

**DIVISION OF FINANCE PROGRAMS
INVESTMENT FINANCE GROUP
(IFG)**

**ANNUAL FINANCIAL STATUS REPORT
FISCAL YEAR 2008**

Submitted by:

Maryland Department of Business and Economic Development

As of June 30, 2008

INVESTMENT FINANCE GROUP (IFG)

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MARYLAND VENTURE FUND

History and Program Description

Maryland Venture Fund (“MVF”) activities began in 1994 through the establishment of the Enterprise Fund, authorized by the General Assembly in fiscal year 1993. The Fund was developed to make equity investments in “new” State enterprises. This initiative was enhanced to target investments in early stage, high technology companies experiencing difficulties attracting private sector investment dollars. Today, Maryland Venture Fund activities are provided through five sub-sections: the Enterprise Investment Fund, the Challenge Investment Program, the Enterprise VCLP Fund, the Maryland/Israel Development Fund and the FIPS Certification Grant Program.

Enterprise Investment Fund

The Enterprise Investment Fund (“EIF”) is a State sponsored venture capital fund, wherein the State/DBED makes equity investments in early stage, high technology firms that are seeking outside venture capital for their “first” influx of meaningful investment dollars. The EIF requires a 3:1 outside investor co-match by a sophisticated investor. The maximum program equity percentage can not exceed 25%. Historically, EIF investments have not exceeded \$500,000 per investment; however, in order to protect the State’s investment, in some cases more than \$500,000 has been invested in a single portfolio company over a number of years. Existing policy parameters centering around maximum investment limits will continue to be monitored given the need for continued support of economic development issues versus the migration of venture capital monies away from early stage investments.

A ten-member Advisory Board approves investment recommendations to the Secretary of DBED for final approval. DBED’s investments are termed for a maximum of 15 years and require the firm to retain its principal place of business within the State of Maryland for a period of not less than five years. If the firm moves outside the State, repayment of DBED’s investment, at cost or “fair market value”, whichever is higher is required.

Challenge Investment Program

The Challenge Investment Program (“CIP”) is a “seed” program designed to invest in high technology “start-up” firms. The Challenge Investment Program requires that a program recipient retain its principal place of business in Maryland for a period of not less than three years. Additionally, a Challenge recipient should have the potential to be an Enterprise Investment consideration or an attractive equity investment within a two-year period. The Program requires a minimum 1:1 co-investor match.

Generally, Challenge investments are ten-year agreements having two potential sources of repayment: one based on 2% of product sales in excess of \$500,000/year, and another based on 1% of the equity dollars raised in excess of \$500,000. Challenge agreements are reviewed annually and modified as appropriate to ensure compliance and promote a recipient’s graduation into the Enterprise Investment Fund. Investment amounts generally range from \$50,000 to \$150,000, with the first \$50,000 or \$100,000 provided based on the strength of the business plan itself, and with any subsequent investment based on predetermined milestones.

Enterprise VCLP Fund

The Enterprise Fund has invested \$11.5 million in eight (8) Venture Capital Limited Partnerships (VCLP’s) since fiscal year 1994. Two were made in fiscal year 1996, four in fiscal year 2000, one in fiscal year 2001, and one in fiscal year 2003. The motivation to invest in these VCLP’s was to stimulate venture capital investments in Maryland. The Department recognizes the lack of venture capital participation in deals under \$10,000,000 and works closely with the venture capital community to connect Maryland based early-stage and technology companies with funding sources. In fact, this funding gap has been recognized by larger venture capital firms that have begun to provide some companies

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with seed funding as a way to maintain their position in the company as it continues to receive venture funding (e.g., Boston's Charles River Ventures' program to supply companies with \$250,000 and other venture capital funds are considering a companion program to their standard venture funding model).

Maryland/Israel Development Fund (MIDF)

Maryland and Israel entered an MOU to establish a Maryland/Israel international research and development fund in November 2004. Israel has similar international R&D funds at the national level with 20 countries including the United States, Canada, Britain, Finland, South Korea and Singapore.

Investments may range from \$100,000 to \$300,000, half from DBED for the Maryland company and half from the Ministry of Industry, Trade and Labor ("MOIT") for the Israeli firm. The funds can only be used for the R&D expenses of the project. Company matching funds are required, equal to a minimum of fifty percent of total project costs. For products successful in the market, investments will be repaid with interest.

