InvestSC

Peter M. Brown
Chairman

Harry A. Huntley, CPA
Executive Director

May 28, 2009

Chad Waldorf, Chairman
South Carolina Venture Capital Authority
1201 Main St., Suite 1600
Columbia, SC 29201

Dear Chad:

Enclosed is the 2008 Annual Report by InvestSC, Inc. to the South Carolina Venture Capital Authority. Made a part of the report is the annual audit prepared by Elliott Davis. Included in the Annual Report is certain information as required by the Venture Capital Investment Act. The InvestSC Board of Directors met May 12, 2009 and approved forwarding the Report to the Authority. The information below is discussed in more detail in the attached Annual Report.

During 2008 Nexus Medical Partners was very active and made investments in seven companies. As of January 2009 they have called $15 million of their $20 million commitment. They plan one or two more investments and will soon be requesting the remainder of their commitment.

In October 2008, the agreement with Azalea was amended, reducing the Azalea SC Fund commitment from $10 million to $1.5 million. The remaining $8.5 million commitment was made to the Azalea III Fund. That fund recently entered into an agreement to purchase the Auto Fabrics division of Milliken which has several plants in South Carolina. This acquisition will save about 600 jobs in the State.

Noro-Moseley and Frontier have issued term sheets to companies in South Carolina, but as of this date there have been no investments in the State.

As of December 31, 2008, the loan balance with Deutsche Bank was $25 million. The initial draw of $15 million on June 22, 2007, was followed by another required draw of $10 million on June 22, 2008. Additional draws of $6.3 million in January 2009 and $1 million in March 2009 bring the current balance of the loan to $32.3 million.

A significant change in accounting policy was made in 2008. InvestSC is recognized as an investment company by the AICPA. As such, the investments in the venture funds are reported at fair value as determined by SFAS 157, *Fair Value Measurements*. Unrealized gains and losses resulting from changes in fair value are recorded in the financial statements. The

1201 Main Street • Suite 1600 • Columbia, South Carolina 29201 • [illegible]

values used are the audited fair values provided by each of the venture capital funds. As of December 31, 2008, the Estimated Fair Market Value of the investments is $18,506,684 compared to a Cost of $17,732,663. For a more detailed explanation, please see Notes 1 and 3 in the accompanying Report on Financial Statements as prepared by Elliott Davis, LLC.

To my knowledge there are no material interests or conflicts by the Authority or InvestSC with respect to any investments or assets held by InvestSC.

Please let me know if you need any additional information to assist you in your report to the legislature.

Sincerely,

Harry A. Huntley, CPA
Executive Director

2008 ANNUAL REPORT

INVESTSC, INC.

TO

SOUTH CAROLINA

VENTURE CAPITAL AUTHORITY

2008 ANNUAL REPORT

InvestSC, Inc. to the South Carolina Venture Capital Authority

BACKGROUND

The Venture Capital Investment Act was created by the state legislature in 2005 in order to promote the availability of capital for creating and building business ventures in South Carolina. The Venture Capital Authority was established as an agency within the Department of Commerce to identify and select qualified professional investors who will invest in South Carolina companies. The authority is a seven member board selected by the governor and state lawmakers. In 2007 the authority received financing by a private institutional lender secured by state tax credits. Four venture capital firms were then selected to make investments within the state. It is anticipated that the returns from these ventures will be sufficient to repay the lenders without having to utilize the tax credits. When managed successfully, South Carolina is positioned to benefit from economic growth without added state expenditure.

InvestSC, Inc. was formed by the South Carolina Jobs-Economic Development Authority at the specific request of the Venture Capital Authority. The authority selected InvestSC to serve as a "Designated Investor Group" for the purpose of assisting the authority in meeting the goals and objectives of the Venture Capital Investment Act. InvestSC was organized in 2007 as a nonprofit corporation and received 501(c)(3) tax-exempt status approval from the Internal Revenue Service.

INVESTMENT PORTFOLIO

The South Carolina Venture Capital Authority solicited and received proposals from fifteen private equity firms. The VCA Board performed its due diligence by conducting research into the background, financial capacity and business operations of the interested firms. The strategy was to maximize investment return and minimize portfolio risk by creating a balanced investment stage portfolio. The funds selected target specific sectors that currently exist in South Carolina and can take advantage of clusters that represent state strengths. Each of the funds is made up of successful investment professionals who have previously invested in South Carolina and have established a presence here.

