

MAINE STATE LEGISLATURE

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Small Enterprise Growth Fund

Periodic Report
126th Legislature's
Joint Standing Committee on Labor, Commerce,
Research & Economic Development

Respectfully submitted
by the
Small Enterprise Growth Board

2012

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

From: Small Enterprise Growth Board

Date: January 16, 2013

Re: Small Enterprise Growth Fund 2012 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 Fiscal Year **2012 Periodic Report**, providing a detailed review of the Small Enterprise Growth Fund's ("SEGF" or "Fund") activities, status and successes.

The Fund is once again relatively liquid, thanks to a strong investment return, State support and a new Federal program, State Small Business Credit Initiative ("SSBCI"). These resources position the Fund to continue in its mission *"to provide resources to attract, support and help develop eligible small businesses with the potential for substantial growth and success that will contribute to the prosperity of Maine"*.

The 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 venture subsidiary of Coastal Enterprises was able to raise a new large fund given the capital market disruptions, though CEI Ventures launched a small fund late 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 many years. The one organized 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 to these marketplace realities, Maine Technology Institute ("MTI") has reformulated its programs, including bolstering its equity capital allocation (f/k/a "Accelerated Commercialization Fund") to companies which need to achieve specific milestones to secure follow-on private investment.

The SEGF has been very fortunate to attract an experienced and talented board of directors, all appointed through the gubernatorial appointment process, except for the one *ex officio* member who is named by the Commissioner of the Department of Economic and Community Development.

These professionals volunteer their time to the SEGB and spend innumerable hours pursuing a well-managed Fund by

- Meeting monthly, as a board of directors, for up to 5 hours per meeting;
- Advising and directing the Fund's Management Team;



Small Enterprise Growth Fund
P. O. Box 63 | Newport, ME 04953 | (207)504-1999
www.segfmaine.com



- Individually taking on assignments to specific portfolio company subcommittees;
- Regularly reevaluating the Fund's mission and the initiative to conduct a benchmark review of the Fund versus similar organizations in the Northeast, resulting in positive learnings and outcomes.
- Requesting and guiding the Management Team to provide enhanced reporting and metrics to ensure accurate and timely reporting;
- Working closely with the Fund Manager to provide each portfolio company with sound guidance and recommendations.

The Board of Directors and the Management Team have worked toward, and achieved, a flawless annual audit record from one of the largest CPA firms in the State, Baker|Newman|Noyes of Portland.

In Fiscal Year 2012 (July 1, 2011 to June 30, 2012), the SEGB more thoroughly screened a dozen companies for potential investment, and counseled many other early-stage companies. During the fiscal year, the SEGB invested \$1,371,085, which included:

- Follow-on investments in Bar Harbor Biotechnology, Inc., a promising biotech company, totaling \$300,000;
- Follow-on investments in Nyle Systems, Inc., a manufacturer of drying systems and energy saving heat pump, totaling \$121,060;
- Initial investments, using SSBCI funds, as more fully described in the next section, in Newfield Design, Inc., Wentworth Technology, Inc., Cerahelix, Inc. and PenBay Solutions, Inc. , totaling \$600,025.
- Follow-on investments in two of those SSBCI-funded companies, totaling \$350,000.

In the balance of calendar 2012, from July 1, 2012 to December 31, 2012, the SEGB has invested an additional \$65,000 as follow-on investments in an existing portfolio company as well as an additional \$30,000 of SSBCI funds in an existing portfolio company.

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:

- The successful execution of its mission over the years led FAME to allocate \$3 million of the \$13 million SSBCI funds to SEGF for deployment beginning mid way through FY'12. This is a three-year Federal program to stimulate small business growth and is precisely aligned with SEGF's mission.
- 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 \$103.3 million in outside capital invested in its portfolio companies. Since December, 2011, the SEGF has participated in investments, using SSBCI funds, resulting in over \$3.1 million in outside capital coming into the State. These investments, paired with the appropriate guidance, position companies to be successful in raising larger investments from additional 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 2012, SEGF had 19 portfolio companies that employed nearly 367 FTEs at an average salary of \$45,000 plus benefits.

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 biennial Juice Conference and its Pitch Competition, the Speed Venture Summit in Manchester, NH, , 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 to a first-year and a second-year University of Maine MBA student, providing real experience working with the SEGF and its portfolio companies. The Fund also 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 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 Entrepreneurial Development (Portland) and the Target Technology Center (Orono). 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. MTI has become the cornerstone of early-stage entrepreneurial financial support in the State, and complement SEGF's more intensive involvement with somewhat later stage opportunities. Of specific interest in the 126th Legislature perhaps, is the Maine Seed Capital Tax Credit, managed by FAME. The tax credit is a powerful tool for attracting key individual investors into promising companies. The amount of credit authorized



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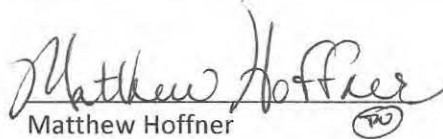
has been reached, and the program needs recapitalization. Also, amending the program to make the credit refundable for individuals would help the State's entrepreneurs tap into the large pool of capital in the greater Boston area.

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,



Matthew Hoffner

Chair

Small Enterprise Growth Board

Paul R. LePage, Governor

John Butera, Senior Economic Advisor to the Governor

George Gervais, Commissioner, Department of Economic and Community Development

Dr. Tim Ford, Chair, Maine Innovation Economy Advisory Board

Elizabeth Bordowitz, Chief Executive Officer, FAME

William Norbert, Governmental Affairs Manager, FAME

Robert Martin, President, Maine Technology Institute



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About the *Small Enterprise Growth Fund*

Mission:

The mission of the SEGF is "...to provide resources to attract, support, and help develop eligible small businesses with the potential for substantial growth and success 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 and small business 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 has:

- *115 or more years of private investing experience;*
- *Invested in over 120 private companies;*
- *Over 173 years in management experience; and*
- *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 the creation of high quality 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 by the 117th Maine Legislature 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 bond, \$4 million of which proceeds went to SEGF, bringing the Fund's total current 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.

In September 2011 the U.S. Department of the Treasury announced the approval of Maine's State Small Business Credit Initiative (SSBCI) application. In recognition of the SEGF's success and importance in the early stage company sector in Maine, FAME chose to allocate \$3 million of the total \$13.2 million applied for and approved to SEGF to support its mission.

Since the SSBCI funds have been made available, SEGF has invested its share of the initial round, and is working collaboratively to increase its SSBCI-related investing.

