

OFFICE OF FINANCE PROGRAMS
INVESTMENT FINANCE GROUP
(IFG)

ANNUAL FINANCIAL STATUS REPORT
FISCAL YEAR 2011

Submitted by:

Maryland Department of Business and Economic Development

As of June 30, 2011

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 types of Program activity described as: 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 minimum 3:1 outside investor co-match by a sophisticated investor. The maximum program equity percentage cannot 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 provides input for 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 \$11.425 million in ten (10) Venture Capital Limited Partnerships (VCLP’s) since fiscal year 1994. Additionally, there is \$1.05 million committed and available for capital calls by two of the VCLPs. 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.

DEPARTMENT OF BUSINESS AND ECONOMIC DEVELOPMENT

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. Repayment will be made after the joint Maryland-Israel effort yields product revenues.

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 one hundred-one (101) ventures through June 30, 2011 (including companies that were originally part of the CIP but have since “graduated” into the EIF). The cumulative costs of these investments are \$40.9 million since fiscal year 1994. As of the end of fiscal year 2011, twenty-three (23) 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 \$62.5 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. Taking a conservative approach in determining FMV using the FAS 157 guidelines, the FMV of the EIF portfolio has decreased from FY10 due to lack of capital for early stage companies to continue to finance their operations. The FMV totaled approximately \$13 million as of June 30, 2011 which includes investments in the VCLPs .

Challenge Investment Program

The CIP has made investments in 174 companies since fiscal year 1994, the Program's first "official" year of operation. Total investment through June 30, 2011 has been approximately \$11.60 million. Of those 174 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, the Program's success rate is considered to be extremely high. Approximately forty-nine (49) firms have gone on to receive investment from the EIF, transition into the EIF via conversion into stock, trade publicly, or be acquired.

Enterprise VCLP Fund

DBED has received a total of \$89,410.91 in distributions and interest from the partnerships in fiscal year 2011. In fiscal year 2010, \$186,483 was returned, and in fiscal year 2009, \$185,702 was returned.

Performance for Fiscal Year 2011

During FY2011, thirteen (13) EIP investments were approved totaling \$1.6M and one (1) CIP was approved for \$200,000. With a decreasing fund balance, FY2011 EIP investments were structured as convertible debt instruments to potentially allow for earlier distributions than the traditional CIP investment.

During FY 2011, EIF closed thirteen (13) investments for \$1,698,122 and two (2) capital calls totaling \$125,000 into New Markets Growth Fund II.

During FY2011, EIF received \$185,105.16 in distributions.

Projected Performance for Fiscal Year 2012

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, historically the program has considered over 250 companies annually for CIP or EIF funding.

MVF investment activity for FY 2012 is expected to be more of a function of the budget and fund balance than available opportunities to assist companies. With recent funds from the State Small Business Credit Initiative (SSBCI), it's expected that investment activity will increase for FY2012 compared to FY2011.

Beyond FY2012, the implementation of the Invest Maryland Program (HB173) in FY2012 is expected to raise \$70M or more to be invested in early stage companies. The Maryland Venture Fund will receive approximately 25% of the funds raised within 2 years which are to be invested over a 10 year period.

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 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

There is no expectation that IPO market will open up for early stage companies in FY2012. If there are any exits for FY2012, they will most likely be through M&A. There are a few companies in the portfolio exploring and/or are planning for M&A events in the next 12-18 months.

