

CHP III, L.P.
QUARTERLY REPORT
1st QUARTER, 2007

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If you have any questions regarding treatment of any confidential information received in connection with your investment in the Funds, please contact John J. Park at (609) 924-6452 or by email at johnpark@cardinalpartners.com.

CHP III, L.P.
QUARTERLY REPORT
1st QUARTER, 2007
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TO: The Limited Partners of CHP III, L.P.

FROM: John K. Clarke

DATE: June 1, 2007

SUBJECT: Activity for the Quarter Ended March 31, 2007

On November 21, 2006 CHP III, L.P. ("CHP III") held a successful first closing on \$68.8 million in limited partner interests. In January and March 2007, CHP III held closings on \$48.3 million in additional limited partner interests, bringing the total current fund size to \$117,088,608. We expect to hold further closings for the fund in the summer and/or early fall to reach our target of \$175 million. Brandon Hull, Lisa Skeete Tatum, Chuck Hadley, John Park and I thank each of you for your participation and support as we complete the fundraising for CHP III.

On March 30, 2007, CHP III completed its initial capital call of \$6 million and concurrently made its first investment in Bioconnect Systems, Inc. ("Bioconnect"). Bioconnect is an early stage medical device company initially focused on minimally invasive devices for improved vascular access. The financing represented the first institutional money invested in the company.

Included in this report are the CHP III financial statements for the period, an investment memorandum on Bioconnect and a summary deal flow report. We would greatly appreciate any comments or suggestions you may have about this report or any additional information you would like to have included.

Deal Flow:

During the first quarter of 2007, Cardinal has reviewed 55 business plans. Current "A" deals include: COPD Partners, DecisionQ Corporation, Disc Motion Technologies, FluidNet, Health Savings Technology, KC Biomedix, Neuro Impulse, and Quantia Communications.

An alphabetical list of all deals received this quarter, with a brief business description, deal source and current status is included as an appendix to this report.

Investment Activity:

Bioconnect Systems, Inc. was the first investment for CHP III, contributing \$4 million to the \$8.2 million Series A preferred financing, which closed on March 29th. The financing was led by Cardinal Partners and included co-investor Fidelity Biosciences. The financing was completed at a pre-money value of \$3.5 million, with Cardinal holding 30.6% ownership position on a fully diluted basis post-investment. Chuck Hadley will represent Cardinal on the Bioconnect Board of Directors.

Financial Results:

During the quarter, CHP III completed one capital call for a total of \$6 million. Utilization of these funds included the \$4 million investment in Bioconnect Systems and payment of fund operating expenses. The cash balance at the end of the period was \$917,406.

Organization costs to-date for CHP III totals \$207K, subject to current and future legal and travel expenses not billed as of this date. The cap for organizational expenses for CHP III is set at \$500K.

The loss for the period ended March 31, 2007, was \$1.1 million representing operating expenses for the period from inception to March 31, 2007 plus the partial write-off of accumulated organization costs. All organizational costs for CHP III will be written off for book purposes over the course of the year.

Looking forward:

Our modeled investment portfolio for CHP III shows an expected annual investment pace of \$18-\$20 million in four to five companies per year. As of this writing, we have completed three investments, investing a total of \$10.6 million.

We have scheduled our annual meeting for Wednesday, November 28, 2007 at Mandarin Oriental in New York City. If you have any questions regarding the meeting, please contact Pam Shaw at (609) 924-6452 or by email at pam@cardinalpartners.com.

Brandon, Lisa, Chuck, John Park and I appreciate your continued support and welcome your input.

Cardinal Partners has relocated its headquarters office to 600 Alexander Park, Suite 204, Princeton, NJ 08540. Telephone and facsimile numbers remain the same.

CHP III, L.P.
Income Statement
For the Period Ended March 31, 2007

	Three Months Ended 03/31/07	Period From Inception to 03/31/07
Revenue:		
Non Portfolio Income	\$0	\$0
Interest-Equivalent Amounts	0	0
Expenses:		
Management Fee	1,052,595	1,052,595
Professional Fees	6,000	6,000
NVCA Dues & Expenses	0	0
Amortization of Organization Costs	55,000	55,000
Miscellaneous Expenses	0	0
Total Expenses	1,113,595	1,113,595
Net Operating Expense	(1,113,595)	(1,113,595)
Investment Income	12	12
Net Income Before Gains (Losses)	(1,113,583)	(1,113,583)
Realized Gains (Losses)	0	0
Unrealized Gains (Losses)	0	0
Net Income (Loss)	(\$1,113,583)	(\$1,113,583)

CHP III, L.P.
Balance Sheet
As of March 31, 2007

ASSETS:	Period Ended 03/31/07	Period Ended 12/31/06
Cash and Short-Term Investments	\$917,406	\$0
Accrued Interest	11	0
Venture Capital Investments	4,000,000	0
Organization Costs (Net of Accum. Amortization)	152,443	171,673
Other Assets	30,000	0
	<u>\$5,099,860</u>	<u>\$171,673</u>
 LIABILITIES & CAPITAL:		
Accrued Expenses and Payables	\$213,443	\$171,673
Partners' Accounts	4,886,417	0
Total Liabilities and Capital	<u>\$5,099,860</u>	<u>\$171,673</u>

CHP III, L.P.
Footnotes
As of March 31, 2007

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

Note 2 – Net Organization Costs	03/31/07	12/31/06
	<hr/>	<hr/>
Organization Costs *	\$207,443	\$171,673
Accumulated Amortization	(55,000)	(0)
Total	<hr/> <u>\$152,443</u>	<hr/> <u>\$171,673</u>

* - Organization Costs are preliminary and subject to change.

Note 3 – Accrued Interest	03/31/07	12/31/06
	<hr/>	<hr/>
General Partner Promissory Notes	\$11	\$0
Portfolio Company Promissory Notes	0	0
Total	<hr/> <u>\$11</u>	<hr/> <u>\$0</u>

Note 4 – Other Assets	03/31/07	12/31/06
	<hr/>	<hr/>
GP Promissory Note Principal	\$30,000	\$0
Prepaid NJ State Filing Fees	0	0
Total	<hr/> <u>\$30,000</u>	<hr/> <u>\$0</u>

Note 5 – Accrued Expenses and Payables	03/31/07	12/31/06
	<hr/>	<hr/>
Professional Fees	\$6,000	\$0
NVCA Dues & Annual Meeting	0	0
Organization Costs	207,443	171,673
Other Accrued Expenses	0	0
Total	<hr/> <u>\$213,443</u>	<hr/> <u>\$171,673</u>

