

# MAINE STATE LEGISLATURE

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Small Enterprise Growth Fund

Periodic Report  
125<sup>th</sup> Legislature's  
Joint Standing Committee on Labor, Commerce,  
Research & Economic Development

Respectfully submitted  
by the  
Small Enterprise Growth Board

2010

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Financial Statements for FY2010



**To:** Joint Standing Committee on Labor, Commerce, Research and Economic Development

**From:** Small Enterprise Growth Board

**Date:** December 2010

**Re:** Small Enterprise Growth Fund 2010 Periodic Report

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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 Fiscal Year **2010 Periodic Report**, providing a detailed review of the Small Enterprise Growth Fund's ("SEGF" or "Fund") activities, status and successes.

With capital returned from a very profitable portfolio company sale and proceeds from the June economic development bond, SEGF has liquid resources to continue in its mission *"to provide resources to attract, support and develop eligible small businesses that will contribute to the prosperity of Maine"*.

SEGF's mission and purpose are as desperately needed now as when the Fund was created. Sources of risk capital for Maine companies continue to be very limited. Neither existing venture subsidiary of Coastal Enterprises was able to raise a new fund given the capital market disruptions, though CEI Ventures may launch a small fund in 2011. North Atlantic Capital operates from Maine, but, as a later stage investor, has not found any Maine companies in which to invest in several years. The one angel group in the State, Maine Angels, continues as a viable group, but their investments have been small, and not limited to Maine companies. In response, Maine Technology Institute ("MTI") has expanded its efforts, through its Advanced Commercialization Fund, to get capital to companies at the commercialization stage.

In Fiscal Year 2010 (July 1, 2009 to June 30, 2010), the SEGB screened many companies for potential investment, counseled many other early-stage companies, and heard formal presentations from a number of Maine companies. During the fiscal year, the SEGB invested \$398,154, which included:

- Investments in two promising companies, new to the Fund, totaling \$225,000;
- A follow-on investment in each of two existing portfolio companies, totaling \$173,154.

In the balance of calendar 2010, from July 1, 2010 to date, the SEGB has invested an additional \$400,211: \$250,000 in one company new to the portfolio, and the balance, \$150,211, in follow-on investments in three existing portfolio companies.

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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 environment in Maine. The accompanying documents, graphs and tables present data portraying the impact of the SEGF, but we would like to share here some of the highlights:

- SEGF plays a key role in Maine's R&D continuum from research to commercialization. Many companies that have successfully leveraged 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.
- 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 to launch, or pursuing their ideas outside the State.
- Since 1997, SEGF portfolio companies have created 6,950 job-years; job years are calculated as the cumulative of one job for one year for FTE employees for all portfolio companies since 1997.
- As of December 2010, SEGF has 19 portfolio companies that employ nearly 220 FTEs at an average salary of \$45,000 plus benefits. The effects of the Great Recession linger, 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 Manchester, NH, the Maine Investment Exchange ("MIX"), the Community Development Venture Capital Alliance ("CDVCA"), and the National Association of Seed and Venture Fund's ("NASVF") Annual Conference.

As noted, SEGF management and the Board are active in the entrepreneurial ecosystem in Maine. Management and the Board work with other entities in entrepreneurial development programs and small business counseling; SEGF offers a small scholarship each year for a University of Maine MBA student, providing real experience working with a SEGF portfolio company; the Fund employs summer interns from schools like Tuck at Dartmouth, Babson, and Howard University; and management and the Board work closely with portfolio companies and companies of interest, serving as advisors, working

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with company Boards, and helping source additional capital.

We would like to take this opportunity also to recommend that certain highly valuable programs and initiatives continue to be supported as Maine continues to transition its economy from its resource-based past to innovation and modern manufacturing. These include MTI and its portfolio of programs, the Maine Seed Capital Tax Credit, managed by FAME, and the two top incubators in the State, Maine Center for Enterprise Development (Portland) and the Target Technology Center (Orono). The tax credit is a powerful tool for attracting key individual investors into promising companies; making the credit refundable for individuals would help the State's entrepreneurs tap into the large pool of capital in the greater Boston area. The incubators' programs (e.g. "Top Gun") bring the entrepreneurial community together to promote the growth and development of the State's most promising high-growth companies.

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](http://www.segfmaine.com).

The SEGB thanks you for your support.

Respectfully,

*/s/ Mark D. Kaplan*

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Mark D. Kaplan  
Chair  
Small Enterprise Growth Board



**Small Enterprise Growth Fund**

Brunswick Business Center | 18 Pleasant Street, Suite 201 | Brunswick, Maine 04011 | 207.373.9306

[www.segfmaine.com](http://www.segfmaine.com)

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## About the *Small Enterprise Growth Fund*

### **Mission:**

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 Finance Authority of Maine ("FAME"), Maine Technology Institute ("MTI"), Department of Economic and Community Development ("DECD") and Technology Centers, privately managed venture capital funds, individual investors, entrepreneurs and small business owners throughout the State.

### **Governance:**

Authority for the Small Enterprise Growth Fund resides with an eleven-member Board of Directors. The Governor appoints ten of these individuals and the eleventh is an Ex-Officio seat for the DECD Commissioner (or his/her designee).

The governing statute has specific experience/knowledge requirements for each gubernatorial board seat appointment:

- *Five members must have relevant experience or background in early-stage investing, or in managing high-growth small businesses,*
- *Three members must have experience in the development of technological innovation,*
- *One must be involved in commercial lending, and*
- *One must be an attorney with experience in securities law.*

Collectively, the current Board members:

- *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.*

The function of the Board of Directors is to determine the Fund's mission and purpose; to approve investments to qualifying small Maine businesses; to provide ongoing support and guidance to the Fund Manager and SEGF staff, as well as to review performances annually; to provide ongoing support and guidance to SEGF portfolio companies in pursuit of the Fund's twin goals of driving financial returns and supporting companies in providing more and more good jobs and other community benefits; and to work closely with the Fund Manager in keeping the Legislature and Governor apprised of the Fund's activities. This Board devotes a tremendous amount of volunteer time from their very busy schedules to help make this Fund successful.

