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***INDEPENDENT ACCOUNTANTS' REPORT
ON APPLYING AGREED-UPON PROCEDURES***

Mr. John Osborne
Chief Executive Officer
Lubbock Economic Development Alliance, Inc.
1500 Broadway, Suite 600
Lubbock, TX 79401

Dear Mr. Osborne:

We have performed the procedures enumerated in the attached supplement, which were agreed to by you, the specified user, solely to assist you with respect to determining the amounts payable pursuant to the Economic Development Grant Contracts with regard to job creation incentives only, for Osteogenics Biomedical, Inc. This engagement to apply agreed-upon procedures was performed in accordance with standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the specified user of the report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures we performed and the findings as a result thereof, are enumerated in the attached supplement which is an integral part of this report.

We were not engaged to, and did not, perform an audit, the objective of which would be the expression of an opinion on the specified elements, accounts, or items. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the use of the specified user listed above and should not be used by those who have not agreed to the procedures and taken responsibility for the sufficiency of the procedures for their purposes.



Lubbock, Texas
December 27, 2011

Lubbock Economic Development Alliance, Inc. Grant to Osteogenics Biomedical, Inc.

For the period from November 1, 2010 through October 31, 2011

Background:

The Lubbock City Council established the Lubbock Economic Development Alliance, Inc. (hereinafter referred to as LEDA) to stimulate and foster economic activity in Lubbock and the surrounding area. To this end, LEDA entered into a contract with Osteogenics Biomedical, Inc. (hereinafter referred to as Osteogenics) on November 1, 2007.

The general terms of the contract allow Osteogenics to receive incentives for Job Creation. Specifically, Osteogenics will receive Job Creation Incentives of \$44,500 for the creation and maintenance of nine (9) new full-time jobs in Lubbock with an annual aggregate salary of \$418,000 within the period from November 1, 2007 through October 31, 2012. Osteogenics will earn Job Creation Incentives ranging from \$2,500 to \$10,000 for each job created by October 31, 2008 and maintained through October 31, 2012, according to LEDA's incentive sliding scale schedule. The earned incentives are to be paid out in five annual installments. Future installment payments are subject to reduction and/or forfeiture if Osteogenics does not maintain the jobs through the term of the contract.

Objective, Scope and Procedures Performed:

Our objective was to determine if Osteogenics met the job creation requirements of their agreement with LEDA. A summary of the procedures used is as follows:

- Reviewed the pertinent contract.
- Obtained employee census information as of October 31, 2011, the stated Measurement Date, reflecting dates of hire, dates of termination (if applicable), total compensation for the four quarters listed below and full-time or part-time status.
- Reviewed quarterly compensation data provided from the corporate headquarters for the quarters ending 12-31-10, 3-31-11, 6-30-11 and 9-30-11, as well as October 2011 compensation data.
- Summarized wages reported from the corporate reports paid to the employees to calculate actual compensation levels.
- Confirmed that the required compensation levels were met by comparing extended pay rates to the latest paycheck stubs.
- Discussed questions and issues raised as a result of the above steps with Osteogenics personnel.
- Discussed contract interpretations with LEDA personnel.

Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

Results and Conclusions:

Per our review of the above data:

- There were thirteen (13) full-time and eleven (11) part-time employees working in Lubbock prior to the inception of this agreement.
- There were fifteen (15) full-time and twenty-four (24) part-time employees in Lubbock as of October 31, 2008.
- There were twenty-two (22) full-time and twenty-one (21) part-time employees in Lubbock as of October 31, 2009.
- There were twenty-two (22) full-time and twenty-five (25) part-time employees in Lubbock as of October 31, 2010.
- There were twenty-nine (29) full-time and twenty-five (25) part-time employees in Lubbock as of October 31, 2011.
- Of the net increase of sixteen (16) full-time positions since the beginning of the contract period, the following met the specific compensation requirements for the various levels of incentives:

<u>Number of Employees</u>	<u>Incentive per Employee</u>	<u>Total Incentive</u>
4	\$ 10,000	\$ 40,000
2	\$ 7,500	\$ 15,000
4	\$ 5,000	\$ 20,000
3	\$ 4,000	\$ 12,000
1	\$ 3,000	\$ 3,000
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14		\$ 90,000
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Per the terms of the Performance Agreement, the maximum incentive amount is \$44,500. As such, Osteogenics is currently entitled to receive the fourth installment of the maximum fourth year earned incentives of \$44,500, or \$8,900.