The mission of the MIDF is to encourage collaboration between Maryland and Israeli companies creating high technology products. Funding for this program will be provided in equal amounts by each government. Ideally, the MIDF will have an annual budget of \$500,000. Repayment will be made after the joint Maryland-Israel effort yields product revenues.

MIDF proposals are now being considered for FY09 funding. The duration of the MIDF program will be five years.

Maryland Federal Information Processing Standards (FIPS) Certification Grant Program

In FY 2005, DBED initiated a program that would provide small grants to technology companies needing proper security certification to do business with the Federal Government. The Maryland Federal Information Processing Standards ("FIPS") certification grant program will assist Maryland companies working to obtain FIPS 140-1 and FIPS 140-2 certification for encryption. DBED will also consider, on a case-by-case basis, assisting companies seeking certification for other FIPS standards (e.g., FIPS 197: Advanced Encryption Standard (AES) of November 2001).

Maryland-based companies with no more than 30 full-time employees and annual revenues that do not exceed \$5 million are eligible to apply for a FIPS certification grant. Once approved, the company may receive up to forty percent, not to exceed \$50,000, of the eligible costs involved in FIPS certification, such as consulting, engineering, and testing and evaluation fees, as well as other costs directly related to the certification process. Funding will be provided to the company once it has submitted expense reports relating to FIPS certification.

Grants through the FIPS certification grant program were initiated in FY06. One company has received FIPS funding based on expenses incurred in the certification process.

Performance of the Fund since Inception

Enterprise Investment Fund

The EIF has made investments in eighty-four (84) ventures through June 30, 2008 (including companies that were originally part of the CIP but have since "graduated" into the EIF). The cumulative costs of these investments are \$37.0 million since fiscal year 1994. As of the end of fiscal year 2008, twenty-two (22) ventures have "gone public" or been acquired by a publicly traded firm or a larger privately-held firm. The Maryland Venture Fund has exited through the sale of held securities and has received approximately \$61.1 million in returns. It is difficult to estimate the "Fair Market Value" (FMV) for the balance of DBED's holdings due to the fact that these firms are still privately held;

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however, based on typical venture capital valuation methods, the FMV totaled approximately \$19.1 million as of June 30, 2008.

Challenge Investment Program

The CIP has made investments in 166 companies since fiscal year 1994, the Program's first "official" year of operation. Total investment through June 30, 2008 has been approximately \$10.6 million. Of those 166 investments over 100 are still in business or have had some type of successful exit from the program. Given the high risks associated with "start-up" financing, our success rate is considered to be an extremely high. As more rigorous initial investment criteria have been placed on the Challenge recipients, approximately forty-three (43) firms have gone on to receive investment from the EIF, transition into the EIF via conversion into stock, or trade publicly or be acquired.

Enterprise VCLP Fund

DBED has received a total of \$144,284 in distributions and interest from the partnerships in fiscal year 2008. In fiscal year 2007, \$206,935 was returned, and in fiscal year 2006, \$81,119 was returned.

Performance for Fiscal Year 2008

During FY 2008, CIP closed (settled) nineteen (19) investments for \$1,700,000 (of which five (5) CIPs for \$900,000 converted to EIF), and EIF closed seven (7) investments for \$980,325.

Some highlights:

1. Sourcefire position was sold in the fall of 2007 netting over \$3,500,000.
2. Cardiacore continues to meet sales plan and has a total of 64 employees with 40 or so working in Bethesda, MD. The company expects to be breakeven for 2008.
3. Akonni Biosystems raised funds in early 2008 at 3x our initial valuation and continues to expand its operations in Frederick, MD
4. Real Interface was acquired in December 2007 netting \$70,000 to the fund.
5. EKA systems closed a Series D round totaling \$18,500,000. The fund maintains its existing investment.

Projected Performance for Fiscal Year 2009

The MVF's portfolio maintenance requirements have continued to grow as the portfolio of companies has steadily increased. The investment oversight is of paramount importance in the CIP, and to a lesser degree in the EIF investments due to the monitoring services offered by the co-investors. Additionally, the program considers over 250 companies annually for CIP or EIF funding.

MVF investment activity for FY 2009 and FY 2010 is expected to be more of a function of the budget and fund balance than available opportunities to assist companies. In FY 2009, the Fund is seeking to fund 4-5 (versus the 7 in FY 2008) Enterprise Investments and approximately 10-12 (versus the 14 in FY 2008) Challenge Investments.