Noro Moseley: Founded in 1983, Atlanta-based Noro-Moseley Partners ("NMP") is one of the largest and most experienced venture capital firms in the southeast. Since its inception, NMP has invested in about 160 companies through funds totaling $580 million in capital. In 2000, NMP announced the closing of NMP V, their fifth fund totaling $320 million, the largest ever in the Southeast.

NMP invests primarily in Southeastern-based, early and established growth stage companies. This includes companies in various stages of maturity from first round financings to established companies looking for capital. Their focus industries include technology, healthcare and business services. Prior sample investments include SecureWorks, NovaVision, OpenSite, and PGA Golf and Superstore.

Nexus Medical Partners: Nexus Medical Partners is a private equity firm, headquartered in Boston, MA, with an office in Charleston that specializes in various stages of development. Specific companies include those in medical devices, diagnostics, biotechnology, specialty pharmaceutical and drug discovery tools. They prefer to lead their investments and to work in a hands-on manner with portfolio companies, committing multiple partners to each investment.

Each of the Nexus Principals averages twenty years in the business and has had successful careers in the medical device and pharmaceutical industry. They have helped to launch some of the top companies in medical technology and life sciences. Prior sample investments include Genentech, Biogen, Cyberonics, and Regeneron Pharmaceuticals.

Frontier Capital: Fron tier Capital is a Charlotte-based private equity investment firm that provides expansion capital to high growth business services companies. These companies typically utilize technology, an innovative business process, or a unique expertise to deliver a differentiated service to their customers and would include specialties such as IT, software, marketing, healthcare services, outsourcing and communications. They have a proven solution in the marketplace and need capital to accelerate growth.

Frontier has a team of professionals with both extensive investment experience and a broad network of established business relationships. This team is complemented by a small group of former CEO's (such as from First Union CEO Ed Crutchfield) and Senior Executives who serve as Operating Partners. Prior sample investments in South Carolina include LURQH in Myrtle Beach and RJM in Easley.

Azalea Fund: Azalea Capital, headquartered in Greenville, SC, is a merchant banking firm providing strategic equity capital to privately owned, middle-market firms in the Southeast. Partnering with management teams in scalable, operating companies with established revenues and cash flows, Azalea provides both financial and human capital to significantly enhance the long-term equity value of the underlying business.

Collectively, Azalea Principals have over 100 years combined experience in business and finance. Their Principals, Advisory Board, and investor base, consisting predominantly of CEOs and former CEOs, bring a wealth of knowledge and experience in a diverse spectrum of industries including manufacturing, distribution, business services, consumer products, and healthcare. Prior sample investments in South Carolina include Horizon CNC Products, Spartan Foods, Power Equipment Maintenance, ISO Poly Films and Tekgraf Corporation.

FINANCING

The Venture Capital Authority Board approved DBAH Capital, LLC (Deutsche Bank) as a lender under the Act and received approval from the State Budget and Control Board. On June 22, 2007, InvestSC and DBAH signed a Securities Purchase Agreement for $50 million in notes. The notes are secured by all of the investments and tax credit certificates issued by the authority. At closing, the first draw of $15 million was made on the notes. In June of 2008, the next required draw of $10 million was made. The remainder must be drawn during the next two years ($10 million by June 22, 2009 and the remaining $15 million by June 22, 2010). A draw of $6.3 million was made in January 2009 to meet capital calls by Nexus and Frontier. An additional draw of $1 million was made in March 2009 to meet a capital call by Noro-Moseley. As of December 31, 2008, the Notes Payable to DBAH was $25 million. As of March 31, 2009, the Notes Payable had increased to $32.3 million.

Interest is payable semi-annually at a fixed rate of 7.247%. Required payments of interest and commitment fees were made in June and December of 2009 in the amount of $594,943 and $952,045 respectively. Annual principal payments of $12,500,000 will begin in 2019 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 is equal to the semi-annual interest payment that would be due assuming the maximum aggregate principal amount of notes was outstanding. The tax reserve was released during October 2007, since InvestSC received notification from the Internal Revenue Service that it 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, 2008, the interest reserve and premium reserve totaled $1,944,272 and $1,919,848 respectively.