## History:

The SEGF is the State's venture capital fund. It was created by statute in 1996, and through FYE 2010, had received \$9 million in capital from the State through economic development bond proceeds. In June 2010, voters approved another economic development, \$4 million of which proceeds went to SEGF, bringing the Fund's total contributed capital to \$13 million. It is a competitive venture capital fund, meaning many business plans are reviewed, but the Fund invests, after thorough due diligence, in only those companies that stand out as providing the combination of best expected return on investment and the greatest positive impact on the State. Since its first investment in December of 1997, SEGF has invested over \$12 million in 41 Maine companies. There are currently 19 companies in the portfolio. For every \$1 invested by the SEGF, other investors have typically invested an additional \$9 – 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. *Certify, LLC*. - Certify was founded by Bob Neveu, an experienced software company CEO who had previously founded, grown and sold RecruiterNet, Inc. to a public company for a very strong financial return. The SEGF was an investor in RecruiterNet, and active with its Board in planning and strategic discussions. At Certify, Bob has teamed again with his product development team to launch a product in a rapidly growing market. The SEGF renegotiated the company-offered term sheet to make it more attractive to investors, helping the company offer reasonable terms as it raised almost \$2 million to drive its launch and further product development. The Fund Manager and an SEGB member are actively involved with Certify's Board as the company sets its strategy and tackles the issues of growing a start-up.
2. *Aiko Biotechnology, Inc.* – Aiko is a company formed to commercialize intellectual property of the University of New England and an Ohio State collaborator. The subject compound works to relieve the odious side effects of opioid use. Again, SEGF has teamed in this investment with individuals with whom it has successfully worked in the past, and was able to improve the terms of the investment for itself and the individuals who co-invested.

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



**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	\$125,000	9	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	7	Follow-on Investment
12/01/09	Aiko Biotechnology, Inc.	Portland	Common Stock	\$75,000	2	Initial Investment
06/18/10	Emergent Discovery LLC	Portland	Convertible Note	\$77,000	7	Follow-on Investment
<b>Total Investments for FY10</b>				<b>\$373,154</b>		
<b>Subsequent SEGF Investment Activities - FY11 YTD (7/1/10 -12/31/10)</b>						
Date of Investment	Company Name	Location	Security	Investment	# of FTEs	Type
07/08/10	Bar Harbor Biotechnology, Inc.	Trenton	Series A Preferred Stock	\$75,000	7	Follow-on Investment
08/06/10	Blue Tarp, Inc.	Portland	Series C-1 Convertible Preferred Stock	\$2,211	49	Follow-on Investment
11/17/10	Nyle Systems, LLC	Brewer	Membership Units	\$250,000	20	Initial Investment
11/30/10	Emergent Discovery LLC	Portland	Convertible Note	\$73,000	6	Follow-on Investment
<b>Total FY11 Investments to date</b>				<b>\$400,211</b>		



