

MAINE STATE LEGISLATURE

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Small Enterprise Growth Fund

Periodic Report
125th Legislature's
Joint Standing Committee on Business,
Research & Economic Development

Respectfully submitted
by the
Small Enterprise Growth Board

2009

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Financial Statements for FY2009



To: Joint Standing Committee on Business, Research and Economic Development

From: Small Enterprise Growth Board

Date: December 2009

Re: Small Enterprise Growth Fund 2009 Periodic Report

As required by 10 M.R.S.A., §388(1) and on behalf of the Small Enterprise Growth Board ("SEGB"), we are pleased to submit the **2009 Periodic Report**, providing the Small Enterprise Growth Fund's ("SEGF" or "Fund") status and successes.

The SEGF continues to play a vital role in bringing capital and market knowledge to small Maine companies. With the strong support of the Governor, BRED, and the "entrepreneurial neighborhood", SEGF stands to have its capital increased by \$5 million should voters approve the economic development bond in June 2010. The Fund has also been recapitalized recently by the sale of a portfolio company, bringing capital back to the Fund sufficient to invest in several additional companies.

In Fiscal Year 2009, July 1, 2008 to June 30, 2009, the SEGB screened many companies for potential investment, counseled many other early stage companies, and heard formal presentations from five Maine companies. During the fiscal year, the SEGB invested \$1,285,103, including:

- Investments in three promising new companies totaling \$394,662
- Fourteen follow-on investments in eight existing portfolio companies, totaling \$890,441

In the balance of calendar 2009 from July 1, 2009 to date, the SEGB invested an additional \$321,154, \$225,000 in two new companies and the balance, \$96,154, in two existing portfolio companies.

For every \$1 invested by the SEGF, an additional \$9 has typically been invested alongside by other investors – a clear indication of the importance of the fund's role as a catalyst for investment in Maine-based companies.

Two investment examples demonstrate the way the Fund works in the market:

1. *Harbor Technology, LLC*. - Harbor Tech was founded by Martin Grimnes, one of the pioneers of Maine's now burgeoning composite technology sector, one of the strengthening clusters key to economic growth in the State. HT provides leadership in composite technology and leadership
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in the State's efforts. It has a strong, active relationship with the composites research group at the University of Maine, and is an active member of the North Star Alliance. The SEGF's term sheet and subsequent investment catalyzed investment from a number of high net worth individuals, which in turn made the company more attractive for lending entities.

2. *Bar Harbor Biotechnology, Inc.* – BHB is a company created based on commercialized IP from the Jackson Laboratory. Borealis Ventures, which helped to engineer the spin out, subsequently brought SEGF in as a local venture partner to support the company's growth.

These companies help illustrate the promise that our economic development efforts are beginning to address. The SEGF's partnership with larger regional VC's enhance Maine-based opportunities, leading to well-financed companies that generate well-paying jobs..

We are proud of what the SEGF has accomplished to date. We have developed a process that is flexible and provides entrepreneurs with prompt decisions and guidance. Since its creation, the Fund has been an active participant in the economic development in Maine.

The following highlights illustrate the benefits of the Fund:

- SEGF has directly invested \$11,667,821 in 40 Maine companies. However, the Fund's participation always attracts additional capital. Since 1997, SEGF has catalyzed an additional \$100 million in outside capital invested in its portfolio companies. These investments, paired with the appropriate guidance, position companies to be successful in raising larger investments from professional investors, often from outside the State. The absence of this local infrastructure would result in many entrepreneurs not getting the funds needed or pursuing their ideas outside the State.
 - SEGF plays a key role in Maine's R&D continuum from Research to Commercialization. Many companies that have successfully leveraged Maine Technology Institute ("MTI") and Maine Economic Improvement Fund ("MEIF") investments are often not ready for traditional venture capital, and the SEGF plays a critical role in filling that gap, helping to continue to shepherd those most promising companies.
 - As of December 2009, SEGF has 22 portfolio companies that employ 328 FTEs at an average salary of \$45,000 plus benefits. The Great Recession lingers, so job growth will continue to be modest, but the portfolio has several companies poised for strong growth;
 - The Fund works to create linkages to capital providers in and outside of Maine in an effort to bring more attention to Maine-based opportunities. To this end, the SEGF participates in numerous networking events and venture fairs throughout the year, including the Speed Venture Summit in October in Manchester, NH, the Maine Investment Exchange (MIX), the
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Community Development Venture Capital Alliance (CDVCA), and the National Association of Seed and Venture Fund's (NASVF) Annual Conference.

The mission of the SEGF is *"to provide resources to attract, support and develop eligible small businesses that will contribute to the prosperity of Maine"*. The SEGB seeks to accomplish the Fund's mission in partnership with other public and private entities engaged in the entrepreneurial marketplace in Maine, including the Finance Authority of Maine ("FAME"), MTI, the Department of Economic and Community Development ("DECD") and the Technology Centers, privately managed venture capital funds, individual investors, entrepreneurs and small business owners throughout the State.

Sources of risk capital for Maine companies continue to be very limited. SEGF works closely with most of these sources, some of which are currently constrained in terms of capital to make further investments. They include:

- **MTI** - MTI was created in 1999, has pumped roughly \$5 million per year into Maine's entrepreneurial community through their grant programs, and now offers follow-on venture investments to a select number of companies through their Advanced Commercialization Fund.
- The **Maine Seed Capital Tax Credit Program**, administered by FAME. This program provides an enticing incentive for Maine-based investors to invest in Maine-based companies;
- **Coastal Enterprises** (CEI) - CEI's two for-profit venture subsidiaries are both currently fully invested, though both management teams are seeking to raise new Funds in 2010, albeit in a tough financial environment.
- The **Venture Capital Revolving Investment Program** (VRIP), also administered by FAME. VRIP seeks to encourage privately managed venture capital funds to strongly consider investing in Maine companies. SEGF has partnered with almost all of the VRIP recipients, including Masthead Venture Partners in the *Foneshow* Inc. investment. VRIP recently committed additional funds to two of its existing partners using returns from its first round of investments;
- **Maine Angels** - Maine Angels, a collaborative initiative of "accredited" individual investors, is actively placing a limited amount of private capital in Maine companies. Maine Angels does not restrict its prospecting to Maine companies.

The original premise that led to the creation of the Small Enterprise Growth Fund still holds true – private equity capital for Maine companies is still very difficult to source. In addition to capital, the Fund offers guidance and entrepreneurial education to companies with which it deals. Over the past fiscal year, SEGF has conducted the following operational assistance activities:



- In October 2008, the Board brought over a dozen portfolio-company CEO's together to network, and to hear from a national expert on corporate governance.
- Over the summer of 2009, the Board employed an intern from the Tuck Business School at Dartmouth. The intern provided valuable work for two of the SEGF companies.
- Fund management and several Board members were active advisors, mentors, and presenters for the "Top Gun" program of the Maine Center for Enterprise Development (MCED).
- Fund Manager John Burns teaches a consulting course for the University of Maine (Orono) Business School. MBA students work directly with SEGF portfolio companies on strategic projects.
- Fund management and Board members actively assisted portfolio companies with finding additional sources of capital, fine-tuning financial plans, and providing general business guidance as needs arise. Fund Manager John Burns and SEGB board members (as their time permits) act as observers and participate in portfolio-company Board meetings.

The Fund Board of Directors is a highly-qualified and experienced body, with exceptional and relevant expertise, whose members are a dedicated group. In aggregate, SEGB members have 115 years experience as a direct investor in private companies, 173 years of small company management experience, have participated in over 170 merger and acquisition and company sale transactions, and have invested in over 120 private companies. They devote a tremendous amount of volunteer time from their very busy schedules to make this Fund successful.

We look forward to maintaining a strong partnership with the Legislature to ensure that the SEGF continues its important role in the enhancement of Maine's economic development.

We invite you to contact any of us at any time, and we encourage you to visit our web site at www.segfmaine.com.

The SEGB thanks you for your support.

Respectfully,

/s/ Mark D. Kaplan

Mark D. Kaplan, Portland
Chair
Small Enterprise Growth Board



cc:

John E. Baldacci, Governor

James Nimon, Senior Economic Advisor

Thaxter Trafton, Acting Commissioner, DECD

Catherine S. Renault, Director, Office of Innovation

Miles Theeman, Chair, Maine Innovation Economy Advisory Board

Elizabeth Bordowitz, Chief Executive Officer, FAME

William Norbert, Governmental Affairs Manager, FAME

John F. Burns, CFA, Fund Manager, SEGF

Small Enterprise Growth Board



Small Enterprise Growth Fund

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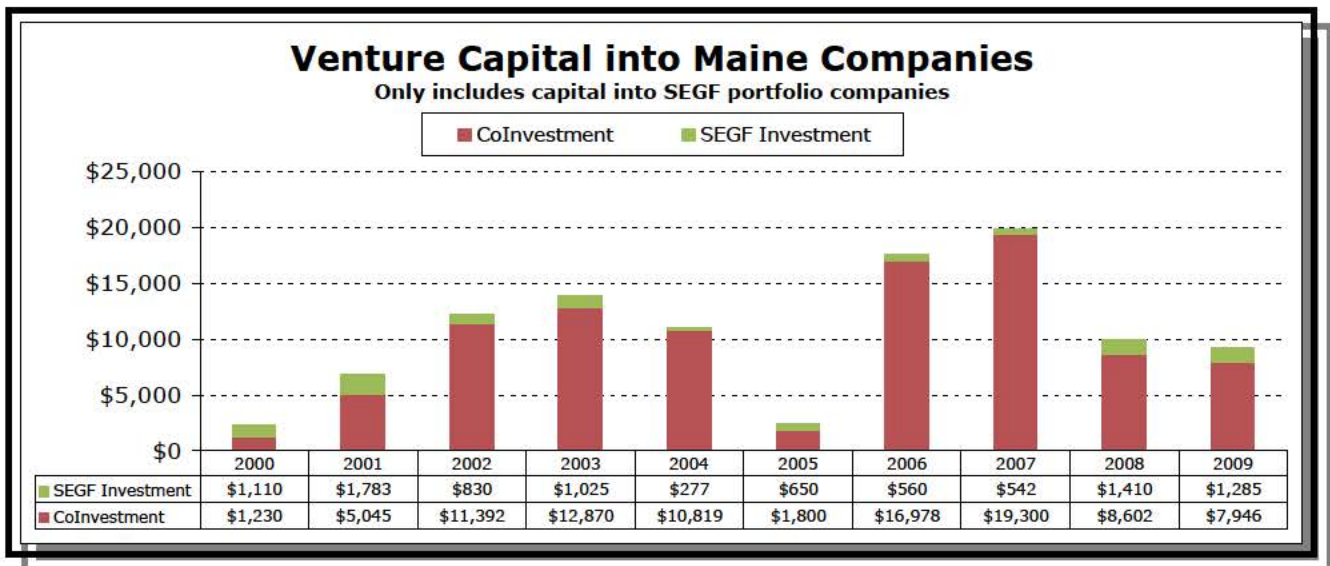
SEGF Investment Activities - FY09 (7/1/08 - 6/30/09)

