

**CHP II, L.P.**  
**QUARTERLY REPORT**  
**2nd QUARTER, 2004**

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**QUARTERLY REPORT**  
**2nd QUARTER, 2004**  
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TO: The Limited Partners  
FROM: John K. Clarke  
DATE: August 15, 2004  
SUBJECT: Activity for the Quarter Ended June 30, 2004

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During the quarter, the portfolio took significant strides towards providing some investor liquidity in 2004. Two CHP II portfolio companies, Alnylam and Momenta completed an initial public offering and Replication received an expression of interest to be acquired. The following are short summaries of activity for the quarter in each of our portfolio companies.

***Alnylam Pharmaceuticals*** – On May 28<sup>th</sup>, Alnylam successfully completed its initial public offering. Priced at \$6 per share, the company sold 5.75 million shares with net proceeds of \$30 million. Banc of America Securities acted as the lead manager for the offering. Post-offering, CHP II holds a total of 2,091,870 shares of Alnylam common stock that are subject to either underwriters' or SEC short-swing trading restrictions until the end of November 2004. Other important developments during the quarter included the closing of a significant strategic collaboration with Merck and the addition of a highly qualified financial officer to the Alnylam senior management team.

***AthenaHealth*** – Athena continues to deliver strong financial performance through the second quarter of 2004. Revenues grew by 15% over the prior quarter and sales were ahead of quota for the second quarter in a row and stand at 134% of plan YTD. Gross margins grew from 42.5% to 45%, exceeding plan by 13% and driving better than expected results for both EBITDA and net loss. Operating cash flow was virtually breakeven for the quarter and is \$500K ahead of plan for the year. In early April, the company completed a \$7.5 million equity infusion led by new investor, Granite Global Ventures, at a pre-money valuation of \$142 million.

***CardioOptics*** – During the quarter, Cardio-Optics formally adopted and began implementing its product development plan for a coronary lead placement kit and the associated hardware suitable for human testing and 510(k) submission to the FDA. Initial product development and non-human testing is expected to take 6-9 months, with the goal of beginning human testing by the end of 2004. Regulatory approval for human use will be pursued in parallel in both the United States and Europe. To support this product development phase, on May 31<sup>st</sup> the existing investor syndicate invested \$3 million as an extension to the Series A financing round.

***CodeRyte*** – The company has experienced significant market interest in its products, but implementation issues have hindered performance. A shortage of personnel has been a principal reason, making recruiting a primary focus at CodeRyte for the quarter. As the quarter ended, the company had successfully recruited a number of highly qualified engineers and was close to completing searches for two senior management positions, SVP of Sales and SVP of Implementation & Customer Service. Goals for the remainder of calendar 2004 include the creation of an implementation plan to decrease the average length of contract to "go-live" from 4 1/2 months to 3 months, the development of a technology plan to balance rapid growth with safe secure technology scaling and expansion into the gynecology and orthopedic markets.

***IntelliCare America*** – Financial performance for the second quarter of 2004 was ahead of plan in every respect. Business unit margins improved to 28% versus 17% for last quarter and a tight control of overhead by management allowed the company to significantly beat forecast for EBIT and cash flow. However, this recent encouraging performance is not sufficient to reverse the judgment that IntelliCare holds long-term return potential. Accordingly, in May, the Board engaged a boutique healthcare investment bank to affect a sale of the company. By the end of the quarter, a number of potential acquirers were in due diligence with the expected acquisition price ranging from \$15-\$20 million. Based on this range, CHP II would receive \$1.8 to \$3.1 million.

***Mobile Medical*** – Financial results for the quarter were a disappointment and management has restructured operations and begun replacing lagging branch management personnel. Management is clearly focused on three goals for the remainder of 2004; same-store revenue growth, margin improvement, and development of strategic opportunities to grow the business more aggressively. The company has reached terms on the acquisition of a \$19 million revenue company that operates independent living, assisted living and skilled nursing facilities in Florida, Tennessee, and Texas. Due diligence is near completion and management is hopeful of completing the transaction by the end of the year.

***Molecular Mining*** – The company has legally been dissolved, with the only remaining outstanding issue being the sale or licensing of the company's intellectual property. That process has begun and is expected to be completed during 2004. Overall, we expect a return of \$100-\$150K from our investment, with \$70k received to-date.

***Momenta*** – On June 21<sup>st</sup>, Momenta successfully completed its initial public offering. Priced at \$6.50 per share, the company sold 6.15 million shares with net proceeds of \$35.5 million. The co-lead managing underwriters were SC Cowen and Banc of America Securities. Post-offering, CHP II holds a total of 2,170,286 shares of Momenta common stock that are subject to either underwriters' or SEC short-swing trading restrictions until the end of December 2004. Momenta is on track with its clinical plan to file an ANDA with the FDA by mid-2005. The company has sufficient capital resources to support operations well into 2007.

***Replication Medical*** – Steady progress continued in Replication's product development for its implantable disk nucleus during the quarter. While the company remains behind on its clinical plan, it continues to attract industry wide attention as the most promising surgical solution for minimally invasive treatment of degenerative disk disease. The company has received an unsolicited, but attractive, proposal for a \$20 million financing to be led by a leading venture capital firm. While in the process of negotiating the final terms for the financing, the company received a very attractive expression of interest to be acquired by a leading medical device company. The potential acquirer has begun its due diligence process, which we expect to be completed by the end of August.

***Rib-X Pharmaceuticals*** – During the current quarter, further pre-clinical toxicology testing on the company's lead drug candidate has uncovered two significant issues - gastro-intestinal intolerance and not surprisingly, bone marrow suppression. As a consequence, the program was placed "on hold" until the company has a better understanding of these findings. The results of these studies will not be known for 3-6 months. The company has also launched an aggressive in-licensing program. The preferred product profile would be one in the late pre-clinical or early clinical stage of development that can yield a therapeutic drug capable of differentiation in the marketplace using a specialty sales force, or be licensed to a strategic partner with a strong ROI.

Included in this report are financial statements for the period, a portfolio valuation memo, an update on each of our portfolio companies, a recent investment research report for Alnylam, and a deal activity report for the quarter.

### **Deal Flow:**

During the quarter, we have reviewed 65 business proposals. Current “A” deals include: Arcadian Management Services, Aureus Vision, Axogen, Medabsorb Technologies, Osprey Pharmaceuticals, Quantum Orthopedics, and Stableyes. An alphabetical list of all deals received with a brief business description, deal source and deal status is included in the Appendix to this report.

### **Financial Results:**

There was one capital call during the period for a total of \$3.5 million. Utilization of these funds included the \$1.4 million follow-on investment for Alnylam Pharmaceuticals, the \$1.0 million follow-on investment for CardioOptics, the \$448,500 follow-on investment for Momenta Pharmaceuticals, and the payment of fund fees and expenses. As of June 30, 2004, cumulative capital contributions stand at \$69 million or 59% of total commitments. Cash at the end of the period was \$616,621 and net assets totaled \$54.2 million. Net loss for the quarter was \$1.1 million, consisting of \$736K in net operating expenses, plus a \$360K decrease in cumulative unrealized portfolio appreciation. Changes in portfolio valuation for the quarter included an unrealized loss for Alnylam of \$4.6 million offset by unrealized gains of \$3.2 million for Athena and \$1.1 million for Momenta. A new schedule has been added to the end of the financial reporting section that summarizes the cumulative fund gains and losses by portfolio investment.

### **Looking forward:**

The Limited Partner Annual Meeting will be held in New York City during the first week of December. Further specifics regarding the meeting will be forthcoming in early September. Meanwhile, should you have any questions, please contact our meeting coordinator Pam Shaw at our Princeton office.

With two CHP II portfolio companies successfully completing an initial public offering during the quarter, and a couple of others entertaining potential acquisition interest, we are very hopeful of creating some meaningful liquidity for our partners in 2004. We continue to work diligently to build value in the portfolio and appreciate your input and support.

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**CHP II, L.P.**  
**Income Statement**  
**For the Period Ended June 30, 2004**

	Three Months Ended 06/30/04	Six Months Ended 06/30/04
Revenue:		
Non Portfolio Income	\$416	\$479
Interest-Equivalent Amounts	0	0
Expenses:		
Management Fee	734,217	1,468,434
Professional Fees	8,433	18,388
NVCA Dues & Expenses	0	0
Amortization of Organization Costs	0	0
Annual Meeting & Miscellaneous	480	3,230
Total Expenses	743,130	1,490,052
Net Operating Expense	(742,714)	(1,489,573)
Investment Income	6,773	11,775
Net Income Before Gains (Losses)	(735,941)	(1,477,798)
Realized Gains (Losses)	0	0
Unrealized Gains (Losses)	(360,249)	7,837,599
Net Income (Loss)	(\$1,096,190)	(\$6,359,801)

**CHP II, L.P.**  
**Balance Sheet**  
**As of June 30, 2004**

<b>ASSETS:</b>	Period Ended 06/30/04	Period Ended 03/31/04
Cash and Short-Term Investments	\$616,621	\$778,436
Accrued Interest	51,168	45,673
Venture Capital Investments	53,223,313	50,738,783
Organization Costs (Net of Accum. Amortization)	0	0
Other Assets	328,984	312,537
	<u>\$54,220,086</u>	<u>\$51,875,429</u>
 <b>LIABILITIES &amp; CAPITAL:</b>		
Accrued Expenses and Payables	\$11,352	\$33,054
Partners' Accounts	54,208,734	51,842,375
Total Liabilities and Capital	<u><u>\$54,220,086</u></u>	<u><u>\$51,875,429</u></u>

**CHP II, L.P.**  
**Footnotes**  
**As of June 30, 2004**

Note 1 – CHP II, L.P. is a Limited Partnership and as such is not subject to income taxes at the partnership level.