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 group 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. *Nyle Systems, Inc* – Nyle is a venerated company in Brewer that has been a cornerstone of the local economy since the 1970's. In 2009, a Dutch entrepreneur, familiar with heat pump technology that had taken hold in Europe, but not yet in the US, saw an opportunity with the great workforce at Nyle and its great reputation, to buy the company and accelerate its growth with a new line of heat pump technology products. Subsequent to the purchase of the company, the SEGF joined the new investors and management in providing growth capital. The Fund Manager and an SEGB member are actively involved with Nyle's Board as the company wrestles with the myriad issues of a manufacturing company with very high growth potential, albeit in a still soft economy.

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 - FY12 (7/1/11 - 6/30/12)

Date of Investment	Company Name	Location	Security	Source of Funds	Investment	# of FTEs	Type
12/12/11	Nyle Systems, Inc.	Brewer	Class A Units	SEGF	\$100,000	20	Follow-on Investment
12/12/11	Newfield Design, Inc.	W. Newfield	Secured Promissory Note	SSBCI	\$25,000	21	Initial Investment
12/22/11	Bar Harbor Biotechnology, Inc.	Trenton	Series A Preferred Stock	SEGF	\$25,000	6	Follow-on Investment
01/18/12	Bar Harbor Biotechnology, Inc.	Trenton	Series A Preferred Stock	SEGF	\$25,000	x	Follow-on Investment
02/02/12	Bar Harbor Biotechnology, Inc.	Trenton	Series A Preferred Stock	SEGF	\$115,000	x	Follow-on Investment
02/21/12	Wentworth Technology, Inc.	Saco	Preferred Stock/Common Stock	SSBCI	\$250,025	21	Initial Investment
02/28/12	Cerahelix, Inc.	Orono	Preferred Stock	SSBCI	\$75,000	3	Initial Investment
03/02/12	Bar Harbor Biotechnology, Inc.	Trenton	Series A Preferred Stock	SEGF	\$35,000	x	Follow-on Investment
04/26/12	PenBay Solutions, Inc.	Brunswick	Membership Units	SSBCI	\$250,000	24	Initial Investment
04/30/12	Newfield Design, Inc.	W. Newfield	Preferred Shares	SSBCI	\$250,000	x	Follow-on Investment
05/30/12	Certify LLC	Portland	Term Promissory Note	SSBCI	\$100,000	18	Follow-on Investment
06/22/12	Bar Harbor Biotechnology, Inc.	Trenton	Note	SEGF	\$100,000	x	Follow-on Investment
06/28/12	Nyle Systems, Inc.	Brewer	Class A Units	SEGF	\$21,060	x	Follow-on Investment
<i>Total SEG F Funds Invested</i>					\$421,060		
<i>Total SSBCI Funds Invested</i>					\$950,025		
<i>FY12 Grand Total Investments</i>					\$1,371,085		

Subsequent SEG F Investment Activities - FY13 YTD (7/1/12 -12/31/12)

Date of Investment	Company Name	Location	Security	Source of Funds	Investment	# of FTEs	Type
07/03/12	Bar Harbor Biotechnology, Inc.		Note	SEGF	\$25,000	x	Follow-on Investment
07/18/12	Bar Harbor Biotechnology, Inc.		Membership Units	SEGF	\$20,000	x	Follow-on Investment
08/01/12	Bar Harbor Biotechnology, Inc.		Note	SEGF	\$20,000	x	Follow-on Investment
11/09/12	Wentworth Technology, Inc.	Saco	Convertible Promissory Note	SSBCI	\$30,000	x	Follow-on Investment
<i>Total SEG F Funds Invested</i>					\$65,000		
<i>Total SSBCI Funds Invested</i>					\$30,000		
<i>FY13 Grand Total Investments as of 12/31/12</i>					\$95,000		

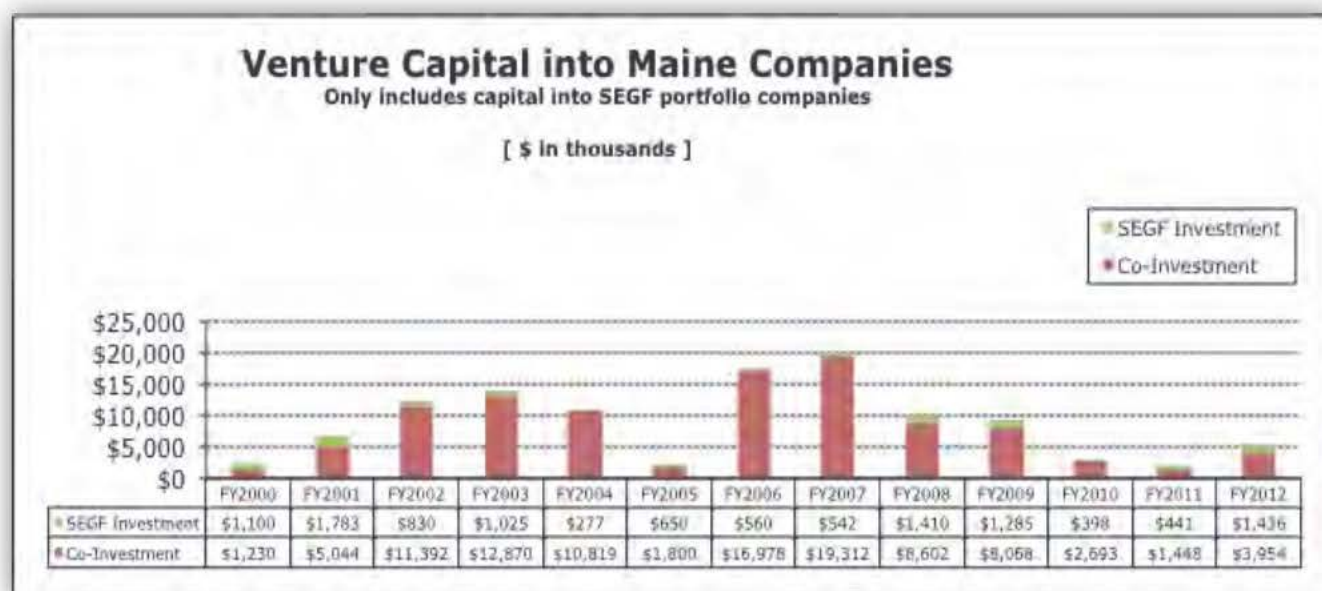


#1 Co-Investment

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

As of December 31, 2012, SEGF has invested \$13.6 million in 46 Maine companies with an average investment of \$265,000 per company and has catalyzed \$106 million in additional venture capital and angel investment into Maine companies.

For every \$1 invested by the SEGF an additional \$8 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 7,753 job-years: job years are calculated as the cumulative of one job for one year for FTE employees for all portfolio companies since 1997
- In calendar year 2012, SEGF portfolio companies employed approximately 367 people and provided internship opportunities for three business school students, a first year and a second year student from the UMO MBA 2-Year Program and a summer intern from Tuck School of Business.