Date of Investment	Company Name	Location	Security	Investment	# of FTEs	Type
07/03/08	Crossrate Technology, LLC	Windham	Convertible Note	\$156,000	7	Follow-on Investment
07/08/08	Speranza Systems, Inc.	Portland	Series A Preferred Stock	\$32,000	3	Follow-on Investment
08/13/08	Good Clean Food, LLC	Portland	Convertible Bridge Note	\$136,369	8	Follow-on Investment
08/28/08	Bistro Fresh, LLC	Camden	Promissory Note	\$72,309	2	Follow-on Investment
09/05/08	Stillwater Scientific Instruments, Inc.	Orono	Convertible Note	\$15,470	7	Follow-on Investment
10/29/08	Pet Health Network	Portland	Convertible Note	\$71,500	16	Follow-on Investment
11/14/08	Stillwater Scientific Instruments, Inc.	Orono	Convertible Note	\$15,470	7	Follow-on Investment
11/20/08	Fone Show, LLC	Portland	Convertible Note	\$62,500	5	Follow-on Investment
12/30/08	Redzone Wireless, Inc.	Rockland	Convertible Note	\$50,000	6	Follow-on Investment
02/18/09	Fone Show, LLC	Portland	Convertible Note	\$62,500	5	Follow-on Investment
02/24/09	Stillwater Scientific Instruments, Inc.	Orono	Term Note	\$15,469	7	Follow-on Investment
02/27/09	Emergent Discovery LLC	Portland	Convertible Note	\$100,000	12	Initial Investment
03/17/09	Pet Health Network	Falmouth	Convertible Note	\$75,000	16	Follow-on Investment
03/24/09	Crossrate Technology, LLC	Windham	Term Note	\$117,500	7	Follow-on Investment
03/31/09	Speranza Systems, Inc.	Portland	Series A Preferred Stock	\$8,354	3	Follow-on Investment
04/29/09	Harbor Technologies, LLC	Brunswick	Convertible Note	\$150,000	12	Initial Investment
06/30/09	Bar Harbor Biotechnology, Inc.	Trenton	Series A Preferred Stock	\$144,662	8	Initial Investment
Total Investments for FY09				\$1,285,103		
Subsequent SEGF Investment Activities - FY10 (7/1/09 - 6/30/10)						
Date of Investment	Company Name	Location	Security	Investment	# of FTEs	Type
08/12/09	Certify, LLC	Portland	Membership Units	\$150,000	12	Initial Investment
09/25/09	Emergent Discovery LLC	Portland	Convertible Note	\$46,154	12	Follow-on Investment
10/15/09	Bar Harbor Biotechnology, Inc.	Trenton	Series A Preferred Stock	\$50,000	8	Follow-on Investment
12/04/09	Aiko Biotechnology, Inc.	Portland	Common Stock	\$75,000	1	Initial Investment
Total FY10 Investments to date				\$321,154		

#1 Co-investment

SEGF invests in Maine companies alongside other venture capital funds and individual accredited investors.

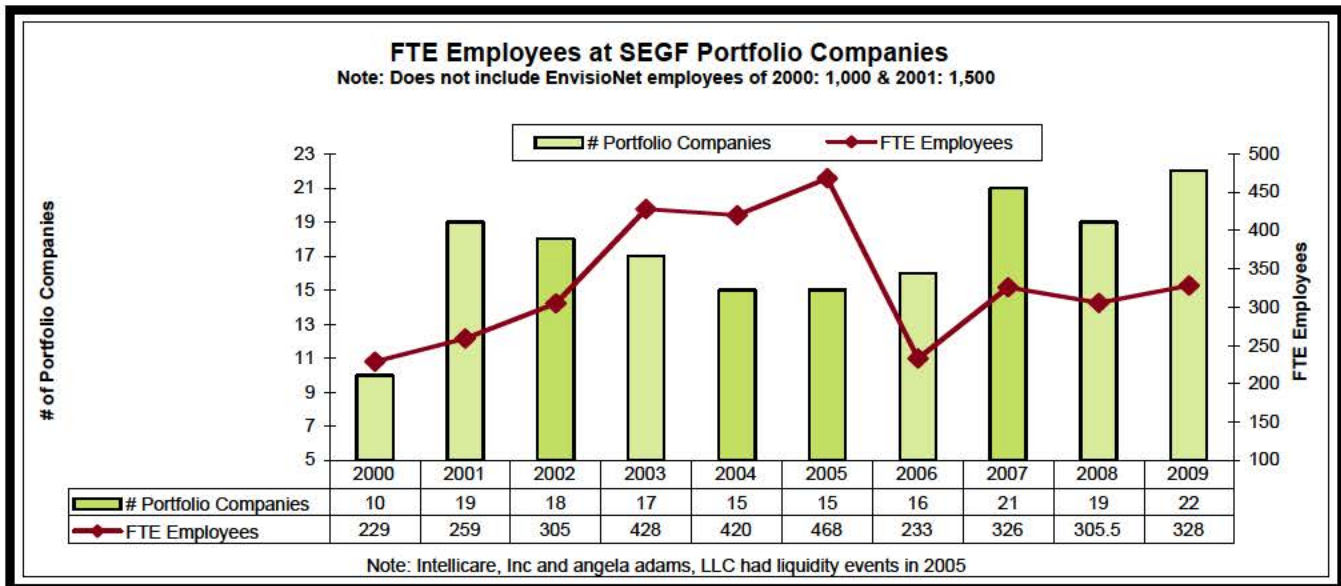
- *SEGF has invested \$11.7 million in 40 Maine companies with an average investment of \$300,000*
- *SEGF has catalyzed \$100 million in additional venture capital and angel investment into Maine companies*
- *For every \$1 invested by the SEGF an additional \$9 is invested in Maine companies*



#2 Job Creation

SEGF portfolio companies provide careers to highly-skilled, educated Maine professionals, and job opportunities for a range of skill levels as companies grow. Typical jobs include: computer programmers, salespeople, chief financial officers, marketing managers, and executives.

- *Since 1997, SEGF portfolio companies have created 6,700 job-years: job years are calculated as the cumulative of one job for one year for FTE employees for all portfolio companies since 1997*
- *Current SEGF portfolio companies employ 300 people at an average annual salary of \$45,000 plus health benefits and stock option*



#3 Intellectual Property

Many SEGF portfolio companies develop proprietary products, software or brands. Below are a few recent examples of Intellectual Property at SEGF portfolio companies:

■ **Licensing Agreements:**

- **Chemogen, Inc.** has an agreement with **Inverness Medical Innovations (Amex: IMA)** for the worldwide manufacture and distribution of tests for the rapid detection of *Mycobacterium*, the primary causative agent of tuberculosis.

■ **Patent Applications**

- **Bar Harbor Biotechnology, Inc** - Copy Number Systems and Methods for Statistical Genomic DNA based Analysis and Evaluation - filed January 27, 2006 as a continuation in part of U.S. Patent Application 10/835,541, filed on April 29, 2004, which claims the benefit of U.S. provisional application 60/466,362, filed on April 29, 2003. This is an application of the GPR in any circumstances where change in the copy number of a gene is of interest
- **Crossrate Technology, LLC** - Patent pending 11/612,288, Method and system for demodulation of a differential Loran C signal
- **Foneshow, Inc.** - Patent Pending, Method and system for providing playback of digital audio content available through a computer network, filed 4/4/08, Patent Application 12/008,849, Playback of Digital Audio Content
- **Interspec, Inc.** - Patent US6,976,213 B1, issued 12/13/05, Method of automatically generating specifications and providing online services for same

#4 Network Building

The SEGF maintains relationships with a broad range of regional economic development agencies as well as equity and near-equity providers, and is an active participant in Maine's entrepreneurial neighborhood.

The SEGF is highly selective in the companies in which it invests; however, the Fund's Management Team actively assist all interested companies in finding appropriate capital and resources. To this end, the SEGF often refers companies to other Maine resource and capital providers.

Memberships, Affiliates, & Co-Investors



www.nasvf.org



www.cdvca.org



www.mitc.com



www.mainetechnology.org



www.ceimaine.org



www.econdev.com



www.maineangels.org



www.famemaine.com



www.mced.biz

#5 Portfolio Returns

It is the aim of the SEGF to grow the size of the Fund “organically” through “harvesting” investments made by the Fund. The most common “successful” liquidity event for the SEGF is when a portfolio company is sold to another larger company at a price significantly higher than the price SEGF paid for shares in the company. The SEGF has had a number of successful “exits” over the years; exits which have returned capital to the Fund greater than that invested, and which money was then used to invest in other promising Maine companies.