Approved Report

7/1/2010 Through 6/30/2011

<i>Approved Client Name Retained</i>	<i>Loan</i>	<i>Loan</i>	<i>Guarantor</i>	<i>Loan</i>	<i>County</i>	<i>Total Project</i>	<i>Trainees</i>	<i>New</i>		
<i>Date</i>		<i>Amount</i>	<i>Percentage</i>	<i>Guarantee</i>		<i>Costs</i>	<i>Pro /</i>	<i>Jobs</i>	<i>Jobs</i>	
<i>Enterprise Inv. Fund</i>										
9/13/2010	Pegged Software, Inc.	11860101	\$150,000.00	0.0%	\$0.00	Baltimore City	\$600,000.00	N/A	8	8
12/20/2010	Chesapeake PERL	5170201	\$800.00	0.0%	\$0.00	Prince George's	\$800.00	N/A	0	0
2/28/2011	Bambeco LLC	12320101	\$100,020.00	0.0%	\$0.00	Baltimore City	\$400,020.00	N/A	20	7
3/4/2011	Plasmonix, Inc.	12390101	\$150,000.00	0.0%	\$0.00	Baltimore City	\$1,150,000.00	N/A	0	0
3/17/2011	Theranostics Health, Inc.	12400101	\$150,000.00	0.0%	\$0.00	Montgomery	\$2,000,000.00	N/A	18	10
5/3/2011	Pixelligent Technologies, LLC	4850401	\$177,680.00	0.0%	\$0.00	Baltimore City	\$400,000.00	N/A	52	13
5/4/2011	Naviscan Systems, Inc.	5390201	\$44,601.60	0.0%	\$0.00	Montgomery	\$44,601.60	N/A	0	0
5/5/2011	Advanced BioNutrition Corp.	5060301	\$100,000.00	0.0%	\$0.00	Howard	\$1,000,000.00	N/A	0	0
5/31/2011	Optoro, Inc./ Moore OR Lesh,	11670201	\$50,000.00	0.0%	\$0.00	Prince George's	\$1,050,000.00	N/A	0	0
6/3/2011	Moodlerooms, Inc.	5380801	\$400,000.00	0.0%	\$0.00	Baltimore City	\$3,000,000.00	N/A	0	0
6/8/2011	410 Labs, Inc.	12630101	\$100,000.00	0.0%	\$0.00	Montgomery	\$400,000.00	N/A	8	3
6/8/2011	Cognapse, LLC	12640101	\$100,000.00	0.0%	\$0.00	Baltimore	\$250,000.00	N/A	12	3
6/27/2011	Tricorder Data Systems, Inc.	12790101	\$100,000.00	0.0%	\$0.00	Baltimore City	\$400,000.00	N/A	9	3
Totals:	13 Loans		\$1,623,101.60		\$0.00		\$10,695,421.60	0	0	127 47
<i>Challeng Inv. Program.</i>										
10/18/2010	Advanced Digital Forensic	4510501	\$200,000.00	0.0%	\$0.00	Montgomery	\$0.00	N/A	0	0
Totals:	1 Loan		\$200,000.00		\$0.00		\$0.00	0	0	0
Grand Totals:	14 Loans		\$1,823,101.60		\$0.00		\$10,695,421.60	0	0	127 47

Settled Report

7/1/2010 Through 6/30/2011

<i>Settled Retained 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>Trainees Pro /</i>	<i>New Jobs</i>	<i>Jobs</i>
<i>Enterprise Inv. Fund</i>										
7/2/2010	3Clogic, Inc.	4500401	\$100,000.00	0.0%	\$0.00	Montgomery	\$1,250,000.00	N/A	18	7
8/11/2010	Optoro, Inc./ Moore OR Lesh,	11670101	\$150,000.00	0.0%	\$0.00	Prince George's	\$1,000,000.00	N/A	40	23
8/17/2010	Gold Lasso, Inc.	11680101	\$100,000.00	0.0%	\$0.00	Montgomery	\$400,000.00	N/A	17	13
10/13/2010	Pegged Software, Inc.	11860101	\$150,000.00	0.0%	\$0.00	Baltimore City	\$600,000.00	N/A	8	8
11/30/2010	Pathsensors, Inc.	11480101	\$100,000.00	0.0%	\$0.00	Montgomery	\$600,000.00	N/A	16	3
1/21/2011	Chesapeake PERL	5170201	\$800.00	0.0%	\$0.00	Prince George's	\$800.00	N/A	0	0
2/25/2011	Advanced BioNutrition Corp.	5060202	\$19,612.00	0.0%	\$0.00	Howard	\$0.00	N/A	0	0
5/4/2011	Theranostics Health, Inc.	12400101	\$150,000.00	0.0%	\$0.00	Montgomery	\$2,000,000.00	N/A	18	10
5/23/2011	Bambeco LLC	12320101	\$100,020.00	0.0%	\$0.00	Baltimore City	\$400,020.00	N/A	20	7
5/25/2011	Advanced BioNutrition Corp.	5060301	\$100,000.00	0.0%	\$0.00	Howard	\$1,000,000.00	N/A	0	0
6/8/2011	Pixelligent Technologies, LLC	4850401	\$177,680.00	0.0%	\$0.00	Baltimore City	\$400,000.00	N/A	52	13
6/17/2011	Plasmonix, Inc.	12390101	\$150,000.00	0.0%	\$0.00	Baltimore City	\$1,150,000.00	N/A	0	0
6/24/2011	Moodlerooms, Inc.	5380801	\$400,000.00	0.0%	\$0.00	Baltimore City	\$3,000,000.00	N/A	0	0
Totals:		13 Loans	\$1,698,112.00		\$0.00		\$11,800,820.00	0	0	189 84
Grand Totals:		13 Loans	\$1,698,112.00		\$0.00		\$11,800,820.00	0	0	189 84