CHP III, L.P.
Statement of Cash Flows
For the Period Ended March 31, 2007

	Three Months Ended 03/31/07	Period From Inception to 03/31/07
Cash flows from operating activities		
Net Income Before Gains (Losses)	(\$1,113,583)	(\$1,113,583)
Adjustments to reconcile net income before gains (losses) to net cash used in operating activities:		
Accrued Interest Receivable	(11)	(11)
Accrued Organization Costs	35,770	207,443
Other Assets	(10,770)	(182,443)
Accrued Expenses & Payables	6,000	6,000
Net Cash used in Operating Activities	(1,082,594)	(1,082,594)
Cash flows from investing activities		
Purchases of venture capital investments	(4,000,000)	(4,000,000)
Sales of venture capital investments	0	0
Net cash used in investing activities	(4,000,000)	(4,000,000)
Cash flows from financing activities		
Cash contributions by partners	6,000,000	6,000,000
Cash distribution to partners	0	0
Net cash provided by financing activities	6,000,000	6,000,000
 Net Change in Cash and Short Term Investments	 \$917,406	 \$917,406
Cash and Short Term Investments, beginning	0	0
Cash and Short Term Investments, ending	<u>\$917,406</u>	<u>\$917,406</u>

CHP III, L.P.
Schedule of Venture Capital Investments
As of March 31, 2007

Company	Debt	Equity	Total Cost	Fair Value	Unrealized Gain (Loss)
Bioconnect Systems, Inc.	\$0	\$4,000,000	\$4,000,000	\$4,000,000	\$0
	<hr/>				
Totals	\$0	\$4,000,000	\$4,000,000	\$4,000,000	\$0
	<hr/>				

CHP III, L.P.
Statement of Partners' Contributions Accounts
As of March 31, 2007

	Partners' Total Subscription	Contribution Account 12/31/06	Period Contribution in Cash	Period Contribution by Note	Contribution Account 03/31/07	Partners' Outstanding Subscription
<u>Limited Partners</u>						
State Teachers Ret. System of Ohio	\$23,417,722	\$0	\$1,200,000	\$0	\$1,200,000	\$22,217,722
Trustees of Princeton University	9,425,000	0	482,967	0	482,967	8,942,033
The Robertson Foundation	575,000	0	29,465	0	29,465	545,535
Robert Wood Johnson Foundation	10,000,000	0	512,432	0	512,432	9,487,568
Northwestern University	7,000,000	0	358,704	0	358,704	6,641,296
LA City Employees Retirement (LACERS)	15,000,000	0	768,650	0	768,650	14,231,350
Hamilton Lane-Carpenters Fund II	5,000,000	0	256,216	0	256,216	4,743,784
Intl Union of Operating Engineers	5,000,000	0	256,216	0	256,216	4,743,784
COPTL, L.P. (Royal Mail)	10,000,000	0	512,432	0	512,432	9,487,568
Howard University (Endowment)	2,500,000	0	128,108	0	128,108	2,371,892
Howard University Retirement Trust	2,500,000	0	128,108	0	128,108	2,371,892
SVB Strategic Investors Fund III, L.P.	10,000,000	0	512,432	0	512,432	9,487,568
Venture Investment Associates VI, L.P.	6,000,000	0	307,460	0	307,460	5,692,540
W/SI Investments, Inc.	5,000,000	0	256,216	0	256,216	4,743,784
Alexandria Equities, LLC	2,500,000	0	128,108	0	128,108	2,371,892
United Gulf Investments, Ltd.	2,000,000	0	102,486	0	102,486	1,897,514
	\$115,917,722	\$0	\$5,940,000	\$0	\$5,940,000	\$109,977,722
<u>General Partner</u>						
CHP III Management, LLC.	1,170,886	0	30,000	30,000	60,000	1,110,886
Total Partnership	\$117,088,608	\$0	\$5,970,000	\$30,000	\$6,000,000	\$111,088,608

CHP III, L.P.
Statement of Partners' Distributive Share of Net Assets
For the Period Ended March 31, 2007

	Private Securities	Cash	Organization Costs (net)	Other Assets	Total Assets	Accrued Expenses	Net Assets 03/31/07
<u>Limited Partners</u>							
State Teachers Ret. System of Ohio	\$800,000	\$183,482	\$30,490	\$6,000	\$1,019,972	(\$42,688)	\$977,284
Trustees of Princeton University	321,978	73,846	12,271	2,416	410,511	(17,181)	393,330
The Robertson Foundation	19,643	4,505	749	147	25,044	(1,048)	23,996
Robert Wood Johnson Foundation	341,621	78,351	13,020	2,563	435,555	(18,229)	417,326
Northwestern University	239,136	54,847	9,114	1,794	304,891	(12,761)	292,130
LA City Employees Retirement (LACERS)	512,435	117,527	19,529	3,845	653,336	(27,344)	625,992
Hamilton Lane-Carpenters Fund II	170,811	39,176	6,509	1,282	217,778	(9,115)	208,663
Intl Union of Operating Engineers	170,811	39,176	6,509	1,282	217,778	(9,115)	208,663
COPTL, L.P. (Royal Mail)	341,621	78,351	13,020	2,563	435,555	(18,229)	417,326
Howard University (Endowment)	85,405	19,588	3,254	641	108,888	(4,557)	104,331
Howard University Retirement Trust	85,405	19,588	3,254	641	108,888	(4,557)	104,331
SVB Strategic Investors Fund III, L.P.	341,621	78,351	13,020	2,563	435,555	(18,229)	417,326
Venture Investment Associates VI, L.P.	204,973	47,011	7,812	1,538	261,334	(10,938)	250,396
WSI Investments, Inc.	170,811	39,176	6,509	1,282	217,778	(9,115)	208,663
Alexandria Equities, LLC	85,405	19,587	3,255	641	108,888	(4,557)	104,331
United Gulf Investments, Ltd.	68,324	15,670	2,604	513	87,111	(3,646)	83,465
<u>General Partner</u>	\$3,960,000	\$908,232	\$150,919	\$29,711	\$5,048,862	(\$211,309)	\$4,837,553
CHP III Management, LLC.	40,000	9,174	1,524	300	50,998	(2,134)	48,864
Total Partnership	\$4,000,000	\$917,406	\$152,443	\$30,011	\$5,099,860	(\$213,443)	\$4,886,417

CHP III, L.P.
Statement of Partners' Capital Accounts *
For the Three Months Ended March 31, 2007