- *With the \$9 million of state funds (\$5mm in 1998; \$3mm in 2000 and \$1 million in 2006), the SEGF has invested \$11.7 million dollars in Maine companies and paid for 12 years of fund operations to date*
- *The following table contains 4 examples of portfolio returns:*

SEGF Portfolio Company	Industry	Date of First investment	Total Investment Amount	Capital Returned to SEGF	Rate of Return	Type of Exit
Anodyne Health Systems, Inc.	Healthcare Industry	August 2006	\$425,000	\$740,526	IRR: 28% 1.75X investment	Company sold to athenahealth, Inc.
RecruiterNet, Inc.	Software	June 2001	\$250,000	\$1,961,294	IRR: 63% 8X investment	Company sold to First Advantage (FADV)
Phytex, LLC	Specialty Chemicals	Sept 2001	\$150,000	\$195,945	IRR: 29% 1.33X investment	Partner buyout of SEGF
Angela Adams	Consumer Products	October 2002	\$400,000	\$600,000	IRR: 15% 1.5X investment	Company repurchased stock and sold to new investor

#6 Education and Economic Development

In addition to working with portfolio companies and Maine companies interested in risk capital, the fund typically holds an educational networking event each year, and participates in entrepreneurial and small business events Statewide. Below are a few examples:

- **Maine Center for Enterprise Development's (MCED) Top Gun Program:** *This program was developed to teach emerging entrepreneurs what they really need to know to manage and grow a successful growth-oriented business. John Burns, SEGF Fund Manager, served as an advisor and panelist throughout this twelve-week program. The SEGF further provided sponsorship and volunteer time during the working session for the final entrepreneur pitch event.*
- **JUICE 2.0 Conference:** *The Juice conferences are successors to a 2004 Blaine House Conference on the Creative Economy called by Governor Baldacci to focus the spotlight on the contributions to economic development by Maine citizens and businesses working in cutting edge technologies, the arts and culture. This movement was given additional impetus by the release in 2006 of Charting Maine's Future, a Brookings Institution report on An Action Plan for Promoting Sustainable Prosperity and Quality Places in Maine. The creative economy is now an integrated part of the State's economic development strategy. The SEGF sponsored, volunteered and also organized and facilitated a \$30,000 pitch contest for entrepreneurs as part of the Juice 2.0 Conference held in September 2009 in Camden.*
- **CEO Dinner:** *SEGF portfolio company CEOs came together in the fall of 2008 with SEGF Board Members and Management Team for an evening of networking and idea sharing, and to hear a national expert present on the topic of company governance.*
- **Kauffman Foundation Angel Investing Seminar:** *SEGF organized and hosted a one-day educational event on angel investing in Bar Harbor on September 2007.*
- **Food for Thought Forum:** *SEGF organized and hosted a networking event for Maine food companies in October 2006. The event was the precipitate to the development of the now extant Maine Food Producers Alliance, Maine's growing specialty food cluster.*
- **University of Maine School of Business:** *Fund Manager, John Burns, teaches a consulting course wherein MBA students work directly with SEGF portfolio companies on strategic projects.*



AIKO Biotechnology, Inc
Website: www.aikobiotech.com
Location: Portland, ME
ME Employees: 1

Management Team
Bill Emhiser, President
Janet Yancey-Wrona, Chief Operating Officer

Other Major Co-Investors
Individuals

Other State of Maine support:
MTI Development Award

SEGF Investments
December 2009: \$75,000

Total other capital raised: \$400,000

Company Overview

AIKO Biotechnology is an exciting early stage drug discovery company developing drugs to increase the safety and efficacy of prescription pain relievers like Oxycontin. The novel core technology is based on the research and patents of AIKO co-founders Drs. Wolfgang Sadée and Ed Bilsky. AIKO developed highly positive data in animal models, manufactured clinical material, and completed pilot studies in humans demonstrating, for the first time, safety, tolerability and improvement in bowel function from its lead compound.



AHP Billing Services, Inc
Website: www.anodynehealth.com
Location: Falmouth, ME
ME Employees: 70

Management Team
Lee Larson, CEO
Gil Kochman, Acting CFO

Other Major Co-Investors
Brook Venture Partners
Frontier Capital
Brooke Private Equity Advisors

Other State of Maine support: None

SEGF Investments
Between August 2006 and April 2008, SEGF invested \$425,000 in Anodyne Health Partners ("AHP"). In October 2009, AHP was sold to athenahealth for \$30 million, providing a strong financial return to SEGF – roughly 25% IRR. Also, prior to the sale, the Billing business of AHP was spun out to a new company, AHP Billing Services, in part owned by SEGF, and which has retained almost all former AHP employees in Falmouth.

Total other capital raised: \$8,277,000

Company Overview

AHP Billing Services, Inc is a leading provider of revenue cycle management solutions for healthcare providers. Anodyne provides outsourced services (billing, coding and practice management) to large provider groups and hospital-based physician practices. Anodyne's customers enthusiastically claim improved billing, accounts receivable and cash collection results



Bar Harbor Biotechnology, Inc

Website: www.bhbio.com

Location: Trenton, ME

ME Employees: 7

Management Team

Rob Phelps, CEO

Dan Shaffer, VP Product Development

Other Major Co-Investors

Borealis Ventures

Fairlane BioVentures, LLC

Individuals

Other State of Maine support: Maine Seed Capital Tax Credit Program ("MSCTC")

SEGF Investments

August 2009: \$144,662

October 2009: \$50,000

Total Cost: \$194,662

Total other capital raised: \$2,175,000

Company Overview

Bar Harbor Biotechnology develops and delivers innovative molecular biology products and services that advance life science research and clinical medicine. Current customers span the world and span the assortment of genetics researchers and research facilities. The company has most recently developed some exciting IP around gene copy number variation with applications for diagnostics and therapeutics.



BistroFresh, LLC

Website: www.bistrofresh.com

Location: Camden, ME

ME Employees: 2

Management Team

Steve Young, CEO

Glenn Flanders, CFO

Other Major Co-Investors

Inland Seafood, Inc.

Individual Investors

Other State of Maine support: None

SEGF Investments

May 2005: \$250,000

March 2006: \$102,222

November 2006: \$53,000

June 2007: \$40,000

August 2008: \$72,309

Total Cost: \$517,531

Total other capital raised: \$1,464,700

Company Overview

Bistro Fresh, LLC specializes in the development, manufacturing and distribution of high quality home meal replacement products. The company's initial line of products utilizes a patented steam cooking technology to produce a line of entrees featuring fresh uncooked ingredients that can be microwaved in less than four minutes. The product took first place in the retail division of the 2006 International Boston Seafood Show new products competition.



Blue Tarp Financial, Inc

Website: www.bluetarp.com

Location: Portland, ME

ME Employees: 54

Management Team

Bond Isaacson, CEO

Lou Collins, CFO

Other Major Co-Investors

Coastal Ventures

Highland Capital Partners

IDG Ventures

Little Diamond Island Enterprises

Spicewood Investment Partners

Trinity Ventures

Village Ventures Partners Fund

Other State of Maine support: Maine Seed Capital
Tax Credit Program ("MSCTC")

SEGF Investments

May 2003: \$350,000

2004 (various dates): \$142,012

February 2006: \$10,000

Total Cost: \$502,012

Total other capital raised: \$38,250,000

Company Overview

BlueTarp Financial, Inc. provides commercial trade credit services to more than 400 building material dealers and 10,000 contractors across the United States. BlueTarp dealers benefit from increased cash flow, reduced back office work, and a healthier bottom line. BlueTarp contractors enjoy a rewards program that allows them to earn points with every purchase and view detailed purchases data via online reporting. This value proposition is unique in the building material and supply industry.



Certify, LLC

Website: www.certify.com

Location: Portland, ME

ME Employees: 6

Management Team

Bob Neveu, CEO

Alan Neveu, CTO

Heath McArthur, Director Business Development

Other Major Co-Investors

Individuals

Other State of Maine support: MSCTC

SEGF Investments

August 2009: \$150,000

Total Cost: \$150,000

Total other capital raised: \$1,775,000

Company Overview

Certify is the leading self-service, online expense management solution for small to midsize companies. Organizations worldwide fill out [expense reports](#) quickly, easily, and cost effectively because there is no expense report software to buy or maintain.



Chemogen, Inc

Website: www.chemogen.com

Location: South Portland, ME

ME Employees: 1 part-time

Management Team

John O'Sullivan, President

Other Major Co-Investors

Masthead Venture Partners

Coastal Ventures

Flory Investments

Other State of Maine support: Maine Technology Institute ("MTI") Development Awards ("DA"); MSCTC.

SEGF Investments

December 2001: \$250,000

April 2004: \$144,932

May 2006: \$55,000

Total Cost: \$449,932

Total other capital raised: \$6,700,000

Company Overview

Chemogen, Inc. is a biotechnology company which developed a novel and proprietary platform technology for the rapid diagnosis of infectious diseases. The initial application of this technology is in the area of tuberculosis ("TB"), the world's deadliest infectious disease. Chemogen has an agreement with Inverness Medical Innovations (Amex: IMA) for the worldwide manufacture and distribution of tests for the rapid detection of Mycobacterium, the primary causative agent of tuberculosis.



Coast of Maine, Inc

Website: www.coastofmaine.com

Location: Portland, ME and Marion Township, ME

ME Employees: 14

Management Team

Carlos Quijano, President

Peter Bottomley, VP Sales

Cameron Bonsey, VP, Marketing

Other Major Co-Investors

Coastal Ventures

Other State of Maine support: None

SEGF Investments

February 2000: \$85,000

Total other capital raised: \$385,000

Company Overview

Coast of Maine, Inc. has been making the finest compost-based specialty soils since 1996. These include an exceptional potting soil, soil amendments and conditioners as well as very old bark mulches. All products are certified for use in growing organic crops by M.O.F.G.A. and are available at fine garden centers and specialty stores across the Northeast.



Common Census, Inc

Website: www.commoncensus.com

Location: Westbrook, ME

ME Employees: 12

Management Team

Daniel Freund, President

Other Major Co-Investors

Individual Investors

Other State of Maine support: MSCTC

SEGF Investments

December 1999: \$175,000

February 2000: \$100,000

April 2000: \$225,000

Total Cost: \$500,000

Total other capital raised: \$1,903,050

Company Overview

Common Census, Inc. creates and markets technology to enroll and manage employee benefits. Customers include: insurance carriers, producers, enrollment companies, human resources departments and the employees they represent.



Crossrate Technology, LLC

Website: www.crossrate.com

Location: Windham, ME

ME Employees: 7

Management Team

Zach Conover, President and CEO

Michael Leathem, VP Customer Support

Dan Pagano, Director Engineering

John Harrington, Director Business Development

Other Major Co-Investors

Little Diamond Island Enterprises

Maine Technology Institute – Accelerated

Commercialization Fund ("ACF")

Other State of Maine support: Maine Center for Enterprise Development ("MCED") tenant, MTI seed grants, MTI DA, MSCTC

SEGF Investments

October 2007: \$100,000

July 2008: \$163,250

March 2009: \$117,500

Total Cost: \$380,750

Total other capital raised: \$1,075,035

Company Overview

Crossrate Technology, LLC has developed and produced a receiver capable of integrating Loran-C, eLoran (enhanced Loran) and GPS signals. Potential markets include maritime, land/mobile, emergency response, and military.



Emergent Discovery, LLC

Website: www.emergentdiscovery.com

Location: Portland, ME

ME Employees: 7

Management Team

Diane Sammer, CEO

Barry Kurland, President & COO

Other Major Co-Investors

Individuals

Other State of Maine support: MTI DA, MSCTC

SEGF Investments

February 2009: \$100,000

September 2009: \$46,154

Total Cost: \$146,154

Total other capital raised: \$1,200,000

Company Overview

Emergent Discovery has developed taste targeting solutions that use collaborative filtering and other techniques to deliver personalized “automated word-of-mouth” recommendations and targeted ads and content, and create connections between like-minded users. Customers and partners use E.D. solutions to provide a richer, more personalized experience to their users, generate more demand into their catalogs, and increase the use of editorial and promotional content on their site.