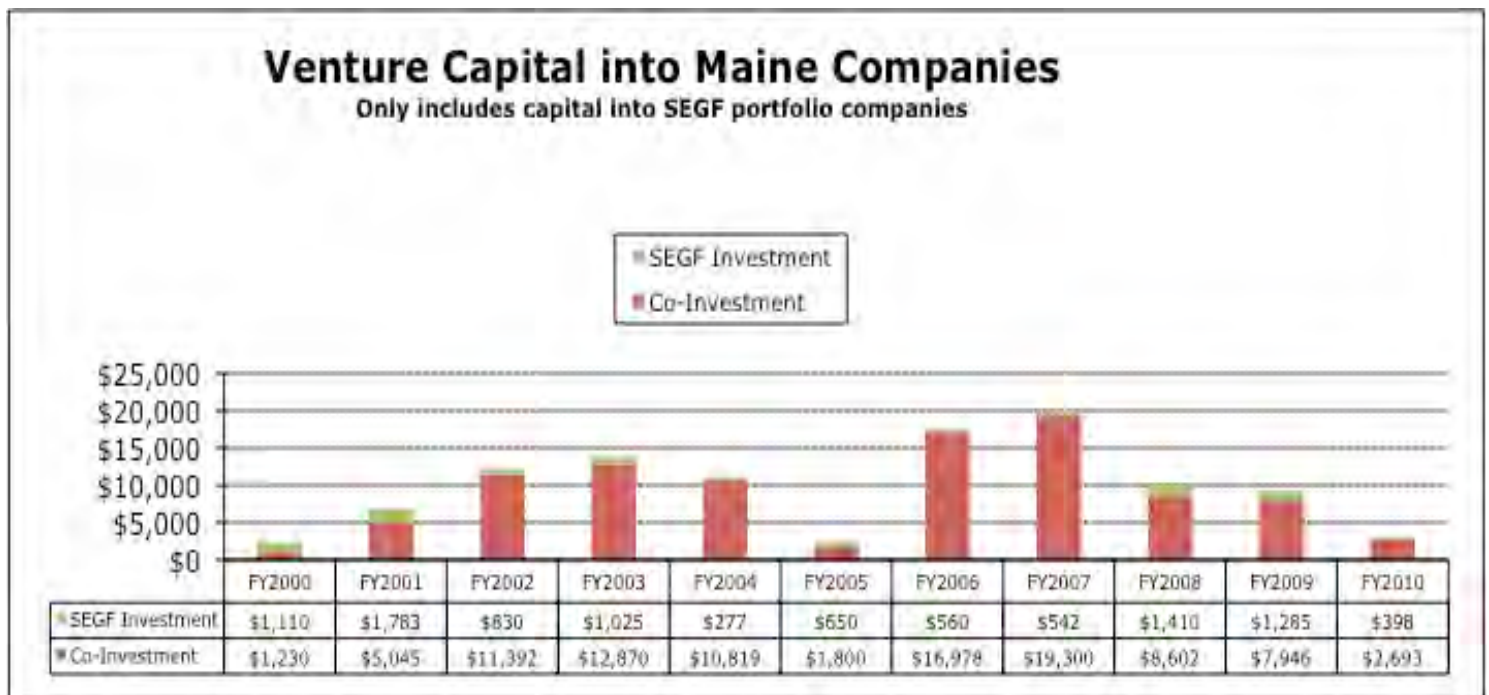


## #1 Co-Investment

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

As of December 31, 2010, SEGF has invested \$12.1 million in 41 Maine companies with an average investment of \$300,000 and has catalyzed \$102 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.*

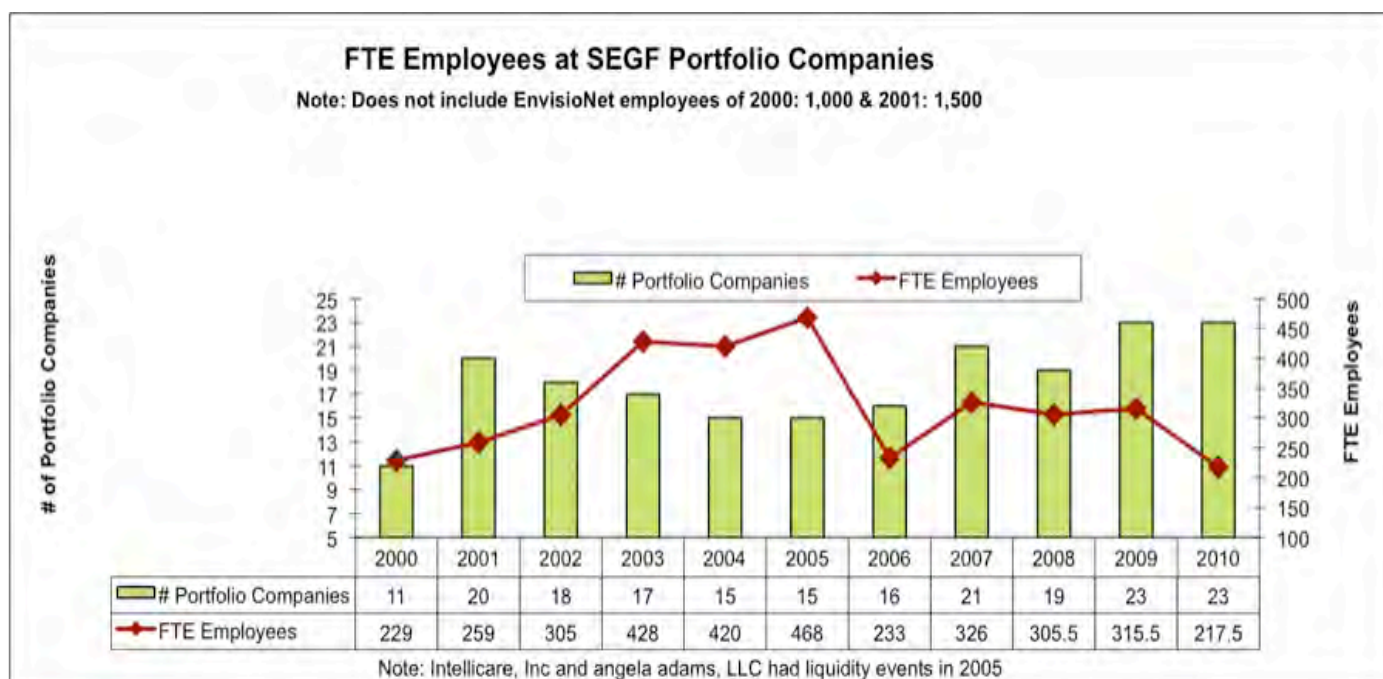




## #2 Job Creation

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 6,950 job-years: job years are calculated as the cumulative of one job for one year for FTE employees for all portfolio companies since 1997*
- *Portfolio companies employed nearly 220 people and provided internship opportunities for several Maine business school students each year*





### #3 Intellectual Property

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

#### ■ **Licensing Agreements:**

- **Chemogen, Inc.** has an agreement with **Alere (NYSE: ALR) (fka Inverness Medical)** for the worldwide manufacture and distribution of tests for the rapid detection of *Mycobacterium*, the primary causative agent of tuberculosis.
- **Crossrate Technology, LLC** has an agreement with **UrsaNav, LLC** to use its integrated receiver technology.

#### ■ **PATENT APPLICATIONS**

- **Aiko BioTechnology** - Primary US patent 6,713,488 entitled "*Neutral Antagonists and the Use Thereof in Treating Drug Abuse*" - issued 3/30/04 w/protection until 2020; Claim 25: "*A method of alleviating adverse effects associated with opiod use by an individual in need thereof comprising administration to the individual of a therapeutically effective amount of a naloxone analog...*"; Claim 29: "*The method of claim 25 wherein the adverse effects of opiod use include alteration of gastrointestinal transit.*"; an International PCT has issued providing foreign coverage.
- **Aiko BioTechnology** - US and PCT Patent applications No. 60/981,034 for "*Combination Analgesic Employing Opioid and Neutral Antagonist*" were filed 10/08 - primary teaching is that a neutral antagonist can be administered in an amount to inhibit peripheral effects, and insufficient to block substantial central effects, of the opioid agonist in the subject.
- **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.
- **Emergent Discovery** - Issued patent: "*Clusters for Rapid Artist-Audience Matching*". Pending patents include: "*System and Method for Measuring Rater Reliability through Rater Prescience*"; "*Enabling Recommendations and Community by Massively distributed nearest neighbor searching*"; and "*A Method for Deriving interesting Recommendations from a Taste Neighborhood*".
- **Nyle Systems, LLC** – Patent No. 7266959 for Heat Pump; expired patent on lumber dryer.