Note 2 – Net Organization Costs	06/30/04	03/31/04
Organization Costs	\$183,232	\$183,232
Accumulated Amortization	(183,232)	(183,232)
Total	<u>\$0</u>	<u>\$0</u>

Note 3 – General Partner Promissory Notes	06/30/04	03/31/04
GP Promissory Note Principal	\$327,634	\$311,187
Prepaid NJ State Filing Fees	1,350	1,350
Total	<u>\$328,984</u>	<u>\$312,537</u>

Note 4 – Accrued Expenses	06/30/04	03/31/04
Professional Fees	\$10,872	\$28,954
NVCA Dues & Annual Meeting	0	0
Other Accrued Expenses	480	4,100
Total	<u>\$11,352</u>	<u>\$33,054</u>

Note 5 – Financial Highlights (Return & IRR)	Net to LP's	Total Fund
Year-to-Date Return on Net Assets	17.28%	17.28%
Internal Rate of Return Since Inception	-11.25%	-11.25%



**CHP II, L.P.**  
**Statement of Cash Flows**  
**For the Period Ended June 30, 2004**

	Three Months Ended 06/30/04	Six Months Ended 06/30/04
<b>Cash flows from operating activities</b>		
Net Income Before Gains (Losses)	(\$735,941)	(\$1,477,798)
Adjustments to reconcile net income before gains (losses) to net cash used in operating activities:		
Accrued Interest Receivable	(5,495)	(10,497)
Accrued Organization Costs	-	-
Other Assets	-	(1,350)
Accrued Expenses & Payables	(21,703)	(20,169)
Net Cash used in Operating Activities	(763,139)	(1,509,814)
<b>Cash flows from investing activities</b>		
Purchases of venture capital investments	(2,844,779)	(8,124,787)
Sales of venture capital investments	-	797
Net cash used in investing activities	(2,844,779)	(8,123,990)
<b>Cash flows from financing activities</b>		
Cash contributions by partners	3,446,103	10,164,041
Cash distribution to partners	0	0
Net cash provided by financing activities	3,446,103	10,164,041
 Net Change in Cash and Short Term Investments	 (161,815)	 530,237
Cash and Short Term Investments, beginning	778,436	86,384
Cash and Short Term Investments, ending	\$616,621	\$616,621

**CHP II, L.P.**  
**Schedule of Venture Capital Investments**  
**As of June 30, 2004**

<b>Company</b>	<b>Debt</b>	<b>Equity</b>	<b>Total Cost</b>	<b>Fair Value</b>	<b>Unrealized Gain (Loss)</b>
Alnylam Pharmaceuticals	\$0	\$8,959,015	\$8,959,015	\$11,860,903	\$2,901,888
AthenaHealth, Inc.	0	5,000,001	5,000,001	8,181,820	3,181,819
Cardio-Optics, Inc.	0	3,001,279	3,001,279	3,001,279	0
CodeRyte, Inc.	0	2,780,004	2,780,004	2,780,004	0
IntelliCare America, Inc.	0	4,000,000	4,000,000	2,464,585	(1,535,415)
Mobile Medical Industries	0	4,000,000	4,000,000	4,000,000	0
Molecular Mining Corp.	0	1,438,509	1,438,509	29,449	(1,409,060)
Momenta Pharmaceuticals, Inc.	0	6,823,506	6,823,506	14,405,273	7,581,767
Replication Medical	0	2,500,000	2,500,000	2,500,000	0
Rib-X Pharmaceuticals	0	4,000,000	4,000,000	4,000,000	0
Totals	\$0	\$42,502,314	\$42,502,314	\$53,223,313	\$10,720,999

**CHP II, L.P.**  
**Statement of Partners' Contributions Accounts**  
**As of June 30, 2004**

	Partners' Total Subscription	Contributions Account 03/31/04	Period Contribution in Cash	Period Contribution by Note	Contributions Account 06/30/04	Partners' Outstanding Subscription
<u>Limited Partners</u>						
State Teachers Ret. System of Ohio	\$30,000,000	\$16,730,384	\$884,246	\$0	\$17,614,630	\$12,385,370
Nassau Capital Funds	10,000,000	5,576,794	294,748	0	5,871,542	4,128,458
Robert Wood Johnson Foundation	10,000,000	5,576,794	294,748	0	5,871,542	4,128,458
Northwestern University	10,000,000	5,576,794	294,748	0	5,871,542	4,128,458
LACERA	10,000,000	5,576,794	294,748	0	5,871,542	4,128,458
Textron Master Trust	10,000,000	5,576,794	294,748	0	5,871,542	4,128,458
Wachovia Investors, Inc. (First Union)	7,500,000	4,182,596	221,061	0	4,403,657	3,096,343
Pension Commissioners of City of LA	5,000,000	2,788,399	147,374	0	2,935,773	2,064,227
Princess Private Equity	5,000,000	2,788,399	147,374	0	2,935,773	2,064,227
Hillside Capital Incorporated	3,500,000	1,951,877	103,163	0	2,055,040	1,444,960
Hamilton Lane-Carpenters Fund	3,000,000	1,673,039	88,425	0	1,761,464	1,238,536
UNISYS Master Trust	3,000,000	1,673,039	88,425	0	1,761,464	1,238,536
Venture Investment Associates III, L.P.	2,300,000	1,282,663	67,792	0	1,350,455	949,545
Fleet Growth Resources (Summit)	2,000,000	1,115,359	58,950	0	1,174,309	825,691
S.R. One Limited	2,000,000	1,115,359	58,950	0	1,174,309	825,691
QFinance (Pharma BioDevelopment)	2,000,000	1,115,359	58,950	0	1,174,309	825,691
Private Equity Holdings II, Ltd.	1,000,000	557,679	29,475	0	587,154	412,846
	\$116,300,000	\$64,858,122	\$3,427,925	\$0	\$68,286,047	\$48,013,953
<u>General Partner</u>						
CHP II Management, LLC.	1,174,747	655,133	18,178	16,447	689,758	484,989
Total Partnership	\$117,474,747	\$65,513,255	\$3,446,103	\$16,447	\$68,975,805	\$48,498,942

**CHP II, L.P.**  
**Statement of Partners' Distributive Share of Net Assets**  
**For the Period Ended June 30, 2004**

	Private Securities	Public Securities	Cash	Other Assets	Total Assets	Accrued Expenses	Net Assets 06/30/04
<u>Limited Partners</u>							
State Teachers Ret. System of Ohio	\$6,884,154	\$6,707,700	\$157,468	\$97,081	\$13,846,403	(\$2,898)	\$13,843,505
Nassau Capital Funds	2,294,718	2,235,900	52,490	32,360	4,615,468	(967)	4,614,501
Robert Wood Johnson Foundation	2,294,718	2,235,900	52,490	32,360	4,615,468	(967)	4,614,501
Northwestern University	2,294,718	2,235,900	52,490	32,360	4,615,468	(967)	4,614,501
LACERA	2,294,718	2,235,900	52,490	32,360	4,615,468	(967)	4,614,501
Textron Master Trust	2,294,718	2,235,900	52,490	32,360	4,615,468	(967)	4,614,501
Wachovia Investors, Inc. (First Union)	1,721,039	1,676,924	39,367	24,271	3,461,601	(724)	3,460,877
Pension Commissioners of City of LA	1,147,359	1,117,950	26,245	16,180	2,307,734	(483)	2,307,251
Princess Private Equity	1,147,359	1,117,950	26,245	16,180	2,307,734	(483)	2,307,251
Hillside Capital Incorporated	803,151	782,565	18,370	11,327	1,615,413	(338)	1,615,075
Hamilton Lane-Carpenters Fund	688,415	670,770	15,747	9,708	1,384,640	(290)	1,384,350
UNISYS Master Trust	688,415	670,770	15,747	9,708	1,384,640	(290)	1,384,350
Venture Investment Associates III, L.P.	527,784	514,256	12,073	7,443	1,061,556	(222)	1,061,334
Fleet Growth Resources (Summit)	458,943	447,180	10,498	6,472	923,093	(193)	922,900
S.R. One Limited	458,943	447,180	10,498	6,472	923,093	(193)	922,900
QFinance (Pharma BioDevelopment)	458,943	447,180	10,498	6,472	923,093	(193)	922,900
Private Equity Holdings II, Ltd.	229,471	223,589	5,249	3,236	461,545	(97)	461,448
	\$26,687,566	\$26,003,514	\$610,455	\$376,350	\$53,677,885	(\$11,239)	\$53,666,646
<u>General Partner</u>							
CHP II Management, LLC.	269,571	262,662	6,166	3,802	542,201	(113)	542,088
Total Partnership	\$26,957,137	\$26,266,176	\$616,621	\$380,152	\$54,220,086	(\$11,352)	\$54,208,734

**CHP II, L.P.**  
**Statement of Partners' Capital Accounts \***  
**For the Six Months Ended June 30, 2004**

<u>Limited Partner</u>	Partners' Capital 01/01/04	Net Capital Contribution	Non-Portfolio Income	Net Investment Income	Realized Gains (Losses)	Total Income	Unrealized Gains (Losses)	Distributions	Partners' Capital 06/30/04
State Teachers Ret. System of Ohio	\$9,611,356	\$2,608,021	\$123	(\$377,514)	\$0	(\$377,391)	\$2,001,519	\$0	\$13,843,505
Nassau Capital Funds	3,203,786	869,339	41	(125,838)	0	(125,797)	667,173	0	4,614,501
Robert Wood Johnson Foundation	3,203,786	869,339	41	(125,838)	0	(125,797)	667,173	0	4,614,501
Northwestern University	3,203,786	869,339	41	(125,838)	0	(125,797)	667,173	0	4,614,501
Textron Master Trust	3,203,786	869,339	41	(125,838)	0	(125,797)	667,173	0	4,614,501
LACERA	3,203,786	869,339	41	(125,838)	0	(125,797)	667,173	0	4,614,501
Wachovia Investors (First Union)	2,402,840	652,004	31	(94,378)	0	(94,347)	500,380	0	3,460,877
Pension Commissioners-City of LA	1,601,893	434,670	20	(62,919)	0	(62,899)	333,587	0	2,307,251
Princess Private Equity	1,601,893	434,670	20	(62,919)	0	(62,899)	333,587	0	2,307,251
Hillside Capital Incorporated	1,121,321	304,272	14	(44,043)	0	(44,029)	233,511	0	1,615,075
Hamilton Lane-Carpenters Fund	961,134	260,803	12	(37,750)	0	(37,738)	200,151	0	1,384,350
UNISYS Master Trust	961,134	260,803	12	(37,750)	0	(37,738)	200,151	0	1,384,350
Venture Investment Associates III	736,870	199,948	9	(28,943)	0	(28,934)	153,450	0	1,061,334
Fleet Growth Resources	640,757	173,868	8	(25,168)	0	(25,160)	133,435	0	922,900
S.R. One Limited	640,757	173,868	8	(25,168)	0	(25,160)	133,435	0	922,900
QFinance (Pharma BioDevelopment)	640,757	173,868	8	(25,168)	0	(25,160)	133,435	0	922,900
Private Equity Holdings II, Ltd.	320,376	86,935	4	(12,584)	0	(12,580)	66,717	0	461,448
	\$37,260,018	\$10,110,425	\$474	(\$1,463,494)	\$0	(\$1,463,020)	\$7,759,223	\$0	\$53,666,646
<u>General Partner</u>									
CHP II Management, LLC.	97,240	53,616	5	(14,783)	0	(14,778)	78,376	0	214,454
Total Partnership	\$37,357,258	\$10,164,041	\$479	(\$1,478,277)	\$0	(\$1,477,798)	\$7,837,599	\$0	\$53,881,100

\*-Statement of Partners' Capital does not include contributions made by the General Partner in the form of Promissory Notes.

