular year, whichever is higher. In that case the company would not be eligible to receive an award until the company is in compliance with past tax incentive agreements. In the instance that an awardee has terminated its award with the Center, the awardee is unable to apply to the program for one year.

Extensions Granted to Tax Incentive Awardees Based on the 2016 Annual Reporting Cycle

The Center has conducted investigations in keeping with the procedures described above. The investigation for each company included the following steps:

1. An in-person meeting was held with each company to review a standard checklist of questions based on the queries below. Center staff also discussed process and options with each company;
2. Center staff analyzed data and information provided by each company;
3. Center staff presented findings to the Investment Committee of the Center's Board of Directors. The Investment Committee made determinations of extension or decertification;
4. The companies involved and the Center's Board of Directors were notified of the outcome;
5. For any extensions, the statute requires the Center to prepare and send a report to the parties mentioned in the section above, and to post that report on the Center's website.
6. Companies that were decertified after investigation were notified in writing, with notice to the Massachusetts Department of Revenue, after which clawback proceedings may be initiated.

Based on this review, the Center has granted an extension to two companies that received tax incentive awards from the program:

Enanta Pharmaceuticals, Inc.

At the close of 2016, Enanta Pharmaceuticals, Inc. was 3 jobs short of meeting its minimum threshold for job creation under their 2015 tax incentive agreement. By the conclusion of the Center's investigation the company was 5.2 jobs short of the minimum threshold. The company had 14 open positions posted at the time of our investigation. Given the likelihood that Enanta Pharmaceuticals will meet or exceed their minimum threshold by the end of calendar year 2017, and the company's stated commitment to doing so, the Center has extended the compliance period for Enanta Pharmaceuticals to December 31, 2017.

Seres Therapeutics, Inc.

At the close of 2016, Seres Therapeutics, Inc. was 10 jobs short of meeting its minimum threshold for job creation under their 2015 tax incentive agreement. By the conclusion of the Center's investigation the company was 9.4 jobs short of the minimum threshold. The company had 10 open positions posted at the time of our investigation. Given the likelihood that Seres Therapeutics will meet or exceed their minimum threshold by the end of calendar year 2017, and the company's stated commitment to doing so, the Center has extended the compliance period for Seres Therapeutics to December 31, 2017.