The MVF continues to work in collaboration with the private venture capital community in the Baltimore/Washington area and outside of the region to generate deal flow that would ultimately result in direct investment of high-quality Maryland companies. Additionally, the MVF has also engaged with a number of angel and strategic investors that may be interested in seed stage companies to early stage venture opportunities. Smaller investors

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can allow companies to work towards a more marketable product before being funded by more sophisticated venture funds.

With respect to current VCLPs in the Fund's portfolio, it is anticipated that the VCLP investments made before 2000 are close to the end of their expected lives and, accordingly, a declining number of distributions of stock/cash to the limited partners, including DBED, are expected.

Initial Public Offerings

Over the past year, the market for initial public offerings came to a halt. Unsteady real estate markets and inflationary pressures due to rising energy and commodity prices put a damper on the overall financial markets. However, the merger and acquisition market will continue to provide the best opportunity for liquidation. Our expectation is that there will be a few exits over the next 24 months.

Approved Report

7/1/2007 Through 6/30/2008

Approved Date	Client Name	Loan #	Loan Amount	Guarantor Percentage	Loan Guarantee	County	Total Project Costs	New Retained Jobs
Enterprise Inv. Fund								
11/16/2000	NeoDiagnostix, Inc.	4800401	\$50,000.00	0.0%	\$0.00	Montgomery	\$745,000.00	3
11/30/2000	Zenoss, Inc.	5600301	\$225,000.00	0.0%	\$0.00	Anne Arundel	\$10,000,000.00	22
1/18/2008	Nora Therapeutics, Inc.	6220201	\$200,000.00	0.0%	\$0.00	Baltimore City	\$18,000,000.00	2
1/25/2008	Acuity Mobile, Inc.	4790201	\$50,000.00	0.0%	\$0.00	Montgomery	\$3,050,000.00	6
1/25/2008	GTI Holdings, Inc.	4680401	\$50,000.00	0.0%	\$0.00	Montgomery	\$550,000.00	2
5/2/2008	ClassifEye, Ltd.	7960102	\$250,000.00	0.0%	\$0.00	(None)	\$1,000,000.00	0
5/2/2008	StarLaw, Inc.	7840101	\$250,000.00	0.0%	\$0.00	Howard	\$3,335,000.00	12
5/9/2008	Scheer Life Sciences Investment, LLC	8210101	\$1,000,000.00	0.0%	\$0.00	Montgomery	\$100,000,000.00	0
5/20/2008	Alba Therapeutics Corporation	4810201	\$215,325.00	0.0%	\$0.00	Baltimore City	\$215,325.00	7
6/6/2008	New Markets Growth Fund II, LP	8180101	\$500,000.00	0.0%	\$0.00	(None)	\$20,000,000.00	0
6/27/2008	Little Rhino Maryland, LLC c/o Little Rhino	8380103	\$300,000.00	0.0%	\$0.00	Multiple	\$0.00	0
	Totals:		\$3,090,325.00		\$0.00		\$156,895,325.00	111
11 Loans								
Challenge Inv. Program.								
7/13/2007	Vorbeck Materials Corp.	7060101	\$50,000.00	0.0%	\$0.00	Howard	\$650,000.00	6
8/7/2007	Cellphire, Inc.	7110101	\$50,000.00	0.0%	\$0.00	Montgomery	\$100,000.00	2
8/13/2007	Sequella, Inc.	4930201	\$150,000.00	0.0%	\$0.00	Montgomery	\$8,000,000.00	4
9/17/2007	Encore Path, Inc.	7170101	\$50,000.00	0.0%	\$0.00	Baltimore City	\$100,000.00	1
9/19/2007	Sensics, Inc.	4920401	\$50,000.00	0.0%	\$0.00	Baltimore City	\$500,000.00	3
9/28/2007	Expression Pathology, Inc.	4660201	\$50,000.00	0.0%	\$0.00	Baltimore City	\$250,000.00	1
10/19/2000	Sirmaomics	7310101	\$50,000.00	0.0%	\$0.00	Montgomery	\$100,000.00	3
11/16/2000	Aid Networks, LLC	7390101	\$50,000.00	0.0%	\$0.00	Montgomery	\$100,000.00	4
11/16/2000	Neuronascent	7330101	\$50,000.00	0.0%	\$0.00	Montgomery	\$250,000.00	0
11/16/2000	Vorbeck Materials Corp.	7060201	\$50,000.00	0.0%	\$0.00	Howard	\$100,000.00	7
12/7/2007	Synaptic Science, LLC	7440101	\$50,000.00	0.0%	\$0.00	Howard	\$1,150,000.00	4
12/21/2000	MyAdBox, Incorporated	5810301	\$50,000.00	0.0%	\$0.00	Montgomery	\$125,000.00	3
						Baltimore City	\$100,000.00	2

