INVESTSC, INC.

REPORT ON FINANCIAL STATEMENTS

FOR THE YEARS ENDED
DECEMBER 31, 2010 AND 2009

INVESTSC, INC.

CONTENTS

elliott davis

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors
InvestSC, Inc.
Columbia, South Carolina

We have audited the accompanying statements of financial position of InvestSC, Inc. (the Organization) as of December 31, 2010 and 2009 and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of management of the Organization. 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 financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of December 31, 2010 and 2009, and the results of its activities and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 3 to the financial statements, portfolio investments amounting to $42,750,459 and $33,934,483, approximately 81% and 77% of 2010 and 2009 total assets, respectively, have been valued at their estimated fair value as determined by management in the absence of readily ascertainable market values using valuation criteria believed to be applicable to the Organization. However, in the case of those portfolio investments with no readily ascertainable market values, because of the inherent uncertainty of valuation, management's estimate of fair values may differ significantly from the values that would have been used had a ready market existed for the investments, and the differences could be material.

Elliott Davis LLC

Columbia, South Carolina
June 20, 2011

INVESTSC, INC.
STATEMENTS OF FINANCIAL POSITION

	DECEMBER 31, 2010	DECEMBER 31, 2009
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 311,509	$ 3,850,614
Interest receivable	81	49
Total current assets	311,590	3,850,663
INVESTMENTS		
Azalea SC Fund, LP	102,990	154,139
Azalea Fund III, LP	7,297,926	2,419,076
Frontier Fund II, LP	8,545,753	5,922,527
Nexus Medical Partners II, LP	20,543,866	21,524,083
Noro-Moseley Partners VI, LP	6,259,924	3,914,658
Total investments	42,750,459	33,934,483
OTHER ASSETS		
Restricted cash and cash equivalents - interest reserve	1,875,016	1,875,572
Restricted cash and cash equivalents - premium reserve	3,750,031	3,361,231
Restricted cash and cash equivalents - capital contributions	3,553,783	-
Note issuance costs, net	846,017	919,583
Total other assets	10,024,847	6,156,386
	$ 53,086,896	**$ 43,941,532**
LIABILITIES AND NET ASSETS (DEFICIT)		
CURRENT LIABILITIES		
Accounts payable	$ 53,074	$ 15,426
Accrued interest	90,588	1,395,691
Total current liabilities	143,662	1,411,117
NOTES PAYABLE	50,000,000	44,800,000
NET ASSETS (DEFICIT)		
Unrestricted	2,943,234	(2,269,585)
	$ 53,086,896	**$ 43,941,532**

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

INVESTSC, INC.
STATEMENTS OF ACTIVITIES

	For the years ended December 31, 2010	2009
REVENUES		
Tax credit sales	$ 1,840,000	$ -
Interest on escrow deposits and operating accounts	48,036	1,388
	1,888,036	1,388
EXPENSES		
Amortization of note issuance costs	73,566	73,567
Note commitment fees	-	29,195
Interest expense	3,492,732	2,450,230
Salaries and benefits	49,758	66,616
Payroll taxes	2,308	4,351
Legal and professional fees	79,742	37,497
Rent	7,500	7,500
Trustee expense	4,750	4,750
Other	6,474	5,226
	3,716,830	2,678,932
NET INVESTMENT LOSS	(1,828,794)	(2,677,544)
NET REALIZED GAIN ON INVESTMENTS	510,755	678,137
NET UNREALIZED GAIN ON INVESTMENTS	6,530,858	1,279,488
CHANGE IN NET ASSETS (DEFICIT)	5,212,819	(719,919)
NET DEFICIT, BEGINNING OF YEAR	(2,269,585)	(1,549,666)
NET ASSETS (DEFICIT), END OF YEAR	**$ 2,943,234**	**$ (2,269,585)**