Foneshow, Inc

Website: www.foneshow.com

Location: Portland, ME

ME Employees: 3

Management Team

Erik Schwartz, CEO

Nic Wolfe, Software Engineer

Other Major Co-Investors

CEI Community Ventures

Masthead Venture Partners

Spinnaker Trust

Other State of Maine support: None

SEGF Investments

August 2007: \$250,000

November 2008: \$62,500

February 2009: \$62,500

Total Cost: \$375,000

Total other capital raised: \$1,165,000

Company Overview

Foneshow, Inc. has developed a telephony-based distribution platform for audio content, for example news/talk radio and podcast programming. The platform leverages the cellular telephone network and enables users to subscribe to, access, publish, share and consume short form audio programming immediately, from virtually any cell phone. The system features the rapid propagation of programming from the creator to the consumer.



Good Clean Food, LLC

Website: www.goodcleanfood.com

Location: Portland, ME

ME Employees: 1

Management Team

Kurt Shisler, CEO

Other Major Co-Investors

Little Diamond Island Enterprises

Cash Cow, LLC

Friday Harbor Angels, LLC

Other State of Maine support: MSCTC

SEGF Investments

July 2007: \$200,000

August 2008: \$136,369

Total Cost: \$336,369

Total other capital raised: \$1,123,660

Company Overview

Good Clean Food, LLC is a specialty food company that helps busy people make delicious home cooked meals quickly. They currently produce fabulous simmer sauces for seafood and chicken. The authentic regional recipes are overflowing with fresh, premium ingredients, chopped by hand and cooked slowly in small batches. The fresh flavors and foolproof format provide all the tools needed to prepare seafood and chicken brilliantly and easily.

In the spring of 2009, Schlotterbeck & Foss, Inc acquired the assets of Good Clean Food.



Harbor Technology, LLC

Website: www.harbortech.us

Location: Brunswick, ME

ME Employees: 16

Management Team

Martin Grimnes, Founder, CEO & Board Chair

Jim Mazur, PT CFO

Alan Potts, Dir Production & Sales

Other Major Co-Investors

Individual investors

Other State of Maine support: MTI DA, MSCTC

SEGF Investments

April 2009: \$150,000

Total Cost: \$150,000

Total other capital raised: \$1,400,000

Company Overview

Harbor Technologies, LLC, (HT) manufactures cost competitive composite products designed as a long-lasting and environmentally friendly solution to the problems associated with maintaining and repairing rusting steel and worm eaten wood used in marine and other infrastructure. HT's products are used for marine infrastructure construction, providing the basic framework for building piers, ports, harbors and marinas. These products include composite pilings, composite dock systems, stay in place concrete forms, as well as composite decking. With these products, HTI markets the ability to deliver complete system solutions that offer fast construction and the ability to outperform conventional construction systems in both cost and longevity.



Interspec, LLC

Website: www.e-specs.com

Location: Portland, ME

ME Employees: 11

Management Team

Michael Brennan, President

Gil Letourneau, CTO & Co-founder

Other Major Co-Investors

Individual investors

Other State of Maine support: MTI DA, MSCTC

SEGF Investments

June 2001: \$150,000

January 2003: \$50,000

January 2004: \$3.33

Total Cost: \$200,003.33

Total other capital raised: \$1,400,000

Company Overview

InterSpec, LLC provides construction document management solutions and services built on its patented e-SPECS® specification management technology. e-SPECS software automates the specification process by extracting the product and material requirements directly from the project drawings. For architects and engineers who spend many hours on every project preparing construction specifications, e-SPECS software saves time and money while ensuring that the construction drawings are coordinated with the specifications.



Looks Gourmet Food Company, Inc

Website: www.barharborfoods.com

Location: Whiting, ME

ME Employees: 20

Management Team

Mike Cote, President & CEO

Cynthia Fisher, VP Marketing & QA

Richard Davis, Plant Manager

Derrick Fitzsimmons, Production Manager

Other Major Co-Investors

Sea Change Investment Fund

World Finer Foods, Inc

Other State of Maine support: None

SEGF Investments

August 2007: \$300,000

Total other capital raised: \$1,618,000

Company Overview

Looks Gourmet Food Company, Inc. is a maker of premium seafood products. The company's seafood and other fine foods are made in small batches and packed and canned mostly by hand, just like people on the coast of Maine have been doing for generations.



Pantheon Guitars, LLC
Website: www.pantheonguitars.com
Location: Lewiston, ME
ME Employees: 12

Management Team:
Roger Brooks, Interim Manager
Dana Bourgeois, Founder & Production
Bonni Lloyd, VP Sales

Other Major Co-Investors
Individual Investors

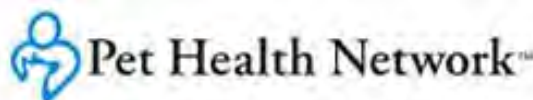
Other State of Maine support: None

SEGF Investments
May 2001: \$208,000
January 2002: \$30,000
August 2002: \$150,000
Total Cost: \$388,000

Total other capital raised: \$776,000

Company Overview

Pantheon Guitars, LLC is one of the best "small shop" acoustic guitar builders in the world. Pantheon Guitars are designed by Dana Bourgeois, a well-known master luthier. All Pantheon guitars are handcrafted in Maine and carry the Bourgeois headstock signature which guarantees a level of quality that players and enthusiasts alike come to expect in fine steel string acoustic instruments.



Pet Health Network
Website: www.pethealthnetwork.com
Location: Yarmouth, ME
ME Employees: 0

Management Team

Other Major Co-Investors:
Individual Investors

Other State of Maine support: MTI DA, MSCTC

SEGF Investments
October 2007: \$249,993
October 2008: \$71,500
March 2009: \$75,000
Total Cost: \$396,493

Total other capital raised: \$3,498,500

Company Overview

Pet Health Network's assets were sold to an undisclosed buyer in July of 2009.

Phylogix, Inc.

Website: www.phylogix.com

Location: Scarborough, ME

ME Employees: 0

Management Team

Richard Hoffman, Exec Dir.

Other Major Co-Investors:

Atlas Ventures

Biotechnology Value Fund

Canaan Partners

Prospect Venture Partners

Radius Venture Partners

Other State of Maine support: MTI DA

SEGF Investments

October 2001: \$150,000

December 2003: \$250,000

Total Cost: \$400,000

Total other capital raised: \$14,550,000

Company Overview

Phylogix, Inc. is an early-stage biotechnology company with Intellectual Property (IP) around an innovative class of lectin-based drugs focused on tissue protection and oncology. The Company's lead drug candidate, called FRIL, addresses a critical unmet need to protect cancer patients from the toxic side-effects of chemotherapy. FRIL may have additional therapeutic applications in oncology and immunology as well. In November of 2005, Phylogix sold all of its assets, including its rights to FRIL and accompanying IP, to Morningside Venture Investments Limited, in exchange for royalty payments on future products commercialized from Phylogix' IP.



Redzone Wireless, Inc.

Website: www.redzonewireless.com

Location: Rockland, ME

ME Employees: 4

Management Team

Jim McKenna, CEO

Other Major Co-Investors

Coastal Ventures

Individual Investors

Other State of Maine support: ConnectME grants.

SEGF Investments

November 2005: \$200,000

March 2007: \$200,000

December 2008: \$50,000

Total Cost: \$450,000

Total other capital raised: \$737,500

Company Overview

RedZone Wireless, Inc. provides affordable high-speed Internet service to communities in Maine. The company's vision is to provide affordable high-speed Internet service in underserved areas of Maine, and New England. The redZone network consists of a combination of proprietary wireless mesh, and standards based 802.11 Wifi technology.



S.P. Liquidating Corp
f.k.a SeptiTech, Inc.

Website: www.septitech.com

Location: Lewiston, ME

ME Employees: 12

Management Team:

Scott Samuelson, Interim COO

Other Major Co-Investors

CHK Capital Partners

Individual Investors

Other State of Maine support: MSCTC

SEGF Investments

December 2001: \$ 250,000 - *\$138,000 of this principal was repaid to the Fund.*

December 2007: \$175,000

Total other capital raised: \$725,000

Company Overview

SeptiTech, Inc. manufactures high-tech advanced wastewater treatment systems for both residential & commercial applications.

Septitech was sold to Polymer Supply, LLC in February 2009.



Speranza Systems, Inc.

Website: www.speranzasystems.com

Location: Portland, ME

ME Employees: 3

Management Team

Glen Solimine, CEO

Other Major Co-Investors

Little Diamond Island Enterprises

CEI Community Ventures

Other State of Maine support: MSCTC

SEGF Investments

January 2007: \$100,000

September 2007: \$59,746

July 2008: \$32,000

March 2009: \$8,354

Total Cost: \$200,100

Total capital raised: \$2,905,322

Company Overview

Speranza Systems, Inc. is the leading provider of treasury and bank relationship management software. Serving mid-sized and large corporations, Speranza's web-based products and services are deployed globally, providing clients with a flexible, centralized structure for managing all aspects of banking relationships. Founded in 2005, Speranza has a management team with extensive experience in the dynamic interface between corporate treasury and technology needs.



Stillwater Scientific Instruments, Inc.
Website: www.stillwaterscientific.com
Location: Orono, ME
ME Employees: 2

Management Team:
David Ferris, Executive Chairman
Robert Jackson

Other Major Co-Investors
Coastal Ventures
Flory Investments
Launch Momentum
Maine Technology Institute - ACF

Other State of Maine support: Target Tech
Center tenant, MTI DA, MSCTC

SEGF Investments
August 2005: \$200,000
April 2007: \$26,658
April 2007: \$125,000
June, Sept, Nov 2008: \$55,492
February 2009: \$15,469
Total Cost: \$422,619

Total other capital raised: \$2,844,394

Company Overview

Stillwater Scientific Instruments, Inc. is a Maine-based life sciences technology company dedicated to developing the most advanced spectrometry solutions for analytical and scientific applications. Stillwater's technology enables the development of instruments and systems, such as a Mass Spectrometer, to perform measurements faster, more efficiently, with a larger dynamic range, higher sensitivity, higher mass range, and better mass accuracy.