**CHP II, L.P.**  
**Statement of Partners' Accounts**  
**For the Period from April 25, 2000 to June 30, 2004**

	Partners' Contribution Account	Non-Portfolio Income	Net Investment Income	Realized Gains (Losses)	Total Income	Unrealized Gains (Losses)	Distributions	Partners' Account
<u>Limited Partners</u>								
State Teachers Ret. System of Ohio	\$17,614,630	\$16,830	(\$3,205,785)	(\$3,320,034)	(\$6,508,989)	\$2,737,864	\$0	\$13,843,505
Nassau Capital Funds	5,871,542	5,611	(1,068,595)	(1,106,679)	(2,169,663)	912,622	0	4,614,501
Robert Wood Johnson Foundation	5,871,542	5,611	(1,068,595)	(1,106,679)	(2,169,663)	912,622	0	4,614,501
Northwestern University	5,871,542	5,611	(1,068,595)	(1,106,679)	(2,169,663)	912,622	0	4,614,501
LACERA	5,871,542	5,611	(1,068,595)	(1,106,679)	(2,169,663)	912,622	0	4,614,501
Textron Master Trust	5,871,542	5,611	(1,068,595)	(1,106,679)	(2,169,663)	912,622	0	4,614,501
Wachovia Investors, Inc. (First Union)	4,403,657	4,209	(801,446)	(830,009)	(1,627,246)	684,466	0	3,460,877
Pension Commissioners of City of LA	2,935,773	2,805	(534,298)	(553,341)	(1,084,834)	456,312	0	2,307,251
Princess Private Equity	2,935,773	2,805	(534,298)	(553,341)	(1,084,834)	456,312	0	2,307,251
Hillside Capital Incorporated	2,055,040	1,962	(374,008)	(387,338)	(759,384)	319,419	0	1,615,075
Hamilton Lane-Carpenters Fund	1,761,464	1,683	(320,578)	(332,004)	(650,899)	273,785	0	1,384,350
UNISYS Master Trust	1,761,464	1,683	(320,578)	(332,004)	(650,899)	273,785	0	1,384,350
Venture Investment Associates III	1,350,455	1,290	(245,778)	(254,536)	(499,024)	209,903	0	1,061,334
Fleet Growth Resources (Summit)	1,174,309	1,122	(213,719)	(221,336)	(433,933)	182,524	0	922,900
S.R. One Limited	1,174,309	1,122	(213,719)	(221,336)	(433,933)	182,524	0	922,900
QFinance (Pharma BioDevelopment)	1,174,309	1,122	(213,719)	(221,336)	(433,933)	182,524	0	922,900
Private Equity Holdings II, Ltd.	587,154	561	(106,860)	(110,668)	(216,967)	91,261	0	461,448
	\$68,286,047	\$65,249	(\$12,427,761)	(\$12,870,678)	(\$25,233,190)	\$10,613,789	\$0	\$53,666,646
<u>General Partner</u>								
CHP II Management, LLC.	689,758	660	(125,534)	(130,006)	(254,880)	107,210	0	542,088
Total Partnership	\$68,975,805	\$65,909	(\$12,553,295)	(\$13,000,684)	(\$25,488,070)	\$10,720,999	\$0	\$54,208,734

**CHP II, L.P.**  
**Comprehensive Fund Investment Summary**  
**For the Period from April 25, 2000 to June 30, 2004**

Portfolio Company	Investment Cost	Assigned Fair Value	Unrealized Gain (Loss)	Realized Value	Realized Gain (Loss)	Cumulative Investment Return
<b><u>Public Company Securities</u></b>						
Alnylam Pharmaceuticals, Inc.	\$8,959,015	\$11,860,903	\$2,901,888	\$0	\$0	\$2,901,888
Momenta Pharmaceuticals, Inc.	6,823,506	14,405,273	7,581,767	0	0	7,581,767
<b><u>Private Company Investments</u></b>						
AthenaHealth, Inc.	5,000,001	8,181,820	3,181,819	0	0	3,181,819
Cardio-Optics, inc.	3,001,279	3,001,279	0	0	0	0
CodeRyte, Inc.	2,780,004	2,780,004	0	0	0	0
Intellicare America, Inc.	4,000,000	2,464,585	(1,535,415)	0	0	(1,535,415)
Mobile Medical Corporation	4,000,000	4,000,000	0	0	0	0
Molecular Mining Corporation	1,509,060	29,449	(1,409,060)	70,551	0	(1,409,060)
Replication Medical, Inc.	2,500,000	2,500,000	0	0	0	0
Rib-X Pharmaceuticals, Inc.	4,000,000	4,000,000	0	0	0	0
<b><u>Fully Disposed Investments</u></b>						
IPhysicianNet, Inc.	5,757,897	0	0	0	(5,757,897)	(5,757,897)
ParkStone Medical Information Systems	7,575,278	0	0	322,491	(7,242,787)	(7,242,787)
	\$55,906,040	\$53,223,313	\$10,720,999	\$403,042	(\$13,000,684)	(\$2,279,685)

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TO: The Limited Partners

FROM: John J. Park

DATE: July 15, 2004

SUBJECT: Portfolio Valuations for June 30, 2004

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Investment securities held by CHP II, L.P. (the "Partnership") have been valued in accordance with the Standard Valuation Policy of the Partnership. In accordance with the Policy, we propose to value restricted securities at cost, until subsequent events of a significant nature indicate the need for a change. This memorandum delineates the portfolio valuation calculations as proposed by the General Partner for those investments not valued at cost as of June 30, 2004.

**ALNYLAM PHARMACEUTICALS** – On May 28, 2004, Alnylam (NASDAQ:ALNY) completed an initial public offering priced at \$6.00 per share, selling 5.75 million shares, with net proceeds to the company of \$32.4 million. Concurrent with the completion of the IPO, the company enacted a reverse split on all outstanding shares at a ratio of 1.9 to 1, with all shares of preferred stock automatically being converted to common stock. Accordingly, all of the CHP II holdings of preferred stock have converted into 1,859,370 shares of Alnylam common stock, with a combined cost basis of \$7,564,015. In addition, CHP II purchased 232,500 shares of Alnylam common stock in the IPO, at a total cost of \$1,395,000.

As of June 30, 2004, CHP II holds 2,091,870 shares of Alnylam common stock that are subject to either underwriter or SEC short-swing sale restrictions until the end of November 2004. In accordance with the Standard Valuation Policy of CHP II, L.P., until the sale restriction period ends, we propose to value these shares at a 25% discount from the closing market price for Alnylam on June 30, 2004 of \$7.56 per share. This results in a total valuation of \$11,860,903, with an unrealized gain of \$2,901,888 on our cost basis of \$8,959,015 as of June 30, 2004. Including the \$1,395,000 invested during the quarter, this valuation represents a decrease of \$3,223,112 from the valuation for Alnylam as of March 31, 2004.

**Value Computation:**

Common Stock  
2,091,870 shares x \$7.56 x 75% = \$11,860,903



**CHP II, L.P.****Portfolio Valuations as of June 30, 2004****Page 2 of 3**

**ATHENAHEALTH** – On April 8, 2004, AthenaHealth completed a \$7.5 million Series E Preferred stock financing priced at \$5.04 per share and valuing the Company at \$142 million pre-money. A new investor, Granite Global Ventures, led this financing. CHP II was not a participant in the financing. We propose to value our investment at the Series E price of \$5.04, resulting in an unrealized gain of \$3,181,819 on our cost basis of \$5,000,001 as of June 30, 2004. This valuation represents an increase of \$3,181,819 from the valuation for Athena as of March 31, 2004.

**Value Computation:**

$$\begin{array}{rcl} \text{Series D Convertible Preferred Stock} & & \\ 1,623,377 \text{ shares} \times \$5.04 & = & \underline{\underline{\$8,181,820}} \end{array}$$

**INTELLICARE** – In May 2002, IntelliCare completed a \$10.15 million second round financing at \$0.1923 per share, valuing the company at \$20.15 post-money. New investor Canaan Partners led the financing, with CHP II contributing \$1 million. We propose to value our investment on the basis of this financing, resulting in an unrealized loss of \$1,535,415 on our cost basis of \$4,000,000 as of June 30, 2004. This valuation represents no change from the valuation for IntelliCare as of March 31, 2004.

**Value Computation:**

$$\begin{array}{rcl} \text{Series B Convertible Preferred Stock} & & \\ 7,616,146 \text{ CSE's} \times \$0.1923 & = & \$1,464,585 \\ \text{Series C Convertible Preferred Stock} & & \\ 5,200,208 \text{ shares} \times \$0.1923 & = & \underline{\underline{1,000,000}} \\ \text{Total Value} & & \underline{\underline{\$2,464,585}} \end{array}$$

**CHP II, L.P.****Portfolio Valuations as of June 30, 2004****Page 3 of 3**

**MOLECULAR MINING** - During the first quarter of 2003, as the result of an inability to attain additional outside financing combined with a lack of sufficient operational progress, management and the Board of Directors decided to cease operations and sell the assets of the company. Consequently, we reduced the carrying value of our investment to \$100,000, reflecting a conservative estimate of our share of the Series B Preferred proceeds from liquidation. Since December 2003, the company has distributed \$70,551 to CHP II, representing our share of the distribution of liquidation proceeds to-date. As a result, we have reduced the carrying value for the investment to \$29,449 (\$100,000 - \$70,551). At this valuation, our investment shows an unrealized loss of \$1,409,060 on a remaining cost basis of \$1,438,509 as of June 30, 2004. This valuation represents no change from our carrying value for Molecular Mining as of March 31, 2004.