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

INVESTSC, INC.
STATEMENTS OF CASH FLOWS

	For the years ended December 31, 2010	2009
OPERATING ACTIVITIES		
Change in net assets (deficit)	$ 5,212,819	$ (719,919)
Adjustments to reconcile change in net assets (deficit) to net cash used for operating activities		
Amortization of note issuance costs	73,566	73,567
Accrued interest reinvested	(32)	322
Unrealized gain on investments	(6,530,858)	(1,279,488)
Realized gain on sale of investments	(510,755)	(678,137)
Changes in deferred and accrued amounts		
Accounts payable	37,648	9,497
Accrued interest	(1,305,103)	1,350,397
Net cash used for operating activities	(3,022,715)	(1,243,761)
INVESTING ACTIVITIES		
Investments in portfolio companies	(4,659,437)	(15,107,993)
Proceeds from sale/liquidation of investment	2,885,074	1,637,819
Net cash used for investing activities	(1,774,363)	(13,470,174)
FINANCING ACTIVITIES		
Borrowings on notes payable	5,200,000	19,800,000
Net cash provided by financing activities	5,200,000	19,800,000
Net increase in cash and cash equivalents	402,922	5,086,065
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	9,087,417	4,001,352
CASH AND CASH EQUIVALENTS, END OF YEAR	**$ 9,490,339**	**$ 9,087,417**
CASH AND CASH EQUIVALENTS, END OF YEAR		
Unrestricted	$ 311,509	$ 3,850,614
Restricted - interest reserve	1,875,016	1,875,572
Restricted - premium reserve	3,750,031	3,361,231
Restricted - capital contributions	3,553,783	-
	$ 9,490,339	**$ 9,087,417**
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid for interest	**$ 4,797,835**	**$ 1,099,833**

The accompanying notes are an integral part of these 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 accounting standards for not-for-profit organizations. Accounting standards require the Organization 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

The Organization, in accordance with generally accepted accounting principles, is an investment company under the AICPA Audit and Accounting Guide *Investment Companies*. As such, the Organization's investments are reported at fair value. Unrealized gains and losses resulting from changes in fair value are recognized in the corresponding statements of activities. Realized gains are the amount by which the sale price of an investment exceeds its cost basis. The values estimated for portfolio investments are based on available information and do not necessarily represent amounts that will ultimately be realized. Such values depend on future circumstances and cannot reasonably be determined until the investments are actually liquidated. Because of the inherent uncertainty of valuations, the estimates of fair values may differ significantly from the values that would have been used had a ready market existed for the investments, and differences could be material. See Note 3 for fair value portfolio disclosures related to the portfolio investments.

Accounting standards define fair value, establish a framework for measuring fair value, and require certain disclosures about fair value measurements. The definition of fair value is based on the exchange price and clarifies that the exchange price is the price in an orderly transaction between market participants to sell the asset or transfer the liability in the market in which the reporting entity would transact for the asset or liability. This definition focuses on the price that would be paid to acquire the asset or received to assume the liability (an entry price). Accounting standards emphasize that fair value is a market-based measurement, not an entity-specific measurement.

Accounting standards describe three levels of inputs that may be used to measure fair value. Investments measured and reported at fair value are classified and disclosed in one of the following categories:

Level 1 - Quoted prices in active markets for identical assets or liabilities.

Level 2 - Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

(Continued)

Investments (continued)

Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

All of the Organization's investments are Level 3 assets.

Note issuance costs

Note issuance costs are amortized over the life of the related note agreement.

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).

The Financial Accounting Standards Board (FASB) provides guidance on the Organization's evaluation of accounting for uncertainty in income taxes. Management evaluated the Organization's tax positions and concluded that the Organization had taken no uncertain tax positions that require adjustment to the financial statements to comply with the provisions of this guidance for the years ended December 31, 2010 and 2009. With few exceptions, the Organization is no longer subject to income tax examinations by the U.S. federal, state, or local tax authorities for years before 2007.

Subsequent events

In preparing these financial statements, management has evaluated events and transactions for potential recognition or disclosure through June 20, 2011, the date the financial statements were available to be issued.

NOTE 2 - CONCENTRATIONS OF CREDIT RISK

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

NOTE 3 - INVESTMENTS

The Organization executed agreements with five venture capital funds. 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. The following represents a description of the selected funds, the commitment level to the funds and the investment status.

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 originally selected for a $10,000,000 investment, however during 2008 the investment commitment amount for this fund was decreased to $1,500,000 and a total of only $1,050,000 was invested. During December 2009, $1,637,819 was distributed to the Organization as the fund sold its primary investment resulting in a realized gain of $678,137.