#### **#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](http://www.nasvf.org)



[www.cdvca.org](http://www.cdvca.org)



[www.mitc.com](http://www.mitc.com)



[www.mainetechnology.org](http://www.mainetechnology.org)



[www.ceimaine.org](http://www.ceimaine.org)



[www.econdev.com](http://www.econdev.com)



[www.maineangels.org](http://www.maineangels.org)



[www.famemaine.com](http://www.famemaine.com)



[www.mced.biz](http://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 per share 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 \$13 million of state funds (\$5mm in 1998; \$3mm in 2000; \$1 million in 2006; \$4mm in 2010), the SEGF has invested \$12.1 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	\$837,165	IRR: 33%; 2X investment	Company sold to athenahealth, Inc., and AdvantEdge
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:

- **University of Maine School of Business:** *In 2010, the Fund, in conjunction with the University of Maine MBA Program, created a scholarship program wherein a competitive scholarship is awarded to a student of the program, selected through an application and interview process, each fall. In addition to the scholarship funds for tuition and course credit, the recipient receives a two-year opportunity to work as an SEGF Intern on specially selected projects with SEGF portfolio companies under the guidance of the SEGF Management Team. Workspace for the student is provided by the Foster Student Innovation Center, on the University campus. The goals of this internship and scholarship is to excite and inform talented Maine business students on the innovative and entrepreneurial activities in this state, a great opportunity for students interested in venture capital, entrepreneurship and economic development. In addition, Fund Manager, John Burns, teaches a consulting course at the University wherein MBA students work directly with SEGF portfolio companies on strategic projects.*
- **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.*
- **Invention to Venture Conference:** *SEGF participated in the 2010 I2V Conference held in Orono. The nationwide conference aims at bringing together aspiring entrepreneurs with seasoned experts in order to build community and knowledge transfer. SEGF Management acted as judges for the conference's business pitch competition.*
- **Mainebiz Momentum Convention:** *SEGF and MTI shared a booth at the business conference in order to network with Maine business professionals. In addition, Fund Associate, Jayme Okma Lee served as a panelist for the conference's Access to Capital session.*
- **CEO Dinner:** *SEGF portfolio company CEOs came together in the fall of 2010 with SEGF Board Members and Management Team for an evening of networking and idea sharing, and to hear former Governor Angus King discuss the role of leadership in entrepreneurial ventures.*
- **National Entrepreneurial Week:** *In February of 2009 and 2010 SEGF organized a "Calling All Entrepreneurs" event where aspiring entrepreneurs "pitched" their business idea to investors and experienced professionals. Participants received advice, feedback and knowledge of the many business support programs in the State.*

- **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 Institute 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.*
- **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.*



**AIKO Biotechnology, Inc**  
**Website:** [www.aikobiotech.com](http://www.aikobiotech.com)  
**Location:** Portland, ME  
**ME Employees:** 1

**Management Team**  
Janet Yancey-Wrona, Chief Operating Officer

**Other Major Co-Investors**  
Individuals

**Other State of Maine support:**  
Maine Seed Capital Tax Credit Program ("MSCTC")  
Maine Technology Institute ("MTI") Development Award

**SEGF Investments**  
December 2009: \$75,000

**Total other capital raised:** \$403,000

**Company Overview**  
AIKO Biotechnology is an exciting early stage drug discovery company developing drugs to increase the safety and efficacy, and reduce the odious side effects, 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.



**Bar Harbor Biotechnology, Inc**  
**Website:** [www.bhbio.com](http://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")  
Maine Technology Asset Fund (MTAF) Award  
Maine Technology Institute ("MTI") Development Award

**SEGF Investments**  
August 2009: \$144,662  
October 2009: \$50,000  
July 2010: \$75,000  
**Total Cost: \$269,662**

**Total other capital raised:** \$2,060,000

**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.





**Blue Tarp Financial, Inc**

**Website:** [www.bluetarp.com](http://www.bluetarp.com)

**Location:** Portland, ME

**ME Employees:** 49

**Management Team**

Bond Isaacson, CEO

Lou Collins, CFO

**Other Major Co-Investors**

Coastal Ventures

Flybridge Capital Partners

Highland Capital Partners

Little Diamond Island Enterprises

Spicewood Investment Partners

Trinity Ventures

Village Ventures Partners Fund

**Other State of Maine support:** MSCTC

**SEGF Investments**

May 2003: \$350,000

2004 (various dates): \$142,012

February 2006: \$10,000

August 2010: \$2,211

**Total Cost: \$504,223**

**Total other capital raised:** \$39,250,000

**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](http://www.certify.com)

**Location:** Portland, ME

**ME Employees:** 9

**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:** \$1,779,000

**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](http://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:**

MTI Development Awards

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 Alere (NYSE: ALR) 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](http://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:** Community

Development Block Grant

**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](http://www.commoncensus.com)

**Location:** Westbrook, ME

**ME Employees:** 17

**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.



**Emergent Discovery, LLC**

**Website:** [www.emergentdiscovery.com](http://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

June 2010: \$77,000

November 2010: \$73,000

**Total Cost: \$296,154**

**Total other capital raised:** \$1,525,000

**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.



**Harbor Technology, LLC**

**Website:** [www.harbortech.us](http://www.harbortech.us)

**Location:** Brunswick, ME

**ME Employees:** 40

**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:** \$1,405,000

**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](http://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](http://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.