<u>Limited Partner</u>	Partners' Capital 01/01/07	Net Capital Contribution	Non-Portfolio Income	Net Investment Income	Realized Gains (Losses)	Total Income	Unrealized Gains (Losses)	Distributions	Partners' Capital 03/31/07
State Teachers Ret. System of Ohio	\$0	\$1,200,000	\$0	(\$222,716)	\$0	(\$222,716)	\$0	\$0	\$977,284
Trustees of Princeton University	0	482,967	0	(89,637)	0	(89,637)	0	0	393,330
The Robertson Foundation	0	29,465	0	(5,469)	0	(5,469)	0	0	23,996
Robert Wood Johnson Foundation	0	512,432	0	(95,106)	0	(95,106)	0	0	417,326
Northwestern University	0	358,704	0	(66,574)	0	(66,574)	0	0	292,130
LA City Employees Retirement	0	768,650	0	(142,658)	0	(142,658)	0	0	625,992
Hamilton Lane-Carpenters Fund II	0	256,216	0	(47,553)	0	(47,553)	0	0	208,663
Intl Union of Operating Engineers	0	256,216	0	(47,553)	0	(47,553)	0	0	208,663
COPTL, L.P. (Royal Mail)	0	512,432	0	(95,106)	0	(95,106)	0	0	417,326
Howard University (Endowment)	0	128,108	0	(23,777)	0	(23,777)	0	0	104,331
Howard University Retirement Trust	0	128,108	0	(23,777)	0	(23,777)	0	0	104,331
SVB Strategic Investors Fund III, L.P.	0	512,432	0	(95,106)	0	(95,106)	0	0	417,326
Venture Investment Associates VI, L.P.	0	307,460	0	(57,064)	0	(57,064)	0	0	250,396
WSI Investments, Inc.	0	256,216	0	(47,553)	0	(47,553)	0	0	208,663
Alexandria Equities, LLC	0	128,108	0	(23,777)	0	(23,777)	0	0	104,331
United Gulf Investments, Ltd.	0	102,486	0	(19,021)	0	(19,021)	0	0	83,465
General Partner	\$0	5,940,000	\$0	(\$1,102,447)	\$0	(\$1,102,447)	\$0	\$0	\$4,837,553
CHP III Management, LLC.	0	30,000	0	(11,136)	0	(11,136)	0	0	18,864
Total Partnership	\$0	\$5,970,000	\$0	(\$1,113,583)	\$0	(\$1,113,583)	\$0	\$0	\$4,856,417

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

CHP III, L.P.
Statement of Partners' Accounts *
For the Period from November 21, 2006 to March 31, 2007

	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	\$1,200,000	\$0	(\$222,716)	\$0	(\$222,716)	\$0	\$0	\$977,284
Trustees of Princeton University	482,967	0	(89,637)	0	(89,637)	0	0	393,330
The Robertson Foundation	29,465	0	(5,469)	0	(5,469)	0	0	23,996
Robert Wood Johnson Foundation	512,432	0	(95,106)	0	(95,106)	0	0	417,326
Northwestern University	358,704	0	(66,574)	0	(66,574)	0	0	292,130
LA City Employees Retirement	768,650	0	(142,658)	0	(142,658)	0	0	625,992
Hamilton Lane-Carpenters Fund II	256,216	0	(47,553)	0	(47,553)	0	0	208,663
Intl Union of Operating Engineers	256,216	0	(47,553)	0	(47,553)	0	0	208,663
COPTL, L.P. (Royal Mail)	512,432	0	(95,106)	0	(95,106)	0	0	417,326
Howard University (Endowment)	128,108	0	(23,777)	0	(23,777)	0	0	104,331
Howard University Retirement Trust	128,108	0	(23,777)	0	(23,777)	0	0	104,331
SVB Strategic Investors Fund III, L.P.	512,432	0	(95,106)	0	(95,106)	0	0	417,326
Venture Investment Associates VI, L.P.	307,460	0	(57,064)	0	(57,064)	0	0	250,396
WSI Investments, Inc.	256,216	0	(47,553)	0	(47,553)	0	0	208,663
Alexandria Equities, LLC	128,108	0	(23,777)	0	(23,777)	0	0	104,331
United Gulf Investments, Ltd.	102,486	0	(19,021)	0	(19,021)	0	0	83,465
	5,940,000	\$0	(\$1,102,447)	\$0	(\$1,102,447)	\$0	\$0	\$4,837,553
<u>General Partner</u>								
CHP III Management, LLC.	60,000	0	(11,136)	0	(11,136)	0	0	48,864
Total Partnership	\$6,000,000	\$0	(\$1,113,583)	\$0	(\$1,113,583)	\$0	\$0	\$4,886,417

*-Statement of Partners' Accounts does include contributions made by the General Partner in the form of Promissory Notes.

CHP III, L.P.
Comprehensive Fund Investment Summary
For the Period from November 21, 2006 to March 31, 2007

Portfolio Company	Investment Cost	GAAP Fair Value	Unrealized Gain (Loss)	Realized Value	Realized Gain (Loss)	Cumulative Investment Return
<u>Private Company Securities</u>						
Biocconnect Systems, Inc.	\$4,000,000	\$4,000,000	\$0	\$0	\$0	\$0
Investment Portfolio Totals	\$4,000,000	\$4,000,000	\$0	\$0	\$0	\$0

CHP III, L.P.
Portfolio Investment Valuation Summary
For the Quarter ended March 31, 2007

<u>Portfolio Company</u>	<u>Investment</u>	<u>Fair Value 03/31/07</u>	<u>Fair Value 12/31/06</u>	<u>Change from Prior Quarter</u>	<u>Reason for Change</u>
Biocconnect Systems, Inc.	\$4,000,000	\$4,000,000	\$0	\$4,000,000	New Investment. (note 1)
Total Portfolio	\$4,000,000	\$4,000,000	\$0	\$4,000,000	

1. On March 29, 2007, CHP III contributed \$4.0 million towards the \$8.2 million first round financing for Biocconnect Systems, Inc. The financing was led by Cardinal Partners and included Fidelity Biosciences as co-investor. The pre-money value for the financing was \$3.5 million.

cardinal partners

TO: The Limited Partners of CHP III, L.P.

FROM: The General Partner

DATE: March 29, 2007

SUBJECT: Investment in Bioconnect Systems, Inc.

On March 29, 2007, Cardinal invested \$4.0 million as part of an \$8.2 million first round financing for Bioconnect Systems, Inc. ("Bioconnect"). The financing was in the form of Series A convertible preferred stock priced at a pre-money value of \$3.5 million, including the addition of a 10% incentive stock option pool. Cardinal Partners led the financing that included a \$4 million investment by co-investor Fidelity Biosciences. In addition to the \$8.2 million in new money provided by the financing, \$1.4 million in convertible notes from the 2006 seed financing for the company were converted into shares of Series A preferred. Post-investment Cardinal holds a 30.6% ownership position in Bioconnect on a fully diluted basis. Chuck Hadley will represent CHP III on the company's Board of Directors.

Bioconnect is an early stage medical device company focused minimally invasive devices for improved vascular access. Bioconnect is headquartered in Ambler, PA, a suburb of Philadelphia. The company's website can be found at www.bioconnectsystems.com.

