

INVESTSC, INC.

REPORT ON FINANCIAL STATEMENTS

**FOR THE PERIOD FROM
MARCH 1, 2007 (INCEPTION)
TO DECEMBER 31, 2007**

INVESTSC, INC.

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors
InvestSC, Inc.
Columbia, South Carolina

We have audited the accompanying statement of financial position of InvestSC, Inc. as of December 31, 2007 and the related statements of activities and cash flows for the period from March 1, 2007 (inception) to December 31, 2007. These financial statements are the responsibility of management of InvestSC, Inc. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit 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 audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of InvestSC, Inc. as of December 31, 2007, and the results of its operations and cash flows for the period from March 1, 2007 (inception) to December 31, 2007, in conformity with accounting principles generally accepted in the United States of America.

As explained in Note 3, the financial statements as of December 31, 2007, include securities valued at \$9,122,663 (63% of 2007 total assets), whose fair values have been estimated by management in the absence of readily ascertainable market values. We have reviewed the procedures used by management in arriving at the estimate of fair value of such securities and have inspected the underlying documentation. In the circumstances, we believe that the procedures are reasonable and documentation appropriate. However, because of the inherent uncertainty of valuation, the carrying amount of these portfolio securities may differ significantly from the values that would have been recorded had a ready market for the portfolio securities existed, and the differences could be material.

Columbia, South Carolina
May 8, 2008

Elliott Davis, LLC

INVESTSC, INC.
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2007

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 1,162,769
Interest receivable	13,927
Refund receivable	<u>3,000</u>
Total current assets	<u>1,179,696</u>

INVESTMENTS

Azalea SC Fund, LP	1,000,000
Frontier Fund II, LP	2,122,663
Nexus Medical Partners II, LP	5,000,000
Noro-Moseley Partners VI, LP	<u>1,000,000</u>
Total investments in portfolio securities	<u>9,122,663</u>

OTHER ASSETS

Restricted cash and cash equivalents - interest reserve	1,911,435
Restricted cash and cash equivalents - premium reserve	1,146,861
Note issuance costs, net	<u>1,066,717</u>
Total other assets	<u>4,125,013</u>

TOTAL ASSETS

\$ 14,427,372

LIABILITIES AND NET ASSETS (DEFICIT)

CURRENT LIABILITIES

Accounts payable	\$ 4,330
Accrued expenses	<u>32,580</u>
Total current liabilities	36,910

NOTES PAYABLE

15,000,000

NET ASSETS (DEFICIT)

Unrestricted	<u>(609,538)</u>
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TOTAL LIABILITIES AND NET ASSETS (DEFICIT)

\$ 14,427,372

The accompanying notes are an integral part of these financial statements.

INVESTSC, INC.
STATEMENT OF ACTIVITIES
For the period from March 1, 2007 (inception) to December 31, 2007

INVESTMENT INCOME

Interest on escrow deposits and operating accounts	\$ 174,234
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INVESTMENT EXPENSES

Amortization of note issuance costs	36,783
Note commitment fees	55,125
Interest expense	579,760
Salaries and benefits	52,878
Payroll taxes	3,506
Legal and professional fees	38,612
Rent	3,750
Trustee expense	6,750
Other	6,608
	<u>783,772</u>

CHANGE IN NET ASSETS

\$ (609,538)

The accompanying notes are an integral part of these financial statements.

INVESTSC, INC.
STATEMENT OF CASH FLOWS
For the period from March 1, 2007 (inception) to December 31, 2007

OPERATING ACTIVITIES	
Change in net assets	\$ (609,538)
Adjustments to reconcile change in net assets to net cash used for operating activities	
Amortization of note issuance costs	36,783
Accrued interest reinvested	(13,927)
Changes in deferred and accrued amounts	
Refund receivable	(3,000)
Accounts payable	4,330
Accrued expenses	32,580
Net cash used for operating activities	<u>(552,772)</u>
INVESTING ACTIVITIES	
Investments in portfolio companies	<u>(9,122,663)</u>
Net cash used for investing activities	<u>(9,122,663)</u>
FINANCING ACTIVITIES	
Borrowings on notes payable	15,000,000
Payment of note issuance costs	<u>(1,103,500)</u>
Net cash provided by financing activities	<u>13,896,500</u>
Net increase in cash and cash equivalents	4,221,065
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	-
CASH AND CASH EQUIVALENTS, END OF PERIOD	<u>4,221,065</u> <u>\$ 4,221,065</u>
SUPPLEMENTAL CASH FLOW INFORMATION	
CASH PAID FOR INTEREST	<u>\$ 552,584</u>

The accompanying notes are an integral part of these financial statements.