#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 **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.
- **Cerahelix, Inc** - Utility patent filed October, 2008 for a composition of matter-using DNA or other biopolymer structure for templating a mesoporous membrane. In addition, Cerahelix has filed a PCT (international) application and a follow-on provisional patent to protect the underlying technology for the helix-NFMC.
- **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.
- **Newfield Design, Inc** – Non-provisional patent Application No. 13/623,623 files September 20, 2012 titled Expandable Radio Control System and Method.
- **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



www.cdvca.org



www.mitc.com



www.mainetechnology.org



www.ceimaine.org



www.econdev.com



www.maineangels.org



www.famemaine.com



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#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 (\$5 million -1998; \$3 million - 2000; \$1 million - 2006; \$4 million - 2010) and \$1 million in Federal State Small Business Credit Initiative (“SSBCI”) funds , the SEGF has invested \$13.6 million dollars in Maine companies and paid for 15 years of fund operations to date.*
- *The following table contains 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
Angela Adams	Consumer Products	October 2002	\$400,000	\$600,000	IRR: 15%; 1.5X investment	Company repurchased stock and sold to new investor
Anodyne Health Systems, Inc.	Healthcare Services	August 2006	\$425,000	\$944,886	IRR: 35.4%; 2X investment	Company sold to athenahealth, Inc. (NASDAQ: ATHN), and AdvantEdge
Capricorn Products, Inc	Medical device supply	October 1998	\$150,000	\$213,834	IRR: 8%; 1.4X investment	Repayment of Note
Common Census, Inc.	Insurance Software	December 1999	\$500,000	\$532,396 (to date)	Still in repayment	Dividends/ Principal Paydown/ Conversion to and Repayment of Note
ComNav Engineering	Electronics Manufacturing	January 1998	\$150,000	\$237,356	IRR: 2%; 1.6X investment	Repayment of Note
Pantheon Guitars LLC	Luthiers	May 2001	\$404,000	\$37,182 (to date)	Still in repayment	Repayment of Note; Repurchase of Units by Company
Phytex, LLC	Specialty Chemicals	Sept 2001	\$150,000	\$195,945	IRR: 29%; 1.33X investment	Partner buyout of SEGF
RecruiterNet, Inc.	Software	June 2001	\$250,000	\$1,961,294	IRR: 63%; 8X investment	Company sold to First Advantage (NASDAQ: FADV)



#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, The Shawn McKenna Scholarship for University of Maine MBA Students, 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 Entrepreneurial 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.*
- **Angel Capital Association New England Summits:** *In conjunction with Maine Angels, SEGF is becoming more involved with New England angel groups through the quarterly ACA summits. In 2012, two SEGF portfolio companies presented to over 100 regional angel investors and have received subsequent support and investment capital.*
- **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.*
- **CEO Dinner:** *SEGF portfolio company CEOs and key figures in the Maine entrepreneurial community came together in the fall of 2012 for an evening of networking and idea sharing. This annual event features a keynote speaker and provides both education and inspiration for the SEGF community.*
- **National Entrepreneurial Week:** *Since 2009 SEGF has organized the "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. "Calling All Entrepreneurs" is a major event during Entrepreneurship Week in Maine and takes place across the State.*



AIKO Biotechnology, Inc
Website: www.aikobiotech.com
Location: Portland, ME
ME Employees: 0

Management Team
Victor Otely, Board Chair

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 early stage drug discovery company founded to characterize and validate therapeutic candidates for the management of pain, addiction and adverse side effects resulting from prescription opioid pain reliever use. The company completed two very limited human trials on its initial compound, Aiko150 – a withdrawal study and a pain study, in 2010. The company has focused since, unsuccessfully, on raising additional capital to bolster their management team and credibility, and drive Aiko 150 (and perhaps Aiko 160) through Phase I and II clinical trials.



Bar Harbor Biotechnology, Inc
Website: www.bhbio.com
Location: Trenton, ME
ME Employees: 7

Management Team
Rob Phelps, CEO

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
MTI Development Award

SEGF Investments
June 2009: \$144,662
October 2009: \$50,000
July 2010: \$75,000
Various 2012: \$365,000

Total Cost: \$634,662

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

Location: Portland, ME

ME Employees: 55

Management Team

Scott Simpson, President & 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: \$87,222

August 2010: \$6,802

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.



Bourgeois Guitars, LLC

Website: www.pantheonguitars.com

Location: Lewiston, ME

ME Employees: 14

Management Team

John Karp, CEO

Dana Bourgeois, Founder & Production

Bonni Lloyd, VP Sales

Other Major Co-Investors

Individual Investors

Other State of Maine support

MTI Seed Grant

SEGF Investments

May 2001: \$208,000

January 2002: \$30,000

August 2002: \$150,000

April 2011: \$16,000

Total Cost: \$404,000

\$45,000 of which has been returned as of 12/31/12

Total other capital raised: \$776,000

Company Overview

Bourgeois 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 Bourgeois 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.



Cerahelix, Inc

Website: www.cerahelix.com

Location: Orono, ME

ME Employees: 5

Management Team

Susan MacKay, CEO

Other Major Co-Investors

Maine Angels

Individuals

MTI equity program

Other State of Maine support

MSCTC

Top Gun

Blackstone Accelerates Growth

MTI equity program

SEGF Investments

February 2012: \$75,000

Total other capital raised: \$261,000

Company Overview

Cerahelix, Inc is developing energy saving filtration products based on its patent pending technology using DNA to create nano-engineered ceramics. Cerahelix filters provide superior filtration performance under a range of harsh and challenging conditions.



Certify, LLC

Website: www.certify.com

Location: Portland, ME

ME Employees: 16

Management Team

Bob Neveu, CEO

Alan Neveu, CTO

Heath McArthur, Director Business Development

Other Major Co-Investors

MTI equity program

Individuals

Other State of Maine support

MSCTC

SEGF Investments

August 2009: \$150,000

May 2012: \$100,000

Total Cost: \$250,000

Total other capital raised: \$2,525,000

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

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

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

Location: Westbrook, ME

ME Employees: 22

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

\$558,500 of which has been returned as of 12/31/12

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

Owns 25% stake in Spotlight, LLC

Website: <https://www.spotlight.io/>

Location: Portland, ME

ME Employees: 2

Management Team

Diane Sammer, CEO

Other Major Co-Investors

Individuals

Other State of Maine support

MTI Development Loan

MSCTC

SEGF Investments

February & Sep 2009: \$146,154

June & Nov 2010: \$150,000

March 2011: \$25,000

Total Cost: \$321,154

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

Company Overview

Emergent Discovery developed a 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. The company failed to gain commercial traction and was unable to raise additional capital. The IP developed at Emergent was transferred to a new company, Spotlight, LLC. Emergent’s only asset is a 25% stake in the new company.