IMPLEMENTATION OF INVESTMENT PLAN

The InvestSC Board has approved the funds selected by the South Carolina Venture Capital Authority and verified that each fund's investment plan provides for the investment in "South Carolina based companies" as provided in the Act. The Venture Capital Authority has authorized investments in the following funds:

Noro-Moseley Partners VI, LP - $10 Million commitment
Nexus Medical Partners II, LP - $20 Million commitment
Frontier Fund II, LP - $8 Million commitment
Azalea SC Fund, LP - $1.5 Million commitment
Azalea III Fund, LP - $8.5 Million commitment

Noro-Moseley Partners VI, LP: The limited partnership subscription agreement was executed by InvestSC on June 8, 2007. The final closing for the fund was April 2008 in the total amount of approximately $119 million. The initial capital draw of $1,000,000 (ten percent of commitment) was funded by InvestSC on September 28, 2007. There was a second capital call made in June 2008 of $1,000,000 (and an additional capital call of $1,000,000 made in March 2009). The partnership agrees to make investments in South Carolina based companies as required by the South Carolina Venture Capital Investment Act at least equal to the amount invested in the fund.

Investments have been made in nine companies as of December 31, 2008. FrontStream Payments (Nashville), Gateway One Lending and Finance (Atlanta), Vocalocity (Atlanta), 2080 Media (Atlanta), Renal CarePartners, Clearleap, Lanx, RemitDATA, and PocketGear There were no investments in South Carolina based companies at the end of 2008.

InvestSC carries the investment in Noro-Moseley at their audited book value of $1,605,592 compared to a cost of $2,000,000. This recognizes the unrealized gain in value of one company, unrealized loss in value of one company, and the management fees and expenses paid to the general partner.

Nexus Medical Partners II, LP: The limited partnership agreement was executed by InvestSC on July 5, 2007. The initial capital draw of $5,000,000 (twenty-five percent of commitment) was funded by InvestSC on July 6, 2007. The next capital call of $5,000,000 was made in June 2008 (and an additional capital call of $5,000,000 in January 2009). Nexus expects to make its final capital call of $5,000,000 in July 2009. InvestSC is the only investor in this fund and all investments will be in South Carolina based companies. Nexus expects to bring in additional partners on all of its South Carolina investments, creating a multiplier of three to four times the InvestSC investment.

Investments were made in seven companies during 2008 that are either South Carolina based or will have significant operations in the State. Their first investment, Sabal Medical, is located in Charleston. Two other companies, Mini Lap Technologies and Spectra Technologies, are relocating to South Carolina from New York and Massachusetts, respectively. Four companies, Deltex Medical, Lab 21, Myconostica and Vital Sensors are establishing their United States headquarters in South Carolina.

InvestSC carries the investment in Nexus Medical Partners at their audited book value of $11,733,059 compared to a cost of $10,000,000. This recognizes the write-up in value for unrealized gains for three of the portfolio investments and the management fees and expenses paid to the general partner. All other investments are carried at cost.

Frontier Fund II, LP: The limited partnership agreement was executed by InvestSC on September 21, 2007. The fund was closed that day with total subscriptions of $115 million. The initial capital draw of $1,200,000 (fifteen percent of commitment) was made by InvestSC on

September 24, 2007. Additional capital calls of $2,560,000 were made through December 31, 2008, bringing the total investment to $3,760,000 (47% of commitment). An additional capital call of $800,000 was made in January 2009 (57% of commitment called).

The partnership agrees to make investments in South Carolina based companies as required by the South Carolina Venture Capital Investment Act at least equal to the amount invested in the fund. Investments were made in the following companies through December 31, 2008: Conclusive Marketing (Nashville, TN), Ryla Teleservices (Atlanta), M3 Technology Group (Charlotte), Inclinix (Wilmington, NC), BIA (Virginia), and Daxko (Birmingham). There were no investments in South Carolina based companies at the end of 2008.

InvestSC carries the investment in Frontier Fund at their audited book value of $3,264,597 compared to a cost of $3,882,663 (includes $122,663 interest). This recognizes the unrealized gains in two portfolio companies, unrealized losses in two companies and the management fees and expenses paid to the general partner.

Azalea SC Fund, LP: The limited partnership agreement was executed by InvestSC on September 28, 2007. The initial capital draw of $1,000,000 (ten percent of commitment) was made by InvestSC that day. There were no additional capital calls by December 31, 2008. InvestSC is the sole investor in the Azalea SC Fund, which is a side fund to the Azalea II Fund. Azalea SC Fund is a one third participant in all South Carolina investments made by the Azalea II Fund.