INVESTSC, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

InvestSC, Inc. (the Organization), a South Carolina Not-for-Profit Corporation was formed on March 1, 2007 by the Jobs and Economic Development Authority (JEDA) at the request of the South Carolina Venture Capital Authority (VCA), an agency formed within the South Carolina Department of Commerce. The VCA selected the Organization to serve as a "designated investor group" under the provisions of the Venture Capital Act of South Carolina.

Financial statement presentation

The Organization prepares its financial statements in accordance with Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted. The Organization had no temporarily or permanently restricted net assets.

Cash and cash equivalents

The Organization considers all highly liquid investments with original maturities of three months or less to be cash equivalents.

Investments

Investments consists of venture capital funds whose investments are primarily South Carolina based companies. Investments are initially valued at cost and are subsequently adjusted when the value of the investment, as estimated by the management of the investee funds and after giving consideration to historical operating results, financial condition, a subsequent equity financing or other pertinent information, is significantly different from cost. These valuations are done in accordance with Private Equity Industry Guidelines Group (PEIGG) procedures.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management 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 income and expenses during the reporting period. Actual results could differ from those estimates. The valuation of investments in venture capital funds is a significant estimate included in these financial statements.

Income taxes

The Organization is exempt from income tax under IRC Section 501(c)(3).

New accounting pronouncements

In September 2006, FASB issued Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* (SFAS No. 157). This standard establishes a single authoritative definition of fair value, sets out a framework for measuring fair value, and requires additional disclosures about fair value measurements. SFAS No. 157 applies to fair value measurements already required or permitted by existing standards. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007. The changes to current U.S. GAAP from the application of this statement relate to the definition of fair value, the methods used to measure fair value, and the expanded disclosures about fair value measurements. As of December 31, 2007, the Organization does not believe the adoption of SFAS No. 157 will impact the financial statement amounts; however, additional disclosures may be required about the inputs used to develop the measurements and the effect of certain of the measurements on changes in net assets for the year.

NOTE 2 - CONCENTRATIONS OF CREDIT RISK

Financial instruments which potentially subject the Organization to concentrations of credit risk consist principally of temporary cash investments. The Organization places its temporary cash investments with high credit quality financial institutions. At times, such investments may be in excess of the Federal Deposit Insurance Corporation insured limits.

NOTE 3 - INVESTMENTS

The Organization executed agreements with four venture capital funds for the investment of \$48 million. The agreements specify how much can be invested in each Company within the fund, annual limits on capital contributions and a repayment plan based on expected liquidity events for its portfolio investments. All payments must occur within 10 years, subject to additional time as may be required for the orderly liquidation of the investment portfolio.

Azalea SC Fund, LP

Azalea SC Fund, LP (Azalea) has a focus on second and later stage investments in operating firms with a primary emphasis on South Carolina based entities. The focus is on the key industries of manufacturing, distribution, consumer products, business revenues and health care industries that mirror the economic base of South Carolina.

Azalea was selected for an investment of \$10 million. At December 31, 2007, \$1 million had been invested in this fund.

Frontier Fund II, LP

Frontier Fund II, LP (Frontier) is a growth equity fund that provides capital to established financial services growth stage companies with annual revenues of \$3 million to \$25 million. Its prior fund investments have been in the Southeast, including several companies in South Carolina.

Frontier was selected for an investment of \$8 million. At December 31, 2007, \$2,122,663 had been invested in the fund.

Nexus Medical Partners II, LP

Nexus Medical Partners II, LP (Nexus) invests in the medical technologies and life sciences sectors.