Warrior (Aero-Marine), Inc.
Website: www.centaurseaplane.com
Location: Scarborough, ME
ME Employees: 0

Management Team:
James Labouchere, President

Other Major Co-Investors:
Individuals

Other State of Maine support: CDBG – Sanford

SEGF Investments
April 2003: \$ 300,000

Total other capital raised: \$300,000

Company Overview

Warrior (Aero-Marine), Inc. is an engineering firm specializing in the development of aircraft. The company's Centaur aircraft is a 6 or 7 seat composite amphibious flying boat. The wings can be actuated to fold while on the water to enable access to marina docks and yacht berths. The configuration suits turboprop and piston engines.



Small Enterprise Growth Board

An eleven-member Board of Directors appointed by the Governor oversees the Small Enterprise Growth Fund.

The private-sector volunteers appointed to the SEGB not only have relevant experience or backgrounds in early-stage investing, managing and high-growth small business investing, technological innovation development, commercial lending and securities law, but, collectively

- have 115 years of private investing experience,
- have invested in over 120 private companies,
- have 173 years in management experience, and
- have been involved in 170 mergers, acquisitions, or company sales.

As appropriate or necessary, the Board will seek advice on technical feasibility and market demand from a variety of sources including independent experts, the University of Maine System, the Maine Small Business Development Centers and the Maine Science and Technology Foundation.

- **Mark D. Kaplan, CFA, Chair**, is Managing Director at *CEI Ventures, Inc.* Prior to joining *CEI Ventures Inc.* as a Partner in July 1999, Mr. Kaplan served as founding Chair of its Board of Directors. Mr. Kaplan has spent more than 20 years in the investment field including as Managing Director of *Forum Financial Group*, a mutual fund company, and *H.M. Payson & Co.*, an investment advisory and trust services firm where he was the Director of Research and member of the Executive Committee. He also served in the investment department of *Unum Life Insurance Company*. Mr. Kaplan was awarded the Charter Financial Analyst designation in 1986, earned a B.A. in Political Science from the University of Michigan in 1977 and a M.B.A. from the Boston University Graduate School of Management in 1984. He has also participated in the NVCA-NASBIC Venture Capital Institute Certificate and Graduate Programs. Mr. Kaplan serves on the Boards of Directors of *CEI Ventures'* portfolio companies: *Chemogen Inc.*, *Home Bistro Inc.*, *Juno Rising Inc.*, and *Stillwater Scientific Instruments*. He previously served as a Board Member of *Recruiternet Inc.* which was acquired by *First Advantage Corporation* in 2005. In addition, he serves on the investment committees of the *Maine Health Access Foundation* and the *United Way Foundation of Greater Portland*, and is past president of the *Jewish Community Alliance of Southern Maine*.
- **Claude Sheer, Vice Chair**, is Managing Director of *Oyster International*. His corporate assignments have been concerned with the management of growth, in particular the creation and execution of new growth platforms and have focused on mobilizing new technologies, acquisition of capabilities and building management teams. Mr. Sheer served as President and member of the Board of Directors of the international media and marketing company, *Ziff Davis*. Currently a venture advisor to *Zero Stage Capital*, Mr. Sheer is also a founding principal in *Barn Ventures, LLC*, which invests in and accelerates early stage companies. He serves on the Boards of *Lionbridge Technologies Inc.* (LIOX), *Envoy WorldWide*, *Livewave.com* and is a Trustee of the New Hampton School.

- **Howard A. “Skip” Bates, Treasurer**, a Business Banking Officer with Bangor Savings Bank, is responsible for the business development efforts in the mid-coast Maine area. He focuses on businesses ranging from start-up companies seeking working capital to established enterprises approaching \$10 million in revenue. Mr. Bates is active in the economic development community, serving as Board Chair of *Midcoast Magnet*, a networking organization for creative entrepreneurs. He is a founder of the *Juice Conference*, a statewide organization taking action to support the creative economy in Maine. Previously, Mr. Bates spent 11 years with *MBNA America* as an operations manager responsible for several different aspects of the credit card industry. He has lived and worked in Japan where he founded a language school and earned a masters degree in U.S.-Japanese relations.
- **Gregory S. Fryer** is a Partner in the law firm, *Verrill Dana LLP*. Mr. Fryer’s specialty is corporate and securities law and venture capital. He joined *Verrill Dana* in 1986, after having practiced in New York and Atlanta.
- **Karin A. Gregory** is a Partner in the law firm, *Furman Gregory LLC*. Ms. Gregory’s career spans over 25 years in the healthcare field, as a researcher, healthcare administrator, lawyer and venture capitalist. She manages a growing and successful business law practice focused on start up technology companies. Formerly, she was a venture capitalist with *Dover Medical Ventures*, and *MTDC*, the *Massachusetts Technology Development Corporation* in Boston. She is a member of two angel investment groups, and serves on the board of *CEI Ventures*. She is a frequent speaker on venture capital and start up business issues throughout New England.
- **Stephen S. Goldberg** is currently the Principal at Stephen Goldberg Consulting, an establishment that provides Strategic Consulting for the Retail Food Industry including retailers, as well as manufacturers and vendors specializing in Natural, Organic, Specialty and Prepared Foods. Previously, Stephen served with Whole Foods Market from 1988 until 2007, ending his tenure there as Regional Vice President, UK. Before his position as Regional Vice President, Mr. Goldberg served as the Prepared Foods Director for the North Atlantic Region. Stephen has over 20 years of experience in the industry and is an accomplished chef and avid food enthusiast.
- **Matthew A. Hoffner** came to Maine in 1987 after 10 years as an engineer and manager for *Exxon Corp.* He was one of the original managers for *Wright Express Corp.* and was the Senior Vice President of Sales and Marketing for 10 years. He was then the founder of *Integra Associates*, a sales and marketing outsourcing company based in Westbrook, Maine. In 2000, he joined two other partners to start *JobsInTheUS.com (JiUS)*, the parent company for *JobsInME.com* and fifteen other state-specific job boards. As President and CEO of *JiUS*, the company grew to become the largest job board in the Northeast and was sold to the *Journal Register Corp.* in 2006. Mr. Hoffner stayed on as President until July 2007. He is now a part-time instructor at the University of Southern Maine and a math instructor for the Portland Public Schools.

- **Charles G. “Kip” Moore** created *Little Diamond Island Enterprises* in Portland in 1993 to make early-stage investments in technology companies, with a focus in the areas of software, computer services and data communications; a majority of Mr. Moore’s recent investments have been in early-stage Maine companies. Prior to moving to Portland Mr. Moore was a General Partner of *Welsh, Carson, Anderson & Stowe*, a New York based venture capital firm that has been making investments in information processing and health care companies, from 1981 through 1994.
- **Catherine S. Renault**, is the Director of the Office of Innovation for the *Maine Department of Economic and Community Development*. Dr. Renault serves on the SEGF Board as the designee of the Commissioner. Her recent background includes serving as Program Manager for Technology-based Economic Development at *RTI International* in Durham, NC and Managing Director for Virginia’s Center for Innovative Technology.
- **Keith C. Shaughnessy** is Chairman and CEO of Metapoint Partners. Metapoint is an investment firm that acquires established, small to medium sized manufacturing companies and advises management of acquired companies to enhance their value. Prior to co-founding Metapoint in 1988 Mr. Shaughnessy was with the Bank of Boston where he was a Division Executive responsible for the Acquisition Finance Division. He currently serves on the boards of the Metapoint portfolio companies, as well as the Massachusetts Educational Finance Authority, and as a Trustee of the Pingree School.
- **Stephen K. Smith**, general partner at *Masthead Venture Partners*. He has 25 years of investment experience and successful track records in both the public equity and private venture capital sectors. Prior to joining *Masthead*, Mr. Smith spent 16 years as a top-ranked Wall Street analyst following technology stocks for *PaineWebber, Inc.* Mr. Smith is also an active member of *CommonAngels*, a Boston-based group of active angel investors who are mostly founders of successful New England high technology companies.



Fund Management

■ John Burns, CFA, Fund Manager

John has over twenty-five years of experience in institutional investing. Prior to joining SEG F as the Fund Manager in 2000, he served as Second Vice President and Portfolio Manager for UNUM Corporation, where he managed domestic and international portfolios. With the SEG F, he has played a role in bringing capital to more than 30 Maine companies to date, and has steered the SEG F through a number of returns of capital to the Fund.

John holds the Chartered Financial Analyst (CFA) designation, and has held the Series 7 NASD license. He holds an MBA, with high distinction, from Babson College, and a MS degree in Resource Economics from Penn State University. Mr. Burns completed his undergraduate work at the University of Maine.

John serves on the following Boards of Directors:

- * Maine Innovation Economy Advisory Board
- * Maine Investment Exchange (MIX)
- * CEI Community Ventures, Inc.
- * ConnectME Advisory Board
- * Falmouth Memorial Library, Advisory Trustee
- * Falmouth Education Foundation

■ Jayme Okma Lee, Fund Associate

Jayme joined the SEG F in 2005 as a Fund Associate. Prior to joining the SEG F, she worked for General Motors as a marketing and financial analyst, and as a management consultant in the pharmaceutical industry. In 2004, she and her husband came to Maine where they established his veterinary hospital in Rockport. Since moving to Maine, Jayme has provided management consulting services to several Midcoast Maine businesses including Brace Management Group.

Jayme received an MBA from the University of Maine where she had the highest cumulative GPA in her class. She graduated Magna Cum Laude, with honors, from Bowdoin College with an A.B. in Economics and Mathematics.

■ Terri Wark, Fund Administrative Associate

Terri joined the SEG F in 2001 as Fund Administrative Assistant. Prior to that, she was employed for nearly ten years with the Finance Authority of Maine (FAME) in the Small Business and Commercial Loan Division.

Terri attended the University of Maine.

Small Enterprise Growth Fund

Basic Financial Statements and
Management's Discussion and Analysis

Years Ended June 30, 2009 and 2008

SMALL ENTERPRISE GROWTH FUND

FINANCIAL STATEMENTS

For the Years Ended June 30, 2009 and 2008

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
Small Enterprise Growth Fund

We have audited the accompanying basic financial statements of the Small Enterprise Growth Fund ("the Fund"), as of and for the years ended June 30, 2009 and 2008, as listed in the accompanying table of contents. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

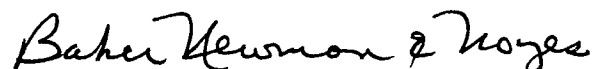
We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the 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 basic financial statements referred to above present fairly, in all material respects, the financial position of the Small Enterprise Growth Fund as of June 30, 2009 and 2008, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As explained in note 1, the financial statements include investments in small businesses valued at \$1,533,722 (32% of net assets) and \$2,996,013 (44% of assets) at June 30, 2009 and 2008, respectively, which are not actively traded and whose carrying values have been estimated by management in the absence of readily determinable fair values.