**Nyle Systems, LLC**

**Website:** [www.nyle.com](http://www.nyle.com)

**Location:** Brewer, ME

**ME Employees:** 20

**Management Team**

Ton Mathissen, CEO

Don Lewis, VP Technology

**Other Major Co-Investors**

Individual investors

**Other State of Maine support:**

**SEGF Investments**

November 2010: \$250,000

**Total other capital raised:** \$1,947,720

**Company Overview**

Nyle Systems is an innovative company that has developed a world-wide reputation for expertise in high temperature heat pumps. Thousands of Nyle Dry Kilns are used around the world for kiln drying lumber in the most energy efficient manner possible. Nyle's patented technologies are also used in drying other products such as food and industrial products ranging from fish, to candy and industrial powders and casting molds as well as innovative energy recovery systems. Nyle is dedicated to the design, manufacture, installation, and service of Heat Pump technology products that meet the needs of its customers and the environment. All Nyle's manufacturing is conducted in Brewer, Maine USA.



**Pantheon Guitars, LLC**

**Website:** [www.pantheonguitars.com](http://www.pantheonguitars.com)

**Location:** Lewiston, ME

**ME Employees:** 13

**Management Team:**

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. Dana Bourgeois, a well-known master luthier, designs pantheon Guitars. All Pantheon guitars are handcrafted in Maine and carry the Bourgeois headstock signature which guarantees a level of quality that player and enthusiasts alike come to expect in fine steel string acoustic instruments.

**Phylogix, Inc.**

**Website:** [www.phylogix.com](http://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](http://www.redzonewireless.com)

**Location:** Rockland, ME

**ME Employees:** 5

**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.



**Stillwater Scientific Instruments, Inc.**

**Website:** [www.stillwaterscientific.com](http://www.stillwaterscientific.com)

**Location:** Orono, ME

**ME Employees:** 1

**Management Team:**

David Ferris, Executive Chairman

**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](http://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 as of June 30, 2010

- **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 25 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-Flint 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.*, and *Stillwater Scientific Instruments*. He has previously served as a Board Member of numerous other companies, including *Recruiter.net Inc.* which was acquired by *First Advantage Corporation* in 2005. In addition, he serves on the Board of the *Maine Center for Enterprise Development*, 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*. Mr. Kaplan also recently served as interim President of Lighthouse Imaging Corporation, a Portland based medical optics company.
- **Claude Sheer, Vice Chair**, is CEO of Vault, Inc. New York, NY. [Vault.com](http://Vault.com) is the source for employer and university ratings, rankings and reconnaissance for highly credentialed, in-demand candidates. Prior to [Vault.com](http://Vault.com), Mr. Sheer served as Chairman of [MenuPages.com](http://MenuPages.com) (sold to New York Media) and interim CEO of Beliefnet (sold to News Corp.) and Founder and Managing Director of international growth consultancy, Oyster International LLC where his corporate assignments were 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 (ZDI). Mr. Sheer is also a founding principal in Barn Ventures, LLC, which invests in and accelerates early stage companies. He currently serves on the Boards of Lionbridge Technologies Inc (LIOX), Salient Stills, VIA Group and the Advisory Board of [IAmScientist.com](http://IAmScientist.com).

- **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 1985, 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 R. 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 with clients throughout the US. In 2000, he joined two other partners to start [JobsInTheUS.com](http://JobsInTheUS.com) (*JiUS*), the parent company for [JobsInME.com](http://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. While president, *JiUS* was selected as a top finisher in the “Best Places to Work” competition sponsored by the state HR association. Mr. Hoffner stayed on as President until July 2007. In October 2008, Mr. Hoffner joined with a partner in the UK to start Jobg8, Inc. an online marketplace for job boards worldwide. Mr. Hoffner is the current president of Jobg8 Americas headquartered in Portland ME.

- **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.
- **Christopher S. Pizey** has held various management positions, over the past 20 years, involving computing technologies, interactive media and new business development. While at *Andrews McMeel Universal*, Mr. Pizey led corporate new media ventures, including the founding of uclick LLC. While CEO of uclick he engineered new business initiatives including digital content syndication, web publishing, wireless content licensing and distribution deals with over 300 of the Web’s premier publishers, portals and mobile phone networks. Mr. Pizey recently returned home to Maine where he is assisting his family’s business, *Hissong Development Corp.*, to grow their real estate development and construction businesses to include heavy construction materials and services, such as ready-mix concrete and aggregates.
- **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 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.



## Fund Management

### ▪ John Burns, CFA, Fund Manager

John has over twenty-six years of experience in institutional investing. Prior to joining SEGF 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 SEGF, he has played a role in bringing capital to more than 31 Maine companies to date, and has steered the SEGF 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

### ■ Jayme Okma Lee, Fund Associate

Jayme joined the SEGF in 2005 as a Fund Associate. Prior to joining the SEGF, she worked for General Motors as a marketing and financial analyst, and as a management consultant in the pharmaceutical industry. 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 SEGF in 2001 as Administrative Associate. 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, 2010 and 2009*

# SMALL ENTERPRISE GROWTH FUND

## FINANCIAL STATEMENTS

For the Years Ended June 30, 2010 and 2009

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# BAKER | NEWMAN | NOYES

Certified Public Accountants

## 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, 2010 and 2009, 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.

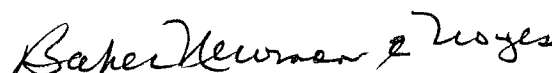
We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, 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, 2010 and 2009, 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 \$1,517,499 (38% of net assets) and \$1,533,722 (32% of net assets) at June 30, 2010 and 2009, 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.