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<i>Approved Date</i>	<i>Client Name</i>	<i>Loan #</i>	<i>Loan Amount</i>	<i>Guarantor Percentage</i>	<i>Loan Guarantee</i>	<i>County</i>	<i>Total Project Costs</i>	<i>New Jobs</i>	<i>Retained Jobs</i>
1/24/2008	Aguru Images, Inc.	7560101	\$100,000.00	0.0%	\$0.00	Multiple	\$300,000.00	4	0
1/25/2008	Zymetis, Inc.	7530101	\$50,000.00	0.0%	\$0.00	Prince George's	\$250,000.00	4	4
2/8/2008	Intelligov Software, Inc.	7570101	\$50,000.00	0.0%	\$0.00	Howard	\$100,000.00	2	4
2/15/2008	DecisionStep, Inc.	7640101	\$100,000.00	0.0%	\$0.00	Prince George's	\$350,000.00	5	5
2/27/2008	CertusNet, Inc.	7620101	\$50,000.00	0.0%	\$0.00	Montgomery	\$100,000.00	2	4
3/21/2008	Vorbeck Materials Corp.	7060301	\$50,000.00	0.0%	\$0.00	Howard	\$550,000.00	2	7
4/14/2008	Amulet Pharmaceuticals, Inc.	7740101	\$100,000.00	0.0%	\$0.00	Montgomery	\$1,100,000.00	2	9
5/5/2008	Flexicath, Ltd.	7880102	\$50,000.00	0.0%	\$0.00	(None)	\$150,000.00	4	0
5/30/2008	Alper Biotech, LLC	8070101	\$50,000.00	0.0%	\$0.00	Montgomery	\$100,000.00	1	3
6/24/2008	Encore Path, Inc.	7170201	\$50,000.00	0.0%	\$0.00	Baltimore City	\$500,000.00	4	2
6/24/2008	Goozex, Inc.	8390101	\$100,000.00	0.0%	\$0.00	Prince George's	\$200,000.00	5	4
6/24/2008	Neuronascent	7330201	\$50,000.00	0.0%	\$0.00	Howard	\$250,000.00	5	2
	Totals:		\$1,500,000.00		\$0.00		\$15,375,000.00	73	105
	<i>Maryland/Israel Development Fund</i>								
5/5/2008	DIR Solutions, LLC	7900101	\$200,000.00	0.0%	\$0.00	Prince George's	\$543,000.00	0	16
	Totals:		\$200,000.00		\$0.00		\$543,000.00	0	16
	<i>COV Challenge to Enterprise</i>								
9/27/2007	Moodlerooms, Inc.	5380301	\$100,000.00	0.0%	\$0.00	Baltimore City	\$0.00	0	0
11/5/2007	Moodlerooms, Inc.	5380401	\$250,000.00	0.0%	\$0.00	Baltimore City	\$650,000.00	5	2
1/11/2008	Akonni Biosystems, Inc.	5820401	\$200,000.00	0.0%	\$0.00	Frederick	\$0.00	0	0
1/11/2008	Akonni Biosystems, Inc.	5820402	\$200,000.00	0.0%	\$0.00	Frederick	\$6,000,000.00	4	22
2/12/2008	Acuity Mobile, Inc.	4790301	\$150,000.00	0.0%	\$0.00	Montgomery	\$0.00	0	0
6/2/2008	Sensics, Inc.	4920501	\$200,000.00	0.0%	\$0.00	Baltimore City	\$750,000.00	8	4
	Totals:		\$1,100,000.00		\$0.00		\$7,400,000.00	17	28
	Grand Totals:		\$5,890,325.00		\$0.00		\$180,213,325.00	201	239