EXECUTIVE SUMMARY:

Bioconnect Systems, Inc. was founded in April 2006 by Adam Dakin and Mike Dugery after acquisition of the core technology and intellectual property. The company is pioneering minimally invasive surgical implants to precisely connect conduits throughout the human body. The company's proprietary Optiflow™ vascular connector enables each procedure to be optimized for the needs of the specific clinical application and individual patient.

Bioconnect's initial product, the Optiflow™ AV, addresses the need for improved vascular access in about 2 million end stage renal disease patients worldwide. This represents an expected \$500 million target market opportunity in 2009. Initial product launch in the U.S. is expected to be in late 2009 or early 2010.

The Series A financing is expected to fund the company through clinical trials, regulatory approvals, and into a limited domestic product launch for its lead product. The likely exit for this investment will be through acquisition. Potential acquirers include Arrow, CR Bard, Boston Scientific, DaVita, Edwards, Fresenius, and Medtronic. Investment reserves to be held by CHP III for future financings at Bioconnect total \$3 million.

BIOCONNECT SYSTEMS, INC. (cont.)

PRODUCT OVERVIEW:

The Optiflow is comprised of a proprietary biocompatible flexible polymer material that is deployed in minimal access environments. The design offers optimal stability, durability, and flow across a wide array of clinical applications. The material provides optimal performance characteristics while ensuring safety and biocompatibility. The material has a master file with FDA for long-term implantation in the vascular system.

The initial product, the Optiflow AV, is intended to create life sustaining vascular access in end stage renal disease (ESRD) patients. Anticipated benefits of the Optiflow include:

- **Patency** – A symmetrical laminar flow path, which yields high flow rates and an improved flow path, is expected to improve long-term patency rates. The device seals without active fixation of suture, clips, or other intima invading mechanisms, which is expected to reduce hyperplastic healing response (intimal hyperplasia/stenosis).
- **Maturation** – The angled channel and predetermined cross sectional area is sized to match the target vessel flow, thereby creating a reliable and consistent high laminar flow path, which is anticipated to yield shorter time to maturation and higher maturation rates.
- **Consistency** – The preformed conduit and instrumentation eliminate the variability associated with purse-string suturing. A template approach creates a reproducible procedure optimized to the individual patient.
- **Ease of use** – The device alone forms a conduit between vessels thereby reducing overall procedure time and skill dependency. The stable seal may eliminate the need for thrombin or collagen (\$400/case) which is routinely applied to the suture line.
- **Dialysis Efficiency** – Higher acute and long term flow rates enable faster dialysis, thereby increasing patient comfort and dialysis clinic efficiency.

By reducing acute failures and improving long-term patency rates, the Optiflow AV would dramatically reduce the costs of access site maintenance while improving quality of life. Planned clinical studies will incorporate analysis of healthcare economics.

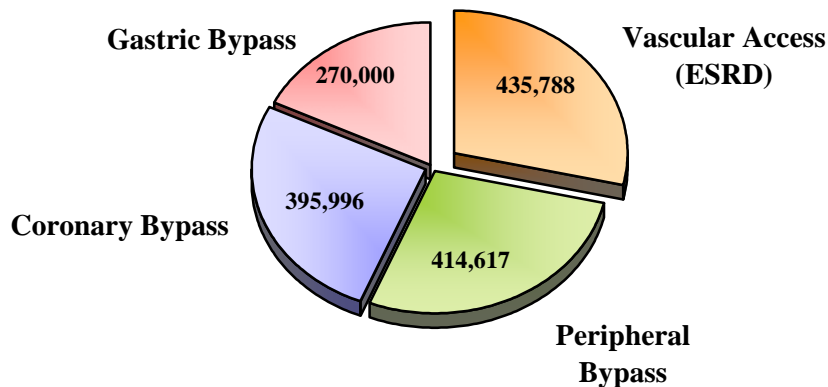
After validating the performance via a minimally invasive open approach, a percutaneous (interventional) system may be developed. Proof of concept animal work has demonstrated feasibility for percutaneous delivery of the Optiflow device. Working prototypes for a catheter-based delivery system have been developed. Percutaneous techniques would expand the market to include interventional nephrologists and radiologists.

BIOCONNECT SYSTEMS, INC. (cont.)

MARKET OPPORTUNITY:

There are over 1.5 million procedures performed each year requiring nearly four million biologic connections, yielding a worldwide market of approximately \$2 billion. Adoption is being favorably impacted by the growth of minimally invasive surgical techniques. The market breakdown by procedure volume is shown on the following chart:

2005 WorldWide Total Available Procedures



Bioconnect will initially focus on the vascular access market because of the compelling clinical need, favorable market forces, anticipated clinical acceptance, straightforward regulatory pathway, and advanced stage of product development. Favorable clinical data will justify further development of products targeting other market opportunities.

Vascular Access – Initial Market

Approximately 1.9 million people worldwide suffer from end stage renal disease (ESRD), with about 900,000 patients receiving hemodialysis. The worldwide incidence of ESRD is projected to increase 7% annually for the foreseeable future. Based on projections by Centers for Medicare & Medicaid Services (CMS), over 400,000 US patients underwent hemodialysis in 2006. This number is expected to exceed 600,000 by 2010.

By 2009, the first year of expected product launch, over 650,000 target procedures will be performed in the US, Japan, and Europe yielding a market size exceeding \$500 million. The estimated U.S. selling price is \$750 for Optiflow AV and \$1,100 for the Optiflow AV Graft (Optiflow combined with a graft.) The projected sales price reflects a small premium over a standard synthetic graft. While the anticipated impact on outcomes and cost of care justifies a higher selling price, a price comparable to a synthetic graft will meet with minimal resistance, leading to accelerated market acceptance.

BIOCONNECT SYSTEMS, INC. (cont.)

Clinical Background

In order to filter or "dialyze" the blood of an ESRD patient, vascular access is required. At present, three types of vascular access are predominant: AV (arteriovenous) fistulas, AV grafts, and catheters.

- AV fistulas, or native fistulas, are surgically created by connecting a patient's own artery and vein, usually in the forearm or wrist. AV fistulas have the lowest rate of overall complications; however, they have the highest rate of acute technical failures and may take several months to become functional.
- AV grafts are created surgically by using a synthetic blood vessel, usually made of PTFE, to connect the vein and artery. The dialysis needles are inserted into this synthetic graft. AV grafts require shorter times to heal before they can be used, but have higher long-term rates of stenosis, infections, and thrombosis.
- Catheters are most often used to bridge the time from the need to initiate dialysis (often an emergency) to when the patient's AV fistula or AV graft are functional. Catheters are not intended to be used as long-term devices as they have high rates of infection, thrombosis, and stenosis.