**Value Computation:**

$$\begin{array}{rcl} \text{Series B Convertible Preferred Stock} & & \\ 737,422 \text{ shares} & = & \underline{\underline{\$29,449}} \end{array}$$

**MOMENTA PHARMACEUTICALS** – On June 21, 2004, Momenta (NASDAQ:MNTA) completed an initial public offering of its securities priced at \$6.50 per share, selling 6.15 million shares, with net proceeds to the company of \$37.2 million. Concurrent with the completion of the IPO, the company enacted a 1.28 to 1 split on all outstanding shares, with all shares of preferred stock automatically being converted to common stock. Accordingly, all of the CHP II holdings of preferred stock have been converted into 2,101,286 shares of Momenta common stock, with a combined cost basis of \$6,375,006. In addition, CHP II purchased 69,000 shares of Momenta common stock in the IPO, at a total cost of \$448,500.

As of June 30, 2004, CHP II holds 2,170,286 shares of Momenta common stock that are subject to either underwriter or SEC short-swing sale restrictions until the end of December 2004. In accordance with the Standard Valuation Policy of CHP II, L.P., until the sale restriction period ends, we propose to value these shares at a 25% discount from the closing market price for Momenta on June 30, 2004 of \$8.85 per share. This results in a total valuation of \$14,405,273, with an unrealized gain of \$7,581,767 on our cost basis of \$6,823,506 as of June 30, 2004. Including the \$448,500 invested during the quarter, this valuation represents an increase of \$1,524,544 from the valuation for Momenta as of March 31, 2004.

**Value Computation:**

$$\begin{array}{rcl} \text{Common Stock} & & \\ 2,170,286 \text{ shares} \times \$8.85 \times 75\% & = & \underline{\underline{\$14,405,273}} \end{array}$$

**CHP II, L.P.**  
**Portfolio Investment Valuation Summary**  
**For the Quarter ended June 30, 2004**

<u>Portfolio Company</u>	<u>Investment</u>	<u>Fair Value</u> <u>06/30/04</u>	<u>Fair Value</u> <u>03/31/04</u>	<u>Change from</u> <u>Prior Quarter</u>	<u>Reason for Change</u>
Alnylam Pharmaceuticals, Inc.	\$8,959,015	\$11,860,903	\$15,084,015	(\$3,223,112)	Initial Public Offering w/25% Discount (note 1)
AthenaHealth, Inc.	\$5,000,001	\$8,181,820	\$5,000,001	\$3,181,819	New Financing (note 2)
CardioOptics, Inc.	\$3,001,279	\$3,001,279	\$2,000,000	\$1,001,279	Follow-on Financing (note 3)
CodeRyte, Inc.	\$2,780,004	\$2,780,004	\$2,780,004	\$0	
Intellicare America, Inc.	\$4,000,000	\$2,464,585	\$2,464,585	\$0	
Mobile Medical Industries	\$4,000,000	\$4,000,000	\$4,000,000	\$0	
Molecular Mining Corporation	\$1,438,510	\$29,449	\$29,449	\$0	
Momenta Pharmaceuticals	\$6,823,506	\$14,405,273	\$12,880,729	\$1,524,544	Initial Public Offering w/25% Discount (note 4)
Replication Medical	\$2,500,000	\$2,500,000	\$2,500,000	\$0	
Rib-X Pharmaceuticals	\$4,000,000	\$4,000,000	\$4,000,000	\$0	
<b>Total Portfolio</b>	<b>\$42,502,315</b>	<b>\$53,223,313</b>	<b>\$50,738,783</b>	<b>\$2,484,530</b>	

- On May 28, 2004, Alnylam completed an initial public offering priced at \$6.00 per share, raising \$32.4 million. Concurrent with the IPO, the company performed a reverse split on all outstanding shares of stock at a ratio of 1.9 to 1, with all outstanding shares of preferred stock automatically converting into shares of common stock. In addition, CHP II invested \$1,395,000 in the offering, purchasing 232,500 shares of Alnylam common stock. Accordingly, as of June 30<sup>th</sup>, CHP II holds 2,091,870 shares of Alnylam common stock. As all of our holdings are subject to Underwriter lockup or SEC short-swing sale restrictions, they are valued at a 25% discount from the closing price of \$7.56 for Alnylam (NASDAQ:ALNY) on June 30, 2004.
- On April 8, 2004, Athena closed on a \$7.5 million financing led by new investor Granite Global Ventures. The financing was priced at \$5.04 per share, valuing the company at \$142 million pre-money. CHP II did not participate in the financing.
- On June 11, 2004, CHP II contributed \$1 million to a \$3 million extension of the Series A preferred financing for Cardio-Optics. Current investors Sequel Ventures and Primus Venture Partners also contributed \$1 million each to the financing.
- On June 21, 2004, Momenta completed an initial public offering priced at \$6.50 per share and raising \$37.2 million. Concurrent with the IPO, the company performed a 1.28 to 1 split on all outstanding shares of stock, with all outstanding shares of preferred stock automatically converting into shares of common stock. In addition, CHP II invested \$448,500 in the offering, purchasing 69,000 shares of Momenta common stock. Accordingly, as of June 30<sup>th</sup>, CHP II holds 2,170,286 shares of Momenta common stock. As all of our holdings are subject to Underwriter lockup or SEC short-swing sale restrictions, they are valued at a 25% discount from the closing price of \$8.85 for Momenta (NASDAQ:MNTA) on June 30, 2004.

**ALNYLAM PHARMACEUTICALS, INC.**  
**Cambridge, MA**  
**{[www.alnylam.com](http://www.alnylam.com)}**

**Therapeutics Based on the Novel Biological Mechanism of RNA Interference**

Period Summary: 2nd Quarter 2004

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On May 28<sup>th</sup>, Alnylam successfully completed its initial public offering. Priced at \$6 per share, the company sold 5.75 million shares with net proceeds of \$30 million. Banc of America Securities acted as the lead manager for the offering, with Citigroup Global Markets, Piper Jaffray and ThinkEquity Partners acting as co-managers. The offering was completed in a very difficult market, leading the venture investor syndicate to participate in the offering. The CHP II prorata share of the investor participation was \$1.4 million, purchasing 232,500 shares of common stock. In addition, all outstanding shares of preferred stock were automatically converted into shares of common stock. Post-offering, CHP II holds a total of 2,091,870 shares of Alnylam common stock that are subject to either underwriters or SEC short-swing trading restrictions until the end of November 2004. Other important developments during the quarter included the closing a significant strategic collaboration and the addition of Patty Allen to the Alnylam senior management team.

As the quarter came to a close, the company announced a new, multi-year collaboration with Merck & Co. to develop and commercialize RNAi therapeutics for ocular diseases. This collaboration, the second strategic alliance between Merck and Alnylam, will focus on age-related macular degeneration (AMD) and other ocular diseases caused by abnormal growth or leakage of small blood vessels in the eye. Alnylam's existing program to develop a Direct RNAi therapeutic for the treatment of AMD will be incorporated into the new collaboration. Under the terms of the agreement, Alnylam will receive an initial cash payment from Merck and can receive additional cash payments upon the achievement of specified progress milestones. Cash payments to Alnylam could collectively total \$19.5 million. In addition, Merck and Alnylam will jointly fund the development of, and share the profits from, any RNAi therapeutics for the United States market that result from the collaboration.

In June, the company added Patricia Allen to the senior management team as Vice President of Finance. Ms. Allen has over 20 years of experience in financial management, most recently as Director of Finance and Assistant Secretary at Alkermes, Inc., where she played a key role in finance including major convertible debt and equity offerings and significant merger and acquisition transactions. Prior to Alkermes, Ms. Allen was an audit manager at Deloitte & Touche.

Alnylam currently has \$48 million in cash, sufficient to fund operations through 2005. The company currently expects to file its initial IND with the FDA for Wet AMD in 2005. A recent research report on the company from Piper Jaffray is included in the first appendix at the back of the quarterly report.

## ALNYLAM PHARMACEUTICALS (cont.)

### FINANCIAL SUMMARY: (\$000)

#### Statement of Operations:

	<u>Six Months Ended</u>		<u>Three Months Ended</u>	
	<u>06/30/04</u>	<u>06/30/03</u>	<u>06/30/04</u>	<u>06/30/03</u>
Revenues	265	0	131	0
Research & Development	14,594	3,051	4,159	1,784
General & Administrative	<u>5,978</u>	<u>2,388</u>	<u>2,947</u>	<u>1,480</u>
Loss from Operations	-20,307	-5,439	-6,975	-3,264
Other Income (Expense)	<u>-231</u>	<u>45</u>	<u>19</u>	<u>20</u>
Net Income (Loss)	-20,538	-5,394	-6,956	-3,244
Earnings Per Share (\$)	-\$5.39	-\$12.32	-\$1.10	-\$6.83

#### Summary Balance Sheet as of June 30, 2004:

Cash	\$ 48,411	Accounts Payable	\$ 1,810
Receivables	3,000	Accrued Expenses	5,443
Other Current Assets	<u>1,413</u>	Deferred Revenue	<u>4,840</u>
Total Current Assets	52,824	Total Current Liabilities	12,093
Net PP&E	11,436	Other Liabilities (LOC)	5,705
Intangible & Other Assets	<u>4,213</u>	Shareholders Equity (Net)	<u>50,675</u>
Total Assets	<u>\$ 68,473</u>	Total Liabilities & Equity	<u>\$ 68,473</u>

#### Comments:

The company completed its IPO during the quarter receiving net proceeds of \$30 million. Current capital is forecast to be sufficient to support operations through 2005.

#### CHP II, L.P. Holdings:

Common Stock	2,091,870 shares
Assigned Fair Value (2,091,870 x \$7.56 x 75%)	\$11,860,903
Investment Cost	\$8,959,015
Cost per Share	\$4.283
% Ownership (Full Dilution)	8.63%
Company Valuation at CHP II Cost	\$103.8 million
Company Valuation at Market (\$7.56 per share)	\$137.5 million

**ATHENAHEALTH, INC.**  
**Waltham, MA**  
*{www.athenahealth.com}*

**Web-Based Business Practice Management Services for Physician Offices**

Period Summary: 2nd Quarter 2004

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Athena continued to exhibit strong financial performance through the second quarter of 2004. Revenues grew by 15% over the prior quarter and sales were ahead of quota for the second quarter in a row and stand at 134% of plan YTD. Gross margins grew from 42.5% to 45%, exceeding plan by 13% and driving better than expected results for both EBITDA and net loss. Operating cash flow was virtually breakeven for the quarter and is \$500K ahead of plan for the year.