During 2010, an additional $28,740 was distributed to the Organization relating to the sale noted above resulting in a realized gain of $9,541. The remaining investment is expected to be distributed in 2011.

Azalea Fund III, LP

The Azalea Fund III, LP (Azalea III) was organized on October 29, 2008 and had its initial capital closing on November 3, 2008. Azalea III has a focus of lower middle market companies throughout the southeastern United States. The focus is on the key industries of manufacturing, distribution, consumer products, business revenues and health care industries.

During 2008, the Azalea Fund III, LP was selected for an investment of $8,500,000. At December 31, 2009, a total of $2,550,000 had been invested in the fund.

During 2010, the Organization invested an additional $1,059,437 in Azalea III and received a return of capital amounting to $1,402,500.

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, 2009, a total of $5,242,663, including interest of $122,663 had been invested in the fund.

During 2010, the Organization invested an additional $1,600,000 in Frontier and $828,834 was distributed to the Organization as the fund sold one of its investments resulting in a realized gain of $377,464.

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, 2009, a total of $20 million had been invested in the fund.

During 2010, $625,000 was distributed to the Organization as Nexus sold one of its investments resulting in a realized gain of $123,750.

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NOTE 3 - INVESTMENTS, Continued

Noro-Mosley Partners VI, LP

Noro-Moseley Partners VI, LP (Noro-Mosely) 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, 2010 and 2009, a total of $5,997,993 and $3,997,993 had been invested in the fund, respectively.

The Organization's portfolio investments are all considered Level 3 investments and consisted of the following at December 31:

	2010		2009	
Investment	Cost	Estimated fair value	Cost	Estimated fair value
Azalea Fund SC, LP	$ 71,118	$ 102,990	$ 90,318	$ 154,139
Azalea Fund III, LP	2,206,938	7,297,926	2,550,000	2,419,076
Frontier Fund II, LP	6,391,293	8,545,753	5,242,663	5,922,527
Nexus Medical Partners II, LP	19,498,750	20,543,866	20,000,000	21,524,083
Noro-Mosley Partners VI, LP	5,997,993	6,259,924	3,997,993	3,914,658
	$ 34,166,092	$ 42,750,459	$ 31,880,974	$ 33,934,483

The changes in investments classified as Level 3 for the years ended December 31:

	2010	2009
Balance, beginning of year	$ 33,934,483	$ 18,506,684
Purchases	4,659,437	15,107,993
Sales	(2,885,074)	(1,637,819)
Realized gains included in earnings	510,755	678,137
Unrealized gains included in earnings	6,530,858	1,279,488
Balance, end of year	$ 42,750,459	$ 33,934,483

Investments valued at Level 3 inputs were based on the Organization's proportional share of the underlying funds. In determining values of investments held by each fund, management of each fund reviewed the financial performance of each investment, comparable investments and comparable transactions. The assumptions involved in determining the value of the investments held by each fund involved significant judgment of management of each of the funds.

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). At closing, the first draw of $15 million was made on the notes. During the years ending December 31, 2010 and 2009, the Organization received additional advances of $5,200,000 and $19,800,000, respectively; therefore the balance of the notes at December 31, 2010 and 2009 was $50,000,000 and $44,800,000, respectively. 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.

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NOTE 4 - NOTES PAYABLE, Continued

The notes originally required 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, 2010 and 2009, the interest reserve totaled \$1,875,016 and \$1,875,572, respectively, and the premium reserve totaled \$3,750,031 and \$3,361,231, respectively.

The notes are secured by all of the Organization's assets and \$50 million in tax credit certificates to be issued by the VCA as needed by the Organization. These tax credits may be used by the purchaser to offset South Carolina tax liabilities. Other than security for borrowings under the notes, the Organization may use the proceeds from the sale of these tax credits to pay required principal and interest payments of the Organization's notes payable.

During December 2010, the Organization amended its Securities Purchase Agreement in order to create a capital contribution account and to allow the Organization to use its operating cash account to meet semi-annual interest payments when due. Under the amended agreement, if there are inadequate funds in the operating account to meet an interest payment when due, the Organization may sell up to \$20 million in tax credits annually to satisfy the interest payments due. During December 2010, the Organization sold approximately \$2,300,000 of tax credits at \$.80 per tax credit dollar, which netted \$1,840,000. The capital contribution account was established for the purpose of depositing distributions received from the Organization's venture capital fund investments and to fund capital commitment calls from any of the Organization's funds. At December 31, 2010, the capital contribution account totaled \$3,553,783.