Portland, Maine  
October 11, 2010

Baker Newman & Noyes, LLC

Limited Liability Company

## SMALL ENTERPRISE GROWTH FUND

### MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2010 and 2009

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, 2010 and 2009. 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.

#### 2010 Highlights

- The SEGF invested \$225,000 in two companies that were new to the portfolio, and invested an additional \$173,154 in existing portfolio companies.
- The SEGF realized a substantial return on investment through the sale of a portfolio company, and the jobs stayed in Maine. Anodyne Health Partners was sold in two pieces; Anodyne Health Partners, Inc. was sold to Athena Health, Inc. (nasdaq: athn) in October 2009. Just prior to that acquisition by Athena Health, AHP Billing Services, Inc. was spun off to the Anodyne Health Partners shareholders. In March 2010, AHP Billing Services, Inc. was sold to Advantedge Healthcare Solutions. The sale of AHP produced an annualized IRR of roughly 33% for investors, including SEGF, and resulting in a return of roughly 2x the amount of capital invested, with additional possible consideration in the form of earn outs.
- Revenue growth at SEGF portfolio companies was 53%, according to the 2009 Maine Comprehensive Research and Development Evaluation
- Employment growth at SEGF portfolio companies was 18%, according to the 2009 Maine Comprehensive Research and Development Evaluation
- Recapitalizing the SEGF became a core piece of the Governor's economic development bond proposal in the 124th Maine Legislature, endorsed by the Office of Innovation, the Maine Innovation Economy Advisory Board (MIEAB), and the Joint Standing Committee on Research and Economic Development (BRED). In June 2010, voters approved a \$35 million economic development bond, \$4 million of which the SEGF will receive as another investment from the State, bringing its total investment, since 1997 to \$13 million.



## SMALL ENTERPRISE GROWTH FUND

### MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2010 and 2009

- Also during the 124<sup>th</sup> Legislature, the statute governing the SEGF was amended to broaden the powers of its Board of Directors (SEGB). The new authority given to the SEGB will allow it to take capital from individuals and entities other than the State, for investment in Maine companies through return-based "side car" funds.
- The SEGF continues to receive dividend income from a portfolio company pursuant to a dividend and stock repurchase agreement.
- The Management Team and the Board continue to participate in numerous outreach programs in the "early-stage company" community in Maine, including, but not limited to: Speed Venture Summit, Maine Entrepreneurship Week, Financing Fast Growth, and the Maine Center for Enterprise Development's "Top Gun" Program.
- 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 (MIEAB), the Maine Investment Exchange (MIX), 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>2010</u>	<u>2009</u>
Cash equivalents	\$2,082,327	\$1,887,700
Interest receivable	42,344	101,457
Notes receivable, net	386,615	1,252,914
Investments	1,517,499	1,533,722
Capital assets	4,528	6,491
Long-term deposit	<u>—</u>	<u>2,038</u>
Total assets	<u>\$4,033,313</u>	<u>\$4,784,322</u>
Accounts payable	\$ 360	\$ 120
Accrued expenses	<u>25,033</u>	<u>21,321</u>
Total liabilities	25,393	21,441
Invested in capital assets	4,528	6,491
Unrestricted net assets	<u>4,003,392</u>	<u>4,756,390</u>
Total net assets	<u>4,007,920</u>	<u>4,762,881</u>
Total liabilities and net assets	<u>\$4,033,313</u>	<u>\$4,784,322</u>

## SMALL ENTERPRISE GROWTH FUND

### MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2010 and 2009

Total assets decreased \$751,009 due mainly to an operating loss of \$754,961, which included writedowns of certain investments.

#### Statements of Revenues, Expenses and Changes in Net Assets

	<u>2010</u>	<u>2009</u>
Investment income	\$ 75,878	\$ 129,939
Dividend income	21,250	75,000
Interest income on notes receivable	48,464	102,172
Realized gain on sale of investments	303,326	—
Miscellaneous	<u>39</u>	<u>62</u>
Total operating revenues	448,957	307,173
Salary expense	189,756	194,070
Payroll benefits expense	50,144	49,371
Rent expense	14,520	14,460
General and administrative expense	46,501	51,675
Depreciation expense	3,011	2,130
Provision for losses on notes receivable	608,763	407,495
Write-down of investments	<u>291,223</u>	<u>1,572,307</u>
Total operating expenses	<u>1,203,918</u>	<u>2,291,508</u>
Operating loss	(754,961)	(1,984,335)
Net assets at beginning of year	<u>4,762,881</u>	<u>6,747,216</u>
Net assets at end of year	<u>\$4,007,920</u>	<u>\$ 4,762,881</u>

#### Statement of Revenues, Expenses and Changes in Net Assets

The Fund had an operating loss of \$754,961 for the fiscal year. Operating revenues increased substantially, 46% or \$141,784, due to realized gain on the sale of an investment and offset by decreases in other revenues. Operating expenses decreased 47% to \$1,203,918, due to a significant reduction in certain carrying values of certain notes receivable and investments taken in 2009.

#### **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

## SMALL ENTERPRISE GROWTH FUND

### MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2010 and 2009

- 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 approved a \$35 million economic development bond. SEGF will receive \$4 million of those proceeds as another investment from the State, bringing the States total investment to \$13 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.
- 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>

# SMALL ENTERPRISE GROWTH FUND

## MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2010 and 2009

### 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 345% to \$2,291,508, due to a significant reduction in certain carrying values of certain notes receivable and investments.