Harbor Technology, LLC

Website: www.harbortech.us

Location: Brunswick, ME

ME Employees: 35

Management Team

Rob Fuller, CEO

Judy Knaub, CFO

Other Major Co-Investors

Individual investors

Other State of Maine support

MTI Development Loan

MTI Equity Program

MSCTC

SEGF Investments

April 2009: \$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

Location: Portland, ME

ME Employees: 11

Management Team

Michael Brennan, President

Gil Letourneau, CTO & Co-founder

Other Major Co-Investors

Arcom

Individual investors

Other State of Maine support

MTI Development Award

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: 18

Management Team

Mike Cote, President & CEO

Cynthia Fisher, VP Marketing & QA

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.



Newfield Design, Inc

Website: <http://newfieldd.com/ercs/>

Location: West Newfield, ME

ME Employees: 7

Management Team

James Colony, CEO

Bob Stone, CTO

Other Major Co-Investors

Maine Angels

Other individual investors

Other State of Maine support

MTI Development Award

Blackstone Accelerates Growth

MSCTC

SEGF Investments

December 2011: \$25,000

April 2012: \$250,000

Total Cost: \$275,000

Total other capital raised: \$410,000

Company Overview

Newfield Design Inc develops and manufactures communications systems infrastructure for the Land Mobile Radio Industry. The company's ERCS system solves several problems in the LMR industry including: interoperability, and narrowbanding.



Nyle Systems, LLC

Website: www.nyle.com

Location: Brewer, ME

ME Employees: 22

Management Team

Ton Mathissen, CEO

Don Lewis, VP Technology

Other Major Co-Investors

Individual investors

Other State of Maine support

None

SEGF Investments

November 2010: \$250,000

November 2011: \$100,000

June 2012: \$21,060

Total Cost: \$371,060

Total other capital raised: \$922,940

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.



PenBay Solutions, LLC

Website: www.penbaysolutions.com

Location: Brunswick, ME

ME Employees: 35

Management Team

Bill Barron, CEO

Stuart Rich, CTO

Other Major Co-Investors

Coastal Ventures III

Other State of Maine support

None

SEGF Investments

April 2012: \$250,000

Total other capital raised: \$400,000

Company Overview

PenBay uses a combination of technology and business intelligence to help customers run cost effective facility operations, maintain safe and secure built environments, and maximize real estate portfolio performance. PenBay's solutions give users the ability to analyze and view spatial data within new or existing enterprise information systems, helping companies to make better-informed decisions about critical investments throughout the facility life cycle. PenBay sells InVision software for facilities GIS.



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.



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.



Wentworth Technology, Inc.

Website: www.wentworthtechnology.com

Location: Saco, ME

ME Employees: 18

Management Team

Dick Hale, CEO

Other Major Co-Investors

Spinnaker Trust

Coastal Ventures III

Individuals

Other State of Maine support

MSCTC

SEGF Investments

February 2012: \$ 250,000

Total other capital raised: \$1,375,000

Company Overview

Wentworth Technology manufactures and sells the SpeedThru™ wireless communication solution for the quick service restaurant (QSR) market. Speed Thru



Small Enterprise Growth Board

An eleven-member Board of Directors appointed by the Governor oversees the Small Enterprise Growth Fund. Board members have relevant experience or background in early-stage investing, managing or investing in high-growth small businesses, the development of technological innovation, commercial lending or securities law.

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 Technology Institute.

- ❑ **Matthew A. Hoffner, Chair**, 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.
- ❑ **Stephen R. Goldberg, Co-Vice Chair**, 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 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.
- ❑ **Kimberley A. Niles, Treasurer**, is currently the Chief Financial Officer of North Atlantic Capital. North Atlantic Capital is a Maine based venture firm investing in technology-oriented companies, primarily on the east coast. Prior to joining North Atlantic, Ms. Niles held various roles in public accounting and private industry. Ms. Niles has a BS from the University of New Hampshire and is an active committee member for the Whittemore School of Business and Economics Alumni Association. She is a Certified Public Accountant licensed in the State of Maine.
- ❑ **Corson “Corky” Ellis** is Chairman and Founder of Kepware Technologies (www.kepware.com), a Portland company that writes industrial communications software for the factory, Smart Grid, Building Automation and oil and gas sector. Mr. Ellis is very involved in technology economic development in Maine. He is a board member of the Maine Center for Entrepreneurial Development, and the Gulf of Maine Research Institute. Mr. Ellis graduated from Amherst College and received a Masters in Business Policy degree from Columbia University.

- **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.
- **Mark D. Kaplan, CFA**, Managing Director, MerchantBanc LLC. Prior to joining MerchantBanc in April 2011 he served as Managing Director of CEI Ventures, Inc., based in Portland, Maine. He joined CEI Ventures in 1999 after serving as founding Chair of its Board of Directors for five years. He has significant executive, financial and investment industry experience spanning more than twenty-five years. Prior to CEI Ventures, he served as Managing Director of Forum Financial Group, a mutual fund company, Managing Director and Director of Research for HM Payson & Co, an investment advisory and trust services firm, and as a member of the investment department of Unum Life Insurance Company, now Unum. Mr. Kaplan has served on the boards of numerous portfolio companies at CEI Ventures. Presently he is a board member or observer of Chemogen, Inc., and NextMark, Inc. He is also active in community service, serving as a board member of the Maine Center for Enterprise Development, a Portland based incubator, and on its Top Gun Advisory Board. Mr. Kaplan serves on the investment committees of the Maine Health Access Foundation and United Way Foundation of Greater Portland. He is a past president of the boards of the Jewish Community Alliance of Southern Maine and Congregation Bet Ha'am. He earned his BA from the University of Michigan-Flint and MBA from Boston University Graduate School of Management. He was awarded the Charter Financial Analyst (CFA) designation in 1986. He also participated in the NVCA-NASBIC Venture Capital Institute Certificate and Graduate Programs.
- **Samuel A. Ladd, III**, President of People's United Bank for Southern Maine. Mr. Ladd co-founded Maine Bank & Trust in 1991 and served as the President of that bank beginning in 2001. Formerly Mr. Ladd was Executive Vice President and Chief Operating Officer of Maine Bank & Trust. He has been in banking since the mid-1960's. He has served as a Director of Maine Bank & Trust and Maine National Bank. Mr. Ladd joined Maine National Bank after spending one year with the Aetna Life Insurance Company and two years in the U.S. Army as a First Lieutenant. He has been a Trustee of Bowdoin College and the Portland Symphony Orchestra where he served as Treasurer. He is the past Chairman of the Maine Maritime Museum. He has also served as the Chair of the Investment Committee for the Maine Historical Society. He is a board member of the Maine Bankers Association. He is also a Corporator of the Boys & Girls Club of Greater Portland and of the Maine Medical Center. Mr. Ladd has also been President of the Maine Bankers Association and Chair of the Maine Chamber of Commerce. He ran the Capital Campaign for the Greater Portland United Way. He currently serves on the Government Relations Council of the American Bankers Association. He was the Finance Chair for the recent re-election of U.S. Senator Susan Collins. He is a recent recipient of the Portland Regional Chamber's Henri Benoit Award for Leadership. He was the 2007 Distinguished Citizen of the Boy Scouts of America, and was admitted to the Business Hall of Fame by Junior Achievements. Mr. Ladd graduated with a bachelor's degree from Bowdoin College in 1963. He also serves as Treasurer of the Maine Angels and has investments in a number of companies in Maine.
- **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.
- **Brian Whitney**, the SEGB's Department of Economic and Community Development ("DECD") *ex officio* board member, joined DECD as Director of Business Development & Innovation in October 2012. In this capacity, he manages the Governor's Account Executives, Maine's team of experienced, knowledgeable and professional economic development liaisons whose primary responsibility is to work one-on-one with businesses to help them succeed and grow. Mr. Whitney has extensive experience in economic development and legislative matters at both the state and federal level. From 2005 - 2012, he served as the Director of Outreach and Economic Development for U.S. Senator Olympia J. Snowe where he worked as a senior-level staffer and liaison between the Senator and officials from federal, state, county and municipal government, private and public economic development entities, and top management of corporations, in an effort to help foster economic development in Maine. Prior to joining Senator Snowe's office, Mr. Whitney worked as a Business Development Specialist at the Maine Department of Economic & Community Development and, preceding that, as a staff member in the Maine Legislature. During his tenure there, he served as Chief of Staff to Maine's Senate President during the historic power-sharing arrangement in 2002.



