



January 15, 2007

Dear Investor,

On behalf of Acorn Growth Companies, we want to thank you again for investing in the Acorn Growth Capital funds. We appreciate your confidence in us to place your money in investments that make sense and will ultimately provide an attractive return.

The following is a status report of recent activity relating to the Funds and its investments.

## **ACORN GROWTH FUNDS STATUS REPORT**

4<sup>th</sup> Quarter 2006

### New Investments:

No new investments were made in the 4<sup>th</sup> Quarter of 2006. One firm, Comtek Advanced Structures, was placed under an exclusive Letter of Intent and due diligence is in process. We anticipate a 1<sup>st</sup> Quarter 2007 closing if approved by the Investment Committee.

### Investment Review:

#### *Commuter Air Technology*

[www.CommuterAir.com](http://www.CommuterAir.com)

Financially CAT met its investment case for 2006, which closed at \$6,370,000 in revenues, compared to our investment projection of \$5.2MM. Looking ahead in 2007, we expect to meet or exceed the \$9.328MM revenue projection, generating \$2MM in EBITDA. At this level, we expect to pay off the acquisition debt, and return a substantial portion of the initial investment equity to the fund. Additionally, CAT engaged a private aerospace investment group in New York to conduct an independent appraisal of all its Supplemental Type Certificates (STCs), and concluded the value of the STCs on an income approach to value to be in excess of \$20MM (US). Acorn is not representing that the company or its assets could be sold for that amount, but is however pleased with the outcome of the appraisal, and felt its initial purchase price assumptions regarding CAT were validated in the report.

Current backlog and work in progress should be sufficient to achieve these milestones. CAT's current pipeline is tracking opportunities that have a realistic chance of closing in excess of \$70MM; opportunities are both domestic and international, and are primarily military (surveillance and reconnaissance) in nature.

In 2006 the company successfully dealt with the challenges presented it during the transition, including the unplanned departure of the seller, managing through a large basket of undisclosed contingent liabilities, supply chain issues, quality problems related to the exhaust gas extractors yielding unplanned warranty claim expenses, and meeting production schedules driven by increased market demand for its ISR radome pod.

At present time, we have tracked enough purchase price offsets to forego the need for the second capital call to complete the transaction. (*A second capital call was initially planned as part of this transaction.*) We are currently in negotiations with the seller's trust to obtain a final release on all the STC's as a function of the remaining purchase obligation and on-going royalty or earn-out obligations we contemplated with the original transaction. The total expected settlement should be between \$300 and \$400k, and can be met out of the company's cash-flows.

Finally, CAT refinanced its original acquisition financing with Arvest bank and IDLP (Warren Thomas) via Scissortail Capital, of Shawnee, OK. Part of this financing included additional working capital, which could be used to settle the remaining purchase obligations as mentioned above, preserving our members equity for another opportunity.

Darryl Wilkerson, CAT's new CEO, is off to a fast start, working primarily on sales and marketing opportunities that represent tremendous upside for the company in 2007. Wilkerson expects continued growth in the Oklahoma City office relative to program management and administrative support, capitalizing on the existing infrastructure, the mid year acquisition of the Downtown Oklahoma City Airpark intellectual property, and the critical mass of Oklahoma's aerospace economy.

*Veracity Technology Solutions, LLC (Veracity)*  
[www.VeracityTS.com](http://www.VeracityTS.com)

As reported previously, the Investment Committee approved an Acorn Growth Capital Fund equity investment of \$150,000 in Veracity in September, 2006. Organizational and closing documents were finalized and executed in the third quarter of 2006.

Additionally, Veracity has applied for a \$100,000 Technology Business & Finance Program (TBFP) award through I2E, Oklahoma's technology commercialization agency. We anticipate a February 2007 decision on the application. If successful, this non-recourse award will further mitigate investor risk without dilution of shareholder equity.

Marketing and business development activities have commenced in partnership with minority shareholder, USUT Labs, Inc. Veracity has secured the services of a Sales Director and has, through the leadership and guidance of Acorn, quickly developed an impressive sales pipeline that includes Nordam, Northrop Grumman, Tinker AFB, Air Force KC-135 Tanker Program, NAVAIR, Pratt Whitney, B2 Bomber Program and Warner Robbins AFB. The total sales pipeline amount exceeds \$2 million.

In addition to the USAF Aircraft Structural Integrity Program (ASIP) conference in November, Veracity plans to attend and exhibit at the DOD Aging Aircraft Conference and the NAVAIR NDI Conference this Spring.

Short term activities include development of marketing and sales collateral materials, web site development, execution of database marketing strategies and conversion of the opportunity pipeline to cash flow.

Finally, Veracity continues to search for a CEO candidate with relevant industry experience and demonstrated success. In the meantime, Acorn has assumed day-to-day management of the company.

#### Deal Flow Comments:

Weekly, Acorn principals evaluate its deal flow and prioritize the next steps on each potential target company. From January 1, 2006 through December 31, 2007, Acorn reviewed 78 opportunities that met our general criteria. Of that total, 47 were not pursued for various reasons, we are watching or otherwise in suspense on 18, and we sent expressions of interest or letters of intent on 13. Of the 13, 7 were rejected, we consummated 2 in 2006 (one seed opportunity and one asset deal that was consolidated into CAT), and 4 deals remain under LOI moving into 2007. Our deal flow remains very strong which gives us the luxury of pursuing only those that we feel offer the best opportunity for superior return on investment.

### Investment Committee Election

The Investment Committee Election was completed in October. The proposed slate of Dan Overland, Robert McDonald, Warren Thomas, Chuck Teeter and Rainey Williams was elected by the Members.

### Staff Additions

In November, Acorn welcomed Blake Ferrell aboard to fill the position of Director of Finance and Business Services. Blake holds a degree in Accounting from Oklahoma State University and was with IBM prior to joining Acorn. Among his many honors and achievements is a first place finish in the Oklahoma Governor's Cup Business Plan competition. This prestigious award is made each year to deserving Oklahoma university students after competing in a rigorous process that includes written and oral presentations judged by a panel of entrepreneurs and venture capitalists.

### Acorn Web Site

Soon the Acorn web site will feature an "Investors Only" section that will allow you to check for copies of Status Reports and other important information associated with your investment. Please check the site ([www.acorngrowthcompanies.com](http://www.acorngrowthcompanies.com)) at your convenience and call us for access and password information.

### Preferred Return

We are pleased to report that investors in Acorn Growth Equity Capital Fund will receive a Preferred Return payment during the month of January as a result of CAT's performance in 2006.

Please feel to contact Jeff at 405-413-7264 or Rick at 405-641-1306 if you have any questions or comments about the status report.