Investments were made in the following South Carolina based companies through the end of 2008: Spartan Foods of America (Spartanburg) and Horizon CNC Products (Travelers Rest). Both of these were ad-on investments in their Azalea II Fund portfolio in which the Azalea SC Fund participated.

InvestSC carries the investment in Azaleas SC at $1,144,104 compared to a cost of $1,000,000. The investment in Horizon CNC Products was written off as the general partner found it necessary to discontinue the business operations. The value of Spartan Foods has increased significantly due to improvements in its core business and the unrealized gain is included in its valuation, as well as management fees and expenses paid to the general partner.

An important development relating to the Azalea SC Fund during 2008 was to reduce the commitment from $10,000,000 to $1,500,000 and allocate the balance of $8,500,000 to their new fund, Azalea III. Azalea Capital requested that this change be made in order to ensure that the funds could be deployed in a timely manner. Azalea continues to seek and invest in South Carolina based companies, but many of their investments also occur in other states. The Venture Capital Authority Board approved of this change at its meeting on October 28, 2008.

Azalea III Fund, LP: The limited partnership agreement was executed by InvestSC on October 31, 2008 and the initial draw of $850,000 (ten percent of commitment) was made that day. There were no additional capital calls made before December 31, 2008. Azalea currently has over $30 million committed and a target amount of $75 million by November 1, 2009. There have been no investments made by Azalea III through March 31, 2009 as they continue to raise capital. The agreement with Azalea III is similar to those with Frontier and Noro-Moseley. The partnership agrees to make investments in South Carolina based companies as required by the South Carolina Venture Capital Investment Act at least equal to the amount invested in the fund.

InvestSC carries the investment in Azalea Fund III at their audited book value of $759,332 compared to a cost of $1,000,000. This recognizes the management fees and expenses paid to the general partner as well as a portion of the organizational costs.

SUMMARY OF INVESTMENTS AND FAIR VALUES

	2008		2007	
Investment	Cost	Estimated Fair Value	Cost	Estimated Fair Value
Noro-Moseley Partners VI, LP	2,000,000	1,605,592	1,000,000	1,000,000
Nexus Medical Partners II, LP	10,000,000	11,733,059	5,000,000	5,000,000
Frontier Fund II, LP	3,882,663	3,264,597	2,122,663	2,122,663
Azalea Fund SC, LP	1,000,000	1,144,104	1,000,000	1,000,000
Azalea Fund III, LP	850,000	759,332	-	-
Totals	$ 17,732,663	$ 18,506,684	$ 9,122,663	$ 9,122,663

TAX CREDIT CERTIFICATES

The South Carolina Venture Capital Authority Board has issued its initial tax credit certificates and its blank tax credit certificates, as contemplated by the Venture Capital Investment Act, to serve as a source of security for the payment of principal and interest under the terms of the Securities Purchase Agreement with DBAH Capital, LLC. 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. These certificates are held in trust by a custodial bank until such time that they must be exercised. No tax credit certificates have been issued as of December 31, 2008. It is not anticipated that any tax credit certificates will be issued in 2009.

EXPENSES

InvestSC, Inc. was organized on March 1, 2007 and began operations on June 22, 2007 upon execution of the Securities Purchase Agreement as mentioned above in the Financing section. There were significant costs associated with the note issuance, structuring of the transaction, and legal fees. InvestSC paid all the fees for itself, the Venture Capital Authority and the lender from the initial proceeds of the loan. These fees totaled $1,103,500 and are to be amortized over the 15 year term of the notes.

For the period ending December 31, 2008, interest expense on the notes was $1,488,856 note commitment fees were $75,500 and interest earned on all deposits was $69,543 for a net investment expense of $1,494,813. General administrative expenses for the period were $143,376. In addition, the amortized portion of the note issuance costs was $73,567. A schedule of the expenses expressed as a percentage of the fair value of assets on December 31, 2008 and December 31, 2007 is shown below:

	Year Ended December 31, 2008	Period from June 22 to December 31, 2007
Total Assets	23,501,557	14,427,372
Less, Note Issuance Cost (net)	(993,150)	(1,066,717)
Fair Value of Assets	22,508,407	13,360,655
Notes Payable to DBAH	25,000,000	15,000,000
Investment Expense for period	1,494,813	460,651
As a percentage of fair value of assets	6.64%	3.45%
General Administrative Expense for period	143,376	112,104
As a percentage of fair value of assets	0.64%	0.84%