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. Since 1997, John has been an Adjunct Faculty Member at the University of Maine Business School.

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

◆ Desmond “Des” FitzGerald, Entrepreneur in Residence

A graduate of Harvard University, Des is a serial entrepreneur well known in Maine for his successful companies and strong civic leadership. He founded Ducktrap River Fish Farm, Inc. in 1977 and successfully led the company through significant growth through 1999, when he was named CEO of ContiSea, the holding company which merged Ducktrap and Atlantic Salmon of Maine to create an enterprise with over 300 employees and over \$50 million in annual sales. ContiSea was sold to Continental Grain in 2002.

Since his departure from ContiSea, Des has founded or co-founded three additional companies, has been very active as an adjunct professor in UMaine’s MBA program, and deeply involved in civic and cultural affairs in Maine from his midcoast home. He was a founding member of Maine Business for Social Responsibility, past President of The Natural Resources Council of Maine, past board member of The Camden Conference, Coastal Mountain Land Trust, school boards, and Maine Chapter of The Nature Conservancy. He currently serves on the Board of the Camden Film Festival and on several private company boards.

◆ **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.

BAKER | NEWMAN | NOYES

Certified Public Accountants

Small Enterprise Growth Fund

Basic Financial Statements and
Management's Discussion and Analysis

Years Ended June 30, 2012 and 2011

SMALL ENTERPRISE GROWTH FUND

FINANCIAL STATEMENTS

For the Years Ended June 30, 2012 and 2011

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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, 2012 and 2011, 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, 2012 and 2011, 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 \$2,521,592 (31% of net assets) and \$1,831,410 (23% of net assets) at June 30, 2012 and 2011, respectively, which are not actively traded and whose carrying values have been estimated by management in the absence of readily determinable fair values.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

The Board of Directors
Small Enterprise Growth Fund

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information in schedule 1 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Portland, Maine
October 22, 2012

Baker Newman Hayes
Limited Liability Company

SMALL ENTERPRISE GROWTH FUND

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2012 and 2011

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, 2012 and 2011. 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.

2012 Highlights

- The SEGF was one of the recipients of Federal State Small Business Credit Initiative (SSBCI) money through the application of the Finance Authority of Maine (FAME). In total, the SEGF will have access to a minimum of \$3 million in additional capital for investment over the next two years. The SEGF started investing with SSBCI funds in December 2011 and invested a total of \$950,025 in the second half of FY12. The SEGF provides quarterly and annual investment reporting to FAME which, in turn, reports to the Federal Government.
- The SEGF invested \$421,060 in existing portfolio companies as follow-on funding as well as investing of \$950,025 of SSBCI funds of which \$850,025 was in new Maine companies along with \$100,000 in an existing SEGF portfolio company as a short-term note.
- According to SEGF's internal tracking, SEGF portfolio companies employ approximately 280 full time equivalent employees as of June 2012. Year-end 2011 employment was 220 FTEs, while year end 2010 was 190 FTEs.
- The SEGF receives monthly interest payments and an annual principal payment from one of its portfolio companies and is working with another portfolio company that is purchasing units back from the SEGF each month.

SMALL ENTERPRISE GROWTH FUND

MANAGEMENT’S DISCUSSION AND ANALYSIS

June 30, 2012 and 2011

- 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, the Maine Center for Entrepreneurial Development’s “Top Gun” Program, and the Juice Conference Pitch Competition.
- 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. For a list of current board members and their background visit: <http://www.segfmaine.com/About/board.php>.

SMALL ENTERPRISE GROWTH FUND
MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2012 and 2011

Financial Information

Statements of Net Assets

	<u>2012</u>	<u>2011</u>
Assets:		
Cash equivalents	\$5,100,023	\$5,637,452
Interest receivable	23,978	58,198
Notes receivable, net	468,075	334,039
Investments	2,521,592	1,831,410
Capital assets	2,896	3,850
Prepaid expense	<u>7,274</u>	<u>—</u>
Total assets	<u>\$8,123,838</u>	<u>\$7,864,949</u>
Liabilities:		
Accounts payable	179	297
Accrued expenses	<u>26,061</u>	<u>23,376</u>
Total liabilities	26,240	23,673
Net assets:		
Invested in capital assets	2,896	3,850
Unrestricted net assets	<u>8,094,702</u>	<u>7,837,426</u>
Total net assets	<u>8,097,598</u>	<u>7,841,276</u>
Total liabilities and net assets	<u>\$8,123,838</u>	<u>\$7,864,949</u>

Total assets increased \$258,889 due mainly to grant income of \$950,025 offset by write-downs of investments and provision for losses on notes receivable of \$507,453.