# SMALL ENTERPRISE GROWTH FUND

## STATEMENTS OF NET ASSETS

June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
<u>ASSETS</u>		
Current assets:		
Cash equivalents (note 2)	\$2,082,327	\$1,887,700
Interest receivable	17,576	12,862
Notes receivable, net of allowance for losses of \$428,500 in 2010 and \$276,995 in 2009 (notes 3 and 5)	<u>159,615</u>	<u>184,244</u>
Total current assets	2,259,518	2,084,806
Noncurrent assets:		
Interest receivable	24,768	88,595
Notes receivable, net of allowance for losses of \$301,579 in 2010 and \$171,500 in 2009 (notes 3 and 5)	227,000	1,068,670
Investments (note 1)	1,517,499	1,533,722
Capital assets, net (note 8)	4,528	6,491
Long-term deposit	<u>—</u>	<u>2,038</u>
Total noncurrent assets	<u>1,773,795</u>	<u>2,699,516</u>
Total assets	<u>\$4,033,313</u>	<u>\$4,784,322</u>

## LIABILITIES AND NET ASSETS

Current liabilities:		
Accounts payable	\$ 360	\$ 120
Accrued expenses	<u>25,033</u>	<u>21,321</u>
Total current liabilities	<u>25,393</u>	<u>21,441</u>
Total liabilities	25,393	21,441
Commitments (notes 4 and 9)		
Net assets (note 7):		
Invested in capital assets	4,528	6,491
Unrestricted net assets	<u>4,003,392</u>	<u>4,756,390</u>
Total net assets	<u>4,007,920</u>	<u>4,762,881</u>
Total liabilities and net assets	<u>\$4,033,313</u>	<u>\$4,784,322</u>

See accompanying notes.

# SMALL ENTERPRISE GROWTH FUND

## STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

Years Ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Operating revenues:		
Investment income	\$ 75,878	\$ 129,939
Dividend income	21,250	75,000
Interest income on notes receivable	48,464	102,172
Gain on sale of investments	303,326	—
Miscellaneous	<u>39</u>	<u>62</u>
Total operating revenues	448,957	307,173
Operating expenses:		
Salary expense	189,756	194,070
Payroll benefits expense	50,144	49,371
Rent expense	14,520	14,460
General and administrative expense	46,501	51,675
Depreciation expense	3,011	2,130
Provision for losses on notes receivable (note 3)	608,763	407,495
Write-down of investments	<u>291,223</u>	<u>1,572,307</u>
Total operating expenses	<u>1,203,918</u>	<u>2,291,508</u>
Operating loss	(754,961)	(1,984,335)
Net assets, beginning of year	<u>4,762,881</u>	<u>6,747,216</u>
Net assets, end of year	<u>\$4,007,920</u>	<u>\$ 4,762,881</u>

See accompanying notes.

# SMALL ENTERPRISE GROWTH FUND

## STATEMENTS OF CASH FLOWS

Years Ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Cash flows from operating activities:		
Interest received on notes receivable	\$ 57,507	\$ —
Principal payments received on notes receivable	430,760	—
Notes receivable originated	(123,154)	(1,066,724)
Disbursements for investments	(275,000)	(164,536)
Proceeds from sale of investments	303,326	75,000
Miscellaneous receipt	39	62
Dividend income	21,250	75,000
Investment income received	75,878	129,939
Payments for operating expenses	(108,887)	(117,473)
Payments to employees	<u>(186,044)</u>	<u>(205,609)</u>
Net cash provided (used) by operating activities	195,675	(1,274,341)
Cash flows from capital and related financing activities:		
Acquisition of capital assets	<u>(1,048)</u>	<u>—</u>
Net increase (decrease) in cash equivalents	194,627	(1,274,341)
Cash equivalents, at beginning of year	<u>1,887,700</u>	<u>3,162,041</u>
Cash equivalents, at end of year	\$ <u>2,082,327</u>	\$ <u>1,887,700</u>
Reconciliation of operating loss to net cash used by operating activities:		
Operating loss	\$ (754,961)	\$ (1,984,335)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Provision for losses on notes and interest receivable	608,763	407,495
Write-down of investments	291,223	1,572,307
Depreciation	3,011	2,130
Realized gain on sale of investments	(303,326)	—
Changes in assets and liabilities:		
Interest receivable	9,043	(79,916)
Notes receivable	307,606	(1,062,250)
Investments, net	28,326	(110,016)
Long-term deposit	2,038	(888)
Accounts payable	240	(1,906)
Accrued expenses	3,712	(10,712)
Deferred revenue	<u>—</u>	<u>(6,250)</u>
	\$ <u>195,675</u>	\$ <u>(1,274,341)</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, 2010 and 2009

#### 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 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.

In June 2010, an economic development bond was approved by voters that will provide an additional \$4,000,000 in funding. In addition, the State Legislature amended the statute governing the Fund to broaden the powers of the Board of Directors. The new authority given to the Board will allow it to take capital from individuals and entities other than the State for investment in Maine Companies through return-based "side car" funds.

##### 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, 2010 and 2009

#### 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, 2010 and 2009, 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, 2010 and 2009

#### 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, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Cost basis	<u>\$4,856,713</u>	<u>\$5,231,806</u>
Carrying value	<u>\$1,517,499</u>	<u>\$1,533,722</u>

The carrying value of \$1,517,499 consist of investments in eleven companies, four of which have balances greater than 10% of the Fund's recorded net 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.

#### 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, 2010 and 2009

#### 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. Cash equivalents consisted of the following at June 30, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Bank deposits	\$ 73,661	\$ 51,840
State of Maine Treasury's cash pool	<u>2,008,666</u>	<u>1,835,860</u>
	<u>\$2,082,327</u>	<u>\$1,887,700</u>

At June 30, 2010 and 2009, bank deposits had a bank balance of \$75,929 and \$53,012, respectively, and a carrying amount of \$73,661 and \$51,840, 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, 2010 and 2009.