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 9.24% which includes a 3.50% surcharge to fund retiree health and dental insurance coverage. The Organization's actual contributions to the SCRS were approximately \$4,600 and \$7,100 for the years ending December 31, 2010 and 2009, respectively.

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NOTE 5 - PENSION PLAN AND OTHER EMPLOYEE BENEFITS, Continued

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 this plan.

At retirement, employees participating in the SCRS may receive additional service credit for up to 90 days for accumulated unused sick leave.

NOTE 6 - POSTEMPLOYMENT AND OTHER EMPLOYEE BENEFITS

In accordance with the South Carolina Code of Laws and the Annual Appropriations Act, the State of South Carolina provides certain health care, dental, and life insurance benefits to certain active and retired State employees and certain surviving dependents of retirees. All permanent full-time employees and certain permanent part-time employees of the Organization are eligible to receive these benefits. The State provides post employment health and dental benefits to employees who retire from State service or who terminated with at least 20 years of State service who meet one or more of the eligibility requirements, such as age, length of service, and hire date. Generally those who retire must have at least 10 years of retirement service credit to qualify for State funded benefits. Benefits are effective at date of retirement when the employee is eligible for retirement benefits.

As discussed in Note 5, a 3.50% surcharge was included with the employer contributions for retirement benefits. These amounts were remitted to the South Carolina Retirement Systems for distribution to the Division of Insurance and Grants for retiree health and dental insurance benefits.

Information regarding the cost of insurance benefits applicable to the Organization retirees is not available. By State law, the Organization has no liability for retirement benefits. Accordingly, the cost of providing these benefits for retirees is not included in the accompanying financial statements.

In addition, the State General Assembly periodically directs the Retirement Systems to pay supplemental (cost of living) increases to retirees. Such increases are primarily funded from the System's earnings; however, a portion of the required amount is appropriated from the State General Fund annually for the SCRS benefits.

NOTE 7 - DEFERRED COMPENSATION PLANS

Several optional deferred compensation plans are available to state employees and employees of political subdivisions. The multiple-employer plans, created under Internal Revenue Code Sections 457, 401(k), and 403(b) are administered by third parties and are not included in the Comprehensive Annual Financial Report of the State of South Carolina. Compensation deferred under the plans is placed in trust for the contributing employee. The State has no liability for losses under the plans. Employees may withdraw the current value of their contributions when they terminate State employment. Employees may also withdraw contributions prior to termination, if they meet requirements specified by the applicable plan.

NOTE 8 - RELATED PARTY TRANSACTIONS

The Chairman of JEDA is the Chairman of InvestSC, Inc. and the current Executive Director of JEDA is also the Executive Director of InvestSC, Inc. and a board member of InvestSC, Inc.

During the years ending December 31, 2010 and 2009, the Organization paid JEDA $7,500 for rent and other administrative services.

NOTE 9 - INVESTMENT COMMITMENTS

The Organization has committed to invest an additional $11,575,070, with four venture capital funds (see Note 3). The timing and amount of the capital calls by the venture capital funds for these additional investments is uncertain. The Organization will use the distributions from existing investments with the venture capital funds to fund these future capital calls. These distributions will be deposited into the capital contribution account and capital calls will be funded by disbursing funds from this account. At December 31, 2010, the capital contribution account had a balance of $3,553,783. The timing and amount of distributions from the venture capital funds is also uncertain. If the Organization is unable to make the required capital contributions upon receiving a capital call, the Organization would be in default in accordance with its agreements with the individual venture capital funds. Upon default, the Organization may be subject to a default fee and possible liquidation of portfolio investments if capital contributions are not paid within certain time frames as noted within its agreements with the individual venture capital funds.

NOTE 10 - SUBSEQUENT EVENT

On May 9, 2011, the Organization received a distribution of approximately $5,156,000 from the Azalea Fund III, LP following the sale of one of the fund's investments. These funds were deposited into the Organization's capital contributions account.