SMALL ENTERPRISE GROWTH FUND
MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2012 and 2011

Statements of Revenues, Expenses and Changes in Net Assets

	<u>2012</u>	<u>2011</u>
Operating revenues		
Investment income	\$ 67,004	\$ 170,753
Dividend income	14,792	21,250
Interest income on notes receivable	40,165	26,183
Realized gain on sale of investments	38,973	64,555
Grant income	950,025	—
Miscellaneous	<u>11,388</u>	<u>48</u>
Total operating revenues	1,122,347	282,789
Operating expenses:		
Salary expense	214,165	201,739
Payroll benefits expense	56,461	55,860
Rent expense	14,820	14,795
General and administrative expense	72,172	58,358
Depreciation expense	954	3,876
Provision for losses on notes receivable	171,964	170,805
Write down(recovery) of investments	<u>335,489</u>	<u>(56,000)</u>
Total operating expenses	<u>866,025</u>	<u>449,433</u>
Operating income (loss)	256,322	(166,644)
Capital contributions	—	4,000,000
Net assets at beginning of year	<u>7,841,276</u>	<u>4,007,920</u>
Net assets at end of year	<u>8,097,598</u>	<u>\$7,841,276</u>

The Fund had an operating income of \$256,322 for the fiscal year. Operating revenues increased substantially, 296.88% or \$839,558, primarily due to \$950,025 in grant income. Operating expenses increased 92.69% or \$416,592, due to write-downs in the note receivable and investment portfolio compared to 2011.

2011 Highlights

- The SEGF invested \$250,000 in one company new to the portfolio, and an additional \$185,211 in existing portfolio companies.
- Revenue growth at SEGF portfolio companies was 53% in 2009, according to the 2009 Maine Comprehensive Research and Development Evaluation
- Employment growth at SEGF portfolio companies was 18% in 2009, according to the 2009 Maine Comprehensive Research and Development Evaluation
- The SEGF was a co-applicant for the Federal SSBCI (State Small Business Credit Initiative) and is expecting to receive \$3 million in additional capital over the next 2 years.

SMALL ENTERPRISE GROWTH FUND

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2012 and 2011

- 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, the Maine Center for Enterprise Development's "Top Gun" Program, and the Juice Conference Pitch Competition.
- 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. For a list of current board members and their background visit: <http://www.segfmaine.com/About/board.php>

Financial Information

Statements of Net Assets

	<u>2011</u>	<u>2010</u>
Assets:		
Cash equivalents	\$5,637,452	\$2,082,327
Interest receivable	58,198	42,344
Notes receivable, net	334,039	386,615
Investments	1,831,410	1,517,499
Capital assets	3,850	4,528
Long-term deposit	<u>—</u>	<u>—</u>
Total assets	<u>\$7,864,949</u>	<u>\$4,033,313</u>
Liabilities:		
Accounts payable	\$ 297	\$ 360
Accrued expenses	<u>23,376</u>	<u>25,033</u>
Total liabilities	23,673	25,393
Net assets:		
Invested in capital assets	3,850	4,528
Unrestricted net assets	<u>7,837,426</u>	<u>4,003,392</u>
Total net assets	<u>7,841,276</u>	<u>4,007,920</u>
Total liabilities and net assets	<u>\$7,864,949</u>	<u>\$4,033,313</u>

Total assets increased \$3,831,636 due mainly to an infusion by the State of Maine of \$4,000,000.

SMALL ENTERPRISE GROWTH FUND
MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2012 and 2011

Statements of Revenues, Expenses and Changes in Net Assets

	<u>2011</u>	<u>2010</u>
Operating revenues:		
Investment income	\$ 170,753	\$ 75,878
Dividend income	21,250	21,250
Interest income on notes receivable	26,183	48,464
Realized gain on sale of investments	64,555	303,326
Miscellaneous	<u>48</u>	<u>39</u>
Total operating revenues	282,789	448,957
Operating expenses:		
Salary expense	201,739	189,756
Payroll benefits expense	55,860	50,144
Rent expense	14,795	14,520
General and administrative expense	58,358	46,501
Depreciation expense	3,876	3,011
Provision for losses on notes receivable	170,805	608,763
(Recovery) write-down of investments	<u>(56,000)</u>	<u>291,223</u>
Total operating expenses	<u>449,433</u>	<u>1,203,918</u>
Operating loss	(166,644)	(754,961)
Capital contributions	4,000,000	—
Net assets at beginning of year	<u>4,007,920</u>	<u>4,762,881</u>
Net assets at end of year	<u>\$7,841,276</u>	<u>\$4,007,920</u>

The Fund had an operating loss of \$166,644 for the fiscal year. Operating revenues decreased substantially, 37.01% or \$166,168, primarily due to a decrease in realized gain on sale of investments from 2010. Operating expenses decreased 62.67% to \$754,485, due to significant improvements in the note receivable and investment portfolio compared to 2010.

SMALL ENTERPRISE GROWTH FUND

STATEMENTS OF NET ASSETS

June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
<u>ASSETS</u>		
Current assets:		
Cash equivalents (note 2)	\$5,100,023	\$5,637,452
Interest receivable	23,145	12,583
Notes receivable, net of allowance for losses of \$429,135 in 2012 and \$347,247 in 2011 (notes 3 and 5)	215,269	334,039
Prepaid expense	<u>7,274</u>	<u>—</u>
Total current assets	5,345,711	5,984,074
Noncurrent assets:		
Interest receivable	833	45,615
Notes receivable, net of allowance for losses of \$151,944 in 2012 and \$301,579 in 2011 (notes 3 and 5)	252,806	—
Investments (note 1)	2,521,592	1,831,410
Capital assets, net (note 8)	<u>2,896</u>	<u>3,850</u>
Total noncurrent assets	<u>2,778,127</u>	<u>1,880,875</u>
Total assets	<u>\$8,123,838</u>	<u>\$7,864,949</u>

LIABILITIES AND NET ASSETS

Current liabilities:		
Accounts payable	\$ 179	\$ 297
Accrued expenses	<u>26,061</u>	<u>23,376</u>
Total current liabilities	<u>26,240</u>	<u>23,673</u>
Total liabilities	26,240	23,673
Commitments (notes 4 and 9)		
Net assets (note 7):		
Invested in capital assets	2,896	3,850
Unrestricted net assets	<u>8,094,702</u>	<u>7,837,426</u>
Total net assets	<u>8,097,598</u>	<u>7,841,276</u>
Total liabilities and net assets	<u>\$8,123,838</u>	<u>\$7,864,949</u>

See accompanying notes.