Management's Discussion and Analysis on pages 2 – 6 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. The supplementary information is the responsibility of the Fund's management. We have applied certain limited procedures that consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information in Schedule 1 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion is fairly stated in all material respects in relation to the basic financial statements as a whole.



Limited Liability Company

Portland, Maine
October 13, 2009

SMALL ENTERPRISE GROWTH FUND

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2009 and 2008

As Management of the Small Enterprise Growth Fund ("the Fund" or "the SEGF"), we offer readers of the Fund's financial statements this narrative overview and analysis of the financial activities of the Fund for the fiscal years ended June 30, 2009 and 2008. As required, the Fund's financial statements are presented in the manner prescribed by Governmental Accounting Standards Board Statement No. 34 – *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments* (GASB 34), as amended. Under GASB 34, the Fund is identified as a Proprietary Fund. Proprietary Funds are accounted for in a manner similar to a private business enterprise.

Overview of the Fund

The Small Enterprise Growth Fund was created in 1996 by an Act of the Maine Legislature, as a body corporate and politic and a tax-exempt instrumentality of the State of Maine. The Fund's purpose is to provide capital to small Maine businesses with the potential for high growth and public benefit, but which are unable to obtain adequate conventional financing. The Fund is a revolving, non-lapsing fund, with net earnings remaining in the Fund for use in providing additional capital to businesses.

Overview of the Financial Statements

Management's Discussion and Analysis is intended to serve as an introduction to the Fund's basic financial statements. The basic financial statements include the Statements of Net Assets, the Statements of Revenues, Expenses and Changes in Net Assets, and the Statements of Cash Flows. The Statements of Net Assets presents information on all of the Fund's assets, liabilities and net assets. The Statements of Revenues, Expenses and Changes in Net Assets present information on the Fund's revenues and expenses. The Statements of Cash Flows supplement those statements providing relevant information about cash sources and uses. The Fund's financial statements are presented on an accrual basis.

2009 Highlights

- The SEGF invested almost \$395,000 in three companies that were new to the portfolio, and invested an additional \$836,000 in existing portfolio companies.
- Revenue growth at SEGF portfolio companies was 36% in 2008, according to the 2008 Maine Comprehensive Research and Development Evaluation
- Employment growth at SEGF portfolio companies was 37% in 2008, according to the 2008 Maine Comprehensive Research and Development Evaluation
- In the current 124th Maine Legislature, recapitalizing SEGF became a core piece of the Governor's economic development bond proposal, endorsed by the Office of Innovation, the Maine Innovation Economy Advisory Board (MIEAB), and the Business, Research and Economic Development (BRED) Committee of the Legislature. In June 2010, voters will be asked to approve a \$35 million economic development bond. If approved, SEGF will receive \$5 million of those proceeds as another investment from the State, bringing the States total investment to \$14 million.
- The Fund continues to receive dividend income from a portfolio company pursuant to a dividend and stock repurchase agreement.
- Management and the Board participated in numerous outreach programs to the early stage company community in Maine, including but not limited to: Speed Venture Summit, Maine Entrepreneurship Week, Financing Fast Growth, and MCED's Top Gun program.

SMALL ENTERPRISE GROWTH FUND

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2009 and 2008

- SEGF continues to play a prominent role in a strong support network for the entrepreneurial community in Maine. Additionally, the Fund Manager sits on numerous Boards throughout the State, including the Maine Innovation Economy Advisory Board, the Maine Investment Exchange, and CEI Community Ventures.
- The SEGB is a deeply experienced Board knowledgeable in young company equity investing. On average, SEGB members have 11 years experience with direct equity investing in private companies, and have served 20 years in management positions. On average, Board members have been involved in 6 company sales, have invested in 11 companies, are currently invested in six, serve on four company Boards, and serve as an advisor to one company.

Financial Information

Statements of Net Assets

	<u>2009</u>	<u>2008</u>
Cash equivalents	\$1,887,700	\$3,162,041
Interest receivable	101,457	21,541
Notes receivable, net	1,252,914	598,159
Investments	1,533,722	2,996,013
Capital assets	6,491	8,621
Long-term deposit	<u>2,038</u>	<u>1,150</u>
Total assets	<u>\$4,784,322</u>	<u>\$6,787,525</u>
Accounts payable and accrued liabilities	\$ 21,441	\$ 34,059
Deferred income	<u>—</u>	<u>6,250</u>
Total liabilities	21,441	40,309
Invested in capital assets	6,491	8,621
Unrestricted net assets	<u>4,756,390</u>	<u>6,738,595</u>
Total net assets	<u>4,762,881</u>	<u>6,747,216</u>
Total liabilities and net assets	<u>\$4,784,322</u>	<u>\$6,787,525</u>

Total assets decreased \$2,003,203 due mainly to an operating loss of \$1,984,335, which included writedowns of certain investments.

SMALL ENTERPRISE GROWTH FUND

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2009 and 2008

Statements of Revenues, Expenses and Changes in Net Assets

	<u>2009</u>	<u>2008</u>
Investment income	\$ 129,939	\$ 167,082
Dividend income	75,000	100,000
Interest income on notes receivable	102,172	48,697
Miscellaneous	<u>62</u>	<u>2,052</u>
 Total operating revenues	 307,173	 317,831
 Salary expense	 194,070	 186,996
Payroll benefits expense	49,371	47,714
Rent expense	14,460	13,800
General and administrative expense	51,675	66,295
Depreciation expense	2,130	2,058
Provision for losses on notes receivable	407,495	40,348
Write-down of investments	<u>1,572,307</u>	<u>158,087</u>
 Total operating expenses	 <u>2,291,508</u>	 <u>515,298</u>
 Operating loss	 (1,984,335)	 (197,467)
 Capital contributions	 —	 1,000,000
 Net assets at beginning of year	 <u>6,747,216</u>	 <u>5,944,683</u>
 Net assets at end of year	 <u>\$ 4,762,881</u>	 <u>\$ 6,747,216</u>

Statement of Revenues, Expenses and Changes in Net Assets

The Fund had an operating loss of \$1,984,335 for the fiscal year. Operating revenues decreased minimally, 3% or \$10,658, due to decreased returns on cash balances. Operating expenses increased 78% to \$2,291,508, due to a significant reduction in certain carrying values of certain notes receivable and investments.

2008 Highlights

- In a very active investing year, the SEGF invested \$1.15 million in six companies that were new to the portfolio, and invested an additional \$0.48 million in existing portfolio companies.
- In three of the aforementioned investments, the SEGF received warrants or stock as additional consideration for the investment, which could provide additional return to the Fund at some future date upon a liquidity event. As noted in the audit, warrants held by SEGF are not assigned value due to their current illiquidity and early stage of the issuing companies.
- The Fund wrote off one investment that had been carried at a zero value since the prior fiscal year.
- The Fund received full prepayment of a Note during the FY, a note which carrying value had been sharply reduced in earlier years.
- SEGF portfolio companies paid \$8.2 million in salaries and wages in 2007, at an average wage of over \$45,000, 1.5X the State average wage.
- Revenue growth at SEGF portfolio companies exceeded 20% in 2007.

SMALL ENTERPRISE GROWTH FUND

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2009 and 2008

- The Fund continues to receive dividend income from a portfolio company pursuant to a dividend and stock repurchase agreement.
- Management and the Board participated in numerous outreach programs to the early stage company community in Maine.
- SEGF continues to play a prominent role in a strong support network for the entrepreneurial community in Maine. For example, SEGF organized and hosted *The Power of Angel Investing*, a program of the Kaufmann Foundation and the Angel Capital Association. The program brought together a distinguished panel of experts in the field of Angel investing, and was attended by a wide range of potential angels, angels, and small company executives. Additionally, the Fund Manager sits on numerous Boards throughout the State, including the Maine Innovation Economy Advisory Board, the Maine Investment Exchange, and CEI Community Ventures.
- The SEGB is a deeply experienced Board knowledgeable in young company equity investing. On average, SEGB members have 11 years experience with direct equity investing in private companies, and have served 20 years in management positions. On average, Board members have been involved in 6 company sales, have invested in 11 companies, are currently invested in six, serve on four company Boards, and serve as an advisor to one company.

Financial Information

Statements of Net Assets

	<u>2008</u>	<u>2007</u>
Cash equivalents	\$3,162,041	\$3,726,021
Interest receivable	21,541	—
Notes receivable, net	598,159	323,075
Investments	2,996,013	1,919,361
Capital assets	8,621	—
Long-term deposit	<u>1,150</u>	<u>—</u>
Total assets	<u>\$6,787,525</u>	<u>\$5,968,457</u>
Accounts payable and accrued liabilities	\$ 34,059	\$ 23,774
Deferred income	<u>6,250</u>	<u>—</u>
Total liabilities	40,309	23,774
Invested in capital assets	8,621	—
Unrestricted net assets	<u>6,738,595</u>	<u>5,944,683</u>
Total net assets	<u>6,747,216</u>	<u>5,944,683</u>
Total liabilities and net assets	<u>\$6,787,525</u>	<u>\$5,968,457</u>

Total Assets increased \$819,068 due to a capital contribution of \$1 million, dividends, interest and investment income, offset somewhat by an operating loss of \$197,467, including write-downs of certain investments.

SMALL ENTERPRISE GROWTH FUND

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2009 and 2008

Statements of Revenues, Expenses and Changes in Net Assets

	<u>2008</u>	<u>2007</u>
Investment income	\$ 167,082	\$ 219,100
Dividend income	100,000	—
Interest income on notes receivable	48,697	63,029
Realized gain on sale of investment	—	198,638
Miscellaneous	<u>2,052</u>	<u>—</u>
 Total operating revenues	 317,831	 480,767
 Salary expense	 186,996	 170,339
Payroll benefits expense	47,714	42,028
Rent expense	13,800	—
General and administrative expense	66,295	82,063
Depreciation expense	2,058	—
Provision for (recovery of) losses on notes receivable	40,348	(1,586)
Write-down of investments	<u>158,087</u>	<u>115,130</u>
 Total operating expenses	 <u>515,298</u>	 <u>407,974</u>
 Operating (loss) income	 (197,467)	 72,793
 Capital contributions	 1,000,000	 —
 Net assets at beginning of year	 <u>5,944,683</u>	 <u>5,871,890</u>
 Net assets at end of year	 <u>\$6,747,216</u>	 <u>\$5,944,683</u>

The Fund had an operating loss of \$197,467 for the fiscal year. Operating revenues decreased 34% to \$317,831, due primarily to a realized gain in FY '07, somewhat offset by a large dividend received in FY'08. Investment income was also lower, due primarily to lower returns on the relatively large cash balances of the Fund. Operating Expenses increased 26% to \$515,298, 79% of which was attributable to greater reductions in carrying values.