Clinical Need

Vascular access is considered the Achilles' Heel of hemodialysis, contributing significantly to high mortality rates of 68% at five years. The most common problems are stenosis (narrowing of graft/blood vessel), infection, and thrombosis (clotting). Approximately 30% of surgically created access sites never achieve flow rates needed for dialysis and thus are total failures. Approximately 60% of sites will require intervention (assisted maturation) before becoming functional. Depending on the access method, between 32% and 68% of functional access sites require revision within the first year.

Roughly 85% of all vascular access sites will ultimately require intervention resulting in an average cost per patient of \$8,000-\$10,000 per year. For every 10 fistula's placed, 6 will need an intervention before becoming functional, 3 will never become functional, and 4 will require an average of 3.3 interventions per 18 months to remain

Market Forces—CMS Fistula First Initiative

The Fistula First Initiative, launched in 2004 by the Centers for Medicaid and Medicare Services (CMS), submitted a Payment Position Paper to CMS in 2006 that recommended financial incentives be established to assure that native AV fistulas are the first choice for every medically-suitable patient. During 2006, changes were enacted by CMS to improve physician payment levels for AV fistulas.

BIOCONNECT SYSTEMS, INC. (cont.)

Cost analysis of projected savings realized through increased placement and use of fistulas shows that savings would equate to \$500 million over 5 years. The Optiflow AV aligns perfectly with the goals of the Fistula First Initiative by facilitating creation of AV fistulas and by enabling less experienced surgeons to achieve reproducible results.

Potential Expansion Markets

GASTRIC BYPASS

The gastric bypass is the most commonly performed operation for weight loss in the United States and is the fastest growing elective procedure. Approximately 170,000 gastric bypass procedures were performed in 2005 with a compound annual growth rate of 24%. Gastric bypass has become the "gold standard" operation for excessive weight loss in the U.S.

During the most commonly performed procedure, the Roux-en-Y gastric bypass, stomach size is reduced by creating a small pouch at the top of the stomach using surgical staples or a plastic band. Creation of the anastomosis is technically challenging, labor intensive, and time consuming. Many surgeons consider accurate sizing of the anastomosis to be essential in ensuring favorable outcomes. Surgeons have indicated enthusiasm for a device, such as one utilizing the Optiflow technology, which precisely controls the size and shape of the anastomosis while reducing procedure time.

PERIPHERAL & CORONARY BY-PASS

The current method of performing an anastomosis in a coronary (CABG) and peripheral artery bypass grafting procedures utilizes technically demanding and surgeon dependent hand-sewn sutures. By replacing hand-sewn suturing with an easy-to-use, highly reliable and reproducible approach, the Bioconnect device may improve the quality and consistency of the anastomoses, decrease the time required for completing the anastomoses, and ultimately contribute to improved clinical outcomes.

An estimated 260,000 CABG procedures were performed in the U.S. in 2005 requiring an estimated 1.2 million anastomoses. The peripheral market consists of 250,000 by-pass procedures performed each year

SEALING APPLICATIONS

Bioconnect's platform can be used to seal conduits throughout the body simply by placing the device and then closing the conduit. Applications covered within Bioconnect's intellectual property include patent foramen ovale (PFO) and femoral artery closure. The total available market sizes for vascular sealing (femoral artery) and PFO closure exceed \$1 billion. These applications are strong licensing targets for established companies already competing in these markets.

BIOCONNECT SYSTEMS, INC. (cont.)

COMPETITION:

Converting surgeons from traditional approaches is the primary marketing challenge. Nevertheless, the large market opportunity and obvious need for improving outcomes will continue to attract new entrants. Competitive devices include designs utilizing nitinol clips, magnetic couplers, automated suture delivery, implantable ports and staples.

Automated Clip Devices

The two most visible competitors market automated clip devices for peripheral vascular anastomoses are LeMaitre Vascular and Medtronic.

LeMaitre Vascular markets the Anastoclip, a stapling device that delivers a non-penetrating staple. The device has published data indicating a 20% improvement in two year patency rates. While the device may be less traumatic than sutures to the vessel wall, it does not provide a consistent reproducible laminar flow path and is still highly operator dependent. Further, traditional suturing is still required. Surgeons report that the surgical technique is challenging.

Medtronic recently began promoting their coronary anastomosis device, The U-Clip, a "self closing" nitinol clip device, for use with AV fistulas. The technology was acquired from Coalescent Surgical. The self-closing clip eliminates the need to tie knots thereby creating a facilitated interrupted anastomosis. The marketing and clinical focus for the product has been coronary anastomosis. This device neither facilitates the creation of a symmetrical anastomosis nor reduces procedure time, but rather, only simplifies the creation of an interrupted suture line. VNUS Medical Technologies has acquired exclusive distribution rights within the U.S. vascular surgery market to the U-Clip™ anastomotic device.

Implantable Ports

Implantable ports consist of a small metallic device or devices implanted underneath the skin in the upper chest. These devices are connected to two flexible tubes, which are inserted into a large vein to allow for blood access.

Two different products were developed, namely The LifeSite® System by Vasca, Inc. and the Dialock® System by BioLink. Both products were unsuccessful. The failures of these products are mainly due to high rates of infection and clotting combined with a total change of practice pattern. Both the implantation and dialyzing techniques were dramatically different from current methods. Furthermore, the outcomes did not justify the relatively high per patient cost of \$3,000.

BIOCONNECT SYSTEMS, INC. (cont.)

INTELLECTUAL PROPERTY:

The company has four issued U.S. patents plus three applications. The claims in the four issued US patents and three pending patents provide broad coverage surrounding the current and future products intended for commercialization. The intellectual property includes broad claims coverage including coatings, delivery methods and mechanisms. The claim set provides further differentiation from other connector platforms by focusing on sealing mechanics and creation of the conduit versus active fixation.

CLINICAL DATA & REGULATORY STRATEGY:

Prior to clinical evaluations, extensive preclinical testing validated the theoretical performance and strength of design. Studies were conducted in accordance with an ISO 9001 certified quality system and within the guidelines of European Medical Device Directive for Class II devices.

Chronic Animal Data

Preclinical animal data performed by the predecessor company demonstrated favorable patency and histological response. The endpoints assessed were angiographic patency and healing. The fistulas were examined acutely and at 14, 45, and 90 days post-implantation. At 90 days, 3/3 devices remained patent. The results showed that there is early evidence that the device “channel” predetermines the flow dynamics and may eliminate the purse-string effect of suture. The data supports the safety and feasibility of the Optiflow device. Examination of the histopathology suggests that the Optiflow material is biocompatible and maintains a smooth consistent flow path beyond the initial healing period.

Human Preclinical Testing

A first in humans pilot feasibility study was performed at the Philip II Cardiosurgery Center, Skopje, Macedonia. AV fistulae were created using the Optiflow in two patients. The procedures demonstrated feasibility and technical success as well as excellent acute flow as measured by Doppler Ultrasound. One site was used for dialysis at 45 days and both sites were widely patent at 90 days. Further clinical study and follow-up were limited due to financial constraints of the predecessor company. However, a patient implanted with the device in January 2003 was seen in August 2006 by Tanja Anguseva, MD, a study investigator. Dr. Anguseva reported the device has maintained patency through August 2006 (44 mos.) without any interventions.