Revenue was slightly ahead of plan for the quarter, despite the company being almost 20% behind on new client implementations for the year. Implementations for the quarter totaled \$5.9 million, with \$3.5 million in June alone. The implementation gap is expected to close by the end of next quarter. Gross margin exceeded plan by 15% and showed improvement in each month of the quarter. Expenses were slightly higher than plan primarily due to accelerated sales and marketing expenditures. New contract signings during the period totaled \$6.4 million, beating quota by 13%. The pipeline for the next quarter is expected to deliver results in line with the \$5.7 million quota for the period.

Athena's current annualized revenue run rate is \$38 million, on a contract base of \$50 million. The company is operating at positive EBITDA, with sustainable profitability forthcoming in the next 3-6 months. During the quarter, the company completed a \$7.5 million equity financing led by a \$4.5 million investment by new investor Granite Global Ventures. Current investors Oak, Venrock and Draper Fischer Jurvetson contributed the remaining \$3 million. With this additional capital, the company has a strong balance sheet coupled with its robust recurring revenue model and strong margins. We view Athena as a very attractive candidate for a liquidity event in the next 12-15 months and remain excited about the prospects for our investment.

**ATHENAHEALTH, INC. (cont.)**

**FINANCIAL RESULTS: (\$000)**

Overview: (FYE 12/31)

	<i>2001 Actual</i>	<i>2002 Actual</i>	<i>2003 Actual</i>	<i>2004 Budget</i>
Revenues	3,459	11,985	24,666	40,196
Direct Expenses	6,480	10,137	16,148	22,679
SG&A	9,278	8,860	10,501	13,737
EBITDA	-12,299	-7,012	-1,983	-3,780
Depreciation	1,636	2,493	2,894	3,500
Interest and Taxes	855	-55	-475	-837
<b>Net Income</b>	<b>-13,080</b>	<b>-9,560</b>	<b>-5,352</b>	<b>-557</b>

Last Three Months: Quarter Ended June 30, 2004

	<i>Actual</i>	<i>Budget</i>	<i>Variance</i>
Revenues	9,437	9,276	+161
Direct Expenses	5,172	5,573	+401
SG&A	4,090	4,000	-90
EBITDA	175	-297	+472
Depreciation	811	856	+45
Interest and Taxes	-335	-228	-107
<b>Net Income</b>	<b>-971</b>	<b>-1,381</b>	<b>+410</b>

Fiscal Year-to-Date: Six Months Ended June 30, 2004

	<i>Actual</i>	<i>Budget</i>	<i>Variance</i>
Revenues	17,627	17,534	+93
Direct Expenses	9,884	10,777	+893
SG&A	7,432	6,871	-561
EBITDA	311	-114	+425
Depreciation	1,583	1,640	+57
Interest and Taxes	-556	-434	-122
<b>Net Income</b>	<b>-1,828</b>	<b>-2,188</b>	<b>+360</b>

**ATHENAHEALTH, INC. (cont.)**

**Summary Balance Sheet as of June 30, 2004: (\$000)**

Cash	\$14,578	A/P and Accrued Expenses	\$ 4,091
Accounts Receivable	4,528	Deferred Revenue	2,319
Other Current Assets	<u>657</u>	Current Portion of Debt	<u>4,938</u>
Total Current Assets	19,763	Total Current Liabilities	11,348
Net PP&E	3,195	Long Term Debt	6,451
Intangibles (Net)	2,184	Shareholders Equity	50,345
Other Assets	<u>212</u>	Retained Earnings	<u>-42,790</u>
Total Assets	<u>\$25,354</u>	Total Liabilities & Equity	<u>\$25,354</u>

**Comments:**

Athena is 10% ahead of its cash flow forecast for the year. With the closing of the April \$7.5 million financing, the company has a strong balance sheet to support its building infrastructure investment. Operational cash burn is expected to be solidly positive for the remainder of 2004.

**CHP II, L.P. Holdings:**

Series D Convertible Preferred Stock	1,623,377 shares
Assigned Fair Value (\$5.04 x 1,623,377)	\$8,181,820
Investment Cost	\$5,000,001
Cost per Share	\$3.08

% Ownership (Full Dilution) 5.5%

Company Valuation at CHP II Cost	\$90.5 million
Company Valuation at Assigned Fair Value	\$148.1 million

**Outlook:**

We remain very enthusiastic about the prospects for Athena, which continues to build backlog, enjoys a powerful recurring revenue model with high exit barriers, and retains a strong lead in the business of automating the business functions of physician offices.



**CARDIO-OPTICS, INC.**  
**Boulder, CO**  
*{www.cardiooptics.com}*

**Infrared Light Based Technology to Achieve Vision Through Blood to Guide Therapy**

Period Summary: 2nd Quarter 2004

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During the quarter, Cardio-Optics formally adopted and began implementing its product development plan for a coronary lead placement kit and the associated hardware suitable for human testing and 510(k) submission to the FDA. Initial product development and non-human testing is expected to take 6-9 months, with the goal of beginning human testing by the end of 2004. Regulatory approval for human use will be pursued in parallel in both the United States and Europe. To support this product development phase, on May 31<sup>st</sup> the existing investor syndicate invested \$3 million as an extension to the Series A financing round.

By the end of June the company had completed the preliminary design phase and final design and prototype verification trials. Animal testing of the kit will commence in the 4<sup>th</sup> quarter of 2004. The technology team will continue to work on improvements to the stability and quality of the images over the next few months. Management has begun evaluating potential sites in Europe for human testing. Data gathering for comparison purposes on the costs, time, quality, and harmful side effects of current coronary sinus lead implantation methods utilized in the United States has been initiated. Through the end of this quarter, the company remains on its development timeline plan as adopted in April.

Financial results for the quarter reflect the operating plan that was put into effect in April of this year. Management continues to do a fine job managing expenditures to budget and the company remains ahead of its cash flow forecast. According to the operating plan, cash burn will be increasing over the next six months to an average of \$300K per month. The plan calls for no additions to the current staffing until the beginning of human testing, with additional resources required being outsourced. During the quarter, the existing investors contributed \$1 million each to a \$3 million extension of the Series A financing round completed in October 2002. CHP II invested \$1 million and now owns 26.1% of the company on a fully diluted basis. These funds are expected to last into Q3 2005.

We are excited about the product development path the company is now engaged upon. We feel confident that potential strategic partners will see the value of the technology more clearly defined under this approach. Management is diligently pursuing this path and we remain upbeat about the prospects for success at Cardio-Optics.

**CARDIO-OPTICS, INC. (cont.)**

**FINANCIAL RESULTS: (\$000)**

Overview: (FYE 12/31)

	<i>2001 Actual</i>	<i>2002 Actual</i>	<i>2003 Actual*</i>	<i>2004 Budget**</i>
Revenues	0	0	0	0
Cost of Sales	0	0	0	0
R&D Expenses	451	1,000	1,031	1,527
SG&A	618	1,527	1,036	1,209
EBIT	-1,069	-2,527	-2,067	-2,736
Interest and Taxes	5	23	-31	20
<b>Net Income</b>	<b>-1,064</b>	<b>-2,504</b>	<b>-2,098</b>	<b>-2,716</b>

\*- Subject to Audit

Last Three Months: Quarter Ended June 30, 2004

	<i>Actual</i>	<i>Budget**</i>	<i>Variance</i>
Revenues	0	0	0
Cost of Sales	0	0	0
R&D Expenses	276	404	+128
SG&A	271	201	-70
EBIT	-547	-605	+58
Interest and Taxes	-2	0	-2
<b>Net Income</b>	<b>-549</b>	<b>-605</b>	<b>+56</b>

Fiscal Year-to-Date: Six Months Ended June 30, 2004

	<i>Actual</i>	<i>Budget**</i>	<i>Variance</i>
Revenues	0	0	0
Cost of Sales	0	0	0
R&D Expenses	415	552	+137
SG&A	451	385	-66
EBIT	-866	-937	+71
Interest and Taxes	-1	0	-1
<b>Net Income</b>	<b>-867</b>	<b>-937</b>	<b>+70</b>

\*\* - 2004 Budget Approved in April 2004

## CARDIO-OPTICS, INC. (cont.)

### Summary Balance Sheet as of June 30, 2004: (\$000)

Cash	\$ 2,842	Accounts Payable	\$ 67
Accounts Receivable	0	Accrued Expenses	0
Other Current Assets	<u>0</u>	Other Current Liabilities	<u>164</u>
Total Current Assets	2,842	Total Current Liabilities	231
Net PP&E	93	Long Term Debt - Lease line	11
Intangibles (Net)	0	Shareholders Equity	10,425
Other Assets	<u>112</u>	Retained Earnings	<u>-7,620</u>
Total Assets	<u>\$ 3,047</u>	Total Liabilities & Equity	<u>\$ 3,047</u>

### Comments:

The current investor group provided \$3 million in financing in late May. This financing will provide the company with sufficient funding to likely complete a 510(k) approval process and a through a first series of human testing.

### CHP II, L.P. Holdings:

Series A Convertible Preferred Stock	1,938,310 shares
Assigned Fair Value	Investment Cost
Investment Cost	\$3,001,279
Cost per Share	\$1.55
% Ownership (Full Dilution)	26.1%
Company Valuation at CHP II Cost	\$11.5 million
Company Valuation at Assigned Fair Value	\$11.5 million

### Outlook:

We remain enthusiastic about the prospects for Cardio-Optics.

**CODERYTE, INC.**  
**Bethesda, MD**  
*{www.coderyte.com}*

**Web-based Automated Coding of Transcribed Medical Documents**

Period Summary: 2nd Quarter 2004

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The company has experienced significant market interest in its products, but implementation issues have hindered performance. A shortage of personnel has been a principal reason, making recruiting a primary focus at CodeRyte for the quarter. As the quarter ended, the company had successfully recruited a number of highly qualified engineers and was close to completing searches for two senior management positions, Senior Vice President of Sales and Senior Vice President of Implementation & Customer Service. Management is confident that these hires will lead to an immediate and positive effect on performance and morale.