SMALL ENTERPRISE GROWTH FUND

STATEMENTS OF NET ASSETS

June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
<u>ASSETS</u>		
Current assets:		
Cash equivalents (note 2)	\$1,887,700	\$3,162,041
Interest receivable	12,862	21,541
Notes receivable, net of allowance for losses of \$276,995 in 2009 and \$0 in 2008 (notes 3 and 5)	<u>184,244</u>	<u>44,702</u>
Total current assets	2,084,806	3,228,284
Noncurrent assets:		
Interest receivable	88,595	—
Notes receivable, net of allowance for losses of \$171,500 in 2009 and \$91,000 in 2008 (notes 3 and 5)	1,068,670	553,457
Investments (note 1)	1,533,722	2,996,013
Capital assets, net (note 8)	6,491	8,621
Long-term deposit	<u>2,038</u>	<u>1,150</u>
Total noncurrent assets	2,699,516	3,559,241
Total assets	<u>\$4,784,322</u>	<u>\$6,787,525</u>

LIABILITIES AND NET ASSETS

Current liabilities:		
Accounts payable	\$ 120	\$ 2,026
Accrued expenses	21,321	32,033
Deferred revenue	<u>—</u>	<u>6,250</u>
Total current liabilities	<u>21,441</u>	<u>40,309</u>
Total liabilities	21,441	40,309
Commitments (notes 4 and 9)		
Net assets (note 7):		
Invested in capital assets	6,491	8,621
Unrestricted net assets	<u>4,756,390</u>	<u>6,738,595</u>
Total net assets	<u>4,762,881</u>	<u>6,747,216</u>
Total liabilities and net assets	<u>\$4,784,322</u>	<u>\$6,787,525</u>

See accompanying notes.

SMALL ENTERPRISE GROWTH FUND

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

Years Ended June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Operating revenues:		
Investment income	\$ 129,939	\$ 167,082
Dividend income	75,000	100,000
Interest income on notes receivable	102,172	48,697
Miscellaneous	<u>62</u>	<u>2,052</u>
Total operating revenues	307,173	317,831
Operating expenses:		
Salary expense	194,070	186,996
Payroll benefits expense	49,371	47,714
Rent expense	14,460	13,800
General and administrative expense	51,675	66,295
Depreciation expense	2,130	2,058
Provision for losses on notes receivable (note 3)	407,495	40,348
Write-down of investments	<u>1,572,307</u>	<u>158,087</u>
Total operating expenses	<u>2,291,508</u>	<u>515,298</u>
Operating loss	(1,984,335)	(197,467)
Capital contributions	—	1,000,000
Net assets, beginning of year	<u>6,747,216</u>	<u>5,944,683</u>
Net assets, end of year	<u>\$ 4,762,881</u>	<u>\$ 6,747,216</u>

See accompanying notes.

SMALL ENTERPRISE GROWTH FUND

STATEMENTS OF CASH FLOWS

Years Ended June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Cash flows from operating activities:		
Interest received on notes receivable	\$ —	\$ 33,406
Principal payments received on notes receivable	—	83,727
Notes receivable originated	(1,066,724)	(399,159)
Disbursements for investments	(164,536)	(1,234,739)
Proceeds from sale of investments	75,000	—
Miscellaneous receipt	62	2,052
Dividend income	75,000	100,000
Investment income received	129,939	167,082
Payments for operating expenses	(117,473)	(130,707)
Payments to employees	(205,609)	(174,963)
Net cash used by operating activities	(1,274,341)	(1,553,301)
Cash flows from capital and related financing activities:		
Acquisition of capital assets	—	(10,679)
Cash flows from noncapital financing activities:		
Contributed capital	—	1,000,000
Net decrease in cash equivalents	(1,274,341)	(563,980)
Cash equivalents, at beginning of year	<u>3,162,041</u>	<u>3,726,021</u>
Cash equivalents, at end of year	<u>\$ 1,887,700</u>	<u>\$ 3,162,041</u>
Reconciliation of operating loss to net cash used by operating activities:		
Operating loss	\$ (1,984,335)	\$ (197,467)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Provision for losses on notes receivable	407,495	40,348
Write-down of investments	1,572,307	158,087
Depreciation	2,130	2,058
Changes in assets and liabilities:		
Interest receivable	(79,916)	(21,541)
Notes receivable	(1,062,250)	(315,432)
Investments, net	(110,016)	(1,234,739)
Long-term deposit	(888)	(1,150)
Accounts payable	(1,906)	521
Accrued expenses	(10,712)	9,764
Deferred revenue	(6,250)	6,250
	<u>\$ (1,274,341)</u>	<u>\$ (1,553,301)</u>

Noncash activities:

During 2009, \$20,480 of notes receivable were converted to equity investments as permitted by the investments agreements.

During 2009, \$16,006 of accrued interest was converted to notes receivable as permitted by the notes receivable agreements.

See accompanying notes.

SMALL ENTERPRISE GROWTH FUND

NOTES TO FINANCIAL STATEMENTS

June 30, 2009 and 2008

1. Organization and Significant Accounting Policies

The accounting policies of the Small Enterprise Growth Fund ("the Fund") conform to accounting principles generally accepted in the United States of America. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the accounting principles are described below.

Authorizing Legislation

The Small Enterprise Growth Program was established in 1996 by the State of Maine legislature through the enactment of L.D. 1831 "An Act to Create the Small Enterprise Growth Program." The law created the Fund as a revolving fund. The Fund is an instrumentality of the State of Maine and is a tax-exempt entity. The Fund is a component unit of the State of Maine.

Purpose of the Fund

The Fund is used to provide capital to small Maine businesses that show potential for high growth and public benefit but are unable to obtain adequate conventional financing from financial institutions. The State of Maine capitalized the Fund by issuing general obligation bonds. The initial capitalization was \$5,000,000. The Fund received an additional \$1,000,000 of capital in fiscal year 2008 from proceeds of a State of Maine economic development bond and \$3,000,000 of capital in fiscal year 2001 from a general fund appropriations of the State of Maine. Currently, financing is provided to qualifying business enterprises through lending arrangements and direct equity investments. Lending agreements generally provide for the issuance of warrants to the Fund or the option of converting its investment from debt to equity through the use of convertible debentures. The Fund also makes direct equity investments in Maine businesses. Operating activities of the Fund include lending and direct equity investments.

Basis of Accounting

The accounts of the Fund are maintained in accordance with the principles of "fund accounting." These principles require that resources for various purposes be classified for accounting and reporting purposes into funds that are in accordance with activities or objectives specified. The Fund only has one fund, which is a proprietary fund. Proprietary funds are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and collectibility is assumed and expenses are recorded at the time liabilities are incurred.

As permitted by GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting*, the Fund has elected not to comply with the Financial Accounting Standards Board (FASB) Statements and Interpretations issued after November 30, 1989.

SMALL ENTERPRISE GROWTH FUND

NOTES TO FINANCIAL STATEMENTS

June 30, 2009 and 2008

1. Organization and Significant Accounting Policies (Continued)

Fund Administration

The Fund is overseen by the Small Enterprise Growth Board which establishes rules for operations, approves and denies applications and monitors investment agreements on an ongoing basis. The Governor of the State of Maine appoints the Board members.

The Fund is administered and maintained by the Finance Authority of Maine, "the Authority," per statute. The Board of the Fund has engaged a Fund Manager to provide management and oversight of the Fund.

Management Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management of the Fund 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 financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The most significant estimates utilized in the preparation of the financial statements of the Fund relate to the allowance for losses on notes receivable and the valuation of investments. The Fund's investments are not traded in an active market. Because the Fund lends to and invests in small start-up businesses, some of which have not begun to generate revenues, there is a significant risk that such estimates could be revised substantially in the future.

Cash Equivalents

For purposes of preparing the statements of cash flows, the Fund considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. At June 30, 2009 and 2008, the Fund's cash equivalents consisted of amounts held in the State of Maine Treasurer's cash pool and bank deposits.

Investments

The Fund makes direct equity investments in Maine businesses. These investments consist of Common and Preferred Stock and Units in Limited Liability Companies. These investments are not actively traded, nor are they insured. The Fund's ownership interest in any of these businesses is normally less than 20% at any given time. The Fund owns all investments directly; therefore there is no custodial credit risk. Investments are carried at cost on the Fund's statements of net assets until there is evidence of a decrease in fair value as estimated by management in the absence of readily determinable fair values. It is the Fund's policy to review each investment for probable loss and if necessary, to write-down the investment through a charge to operating expenses. Realized gains on the sale of investments are determined based on the specific identification method.

SMALL ENTERPRISE GROWTH FUND

NOTES TO FINANCIAL STATEMENTS

June 30, 2009 and 2008

1. Organization and Significant Accounting Policies (Continued)

The following is a summary of the cost basis and the carrying value of investments at June 30, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
Cost basis	<u>\$5,231,806</u>	<u>\$5,121,790</u>
Carrying value	<u>\$1,533,722</u>	<u>\$2,996,013</u>

The carrying value of \$1,533,722 consist of investments in eleven companies, three of which have balances greater than 10% of the Fund's recorded investment balances.

Notes Receivable

Notes receivable are carried at the principal amounts outstanding. Interest income on notes receivable is recorded only when collectibility of principal and interest are probable.

Allowance for Losses on Notes Receivable

The Fund has established an allowance for losses on notes receivable. The allowance for losses account is established through a provision for losses charged to operations. The amount of the allowance is determined by management's evaluation of the notes receivable portfolio. The evaluation takes into consideration such factors as the volume of the portfolio, overall portfolio quality, specific problem borrowers and current economic conditions that may affect the borrowers' ability to repay. Management believes that the allowance for losses is adequate. While management uses available information to recognize losses, changing economic conditions and the economic prospects of the borrowers might necessitate future additions to the allowance. It is the Fund's policy to review each note receivable for potential loss and establish specific allowances if necessary and to provide for a general allowance on all notes receivable without specific allowances.

Deferred Revenue

Deferred revenue consists of interest on notes receivable collected in advance.