#### 3. Notes Receivable

The following is a summary of notes receivable at June 30, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Note (amended) dated March 2008, interest at 9%, interest accrued until maturity, principal payments deferred until November 2010, due October 2012, the note was unsecured. Full payment was received in 2010.	\$ —	\$ 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 was unsecured. Full payment was received in 2010.	—	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	76,829
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. The note is in default.	263,250	263,250

# SMALL ENTERPRISE GROWTH FUND

## NOTES TO FINANCIAL STATEMENTS

June 30, 2010 and 2009

### 3. Notes Receivable (Continued)

	<u>2010</u>	<u>2009</u>
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	\$ 55,492
Note (amended) dated March 2008, interest at 10%, interest accrued until August 2011, principal payments to begin March 2010, due August 2011, the note was unsecured. Full payment was received in 2010.	—	250,000
Note dated June 2007, interest at 12%, interest accrued until maturity, due December 31, 2009, the note is unsecured. The note is in default.	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	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. The note is in default.	117,500	117,500
Note dated February 2009, interest at 6%, interest accrued until maturity, due December 2010, the note is unsecured.	100,000	100,000
Note dated November 2008, interest at 6%, interest accrued until maturity, due September 2009, the note is unsecured. The note is in default.	62,500	62,500
Note dated February 2009, interest at 8%, interest accrued until maturity, due September 2009, the note is unsecured. The note is in default.	62,500	62,500
Note dated August 2008, interest at 5%, interest accrued until maturity, due September 2009, the note is unsecured. The note was charged off in 2010.	—	136,369
Note dated December 2008, interest at 10%, interest accrued until maturity, due December 2010, the note is unsecured.	50,000	50,000
Note dated July 2008, interest at 10%, interest accrued until maturity, due at July 2013, the note is unsecured. The note was charged off in 2010.	—	71,500
Note dated March 2009, interest at 15%, interest accrued until maturity, due December 2010, the note is unsecured. The note was charged off in 2010.	—	75,000
Note dated April 2009, interest at 14%, interest accrued until maturity, due April 2015, the note is unsecured.	150,000	150,000
Note dated September 2009, interest at 6%, interest accrued until maturity, due December 2010. The note is unsecured.	46,154	—
Note dated June 2010, interest at 6%, interest accrued until maturity, due December 2011. The note is unsecured	<u>77,000</u>	<u>—</u>
	1,116,694	1,701,409
Allowance for losses	<u>(730,079)</u>	<u>(448,495)</u>
Notes receivable, net	386,615	1,252,914
Current portion of notes receivable, net	<u>(159,615)</u>	<u>(184,244)</u>
Noncurrent portion of notes receivable, net	<u>\$ 227,000</u>	<u>\$1,068,670</u>

## SMALL ENTERPRISE GROWTH FUND

### NOTES TO FINANCIAL STATEMENTS

June 30, 2010 and 2009

#### 3. Notes Receivable (Continued)

The following is the activity in the allowance for losses on notes receivable during the years ended June 30, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Allowance for losses on notes:		
Beginning balance	\$ 448,495	\$ 91,000
Provision for losses	608,763	407,495
Charge-offs	<u>(327,179)</u>	<u>(50,000)</u>
Ending balance	<u>\$ 730,079</u>	<u>\$448,495</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, 2010, 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, 2010 or 2009 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, 2010 and 2009

#### 6. Transactions with the Finance Authority of Maine

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 2010 and 2009 statements of revenues, expenses and changes in net assets, is approximately \$8,667 and \$7,334, 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, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Contributed capital	\$ 9,006,767	\$ 9,006,767
Investment in capital assets	4,528	6,491
Accumulated deficit	<u>(5,003,375)</u>	<u>(4,250,377)</u>
Total net assets	<u>\$ 4,007,920</u>	<u>\$ 4,762,881</u>

There are no restrictions on net assets at June 30, 2010 and 2009. 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, 2010 was as follows:

	<u>June 30,</u> <u>2009</u>	<u>Additions</u>	<u>Disposals</u>	<u>June 30,</u> <u>2010</u>
Computer and office equipment	\$10,679	\$ 1,048	\$ (1,889)	\$ 9,838
Less accumulated depreciation for:				
Computer and office equipment	<u>(4,188)</u>	<u>(3,011)</u>	<u>1,889</u>	<u>(5,310)</u>
	<u>\$ 6,491</u>	<u>\$ (1,963)</u>	<u>\$ —</u>	<u>\$ 4,528</u>

# SMALL ENTERPRISE GROWTH FUND

## NOTES TO FINANCIAL STATEMENTS

June 30, 2010 and 2009

### 8. Capital Assets (Continued)

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>

### 9. Operating Leases

The Fund leases office space under a lease that expired in July 2010 with an option to renew for one year through July 2011. The Fund has elected not to renew the lease and is renting the office space on a month to month basis beginning July 2010.

Lease expense was \$14,520 and \$14,460 for the years ended June 30, 2010 and 2009, 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, 2010

Functions/ Programs	Program Revenues					Net Revenue (Expenses) and Changes in Net Assets
	Expenses	Charges for Services	Program Investment Income	Operating Grants and Contributions	Capital Grants/ Contributions	Total
Business-type activities:						
Capital investment program	<u>\$ (1,203,918)</u>	<u>\$ —</u>	<u>\$ 373,040</u>	<u>\$ —</u>	<u>\$ —</u>	\$ (830,878)
			General revenues:			
			Unrestricted interest and investment earnings			75,878
			Miscellaneous income			<u>39</u>
			Total general revenues			<u>75,917</u>
			Change in net assets			(754,961)
			Net assets, beginning of the year			<u>4,762,881</u>
			Net assets, end of the year			<u>\$4,007,920</u>