New contracts closed during the quarter reflected the sales lag created in the prior quarter as management was focused on closing the Series B financing and building the team. Revenues were well off plan as the company rebuilt its sales momentum. A renewed focus on sales during the latter half of the quarter has significantly improved the sales pipeline with the company now having 17 strong prospects that represent potentially over \$2.2 million in annual revenues. During the current quarter, the company won seven new customers that represent over \$500,000 in annualized revenues. In addition, two large accounts closed in early July that represent \$1.6 million in annualized revenues. Management is also in discussion with a number of strategic partners for an integration of the CodeRyte system within their product offerings to clinical customers.

In the financial results for the June quarter, revenues were under plan due to contract signing delays and lower implementations. The revenue variance was more than offset by lower expenses, primarily due to lower headcount than budgeted. Also showing improvement was the productivity of the coders' and the NLP technology engine, leading to improved cost per chart coded. Management expects revenues to meet expectations in the coming quarter.

Goals for the remainder of calendar 2004 include; creation of an implementation plan to decrease the average length of contract to "go-live" from 4.5 months to 3 months, development of a technology plan to balance rapid growth with safe secure technology scaling and expansion of products offerings into the gynecology and orthopedic markets.

**CODERYTE, INC. (cont.)****FINANCIAL RESULTS: (\$000)**

Overview: (FYE 06/30)

	<i>2002 Actual</i>	<i>2003 Actual</i>	<i>2004 Prelim.*</i>	<i>2005 Plan**</i>
Revenues	332	743	1,502	7,281
Cost of Sales	0	0	0	0
Operating Expenses	1,762	2,576	2,682	7,892
EBITDA	-1,430	-1,833	-1,180	-611
Depreciation & Amort.	23	12	7	226
Other Income (Expense)	-96	462	-169	-7
<b>Net Income</b>	<b>-1,549</b>	<b>-1,383</b>	<b>-1,356</b>	<b>-844</b>

\*- Subject to Audit

\*\*- Subject to Board Approval

Last Three Months: Quarter Ended June 30, 2004

	<i>Actual</i>	<i>Budget</i>	<i>Variance</i>
Revenues	440	611	-171
Cost of Sales	0	0	0
Operating Expenses	774	1,263	+489
EBITDA	-334	-652	+318
Depreciation & Amort.	2	23	+21
Other Income (Expense)	30	6	+24
<b>Net Income</b>	<b>-306</b>	<b>-669</b>	<b>+363</b>

Fiscal Year-to-Date: Twelve Months Ended June 30, 2004

	<i>Actual</i>	<i>Budget</i>	<i>Variance</i>
Revenues	1,502	1,712	-210
Cost of Sales	0	0	0
Operating Expenses	2,682	3,362	+680
EBITDA	-1,180	-1,650	+470
Depreciation & Amort.	7	34	+27
Other Income (Expense)	-169	-248	+79
<b>Net Income</b>	<b>-1,356</b>	<b>-1,932</b>	<b>+576</b>

**CODERYTE, INC. (cont.)**

**Summary Balance Sheet as of June 30, 2004: (\$000)**

Cash	\$ 10,192	Accounts Payable	\$ 94
Accounts Receivable	242	Accrued Expenses	372
Other Current Assets	<u>153</u>	Deferred Revenue	<u>858</u>
Total Current Assets	10,587	Total Current Liabilities	1,324
Net PP&E	7	Long Term Debt - Lease line	0
Intangibles (Net)	0	Shareholders Equity	16,017
Other Assets	<u>15</u>	Retained Earnings	<u>-6,732</u>
Total Assets	<u>\$10,609</u>	Total Liabilities & Equity	<u>\$10,609</u>

**Comments:**

The company is currently ahead of its cash forecast. Current capital will be more than adequate to support operations as business expands and through the achievement of cash flow breakeven in the later half of calendar 2005.

**CHP II, L.P. Holdings:**

Series B Convertible Preferred Stock	326,675 shares
Assigned Fair Value	Investment Cost
Investment Cost	\$2,780,004
Cost per Share	\$8.51
% Ownership (Full Dilution)	15.0%
Company Valuation at CHP II Cost	\$18.5 million
Company Valuation at Assigned Fair Value	\$18.5 million

**Outlook:**

With its superior proprietary technology, a distinct economic advantage over competitive services, and broad applicability in the clinical healthcare market, we have high expectations for our investment in CodeRyte.

**INTELLICARE AMERICA, INC.**  
**South Portland, ME**  
*{www.intellicare.com}*

**Integrated Telecommunications, Web and Data Networks for Patient Management**

Period Summary: 2nd Quarter 2004

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Financial performance for the second quarter of 2004 was ahead of plan in every respect. Revenues and gross margins were both slightly ahead of plan for the period. Operationally the company performed well, with business unit margins improving to 28% versus 17% for last quarter. A tight control of overhead by management, allowed the company to significantly beat forecast for EBIT and cash flow. The company closed on a debt restructuring that effectively rolls over its bank line into a revolving credit facility that will defer principal payments beginning in July. Management has also identified a further cost reduction totaling \$30K per month in sales, marketing and operations support. These reductions will take effect in the latter half of next quarter.

During the quarter, the company agreed to acquire the assets of Night Call, a Buffalo, NY based call center. Management has completed its due diligence and is negotiating a definitive agreement. The transaction is expected to close in late August.

The encouraging recent performance was not sufficient, however, to reverse our judgment that IntelliCare no longer has the potential to generate long-term returns to the portfolio. Repeated execution missteps, and a failure to penetrate new markets have reinforced our support of the decision to sell the company.

In May, the board engaged Cain Brothers, a boutique healthcare investment bank, to affect a sale of the company. By the end of the quarter, a number of potential acquirers were in due diligence with the expected pricing ranging from \$15-\$20 million. In this range, due to the liquidation preference for the Series C preferred, CHP II would recover \$1.8 to \$3.1 million. The current carrying value for the IntelliCare investment is \$2.5 million. Management expects to select an offer by the end of next quarter and close the transaction by the end of the year.

## INTELLICARE AMERICA (cont.)

### FINANCIAL RESULTS: (\$000)

Overview: (FYE 12/31)

	<i>2001 Actual</i>	<i>2002 Actual</i>	<i>2003 Actual*</i>	<i>2004 Budget**</i>
Revenues	5,483	7,505	13,578	15,007
Cost of Revenues	6,593	6,945	11,932	11,268
SG&A	3,159	4,460	5,026	4,782
EBIT	-4,269	-3,900	-3,380	-1,043
Interest and Taxes	60	-3	-22	-71
<b>Net Income</b>	<b>-4,209</b>	<b>-3,903</b>	<b>-3,402</b>	<b>-1,114</b>

\* - Subject to Audit

Last Three Months: Quarter Ended June 30, 2004

	<i>Actual</i>	<i>Budge**t</i>	<i>Variance</i>
Revenues	3,496	3,468	+28
Cost of Revenues	1,882	1,911	+29
SG&A	1,764	1,900	+136
EBIT	-150	-343	+193
Interest and Taxes	-3	-25	+22
<b>Net Income</b>	<b>-153</b>	<b>-368</b>	<b>+215</b>

Fiscal Year-to-Date: Six Months Ended June 30, 2004

	<i>Actual</i>	<i>Budget**</i>	<i>Variance</i>
Revenues	7,048	7,023	+25
Cost of Revenues	3,997	4,042	+45
SG&A	4,080	4,222	+142
EBIT	-1,029	-1,241	+212
Interest and Taxes	-11	-20	+9
<b>Net Income</b>	<b>-1,040</b>	<b>-1,261</b>	<b>+221</b>

\*\* - 2004 Budget Revised in April



## INTELLICARE AMERICA (cont.)

### Summary Balance Sheet as of June 30, 2004: (\$000)

Cash	\$ 1,672	Accounts Payable	\$ 488
Accounts Receivable	1,503	Accrued Payroll	661
Other Current Assets	<u>122</u>	Other Current Liabilities	<u>597</u>
Total Current Assets	3,297	Total Current Liabilities	1,746
Net PP&E	1,364	Long Term Liabilities	918
Intangibles (Net)	131	Shareholders Equity	18,864
Other Assets	<u>42</u>	Retained Earnings	<u>-16,694</u>
Total Assets	<u>\$ 4,834</u>	Total Liabilities & Equity	<u>\$ 4,834</u>

#### Comments:

Monthly burn is steadily decreasing and the company is currently ahead of its cash forecast. Current capital is expected to be more than sufficient to support operations through the sale of the company in late 2004.

#### CHP II, L.P. Holdings:

Series B Convertible Preferred Stock	3,000,000 shares
Assigned Fair Value (\$0.1923 x 7,616,146 CSE's)	\$1,464,585
Investment Cost	\$3,000,000
Cost per Share	\$1.00
Series C Convertible Preferred Stock	5,200,208 shares
Assigned Fair Value	\$1,000,000
Investment Cost	\$1,000,000
Cost per Share	\$0.1923
Series C Preferred Stock Warrants	510,243 shares
Exercise Price Per Share	\$0.1923
% Ownership (Full Dilution)	12.7%
Company Valuation at CHP II Cost	\$31.5 million
Company Valuation at Assigned Fair Value	\$20.2 million

#### Outlook:

With an investment banker engaged to sell the company, we are hopeful of closing a transaction by yearend. Return expectations are in the range of our current carrying value.

**MOBILE MEDICAL INDUSTRIES, INC.**

**Boca Raton, FL**

**{*www.mobilemedicalind.com*}**

**Provider of comprehensive, integrated home-based medical services.**

Period Summary: 2nd Quarter 2004

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Financial results for the quarter were a disappointment and management has restructured operations and begun replacing lagging branch management personnel. Management is clearly focused on three goals for the remainder of 2004; same-store revenue growth, margin improvement, and development of strategic opportunities to grow the business more aggressively.