Operating Revenue and Expenses

Operating revenues include interest earned on notes receivable, investments income and realized gains on sale of investments. Operating expenses include professional fees and services, payroll and administrative expenses and other costs of providing services and operating the program.

SMALL ENTERPRISE GROWTH FUND

NOTES TO FINANCIAL STATEMENTS

June 30, 2009 and 2008

2. Cash Equivalents

The Fund does not have a formal investment policy. However, monies that are not needed for immediate use are invested with the State of Maine. The Treasurer of the State of Maine sponsors an investment pool ("State of Maine Treasurer's Cash Pool"). The Fund's participation is voluntary. The State of Maine's investment pool is primarily comprised of investment vehicles with short maturities and management of the Fund characterizes the investments within the pool as low risk. The State of Maine Treasurer's Cash Pool is not rated by external rating agencies. The Fund is able to make withdrawals from the State of Maine investment pool at par with little advance notice and without penalty. The Fund's management considers this investment vehicle a money market instrument and generally carries the amounts in the pool at fair value. However, the balance at June 30, 2008 was reduced by \$9,960 to reflect losses in the underlying assets of the cash pool. Cash equivalents consisted of the following at June 30, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
Bank deposits	\$ 51,840	\$ 62,715
State of Maine Treasury's cash pool	<u>1,835,860</u>	<u>3,099,326</u>
	<u>\$1,887,700</u>	<u>\$3,162,041</u>

At June 30, 2009 and 2008, bank deposits had a bank balance of \$53,012 and \$65,008, respectively, and a carrying amount of \$51,840 and \$62,715, respectively. The difference between the carrying amount of deposits and bank balance consists primarily of checks issued but not cashed. All bank deposits are covered by Federal depository insurance at June 30, 2009 and 2008.

3. Notes Receivable

The following is a summary of notes receivable at June 30, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
Note (amended) dated March 2008, interest at 9%, interest accrued until maturity, principal payments deferred until November 2010, due October 2012, the note is unsecured.	\$ 100,000	\$100,000
Note dated March 2008, interest at 9%, interest accrued until August 2011, principal payments deferred until April 2011, due February 2013, the note is unsecured.	75,000	75,000
Note (amended) dated August 2008, interest at 10%, all accrued interest at April 2009 added to principal balance, principal payments deferred until April 2009, due June 2010, the note is unsecured. The note is in default.	76,829	32,408
Note (amended) dated July 2008, interest at 10%, interest accrued through June 2010, thereafter principal and interest is payable over a thirty-six month period, the note is unsecured.	263,250	100,000
Note dated August 2007, interest at 10%, interest accrued until maturity, due August 24, 2009. The note was unsecured and was written-off in 2009.	—	50,000

SMALL ENTERPRISE GROWTH FUND

NOTES TO FINANCIAL STATEMENTS

June 30, 2009 and 2008

3. Notes Receivable (Continued)

	<u>2009</u>	<u>2008</u>
Note dated May 2008, interest at Wall Street Journal prime rate plus 1% (5.0% at June 30, 2008), subject to change quarterly, interest accrued until maturity, due May 22, 2010. The note was converted to an equity investment in 2009.	\$ —	\$ 20,480
Note (amended) dated February 2009, interest at 16%, interest accrued until maturity, due March 2009, the note is unsecured. The note is in default.	55,492	21,271
Note (amended) dated March 2008, interest at 10%, interest accrued until August 2011, principal payments to begin March 2010, due August 2011, the note is unsecured.	250,000	250,000
Note dated June 2007, interest at 12%, interest accrued until maturity, due December 31, 2009, the note is unsecured.	40,000	40,000
Note dated February 2009, interest at 16%, interest accrued until maturity, due March 2009, the note is unsecured. The note is in default	15,469	—
Note dated March 2009, interest at 10%, interest accrued through March 2010, interest only beginning March 2010, due December 2014, the note is unsecured.	117,500	—
Note dated February 2009, interest at 6%, interest accrued until maturity, due December 2010, the note is unsecured.	100,000	—
Note dated November 2008, interest at 6%, interest accrued until maturity, due September 2009, the note is unsecured.	62,500	—
Note dated February 2009, interest at 8%, interest accrued until maturity, due September 2009, the note is unsecured.	62,500	—
Note dated August 2008, interest at 5%, interest accrued until maturity, due September 2009, the note is unsecured.	136,369	—
Note dated December 2008, interest at 10%, interest accrued until maturity, due December 2010, the note is unsecured.	50,000	—
Note dated July 2008, interest at 10%, interest accrued until maturity, due at July 2013, the note is unsecured.	71,500	—
Note dated March 2009, interest at 15%, interest accrued until maturity, due December 2010, the note is unsecured.	75,000	—
Note dated April 2009, interest at 14%, interest accrued until maturity, due April 2015, the note is unsecured.	<u>150,000</u>	<u>—</u>
	1,701,409	689,159
Allowance for losses	<u>(448,495)</u>	<u>(91,000)</u>
Notes receivable, net	1,252,914	598,159
Current portion of notes receivable, net	<u>(184,244)</u>	<u>(44,702)</u>
Noncurrent portion of notes receivable, net	<u>\$1,068,670</u>	<u>\$553,457</u>

SMALL ENTERPRISE GROWTH FUND

NOTES TO FINANCIAL STATEMENTS

June 30, 2009 and 2008

3. Notes Receivable (Continued)

The following is the activity in the allowance for losses on notes receivable during the years ended June 30, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
Allowance for losses on notes:		
Beginning balance	\$ 91,000	\$ 50,652
Provision for losses	407,495	40,348
Charge-offs	<u>(50,000)</u>	<u>—</u>
Ending balance	<u>\$448,495</u>	<u>\$ 91,000</u>

The Fund's lending activities are conducted in the State of Maine. The ability and willingness of the borrowers to honor their repayment commitment is generally dependent on the health of the economic sector in the borrower's geographical area, the general economy and the borrower's financial condition. Notes receivable are issued to start up businesses.

Certain financing agreements entered into with the business enterprises contain a provision enabling the Fund to acquire an equity interest in the business through a convertible debenture that gives the Fund future options to convert its investments from debt to equity.

4. Commitments

At June 30, 2009, the Fund did not have any commitments to provide financing to small Maine businesses. The Fund uses the same process in making commitments as it does for actual financing activities.

5. Warrants

The Fund has entered into financing agreements with business enterprises containing a provision enabling the Fund to acquire an equity interest in the business through warrants to purchase common stock at a set price in the future. The warrants are generally not exercisable during the four-year period after the issuance date and contain put and call provisions. The warrants are considered a separate investment; however, the Fund has not assigned any value to the warrants at June 30, 2009 or 2008 because there is no market for the warrants and the business enterprises are in the start-up and development phase, and as a result, the value of their common stock and related warrants is impractical to determine.

SMALL ENTERPRISE GROWTH FUND

NOTES TO FINANCIAL STATEMENTS

June 30, 2009 and 2008

6. Transactions with the Finance Authority of Maine ("the Authority")

Prior to August 1, 2007, the Fund engaged the Authority to provide administrative and record keeping services, as well as certain financial management and legal assistance it continues to provide. The Authority charged the Fund for services rendered and the fees paid to the Authority are authorized by the Fund's Board. Included in general and administrative expenses in the 2009 and 2008 statements of revenues, expenses and changes in net assets, is approximately \$7,334 and \$11,554, respectively, paid to the Authority for such services.

7. Total Net Assets

The following schedule presents the components of total net assets as of June 30, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
Contributed capital	\$ 9,006,767	\$ 9,006,767
Investment in Capital assets	6,491	8,621
Accumulated deficit	<u>(4,250,377)</u>	<u>(2,268,172)</u>
Total net assets	<u>\$ 4,762,881</u>	<u>\$ 6,747,216</u>

There are no restrictions on net assets at June 30, 2009 and 2008. The Fund's unrestricted net assets are generally reserved for program related activities.

8. Capital Assets

Capital assets activity for the year ended June 30, 2009 was as follows:

	<u>June 30,</u> <u>2008</u>	<u>Additions</u>	<u>Disposals</u>	<u>June 30,</u> <u>2009</u>
Computer and office equipment	\$ 10,679	\$ —	\$ —	\$ 10,679
Less accumulated depreciation for:				
Computer and office equipment	<u>(2,058)</u>	<u>(2,130)</u>	<u>—</u>	<u>(4,188)</u>
	<u>\$ 8,621</u>	<u>\$ (2,130)</u>	<u>\$ —</u>	<u>\$ 6,491</u>

SMALL ENTERPRISE GROWTH FUND

NOTES TO FINANCIAL STATEMENTS

June 30, 2009 and 2008

8. Capital Assets (Continued)

Capital assets activity for the year ended June 30, 2008 was as follows:

	June 30, <u>2007</u>	<u>Additions</u>	<u>Disposals</u>	June 30, <u>2008</u>
Computer and office equipment	\$ —	\$10,679	\$ —	\$10,679
Less accumulated depreciation for:				
Computer and office equipment	<u>—</u>	<u>(2,058)</u>	<u>—</u>	<u>(2,058)</u>
	<u>\$ —</u>	<u>\$ 8,621</u>	<u>\$ —</u>	<u>\$ 8,621</u>

9. Operating Leases

The Fund leases office space under a lease that expires in July 2010 with an option to renew for one year through July 2011. Payments due under the lease for fiscal years ending June 30 are as follows:

2010	\$13,800
2011	<u>1,270</u>
Total	<u>\$15,070</u>

Lease expense was \$14,460 and \$13,800 for the years ended June 30, 2009 and 2008, respectively.

10. Risk Management

The Fund carries insurance to cover its exposure to various risks of loss. There were no uninsured losses during the last three years.

ADDITIONAL INFORMATION

SMALL ENTERPRISE GROWTH FUND

STATEMENT OF ACTIVITIES

Year Ended June 30, 2009

Functions/ Programs	Program Revenues					Net Revenue (Expenses) and Changes in Net Assets
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Program Investment Income</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants/ Contributions</u>	<u>Total</u>
Business-type activities:						
Capital investment program	<u>\$(2,291,508)</u>	<u>\$ —</u>	<u>\$177,172</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$(2,114,336)</u>
			General revenues:			
			Unrestricted interest and investment earnings			129,939
			Miscellaneous income			<u>62</u>
			Total general revenues			<u>130,001</u>
			Change in net assets			(1,984,335)
			Net assets, beginning of the year			<u>6,747,216</u>
			Net assets, end of the year			<u>\$ 4,762,881</u>