RATES OF RETURN

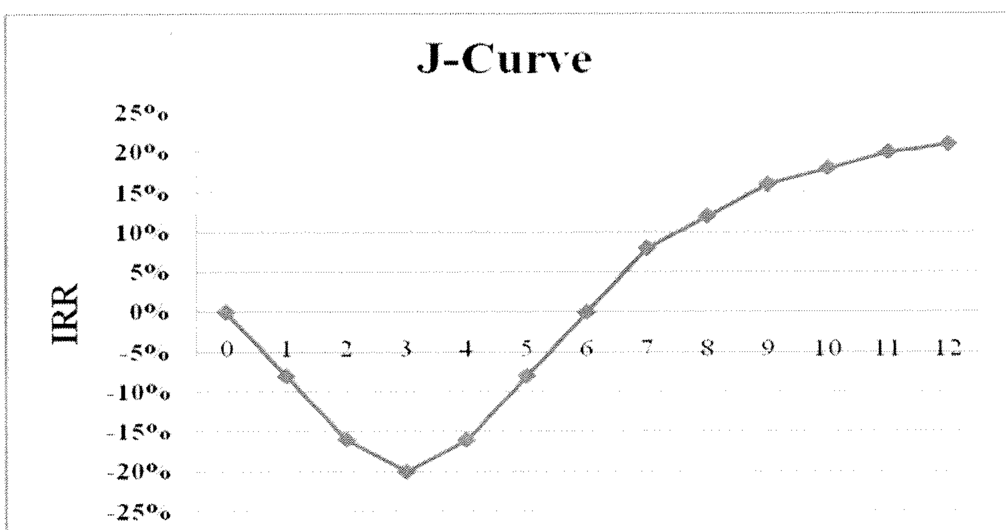
There have been no investment returns since the original investments in the funds. All of the funds expect to draw down their capital during the first few years before selling investments and returning capital. Overall, the funds drew capital as expected during 2008. Some of the funds have slowed their investment pace due to the weakening economy.

Reviewing the performance of a venture capital fund on a year to year basis provides no meaningful insight into total fund performance, because venture funds typically show a negative return for the first few years of their life. This is entirely natural and will be true even of the very best venture funds, since the pattern of cash flows (negative in the early years, positive in the later years) produces a "J"curve.

The "J"curve shows a fund's internal rate of return (IRR, or simply the compound annual return to date) charted against the financial years of a venture fund. Venture capitalists typically commit their funds over the first few years and draw down monies to the underlying companies against these commitments over several more years. It may take several years for VCs to realize their investment in a typical start-up company, based largely on the time needed for these companies to prove their products in the market, and on the availability of suitable exit opportunities (trade sale, IPO, etc.). The above two factors inevitably result in a negative IRR for the first several years of a fund as cash goes out as investments, but has yet to come back by way of realizations. See the "J" curve illustration below.

By the second half of a fund's life, investments are being realized and annual returns are generally high, compensating for the negative early years and hopefully resulting in a good overall performance compounded annually over the life of the fund. When looking at venture returns, it is therefore important to note the following:

- The first few years or so give little, if any, indication of final returns
- The annual return over any single year is relatively meaningless
- The IRR over the life of the fund is the real measure of a fund's success



Source: Mowbray Capital

INVESTSC, INC.

REPORT ON FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2008 AND
FOR THE PERIOD FROM
MARCH 1, 2007 (INCEPTION)
TO DECEMBER 31, 2007

INVESTSC, INC.

CONTENTS

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, 2008 and 2007 and the related statements of activities and cash flows for the year ended December 31, 2008 and for the period from March 1, 2007 (inception) to December 31, 2007. 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, 2008 and 2007, and the results of its activities and cash flows for the year ended December 31, 2008 and 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 discussed in Note 3 to the financial statements, portfolio investments amounting to $18,506,684 and $9,122,663, approximately 79% and 63% of 2008 and 2007 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.

As also discussed in Note 3 to the financial statements, the Organization adopted the provisions of Statement of Financial Accounting Standards No. 157, *Fair Value Measurements*, on January 1, 2008.