BIOCONNECT SYSTEMS, INC. (cont.)

Regulatory Strategy

Based upon predicate devices such as the Coalescent U-clip (now Medtronic) and traditional vascular grafts, the anticipated regulatory pathway within U.S. is 510(k) with clinical data (IDE). A clinical trial of up to 150 patients with 180 day follow-up is anticipated, although the company will support ongoing clinical evaluations to track longer term outcomes. In addition to safety endpoints, key effectiveness endpoints will include maturation rate, primary and secondary patency rates, total interventions, maintenance costs, and dialysis flow rates.

The device is classified as 2B for European Union approval. Therefore, the company will need to establish a quality system before applying for the CE mark. Alternatively, the company may outsource all manufacturing and rely on an OEM supplier's established quality system. It is anticipated that a clinical study (50 patients) will be required to secure the CE mark.

Based on an analysis of established DRG, APC and CPT codes, the hospital and physician reimbursements for the Optiflow implant procedure will be issued in the same manner as existing dialysis access procedures. Therefore, incremental reimbursement and new coding is not a requirement to achieve market acceptance.

MANAGEMENT:

The Bioconnect management team has a proven track record taking medical technology from concept through commercialization and acquisition. The principles have collectively raised venture and strategic partner financing, been responsible for numerous product launches, and secured FDA approval for numerous devices including a Class III cardiovascular PMA. The company plans to recruit additional senior level engineering, regulatory, and administrative personnel over the next 6 months.

Adam Dakin, Co-founder, President & Chief Executive Officer: Mr. Dakin has over 18 years of experience with early stage and venture-backed medical device companies. From 1998-2004, Mr. Dakin served as the President & CEO of X-SITE Medical, a venture-backed cardiovascular device company which was successfully acquired by Datascope (NasdaqNM:DSCP) in 2004. During his tenure, the company raised approximately \$9 million at progressively higher valuations, completed a successful multi-center randomized trial, and received FDA PMA approval. X-SITE developed a suture-mediated vascular sealing device for femoral artery closure following catheterization.

BIOCONNECT SYSTEMS, INC. (cont.)

Previously, Mr. Dakin served in senior management roles for several venture-backed medical device companies including Cardiovascular Imaging Systems (acquired by Boston Scientific), Birtcher Medical (acquired by Conmed) and Moberg Medical. Mr. Dakin holds a BS degree in economics from the Wharton School along with an MBA in finance and marketing from The Anderson Graduate School of Management at UCLA.

Mike Dugery, Co-Founder & VP of R&D and Business Development: Mr. Dugery has over 18 years of cross functional experience developing and commercializing medical devices. He previously held senior product and sales management positions with the Cordis division of Johnson & Johnson. While at Cordis, Mr. Dugery was responsible for the global launch in Europe, the US and Asia, of product lines across the balloon expandable stent, PTA balloon and Vena cava filter franchises. His ability to develop and execute cohesive product launch strategies and lead sales teams resulted in consistent above forecast market share gains. Mr. Dugery has developed a broad network of global opinion leaders in the field of vascular surgery and interventional medicine.

Prior to Cordis, Mr. Dugery held senior engineering and product development positions at venture-backed Life Medical Sciences, which merged with MedChem Products and was ultimately acquired by C.R. Bard. While at Life Medical Sciences, he successfully led the development and launch of multiple products with a team of contract manufacturers, designers and consultants.

Mr. Dugery holds a BSME from Penn State, an MBA from LaSalle University and a Management & Technology Masters from the Wharton School and the School of Engineering at the University of Pennsylvania.

FINANCIAL PROJECTIONS:

Based upon an anticipated regulatory approval timeframe of 30-36 months, the company is forecasting a limited initial product launch in the United States in late 2009/early 2010. Bioconnect will initially enter the US market through a limited direct sales organization concurrent with U.S. regulatory clearance.

Product sales for carefully selected non-U.S. markets will be directed through a network of distributors and/or strategic corporate partners. The management team has established relationships with numerous leading international distributors and multi-national corporations that focus on the vascular surgery market.

We currently project that the company will have an average monthly cash burn of \$175K during 2007 (\$200K at year-end), growing to \$300K per month during the second half of 2008 with the advent of the IDE approved human clinical trials.

BIOCONNECT SYSTEMS, INC. (cont.)

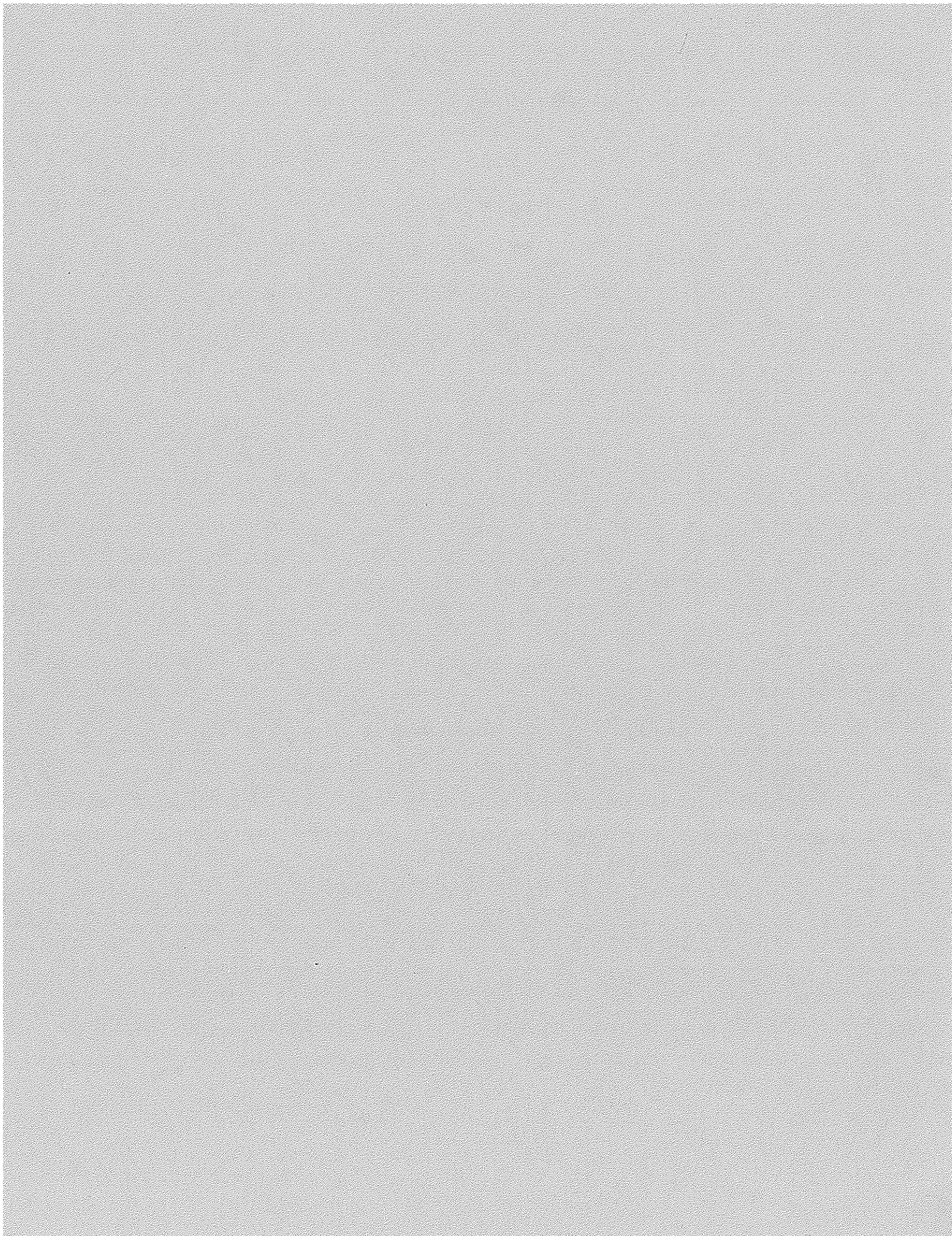
Management is currently preparing a revised financial forecast for the company that will be presented to the Board of Directors in August 2007. Our preliminary financial forecast for the next three years is shown in the table below.