SMALL ENTERPRISE GROWTH FUND

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

Years Ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Operating revenues:		
Investment income	\$ 67,004	\$ 170,753
Dividend income	14,792	21,250
Interest income on notes receivable	40,165	26,183
Gain on sale of investments	38,973	64,555
Grant income (note 11)	950,025	—
Miscellaneous	<u>11,388</u>	<u>48</u>
Total operating revenues	1,122,347	282,789
Operating expenses:		
Salary expense	214,165	201,739
Payroll benefits expense	56,461	55,860
Rent expense	14,820	14,795
General and administrative expense	72,172	58,358
Depreciation expense	954	3,876
Provision for losses on notes receivable and interest receivable (note 3)	171,964	170,805
Write-down (recovery) of investments	<u>335,489</u>	<u>(56,000)</u>
Total operating expenses	<u>866,025</u>	<u>449,433</u>
Operating income (loss)	256,322	(166,644)
Capital contributions from State of Maine (note 1)	—	4,000,000
Net assets, beginning of year	<u>7,841,276</u>	<u>4,007,920</u>
Net assets, end of year	<u>\$8,097,598</u>	<u>\$7,841,276</u>

See accompanying notes.

SMALL ENTERPRISE GROWTH FUND

STATEMENTS OF CASH FLOWS

Years Ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities:		
Interest received on notes receivable	\$ 11,385	\$ 100
Principal payments received on notes receivable	100,000	—
Notes receivable originated	(200,000)	(108,000)
Disbursements for investments	(1,171,671)	(327,211)
Proceeds from sale of investments	41,973	133,855
Miscellaneous receipt	11,388	48
Grant income received	950,025	—
Dividend income	14,792	21,250
Investment income received	67,004	170,753
Payments for operating expenses	(150,845)	(129,076)
Payments to employees	<u>(211,480)</u>	<u>(203,396)</u>
Net cash used by operating activities	(537,429)	(441,677)
Cash flows from capital and related financing activities:		
Acquisition of capital assets	—	(3,198)
Cash flows from noncapital financial activities:		
Contributed capital	<u>—</u>	<u>4,000,000</u>
Net (decrease) increase in cash equivalents	(537,429)	3,555,125
Cash equivalents, at beginning of year	<u>5,637,452</u>	<u>2,082,327</u>
Cash equivalents, at end of year	<u>\$ 5,100,023</u>	<u>\$ 5,637,452</u>
Reconciliation of operating loss to net cash used by operating activities:		
Operating income (loss)	\$ 256,322	\$ (166,644)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Provision for losses on notes and interest receivable	171,964	170,805
Write-down (recovery) of investments	335,489	(56,000)
Depreciation	954	3,876
Realized gain on sale of investments	(38,973)	(64,555)
Changes in assets and liabilities:		
Interest receivable	(28,780)	(26,083)
Notes receivable	(100,000)	(108,000)
Investments, net	(1,129,698)	(193,356)
Prepaid expense	(7,274)	—
Accounts payable	(118)	(63)
Accrued expenses	<u>2,685</u>	<u>(1,657)</u>
	<u>\$ (537,429)</u>	<u>\$ (441,677)</u>

Supplemental disclosure of noncash activities:

During 2012, \$355,000 of investments were converted to notes receivable and \$63,000 of interest receivable was converted to notes receivable.

See accompanying notes.

SMALL ENTERPRISE GROWTH FUND

NOTES TO FINANCIAL STATEMENTS

June 30, 2012 and 2011

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. Additionally, the Fund received \$4,000,000 in 2011 from a state economic development bond. 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, 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 allows 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.

SMALL ENTERPRISE GROWTH FUND

NOTES TO FINANCIAL STATEMENTS

June 30, 2012 and 2011

1. Organization and Significant Accounting Policies (Continued)

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.

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, 2012 and 2011, 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, 2012 and 2011

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, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Cost basis	<u>\$4,233,677</u>	<u>\$4,458,702</u>
Carrying value	<u>\$2,521,592</u>	<u>\$1,831,410</u>

The carrying value of \$2,521,592 consists of investments in fourteen companies, five of which have balances greater than 10% of the Fund's recorded net investment balances. In 2011, the carrying value of \$1,831,410 consisted of twelve companies. Four of which had 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 and grant income. Operating expenses include professional fees and services, payroll and administrative expenses and other costs of providing services and operating the program.

Grant Income

The Fund uses grant funds to make debt or equity investments in qualified Maine companies. The Fund recognizes grant income when such funds are invested.

SMALL ENTERPRISE GROWTH FUND

NOTES TO FINANCIAL STATEMENTS

June 30, 2012 and 2011

1. Organization and Significant Accounting Policies (Continued)

New Accounting Pronouncements

In March, 2012 GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. This Statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term *deferred* in financial statement presentations. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. The Fund is currently evaluating the impact, if any, this guidance will have on its financial statements.

In June 2011 GASB issued Statement No. 63 *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. This Statement amends the net asset reporting requirements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. The provisions of this Statement are effective for financial statements for years beginning after December 15, 2011. The Fund is currently evaluating the impact, if any, this guidance will have on its financial statements.

In December 2010 GASB issued Statement No. 62 *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements:

1. Financial Accounting Standards Board (FASB) Statements and Interpretations
2. Accounting Principles Board Opinions
3. Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure.

This Statement also supersedes Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, thereby eliminating the election provided in that Statement for enterprise funds and business-type activities to apply post-November 30, 1989 FASB Statements and Interpretations that do not conflict with or contradict GASB pronouncements. However, those entities can continue to apply, as other accounting literature, post-November 30, 1989 FASB pronouncements that do not conflict with or contradict GASB pronouncements, including this Statement. The requirements of this Statement are effective for financial statements for years beginning after December 15, 2011. The Fund is currently evaluating the impact, if any, this guidance will have on its financial statements.

SMALL ENTERPRISE GROWTH FUND

NOTES TO FINANCIAL STATEMENTS

June 30, 2012 and 2011

1. Organization and Significant Accounting Policies (Continued)

In November 2010 GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34*. The objective of this Statement is to improve financial reporting for a governmental financial reporting entity. The requirements of Statement No. 14, *The Financial Reporting Entity*, and the related financial reporting requirements of Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, were amended to better meet user needs and to address reporting entity issues that have arisen since the issuance of those Statements.

This Statement modifies certain requirements for inclusion of component units in the financial reporting entity. The provisions of this Statement are effective for financial statements for years beginning after June 15, 2012. The Fund currently does not report any component units and as a result the Statement will not currently impact the Fund.

2. Cash Equivalents

The Fund does not have a formal deposit or 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, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Bank deposits	\$ 147,746	\$ 146,495
State of Maine Treasury's cash pool	<u>4,952,277</u>	<u>5,490,957</u>
	<u>\$5,100,023</u>	<u>\$5,637,452</u>

At June 30, 2012 and 2011, bank deposits had a bank balance of \$150,422 and \$151,299, respectively, and a carrying amount of \$147,746 and \$146,495, 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, 2012 and 2011.