Settled Report

7/1/2007 Through 6/30/2008

Settled Date	Client Name	Loan #	Loan Amount	Guarantor Percentage	Loan Guarantee	County	Total Project Costs	New Retained Jobs
<i>Enterprise Inv. Fund</i>								
7/1/2007	EKA Systems, Inc.	4640201	\$140,000.00	0.0%	\$0.00	Montgomery	\$0.00	0
12/13/200	NeoDiagnostix, Inc.	4800401	\$50,000.00	0.0%	\$0.00	Montgomery	\$745,000.00	3
12/19/200	Zenoss, Inc.	5600301	\$225,000.00	0.0%	\$0.00	Anne Arundel	\$10,000,000.00	52
2/12/2008	Acuity Mobile, Inc.	4790201	\$50,000.00	0.0%	\$0.00	Montgomery	\$3,050,000.00	8
3/6/2008	GTI Holdings, Inc.	4680401	\$50,000.00	0.0%	\$0.00	Montgomery	\$550,000.00	18
6/9/2008	Alba Therapeutics Corporation	4810201	\$215,325.00	0.0%	\$0.00	Baltimore City	\$215,325.00	7
6/10/2008	ClassiEye, Ltd.	7960102	\$250,000.00	0.0%	\$0.00	(None)	\$1,000,000.00	3
	Totals:		\$980,325.00		\$0.00		\$15,560,325.00	91
7 Loans								
<i>Challeng Inv. Program.</i>								
7/16/2007	Zylaya Corporation	6900101	\$50,000.00	0.0%	\$0.00	Montgomery	\$100,000.00	11
9/5/2007	Vorbeck Materials Corp.	7060101	\$50,000.00	0.0%	\$0.00	Howard	\$650,000.00	3
10/24/200	Encore Path, Inc.	7170101	\$50,000.00	0.0%	\$0.00	Baltimore City	\$100,000.00	3
12/17/200	Vorbeck Materials Corp.	7060201	\$50,000.00	0.0%	\$0.00	Howard	\$1,150,000.00	4
12/21/200	Interaction Laboratories	6460201	\$50,000.00	0.0%	\$0.00	Prince George's	\$1,050,000.00	3
12/26/200	Neuronascent	7330101	\$50,000.00	0.0%	\$0.00	Howard	\$100,000.00	7
1/11/2008	Simaomics	7310101	\$50,000.00	0.0%	\$0.00	Montgomery	\$100,000.00	4
2/25/2008	Synaptic Science, LLC	7440101	\$50,000.00	0.0%	\$0.00	Montgomery	\$125,000.00	3
2/29/2008	MyAdBox, Incorporated	5810301	\$50,000.00	0.0%	\$0.00	Baltimore City	\$100,000.00	2
4/18/2008	CertusNet, Inc.	7620101	\$50,000.00	0.0%	\$0.00	Montgomery	\$100,000.00	2
4/21/2008	Vorbeck Materials Corp.	7060301	\$50,000.00	0.0%	\$0.00	Howard	\$550,000.00	2
4/22/2008	DecisionStep, Inc.	7640101	\$100,000.00	0.0%	\$0.00	Prince George's	\$350,000.00	5
4/28/2008	Aguru Images, Inc.	7560101	\$100,000.00	0.0%	\$0.00	Multiple	\$300,000.00	4
5/6/2008	Intelligov Software, Inc.	7570101	\$50,000.00	0.0%	\$0.00	Howard	\$100,000.00	2
	Totals:		\$800,000.00		\$0.00		\$4,875,000.00	55
14 Loans								

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Settled Date	Client Name	Loan #	Loan Amount	Guarantor Percentage	Loan Guarantee	County	Total Project Costs	New Jobs	Retained Jobs
<i>COV Challenge to Enterprise</i>									
10/17/200	Moodlerooms, Inc.	5380301	\$100,000.00	0.0%	\$0.00	Baltimore City	\$0.00	0	0
11/5/2007	Moodlerooms, Inc.	5380401	\$250,000.00	0.0%	\$0.00	Baltimore City	\$650,000.00	5	2
1/23/2008	Akonni Biosystems, Inc.	5820401	\$200,000.00	0.0%	\$0.00	Frederick	\$0.00	0	0
2/1/2008	Akonni Biosystems, Inc.	5820402	\$200,000.00	0.0%	\$0.00	Frederick	\$6,000,000.00	4	22
2/12/2008	Acuity Mobile, Inc.	4790301	\$150,000.00	0.0%	\$0.00	Montgomery	\$0.00	0	0
	Totals:	5 Loans	\$900,000.00		\$0.00		\$6,650,000.00	9	24
	Grand Totals:	26 Loans	\$2,680,325.00		\$0.00		\$27,085,325.00	155	171