Revenues for the quarter were \$10 million for the period, flat when compared to the previous period, and 19% below budget. Delays in opening new markets plus a lack of same-store sales growth have been the principal reasons for this revenue shortfall. Gross margins deteriorated 300 basis points from the previous quarter to 44% and were lower than the budgeted figure of 53% as a result of lower revenues from the higher margin business segments. Margin improvement will be the primary focus of management attention in the coming months. Initiatives to better align care provider compensation plans with corporate financial and clinical objectives were completed and are being implemented throughout the company. Management believes that these margin improvement initiatives alone can bring in over \$600K of monthly bottom line improvement and bring the company to profitability. The timing will be subject to the continued hiring of stronger branch management, proper training of existing management to the use of improved labor management tools and the impact of the summer season. New leadership at some under performing branch locations is already beginning to show a positive impact on both revenues and margins.

Overhead expenses were well under budget due to lower corporate headcount. Operating cash flow has fallen \$500K behind plan for the year, with an average monthly cash burn for the quarter of \$450K, an increase of 8% over the previous quarter. In June, the company closed on a \$5 million credit revolver and a \$400K term loan with the Healthcare Finance Group. These facilities will support operating working capital as needed.

Management has reached terms on the acquisition of a \$19 million revenue company that operates independent living, assisted living and skilled nursing facilities in Florida, Tennessee, and Texas. The companies currently share less than a 5% common client base and significant cross-selling opportunities exist between the two organizations. The purchase price would be substantially financed by sub-debt, but an equity infusion of \$5-7 million from the current investors would likely be added to support working capital. Due diligence is near completion and management is hopeful of completing the transaction by the end of the year.

**MOBILE MEDICAL INDUSTRIES, INC. (cont.)**

**FINANCIAL RESULTS: (\$000)**

Overview: (FYE 12/31)

	<i>2001 Actual</i>	<i>2002 Actual</i>	<i>2003 Actual</i>	<i>2004 Budget</i>
Revenues	23,911	30,440	33,583	52,566
Direct Expenses	10,967	15,872	17,013	24,743
SG&A	15,197	19,011	23,287	25,800
EBIT	-2,253	-4,443	-6,717	2,023
Interest and Taxes	-1,760	-1,263	-125	-169
<b>Net Income</b>	<b>-4,013</b>	<b>-5,706</b>	<b>-6,842</b>	<b>1,854</b>
<b>EBITDA</b>	<b>-1,248</b>	<b>-3,966</b>	<b>-6,174</b>	<b>+2,727</b>

Last Three Months: Quarter Ended June 30, 2004

	<i>Actual</i>	<i>Budget</i>	<i>Variance</i>
Revenues	10,007	12,425	-2,418
Direct Expenses	5,562	5,855	+293
SG&A	5,726	6,215	+489
EBIT	-1,281	355	-1,636
Interest and Taxes	-24	-47	+23
<b>Net Income</b>	<b>-1,305</b>	<b>308</b>	<b>-1,613</b>
<b>EBITDA</b>	<b>-1,150</b>	<b>526</b>	<b>-1,676</b>

Fiscal Year-to-Date: Six Months Ended June 30, 2004

	<i>Actual</i>	<i>Budget</i>	<i>Variance</i>
Revenues	20,014	22,810	-2,796
Direct Expenses	10,788	10,945	+157
SG&A	11,432	12,079	+647
EBIT	-2,206	-214	-1,992
Interest and Taxes	-32	-99	+67
<b>Net Income</b>	<b>-2,238</b>	<b>-313</b>	<b>-1,925</b>
<b>EBITDA</b>	<b>-1,946</b>	<b>102</b>	<b>-2,048</b>

## MOBILE MEDICAL INDUSTRIES, INC. (cont.)

### Summary Balance Sheet as of June 30, 2004: (\$000)

Cash	\$ 2,690	Accounts Payable	\$ 602
Accounts Receivable	5,385	Accrued Expenses	3,017
Other Current Assets	<u>1,700</u>	Other Current Liabilities	<u>1,919</u>
Total Current Assets	9,775	Total Current Liabilities	5,538
Net PP&E	1,328	Debt and Other Liabilities	1,374
Acquired Goodwill (Net)	9,232	Shareholders Equity	39,203
Other Assets	<u>863</u>	Retained Earnings	<u>-24,917</u>
Total Assets	<u>\$21,198</u>	Total Liabilities & Equity	<u>\$21,198</u>

### Comments:

With the closing of the \$5 million revolving credit facility during the quarter, the company has adequate capital resources to operate for at least 18 months. We expect that the company will be operating at cash flow positive in early 2005. We do not foresee the need for additional operating capital at MMI, unless or until management is successful in closing the acquisition discussed in the report.

### CHP II, L.P. Holdings:

Series B Convertible Preferred Stock	400,000 shares
Assigned Fair Value	Investment Cost
Investment Cost	\$4,000,000
Cost per Share	\$10.00

% Ownership (Full Dilution) 8.2%

Company Valuation at CHP II Cost	\$48.8 million
Company Valuation at Assigned Fair Value	\$48.8 million

### Outlook:

Notwithstanding the current disappointing financial performance of the company, we are confident that the underlying business model is sound and remain enthusiastic about the prospects for our investment in Mobile Medical.

# MOLECULAR MINING CORPORATION

Kingston, Ontario

{[www.molecularmining.com](http://www.molecularmining.com)}

## Software Tools for Genomics Research

Period Summary: 2nd Quarter 2004

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As reported previously, the only outstanding item regarding the liquidation and dissolution of Molecular Mining is the sale and/or licensing of the company's intellectual property. PARTEQ Innovations is acting as agent to sell the intangible assets of the company. The agreement contains a revenue sharing component whereby PARTEQ will receive a ramping percentage of the proceeds, based upon the overall amount of the sale. Under the terms of the agreement, if the intangible assets are sold/licensed for a total of under \$25.5 million, the proceeds will be split solely between the Series B Preferred shareholders and PARTEQ. The Series A investors and the common shareholders would receive no return on their investment.

There was no receipt of funds from PARTEQ during the current quarter. To-date CHP II has received \$70,551 in cash distributions related to the sale of the assets of Molecular Mining. Our current estimate of total return on the CHP II investment is between \$100K - \$150K. CHP II will receive 18.25% of any future distribution to the Series B investors.

It is expected that the PARTEQ transaction will be complete by the end of 2004 and we will record the final investment realization at that time.

### CHP II, L.P. Holdings:

Series B Convertible Preferred Stock	737,422 shares
Assigned Fair Value	\$29,449
Investment Cost	\$1,438,510
 % Ownership of the Series B Preferred	 18.25%

**MOMENTA PHARMACEUTICALS, INC.**  
**(formerly Mimeon, Inc.)**  
**Cambridge, MA**  
*{www.momenta.com}*

**Glycomics Based Drug Discovery and Development**

Period Summary: 2nd Quarter 2004

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On June 21<sup>st</sup>, Momenta successfully completed its initial public offering. Priced at \$6.50 per share, the company sold 6.15 million shares with net proceeds of \$35.5 million. The co-lead managing underwriters for the offering were SG Cowen and Banc of America Securities, with CIBC World Markets and ThinkEquity Partners acting as co-managers. The offering was completed in a very difficult market, leading the venture investor syndicate to participate in the offering. The CHP II prorata share of the investor participation was \$448,500, purchasing 69,000 shares of common stock. In addition, all shares of preferred stock were automatically converted into shares of common stock. Post-offering, CHP II holds a total of 2,170,286 shares of Momenta common stock that are subject to either underwriters' or SEC short-swing trading restrictions until the end of December 2004.

For the quarter ended June 30, 2004, Momenta reported a net loss of \$2.9 million, compared with a net loss of \$1.8 million for the same period in 2003. The Company's net loss for the six months ended June 30, 2004 was \$5.5 million compared with a net loss of \$3.3 million for the same period in 2003. The larger losses for the 2004 periods were substantially the result of increased research and development expenses coupled with higher general and administrative expenses. The increase in research and development spending was primarily due to increased expenses associated with the M-Enoxaparin (M-Enox) program and with the development of M118, a novel low molecular weight heparin for acute coronary syndromes. In addition, research and development spending reflects Momenta's overall growth and increased headcount associated with the advancement of programs such as non-invasive drug delivery and oncology. The increase in general and administrative spending was primarily due to an increase in stock compensation expense, increased personnel costs as a result of increased headcount, and increased professional fees related to the financings in 2004.

The Company reported revenues under its collaborative agreement with Sandoz, an affiliate of Novartis AG, of \$2.1 million for the quarter ended June 30, 2004 and \$3.2 million for the six months ended June 30, 2004. Under the collaboration completed late last year, Momenta and Sandoz have agreed to jointly develop, manufacture, and commercialize M-Enox, and Sandoz is responsible for funding substantially all of the development, regulatory, legal and commercialization costs associated with M-Enox.

As of June 30, 2004, Momenta held \$64 million in cash, sufficient to fund operations through the first half of 2007. The ANDA filing with the FDA for M-Enox is expected by the second quarter of 2005.

# **MOMENTA PHARMACEUTICALS, INC. (cont.)**

## **FINANCIAL SUMMARY: (\$000)**

### **Statement of Operations:**

	<u>Six Months Ended</u>		<u>Three Months Ended</u>	
	<u>06/30/04</u>	<u>06/30/03</u>	<u>06/30/04</u>	<u>06/30/03</u>
Revenues	3,151	0	2,115	0
Research & Development	5,748	1,728	3,508	938
General & Administrative	<u>2,989</u>	<u>1,570</u>	<u>1,580</u>	<u>864</u>
Loss from Operations	-5,586	-3,298	-2,973	-1,802
Other Income (Expense)	<u>114</u>	<u>-1</u>	<u>83</u>	<u>1</u>
Net Income (Loss)	-5,472	-3,299	-2,890	-1,801
Earnings Per Share (\$)	-\$7.28	-\$2.27	-\$0.79	-\$1.14

### **Summary Balance Sheet as of June 30, 2004:**

Cash	\$ 64,033	Accounts Payable	\$ 1,509
Receivables	0	Accrued Expenses	1,282
Other Current Assets	<u>3,084</u>	Deferred Revenue	<u>490</u>
Total Current Assets	67,117	Total Current Liabilities	3,281
Net PP&E	1,341	Other Liabilities (LOC)	534
Intangible & Other Assets	<u>105</u>	Shareholders Equity (Net)	<u>64,748</u>
Total Assets	<u>\$68,563</u>	Total Liabilities & Equity	<u>\$68,563</u>

### **Comments:**

The company received \$35.5 million in net proceeds from the June IPO. Current capital is expected to be sufficient to support operations well into 2007.