<i>Bioconnect Systems, Inc.</i>	Actual	Projected	Projected	Projected
(\$000)	2006	2007	2008	2009
Revenue	0	0	0	2,500
Cost of Sales	0	0	0	500
Gross Profit	0	0	0	2,000
Development Costs	118	1,000	1,900	1,500
SG&A	292	1,250	1,700	4,000
EBIT	-410	-2,250	-3,600	-3,500

OUTLOOK:

The current financing is expected to be sufficient to support operations through completion of product development, regulatory approval and into product launch. Additional financing, if necessary, would likely be completed in early 2009. Cardinal has reserved \$3 million for future financings at Bioconnect Systems and we forecast being diluted to a 25%-28% ownership position at exit.

The most likely exit scenario for Bioconnect would be acquisition by one of the major medical device company's with a specialty in cardiovascular or catheter based technology. There are several companies that could find Bioconnect Systems an attractive acquisition target: Arrow International, CR Bard, Boston Scientific, DaVita, Gambro, Edwards, Fresenius and Medtronic among them. Assuming the company stays on its clinical and regulatory timeline, we expect the company to be an attractive acquisition target by 2009. Valuation of the company at our forecast acquisition timeframe is expected to range from \$100 to \$200 million based upon comparable acquisitions in the market.



CARDINAL PARTNERS

DEALS RECEIVED JANUARY 1, 2007 THROUGH MARCH 31, 2007

STATUS KEY: P - Pending
C - Closed
I - Investment

COMPANY & REFERRAL SOURCE	FILE	DESCRIPTION	TO	STATUS
10X TECHNOLOGY, LLC David Shaw/Sciurus Capital Group LLC	07-027	Manufacturer of microstructures at high-speed, continuously replicating microstructured features in most thermoplastic and thermosetting polymers at lower cost than prior embossing or casting methods.	LST	C
ABLE PLANET INC. Kevin Semcken/Internal	07-036	Developed an extensive line of audio and communication products that are usable by people with all levels of hearing.	BH	C
ACCELAPURE CORPORATION Rick Barnes-COO/Internal	07-037	Drug development focused on accelerating the discovery of small molecule therapeutics for the treatment of cancer, cardiovascular disorders, neurology, and infectious disease.	LST	C
AEROSOL THERAPEUTICS, LLC Tom Robinson, MD/Internal	07-043	Developed respiratory medicines for treating cancer metastatic to the lung.	LST	P
ANDOVER HEALTHCARE, INC. Dan Burstein	07-009	Manufactures a variety of tapes and bandages for use in three market areas: Healthcare, Sports and Medicine.	LST	C
ANGSTROM MEDICA, INC. Edward Ahn/Internal	07-026	Applications in reconstruction and restoration of the skeletal system used to restore vertebral strength.	CH	P

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APOLLO ENDOSURGERY, INC. Dennis McWilliams/Internal	07-038	Developed devices to transform flexible endoscopy into a minimally invasive interventional practice.	CH	P
ARISTON PHARMACEUTICALS Gregory Grice/Paramount BioCapital	07-001	Developed three compounds for four clinical indications, Migraine prevention, Anxiety and Movement Disorder.	BH	P
BIOPTICON CORPORATION Cem Girit/Internal	07-018	Developed image processing software system to make measurements of subcutaneous tumor volumes, lesion areas and arthritic limb cross sections and track measurements.	LST	C
BIOSOFTMOSIS Sal Vitiello/Heller Ehrman	07-008	Developed a series of desktop solutions that will help reduce discovery costs and time.	LST	C
BLACKTOE MEDICAL III, INC. Malcolm Kendall/AsiaLife Venture consulting Inc.	07-041	Developed finger-mounted probes for all major ultrasound-imaging markets.	LST	P
CG THERAPEUTICS Adam P. Kritzer/Shattuck Hammond Partners LLC	07-028	Developed an immunotherapy that stimulates the production of antibodies to neutralize a key hormone produced by tumors: human chorionic gonadotropin, or hCG.	LST	C

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CLARIO MEDICAL IMAGING Chris Wood/Internal	07-040	Developed display technique that will increase radiologist visual efficiency.	CH	P
CONNECTYOURCARE Raymond G. Falci/Cain Brothers & Company	07-030	Provides a universal Consumer-Directed Healthcare (CDH) solutions platform for employer, health plan, and financial services market.	BH	P
CONVENIENT CARE LLC Jim C. Higgins/Action Partners	07-010	Healthcare services in supermarket chains.	BH	P
CRITICAL CARE LIFE FLIGHT Randell Young/Venture-Net Partners	07-019	Regional emergency medical transport.	LST	C
DISC MOTION TECHNOLOGIES Gerard van Hamel Platerink/AMV Partners	07-002	Developed motion preservation devices to treat degenerative conditions of the lumbar and cervical spine.	LST	P
EXAGEN DIAGNOSTICS Murphy Clarke/Wachovia Securities	07-051	Enables pharmaceutical companies to advance the scientific objectives for their clinical trials through rapid identification, development and licensing of small, optimized combinations of markers in support of pharmaceutical R&D or Phase IV.	LST	C