Elliott Davis, LLC

Columbia, South Carolina
May 19, 2009

INVESTSC, INC.
STATEMENTS OF FINANCIAL POSITION

	DECEMBER 31, 2008	DECEMBER 31, 2007
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 137,231	$ 1,162,769
Interest receivable	371	13,927
Refund receivable	-	3,000
Total current assets	137,602	1,179,696
INVESTMENTS		
Azalea SC Fund, LP	1,144,104	1,000,000
Azalea Fund III, LP	759,332	-
Frontier Fund II, LP	3,264,597	2,122,663
Nexus Medical Partners II, LP	11,733,059	5,000,000
Noro-Moseley Partners VI, LP	1,605,592	1,000,000
Total investments	18,506,684	9,122,663
OTHER ASSETS		
Restricted cash and cash equivalents - interest reserve	1,944,273	1,911,435
Restricted cash and cash equivalents - premium reserve	1,919,848	1,146,861
Note issuance costs, net	993,150	1,066,717
Total other assets	4,857,271	4,125,013
	$ 23,501,557	**$ 14,427,372**
LIABILITIES AND NET DEFICIT		
CURRENT LIABILITIES		
Accounts payable	$ 1,621	$ 4,330
Accrued expenses	49,602	32,580
Total current liabilities	51,223	36,910
NOTES PAYABLE	25,000,000	15,000,000
NET DEFICIT		
Unrestricted	(1,549,666)	(609,538)
	$ 23,501,557	**$ 14,427,372**

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

INVESTSC, INC.
STATEMENTS OF ACTIVITIES

	For the year ended December 31, 2008	For the period from March 1, 2007 (inception) to December 31, 2007
INVESTMENT INCOME		
Interest on escrow deposits and operating accounts	$ 69,544	$ 174,234
INVESTMENT EXPENSES		
Amortization of note issuance costs	73,567	36,783
Note commitment fees	75,500	55,125
Interest expense	1,488,856	579,760
Salaries and benefits	91,961	52,878
Payroll taxes	6,068	3,506
Legal and professional fees	21,494	38,612
Rent	7,500	3,750
Trustee expense	4,750	6,750
Other	13,997	6,608
	1,783,693	783,772
NET INVESTMENT LOSS	(1,714,149)	(609,538)
NET UNREALIZED GAIN ON INVESTMENTS	774,021	-
CHANGE IN NET DEFICIT	(940,128)	(609,538)
NET ASSETS (DEFICIT), BEGINNING OF PERIOD	(609,538)	-
NET DEFICIT, END OF PERIOD	**$ (1,549,666)**	**$ (609,538)**

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

INVESTSC, INC.
STATEMENTS OF CASH FLOWS

	For the year ended December 31, 2008	For the period from March 1, 2007 (inception) to December 31, 2007
OPERATING ACTIVITIES		
Change in net assets	$ (940,128)	$ (609,538)
Adjustments to reconcile change in net assets to net cash used for operating activities		
Amortization of note issuance costs	73,567	36,783
Accrued interest reinvested	13,556	(13,927)
Unrealized gain on investments	(774,021)	-
Changes in deferred and accrued amounts		
Refund receivable	3,000	(3,000)
Accounts payable	(2,709)	4,330
Accrued expenses	17,022	32,580
Net cash used for operating activities	(1,609,713)	(552,772)
INVESTING ACTIVITIES		
Investments in portfolio companies	(8,610,000)	(9,122,663)
Net cash used for investing activities	(8,610,000)	(9,122,663)
FINANCING ACTIVITIES		
Borrowings on notes payable	10,000,000	15,000,000
Payment of note issuance costs	-	(1,103,500)
Net cash provided by financing activities	10,000,000	13,896,500
Net (decrease) increase in cash and cash equivalents	(219,713)	4,221,065
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	4,221,065	-
CASH AND CASH EQUIVALENTS, END OF PERIOD	**$ 4,001,352**	**$ 4,221,065**
CASH AND CASH EQUIVALENTS, END OF PERIOD		
Unrestricted	$ 137,231	$ 1,162,769
Restricted - interest reserve	1,944,273	1,911,435
Restricted - premium reserve	1,919,848	1,146,861
	$ 4,001,352	**$ 4,221,065**
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid for interest	**$ 1,470,738**	**$ 552,584**

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 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
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 as determined by SFAS 157, *Fair Value Measurements*, which management has adopted as the valuation policy for the Organization. Unrealized gains and losses resulting from changes in fair value are recognized in the corresponding statements of activities. 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.