### **CHP II, L.P. Holdings:**

Common Stock	2,170,286 shares
Assigned Fair Value (2,170,286 x \$8.85 x 75%)	\$14,405,273
Investment Cost	\$6,823,506
Cost per Share	\$3.144
% Ownership (Full Dilution)	7.0%
Company Valuation at CHP II Cost	\$97.5 million
Company Valuation at Market (\$8.85 per share)	\$205.8 million

**REPLICATION MEDICAL, INC.**  
**New Brunswick, NJ**  
*{www.replicationmedical.com}*

**Nucleus replacement device for the treatment of degenerative disc disease in the spine.**

Period Summary: 2nd Quarter 2004

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Steady progress continued in Replication's product development for its implantable disk nucleus during the quarter. While the company remains behind on its clinical plan, it continues to attract industry wide attention as the most promising surgical solution for minimally invasive treatment of degenerative disk disease.

In Europe, the pace of clinical trials and the rate of patient enrollment continued to be slower than expected. However the company has successfully recruited a second investigator that will begin enrollment in the coming quarter. Since the filing of CE mark for approval in Europe is dependant on completion of these trials, we are concerned that this date may slip.

The regulatory pathway for U.S. approval has historically been complicated for spine-related devices, and Replication has been proceeding cautiously with its FDA strategy. The company's goal currently is to submit its IDE (Investigational Device Exemption) before the end of this year, with a pivotal trial to begin in 2005. In April, an analogous device by DePuy Spine received a favorable FDA panel review and is expected to be approved by yearend. The device, which is a total disc replacement technology, in contract to Replication's nucleus replacement, could serve as an attractive control group for Replication's human trials.

As mentioned in last quarter's report, the company received an unsolicited, but attractive, proposal for a \$20 million financing to be led by a leading venture capital firm. While in the process of negotiating the final terms for the financing, the company received a very attractive expression of interest to be acquired by a leading medical device company. The potential acquirer has begun its due diligence process, which we expect to be completed by the end of August. We continue to be very encouraged by the level of interest in Replication from both the financial and medical device community.



**REPLICATION MEDICAL (cont.)****FINANCIAL RESULTS: (\$000)**

Overview: (FYE 12/31)

	<i>2001 Actual</i>	<i>2002 Actual</i>	<i>2003 Actual</i>	<i>2004 Budget</i>
Revenues	0	0	0	0
R&D Expenses	1,163	1,255	2,396	2,642
Operating Expenses	266	324	782	247
EBIT	-1,429	-1,579	3,178	-2,889
Interest and Taxes	44	3	27	11
<b>Net Income</b>	<b>-1,385</b>	<b>-1,576</b>	<b>-3,151</b>	<b>-2,878</b>

Last Three Months: Quarter Ended June 30, 2004

	<i>Actual</i>	<i>Budget</i>	<i>Variance</i>
Revenues	0	0	0
R&D Expenses	622	711	+89
Operating Expenses	114	58	-56
EBIT	-736	-769	+33
Interest and Taxes	3	4	-1
<b>Net Income</b>	<b>-733</b>	<b>-765</b>	<b>+32</b>

Fiscal Year-to-Date: Six Months Ended June 30, 2004

	<i>Actual</i>	<i>Budget</i>	<i>Variance</i>
Revenues	0	0	0
R&D Expenses	1,034	1,261	+227
Operating Expenses	207	132	-75
EBIT	-1,241	-1,393	+152
Interest and Taxes	8	9	-1
<b>Net Income</b>	<b>-1,233</b>	<b>-1,384</b>	<b>+151</b>

## REPLICATION MEDICAL (cont.)

### Summary Balance Sheet as of June 30, 2004: (\$000)

Cash	\$ 1,453	A/P & Accrued Expenses	\$ 86
Prepaid Expenses	3	Deferred Charges	0
Other Current Assets	<u>20</u>	Notes Payable	<u>0</u>
Total Current Assets	1,476	Total Current Liabilities	86
Net PP&E	367	Long Term Debt	0
Intangibles (net)	0	Shareholders Equity	9,859
Other Assets	<u>0</u>	Retained Earnings	<u>-8,102</u>
Total Assets	<u>\$ 1,843</u>	Total Liabilities & Equity	<u>\$ 1,843</u>

### Comments:

While R&D expenses have begun ramping with additional trials in Europe, the company has not yet reached planned expenditure levels and is therefore not burning cash as expected. We expect the company to require additional financing by the end of 2004. Investor interest has been high.

### CHP II, L.P. Holdings:

Series B Convertible Preferred Stock	2,614,516 shares
Assigned Fair Value	Investment Cost
Investment Cost	\$2,500,000
Cost per Share	\$0.9562

% Ownership (Full Dilution)	20.8%
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Company Valuation at CHP II Cost	\$12.3 million
Company Valuation at Assigned Fair Value	\$12.3 million

### Outlook:

The combination of a large and growing market looking for new therapies, multiple large potential acquirers, high product margins and the proprietary nature of the Replication's technology, lead us to be very excited about the prospects for our investment.

**RIB-X PHARMACEUTICALS, INC.**  
**New Haven, CT**  
**{*www.rib-x.com*}**

**Structure-Based Design of Anti-Infective Agents**

Period Summary: 2nd Quarter 2004

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As mentioned in last quarters report, the Rib-X scientific team had identified a lead drug candidate compound, RX-1284, for the treatment of community-acquired respiratory tract infection (CRTI). During the current quarter, further pre-clinical toxicology testing has uncovered two significant problems with this compound - gastro-intestinal intolerance and not surprisingly, bone marrow suppression. As a consequence, RX-1284 was placed “on hold” until the company has a better understanding of these findings. Given the breadth of antibacterial activity exhibited by RX-1284 as compared to major competitor compounds, further pre-clinical studies will be conducted to ascertain if there are dosage levels that can be effective and yet lower the toxic effects to an acceptable level. The results of these studies will not be known for 3-6 months.

Financial performance for the quarter was well ahead of plan in all areas, primarily due to lower personnel costs, the set-aside of the lead compound program due to toxicity issues, and the delay in scale-up for manufacturing in the lead drug program. Management has recast its financial and clinical plan to measure the impact of placing the RX-1284 program on hold. The filing of an initial IND with the FDA is now forecast to occur in the middle of next year, rather than the end of this year. Financially, the company has sufficient capital to operate for at least two years and likely well into Phase II clinical trials for two compounds. Additional programs to identify other drug candidate compounds will be accelerated in the latter half of 2004. Management continues to manage expenditures efficiently.

At the end of May, the company launched an aggressive in-licensing program. The team is sifting through several thousand well-explored anti-infective opportunities available from databases, and at the same time, searching out personal contacts to identify potential programs to help ensure the build of a pipeline by supplementing internal attrition-fighting strategies. The profile of a preferred product would be one in the late pre-clinical or early clinical stage of development that can yield a therapeutic drug product that can be differentiated in the marketplace using a specialty sales force, or be licensed to a strategic partner to produce a favorable ROI.

**RIB-X PHARMACEUTICALS, INC. (cont.)**

**FINANCIAL RESULTS: (\$000)**

Overview: (FYE 12/31)

	<i>2001 Actual</i>	<i>2002 Actual</i>	<i>2003 Actual</i>	<i>2004 Budget</i>
Revenues	0	0	148	1,100
R&D Expenses	593	5,283	9,469	15,030
Operating Expenses	828	2,192	1,750	5,105
EBIT	-1,421	-7,475	-11,071	-19,035
Interest and Taxes	-11	-71	+134	+65
<b>Net Income</b>	<b>-1,432</b>	<b>-7,546</b>	<b>-10,937</b>	<b>-18,970</b>

Last Three Months: Quarter Ended June 30, 2004

	<i>Actual</i>	<i>Budget</i>	<i>Variance</i>
Revenues	0	157	-157
R&D Expenses	3,075	3,328	+253
Operating Expenses	1,606	2,017	+411
EBIT	-4,681	-5,188	+507
Interest and Taxes	+95	+122	-27
<b>Net Income</b>	<b>-4,586</b>	<b>-5,066</b>	<b>+480</b>

Fiscal Year-to-Date: Six Months Ended June 30, 2004

	<i>Actual</i>	<i>Budget</i>	<i>Variance</i>
Revenues	0	157	-157
R&D Expenses	5,905	8,178	+2,273
Operating Expenses	1,476	2,045	+569
EBIT	-7,381	-10,066	+2,685
Interest and Taxes	+191	+260	-69
<b>Net Income</b>	<b>-7,190</b>	<b>-9,806</b>	<b>+2,616</b>

## RIB-X PHARMACEUTICALS, INC. (cont.)

### Summary Balance Sheet as of June 30, 2004: (\$000)

Cash	\$45,557	Accounts Payable	\$ 1,390
Accounts Receivable	341	Accrued Expenses	0
Other Current Assets	<u>278</u>	Notes Payable Current	<u>792</u>
Total Current Assets	46,176	Total Current Liabilities	2,182
Net PP&E	5,479	Notes Payable	3,127
Intangibles (net)	0	Shareholders Equity	72,503
Other Assets	<u>249</u>	Retained Earnings	<u>-25,908</u>
Total Assets	<u>\$51,904</u>	Total Liabilities & Equity	<u>\$51,904</u>

### Comments:

The company is well ahead of its cash burn plan for the year and will likely be well ahead of plan for the year. With the current cash balance, Rib-X has enough capital to operate for at least more two years.

### CHP II, L.P. Holdings:

Series A Convertible Preferred Stock	1,817,741 shares
Assigned Fair Value (cost)	\$1,125,000
Investment Cost	\$1,125,000
Cost per Share	\$0.6189
Series B Convertible Preferred Stock	4,645,339 shares
Assigned Fair Value (cost)	\$2,875,000
Investment Cost	\$2,875,000
Cost per Share	\$0.6189
% Ownership (Full Dilution)	4.9%
Company Valuation at CHP II Cost	\$80.0 million
Company Valuation at Assigned Fair Value	\$80.0 million

### Outlook:

Notwithstanding the current set back in the lead drug program, Rib-X is well capitalized, with a high potential and proprietary drug development platform. We remain excited about the prospects for our Rib-X investment.