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FLOWCARDIO, INC. Norwick Goodspeed/Internal	07-034	Developed technologies to facilitate the crossing of totally occluded coronary and peripheral arteries.	LST	C
FUNCTIONAL PHARMACEUTICALS Philip Kong/Arqis Rechtsanwälte	07-050	Developed potential compounds that could diagnose and treat Alzheimer's disease (AD).	LST	C
GENERATION HEALTH Jess Parks/Internal	07-044	Group retiree programs for the chronically ill.	BH	P
GENERIC MEDICAL DEVICES Adam J. Fountain/Broadmark Capital, LLC	07-023	Designed, developed, manufactured and is a supplier of medical devices marketed at generic prices.	LST	C
HYPERACTIVE TECHNOLOGIES Scott Schulte/Spencer Trask Ventures, Inc.	07-052	Product that are designed to turn frantic Quick Service Restaurants (QSRs) into "Smooth Operators".	LST	C
INSIGNIA HEALTH Craig Swanson/Internal	07-014	Developed software for consumers to access the knowledge, skills and confidence for self-management of one's health.	BH	P

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INTELECT MEDICAL, INC. Vince Owens/Internal	07-007	Developed novel neurostimulation systems for improving the recovery of brain injury patients.	LST	C
JADO TECHNOLOGIES Deborah C. Hobbs/Gates and Company	07-011	Developed a novel pharmaceutical products for a wide range of human diseases using a revolutionary drug development platform called RAFT Intervention Technology®.	JC	C
KBI BIOPHARMA, INC. Stephen Hobbs Paneyko	07-047	A contract services organization committed to reducing process development time, decreasing production cost and increasing speed of development for biopharmaceuticals.	JC	P
KC BIOMEDIX, INC. David L. Stalling/Internal	07-006	Developed an electronic pacifier to assess and improve a newborn baby's essential motor skills, such as sucking, swallowing and breathing.	LST	P
LEPTOS BIOMEDICAL Rudy Mazzocchi/Accutitive Medical Ventures	07-031	Developed a neuromodulation therapy for chronic obesity, delivered via a pacemaker-type device, involves electrical activation of a specific nerve in the autonomic nervous system.	LST	C
LIGOCYTE PHARMACEUTICAL, INC. Michael Bell/Seaview Securities	07-015	Developed a number of novel drug treatment of inflammatory and infectious disease.	LST	C

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LIPOTHERA	07-032	Developed an injectable pharmaceutical preparation for lipoplasty and cellulite treatment.	LST	C
David Stoffel, MD/Radius Ventures, LLC				
MEDIVANCE	07-045	Developed, manufactures and markets proprietary therapeutic temperature management solutions.	CH	C
Robert Kline/Internal				
MERLIN MD	07-033	Developed life saving and life enhancing technologies for the treatment and prevention of cardiovascular and neurological diseases.	LST	C
Nelson Teng/Charter Life Sciences-- Jui Lim/Internal				
MOLEAC	07-003	Developed novel therapeutics based on the research conducted in leading Chinese hospital's, institutes and drug companies.	LST	C
Luc Hardy/Sagax Fund Ltd.				
MPHASE TECHNOLOGIES, INC.	07-013	Technology commercialization developing products, (batteries, sensors).	LST	C
Jeff Stone/Crescent Fund				
NANODISC	07-055	Developed Nanodiscs as a therapeutic and vaccine delivery platform.	BH	P
Michael Artinger/Internal				

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NEURO IMPULSE Mauro Vendrami/AMS Group Srl-Su	07-024	Implantable medical devices.	LST	P
NEW HEALTH SCIENCES, INC. Michael S. Stern/Glocap Advisors LLC	07-016	Developed reproducible physiological means of measuring and describing changes in vascular function that signal the presence or risk of a condition.	LST	C
NEXTBIO Mark Fleisher/Broad and Cassel	07-049	A web-based scientific data search engine that offers instant access, search and collaboration across a vast repository of life sciences information.	LST	P
PREFERRED TIME Jon Bush/Athenahealth	07-035	Provides communication between medical offices and pharmaceuticals and healthcare sales representatives.	BH	C
PROMETHEAN SURGICAL DEVICES Daniel Einhorn/Einhorn Associates	07-042	Developed a prepolymer technology platform into surgical adhesives and implantable devices.	LST	C
PROMOSOME, LLC Bernard C. Rudnick/KSR Associates, LLC	07-005	Developed technologies for enhancing gene expression and protein synthesis.	JC	P

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SECURE SCRIBE INC. James E. Cobb, Jr./Howard, Merrell & Partners	07-020	Solution platform that will provide on demand transcription, enterprise content management, electronic medical records, management, etc.	BH	P
SHANGHAI GENE PHARMA CO. LTD Dongxu Qiu	07-029	Provider of RNAi related chemicals, reagents and services in China.	LST	C
SMOKERS CIRCLE LLC Barbara Lubash/Versant Ventures	07-048	Internet-based social network community for people who use tobacco and for the companies that provide products and services to them.	LST	C
SONGBIRD HEARING, INC. Fred Fritz/Internal	07-025	Developed disposable hearing aid.	LST	C
SOUND PHARMACEUTICALS Adam J. Fountain/Broadmark Capital, LLC	07-022	Developed prescription drugs that will enable doctors and patients to prevent and treat hearing loss.	LST	C
THERAKINE Killu Sanborn/Comerica Bank	07-053	Developed effective treatments for inflammatory disorders that are chronic and difficult to treat by applying local treatment with target anti-cytokines and anti-chemokines.	LST	P

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THIRD STREAM BIOSCIENCE, INC. Mark Fleisher, Esq.	07-054	Developed a novel topical antimicrobial technology.	LST	C
VERAXA HEALTH Richard J. Morello/Internal	07-039	Retinal imaging device and clinical service that detects and manages diabetic retinopathy and other ocular pathologies without requiring pupil dilation.	CH	P
VOTAGO Mark N. Clemente-CMO/Internal	07-004	Developed a device that creates and stores personal health and medical information digitally.	BH	P
WALLEYE TECHNOLOGIES Chris Adams/Internal	07-012	Provider of handheld microwave imaging technology for portable and remote applications.	LST	C
WEIGHT LOSS HEALTHCARE CENTERS OF AMERICA Andrew Zahn/Tunstall Consulting Inc.	07-021	Provides laparoscopic surgical solutions for morbid obesity.	LST	C
XILAS MEDICAL INC. Michael J. Boylan/McGinn, Smith & Co.	07-046	Developed devices for people suffering with diabetes and susceptible to foot-related problems.	CH	P

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ZYCARE, INC. Steve Holdaway/Internal	07-017	Developed applications for the management of asthma, heart failure, hypertension, and oral anticoagulation therapy with warfarin.	BH	P