Effective January 1, 2008, the Organization adopted SFAS 157. SFAS No. 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. SFAS No. 157 does not require any new fair value measurements. The definition of fair value retains the exchange price notion in earlier definitions of fair value. SFAS No. 157 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. The definition focuses on the price that would be paid to acquire the asset or received to assume the liability (an entry price). SFAS No. 157 emphasizes that fair value is a market-based measurement, not an entity-specific measurement. FASB Staff Position ("FSP") No. 157-2, effective date of FASB Statement No. 157, issued in February 2008, delays the effective date of SFAS No. 157 for nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value in an entity's financial statements on a recurring basis (at least annually), to fiscal years beginning after November 15, 2008. SFAS 157 was further amended in October 2008 by FSP FAS 157-3, *Determining the Fair Value of a Financial Asset When the Market for That Asset is Not Active*, which clarifies the application of FAS 157 to assets participating in inactive markets.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

SFAS No. 157 described 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.

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.

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).

New accounting pronouncements

Accounting standards that have been issued but not yet adopted by the Organization are not expected to have a material effect on the Organization's financial position or results of operations.

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.

(Continued)

NOTE 3 - INVESTMENTS, Continued

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.

The Azalea SC Fund, LP fund was originally selected for a $10,000,000 investment however during 2008 the investment amount for this fund was decreased to $1,500,000. At December 31, 2008 and 2007, $1 million had been invested in the fund.

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. On December 31, 2008, $850,000 had been invested in the 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, 2008 and 2007, $3,882,663 and $2,122,663 had been invested in the fund, respectively.

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, 2008 and 2007, $10 million and $5 million had been invested in the fund, respectively.

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, 2008 and 2007, $2 million and $1 million had been invested in the fund, respectively.

(Continued)

NOTE 3 - INVESTMENTS, Continued

Portfolio investments consisted of the following at December 31:

Investment	2008 Cost	2008 Estimated fair value	2007 Cost	2007 Estimated fair value
Azalea Fund SC, LP	$ 1,000,000	$ 1,144,104	$ 1,000,000	$ 1,000,000
Azalea Fund III, LP	850,000	759,332	-	-
Frontier Fund II, LP	3,882,663	3,264,597	2,122,663	2,122,663
Nexus Medical Partners II, LP	10,000,000	11,733,059	5,000,000	5,000,000
Noro-Mosley Partners VI, LP	2,000,000	1,605,592	1,000,000	1,000,000
	$ 17,732,663	$ 18,506,684	$ 9,122,663	$ 9,122,663

Due to the significant level of management judgment and estimation involved in valuing the Organization's investments in the portfolio companies, these investments will generally be classified as Level 3 assets.

Those assets which will continue to be measured at fair value on a recurring basis as of December 31, 2008 are as follows:

	Measurement Level 1	Level 2	Level 3	Total
Assets:				
Investments	$ -	$ -	$ 18,506,684	$ 18,506,684
Total	$ -	$ -	$ 18,506,684	$ 18,506,684

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.

The following provides a summary of changes in fair value of the Organization's Level 3 assets, as well as the portion of net gains included in income attributable to unrealized net gains that relate to those assets held at December 31, 2008:

	Year ended December 31, 2008
Balance, January 1, 2008	$ 9,122,663
Net gains, unrealized	774,021
Purchases	8,610,000
Balance, December 31, 2008	$ 18,506,684
Portion of net unrealized gains included in earnings	$ 774,021

NOTE 4 - NOTES PAYABLE

On June 22, 2007, the Organization signed a Securities Purchase Agreement with a bank for $50 million in notes (the note). 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. During 2008, the Organization received additional advances of $10,000,000; therefore the balance of the notes payable was $25,000,000 at December 31, 2008. The remainder must be drawn by June 2010. 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 note 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, 2008 and 2007, the interest reserve totaled $1,944,273 and $1,911,435, respectively, and the premium reserve totaled $1,919,848 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 3.42% surcharge to fund retiree health and dental insurance coverage. The Organization's actual contributions to the SCRS were approximately $9,800 and $5,300 for the periods ending December 31, 2008 and 2007, respectively.

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).

(Continued)

NOTE 5 - PENSION PLAN AND OTHER EMPLOYEE BENEFITS, Continued

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 3.42% 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 Department 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 plan. 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., the former President of JEDA was a board member of InvestSC, Inc. and the current Executive Director of JEDA is also the Executive Director of InvestSC, Inc.

During the periods ending December 31, 2008 and 2007, the Organization paid JEDA $7,500 and $3,750 for rent and other administrative services, respectively.