SMALL ENTERPRISE GROWTH FUND

NOTES TO FINANCIAL STATEMENTS

June 30, 2012 and 2011

3. Notes Receivable

The following is a summary of notes receivable at June 30, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
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 was unsecured. The note was written off in 2012.	\$ —	\$ 263,250
Note (amended) dated February 2009, interest at 16%, interest accrued until maturity, due March 2009, the note was unsecured. The note was written off in 2012.	—	55,492
Note dated February 2009, interest at 16%, interest accrued until maturity, due March 2009, the note was unsecured. The note was written off in 2012.	—	15,469
Note dated March 2009, interest at 10%, interest accrued through March 2010, interest only beginning March 2010, due December 2014, the note was unsecured. The note was written off in 2012.	—	117,500
Note dated February 2009, interest at 6%, interest accrued until maturity, due June 2012, the note is unsecured. The note is in default.	100,000	100,000
Note dated (amended) December 2008, interest at 10%, interest accrued until maturity, due March 2012, the note is unsecured. The note is in default.	50,000	50,000
Note dated November 2010, interest at 6%, interest accrued until maturity, due June 2012, the note is unsecured. The note is in default.	73,000	73,000
Note dated March 2011, interest at 6%, interest accrued until maturity, due June 2012, the note is unsecured. The note is in default.	25,000	25,000
Note dated April 2011, interest at 10%, interest accrued until maturity, due May 2012, the note was secured by business assets.	—	10,000
Note (amended) dated April 2009, interest at 14%, interest accrued until maturity, due April 2015, the note is unsecured.	213,000	150,000
Note (amended) dated September 2009, interest at 6%, interest accrued until maturity, due June 2012. The note is unsecured. The note is in default.	46,154	46,154
Note dated June 2010, interest at 6%, interest accrued until maturity, due June 2012. The note is unsecured. The note is in default.	77,000	77,000
Note dated November 2011, in exchange for equity securities, interest at 5%, interest accrued until maturity, due December 2013. The note is unsecured	265,000	—
Note dated May 2012, interest at 10%, interest accrued until maturity, due June 2014. The note is unsecured.	100,000	—
Note dated June 2012, interest at 12%, interest accrued until maturity, due March 2013. The note is unsecured.	<u>100,000</u>	<u>—</u>
	1,049,154	982,865
Allowance for losses	<u>(581,079)</u>	<u>(648,826)</u>
Notes receivable, net	468,075	334,039
Current portion of notes receivable, net	<u>(215,269)</u>	<u>(334,039)</u>
Noncurrent portion of notes receivable, net	<u>\$ 252,806</u>	<u>\$ —</u>

SMALL ENTERPRISE GROWTH FUND

NOTES TO FINANCIAL STATEMENTS

June 30, 2012 and 2011

3. Notes Receivable (Continued)

The following is the activity in the allowance for losses on notes receivable during the years ended June 30, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Allowance for losses on notes:		
Beginning balance	\$ 648,826	\$ 730,079
Provision for losses	171,964	160,576
Allowance transferred through equity conversion	212,000	—
Charge-offs	<u>(451,711)</u>	<u>(241,829)</u>
Ending balance	<u>\$ 581,079</u>	<u>\$ 648,826</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.

The carrying value of \$468,075 consists of notes receivable from five companies, all of which have balances greater than 10% of the Fund's recorded net notes receivable balances.

4. Commitments

At June 30, 2012, 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. The fund may be subject to audit or other review in conjunction with receivings funds under the State Small Business Credit Initiative (see note 11).

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, 2012 or 2011 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, 2012 and 2011

6. Transactions with the Finance Authority of Maine

The Authority provides certain financial management, legal assistance and legislative liaison services for the Fund. 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 2012 and 2011 statements of revenues, expenses and changes in net assets, is approximately \$6,000 in 2012 and 2011 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, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Contributed capital	\$13,006,767	\$13,006,767
Investment in capital assets	2,896	3,850
Accumulated deficit	<u>(4,912,065)</u>	<u>(5,169,341)</u>
Total net assets	<u>\$ 8,097,598</u>	<u>\$ 7,841,276</u>

There are no restrictions on net assets at June 30, 2012 and 2011. 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, 2012 was as follows:

	<u>June 30,</u> <u>2011</u>	<u>Additions</u>	<u>Disposals</u>	<u>June 30,</u> <u>2012</u>
Computer and office equipment	\$ 4,771	\$ —	\$ —	\$ 4,771
Less accumulated depreciation for:				
Computer and office equipment	<u>(921)</u>	<u>(954)</u>	<u>—</u>	<u>(1,875)</u>
	<u>\$ 3,850</u>	<u>\$ (954)</u>	<u>\$ —</u>	<u>\$ 2,896</u>

SMALL ENTERPRISE GROWTH FUND

NOTES TO FINANCIAL STATEMENTS

June 30, 2012 and 2011

8. Capital Assets (Continued)

Capital assets activity for the year ended June 30, 2011 was as follows:

	June 30, <u>2010</u>	<u>Additions</u>	<u>Disposals</u>	June 30, <u>2011</u>
Computer and office equipment	\$ 9,838	\$ 3,198	\$ 8,265	\$ 4,771
Less accumulated depreciation for: Computer and office equipment	<u>(5,310)</u>	<u>(3,876)</u>	<u>(8,265)</u>	<u>(921)</u>
	<u>\$ 4,528</u>	<u>\$ (678)</u>	<u>\$ —</u>	<u>\$ 3,850</u>

9. Operating Leases

The Fund leases office space on a month to month basis. Lease expense was \$14,820 and \$14,795 for the years ended June 30, 2012 and 2011, 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.

11. State Small Business Credit Initiative

The Fund receives monies under the State Small Business Credit Initiative (SSBCI). SSBCI was established by the *Small Business Act of 2010*. The Fund is an approved "participating State program" under SSBCI. The Fund will have in total a minimum of \$3,000,000 available for capital investment under this program. The Fund recorded \$950,025 of revenue related to SSBCI for the year ended June 30, 2012, which was utilized to make investments and issue a note receivable.

ADDITIONAL INFORMATION

SCHEDULE 1

SMALL ENTERPRISE GROWTH FUND

SCHEDULE OF ACTIVITIES

Year Ended June 30, 2012

Functions/ Programs	Expenses	Program Revenues				Net Revenue (Expenses) and Changes in Net Assets
		Charges for Services	Program Investment Income	Operating Grants and Contributions	Capital Grants/ Contributions	Total
Business-type activities:						
Capital investment program	<u>\$(866,025)</u>	<u>\$ —</u>	<u>\$93,930</u>	<u>\$950,025</u>	<u>\$ —</u>	\$ 177,930
General revenues:						
						67,004
						<u>11,388</u>
						<u>78,392</u>
						256,322
						<u>7,841,276</u>
						<u>\$8,097,598</u>