Nexus was selected for an investment of \$20 million. At December 31, 2007, \$5 million had been invested in the fund.

Noro-Mosley Partners VI, LP

Noro-Moseley Partners VI, LP (Noro-Moseley) has been in operation for 23 years and focuses on three broad industries: technology, healthcare and technology-enabled business services. It invests in companies that are early stage (\$0 to \$5 million in revenue) and early growth (\$5 million to \$20 million in revenue).

Noro Moseley was selected for an investment of \$10 million. At December 31, 2007, \$1 million had been invested in the fund.

NOTE 4 - NOTES PAYABLE

On June 22, 2007, the Organization signed a Securities Purchase Agreement with a bank for \$50 million in notes. The notes are secured by all of the Organization's assets and tax credit certificates issued by the VCA. It is anticipated that these tax credits will be sold to companies with South Carolina tax liabilities. The tax credit certificates can be used to pay state income taxes, bank fees, insurance premium taxes or other tax liabilities. At closing, the first draw of \$15 million was made on the notes. The remainder must be drawn during the next three years. Interest is payable semi-annually at a fixed rate of 7.247%. No principal payments are due until 2019. At that time, \$12,500,000 in principal will be due each year until the notes are paid off on June 22, 2022.

The notes require the establishment of three reserve funds as follows: interest reserve, tax reserve and premium reserve funds. The required interest reserve amount is equal to the interest payment that would be due on the next interest payment date assuming the maximum aggregate principal amount of the notes was outstanding. The tax reserve was released during October 2007, since the Organization received notification from the Internal Revenue Service that the Organization is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. The premium reserve is a computed amount as required by the "Premium Account Control Agreement". At December 31, 2007, the interest reserve and premium reserve totaled \$1,911,435 and \$1,146,861, respectively.

NOTE 5 - PENSION PLAN AND OTHER EMPLOYEE BENEFITS

All employees of the Organization are covered by a retirement plan through the South Carolina Retirement System (SCRS), a cost-sharing multiple-employer defined benefit pension plan administered by the Retirement Division of the State Budget and Control Board, a public employee retirement system. Generally all state employees are required to participate in and contribute to the System as a condition of employment unless exempted by law as provided in Section 9-1-480 of the South Carolina Code of Laws. This plan provides annuity benefits as well as disability, cost of living adjustment, death and group-life insurance benefits to eligible employees and retirees.

The Retirement Division (the Division) maintains five independent defined benefit plans and issues its own publicly available Comprehensive Annual financial Report (CAFR) that includes financial statements and required supplementary information. A copy of the separately issued CAFR may be obtained by writing to the Retirement Division, 202 Arbor Lake Drive, Columbia, South Carolina 29223. Furthermore, the Division and the five pension plans are included in the CAFR of the State of South Carolina.

Employees participating in the SCRS are required to contribute 6.5% of all compensation. The employer contribution rate is 11.4% which includes a 3.35 % surcharge to fund retiree health and dental insurance coverage. The Organization's actual contributions to the SCRS were approximately \$5,300 for the period ending December 31, 2007.

Article X, Section 16 of the South Carolina Constitution requires that all state operated retirement systems be funded on a sound actuarial basis. Title 9 of the South Carolina Code of Laws of 1976, as amended, prescribes requirements relating to membership, benefit and employee/employer contributions for each retirement system. Employee and employer contribution rates to SCRS are actuarially determined. The surcharges to fund retiree health and dental insurance are not part of the actuarially established rates. Annual benefits, payable monthly for life, are based on length of service and on average final compensation (an annualized average of the employee's highest twelve consecutive quarters of compensation).

The Systems do not make separate measurement of assets and pension benefit obligations for individual employers. Under Title 9 of the South Carolina Code of Laws, the Organization's liability under the retirement plans is limited to the amount of contributions (stated as a percentage of covered payroll) established by the State Budget and Control Board. Therefore, the Organization's liability under the pension plan is limited to the contribution requirements for the applicable year from amounts appropriated therefore in the South Carolina Appropriation Act and amounts from other applicable revenue sources. Accordingly, the Organization recognizes no contingent liability for unfunded costs associated with participation in the plans.

(Continued)

