STATE OF ILLINOIS
ILLINOIS VENTURES, LLC
AND ITS SUBSIDIARY
Chicago, Illinois

FINANCIAL AUDIT
For the Year Ended June 30, 2006

Performed as Special Assistant Auditors
for the Auditor General, State of Illinois

Clifton Gunderson LLP
Certified Public Accountants & Consultants

STATE OF ILLINOIS
ILLINOIS VENTURES, LLC AND ITS SUBSIDIARY
FINANCIAL AUDIT
For the Year Ended June 30, 2006

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ILLINOIS VENTURES, LLC AND ITS SUBSIDIARY
COMPANY OFFICIALS
June 30, 2006

Chairman of the Board	James Foght
Vice Chair	Warren Holtsberg
CEO and Managing Director	John Banta
Secretary	Tom Bearrows
Treasurer	Stephen Rugg
Principal Officer of the Sole Member	David Chicoine

<u>Board of Managers</u>:

Michael Tokarz
Eric Gislason
James Foght
Warren Holtsberg
Larry Eppley
Chip Zukoski
Kenneth D. Schmidt, M.D.
William P. Tai
James C. Tyree

<u>Ex Officio</u>:

Stephen Rugg
Tom Bearrows
John Banta
Steve Veazie

Illinois Ventures, LLC offices are located at:

20 N. Wacker Drive
Suite 1201
Chicago, Illinois

FINANCIAL STATEMENT REPORT

SUMMARY

The audit of the accompanying financial statements for Illinois Ventures, LLC and Its Subsidiary was performed by Clifton Gunderson LLP.

Based on their audit, the auditors expressed an unqualified opinion on the Company's basic financial statements.

Clifton Gunderson LLP
Certified Public Accountants & Consultants

Independent Auditors' Report

The Honorable William G. Holland
Auditor General
State of Illinois

and

Board of Managers
Illinois Ventures, LLC and Its Subsidiary

As Special Assistant Auditors for the Auditor General, we have audited the accompanying consolidated basic financial statements of Illinois Ventures, LLC and Its Subsidiary, a component unit of the University of Illinois and a component unit of the State of Illinois, as of and for the year ended June 30, 2006. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Illinois Ventures, LLC and Its Subsidiary as of June 30, 2006, and the respective changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the financial statements, Illinois Ventures' investments are presented at cost, or fair value based on recent relevant transactions in the security, with an adjustment for impairment when, in the opinion of Illinois Ventures management, events or circumstances indicate that there has been an impairment in the value of the investments. Because of the inherent uncertainty of the valuation of the investments the estimated values of management may differ significantly from the values that would have been used had a ready market existed for the investments and the differences could be material.

In accordance with *Government Auditing Standards*, a report on our consideration of the Illinois Ventures, LLC and Its Subsidiary's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters will be issued under separate cover. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and other results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report, upon issuance, is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The accompanying management's discussion and analysis on pages 5 through 7 is not a required part of the basic consolidated financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Clifton Gunderson LLP

Peoria, Illinois
October 27, 2006

ILLINOIS VENTURES, LLC AND ITS SUBSIDIARY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2006

(Unaudited)

INTRODUCTION

The following discussion and analysis provides an overview of the financial position and activities of the Illinois Ventures, LLC and Its Subsidiary for the year ended June 30, 2006. This discussion has been prepared by management and should be read in conjunction with the basic financial statements and the notes thereto, which follow this section. These include the Consolidated Statement of Net Assets, Consolidated Statement of Revenues, Expenses, and Changes in Net Assets, and Consolidated Statement of Cash Flows.

By agreement with the Board of Trustees of the University of Illinois ("University"), Illinois Ventures exists for the sole purpose of aiding and assisting the University of Illinois, and other regional research institutions and federal laboratories to provide support to facilitate commercialization of the technology originated or developed by faculty, staff, and/or students of the organizations by obtaining seed and venture capital funding to assist a select group of start-up companies.

USING THE FINANCIAL STATEMENTS

The Illinois Ventures LLC's financial report includes three financial statements: Consolidated Statement of Net Assets, Consolidated Statement of Revenues, Expenses, and Changes in Net Assets, and Consolidated Statement of Cash Flows. These statements are prepared in accordance with Governmental Accounting Standards Board (GASB) principles.

The Consolidated Statement of Net Assets is presented to show assets, liabilities, and net assets at June 30, 2006. Following the Consolidated Statement of Net Assets is the Consolidated Statement of Revenues, Expenses, and Changes in Net Assets, which provides operational information. The Consolidated Statement of Cash Flows provides details on sources and uses of cash during the period.

FINANCIAL HIGHLIGHTS

During fiscal 2006, Illinois Ventures, LLC and Its Subsidiary continued to increase its consultative and investment activity. This increase resulted in an appropriate rise in Net Assets from the prior year. Investment activity is expected to continue in the near future and will lead to further increases in Net Assets.

Illinois Ventures, LLC's subsidiary, Illinois Ventures GP, LLC, began operations during the year ended June 30, 2004. Illinois Ventures, LLC has a 95 percent ownership interest in Illinois Ventures GP, LLC. Illinois Ventures GP, LLC is the general partner in Illinois Emerging Technology Fund, LP, with a 1 percent ownership interest. Illinois Ventures GP, LLC has made capital commitments to Illinois Emerging Technology Fund of $265,278. As of June 30, 2006 Illinois Ventures GP, LLC has made capital contributions to Illinois Emerging Technology Fund of $106,111.

FINANCIAL HIGHLIGHTS (CONTINUED)

Illinois Ventures, LLC started receiving management fees from Illinois Emerging Technology Fund during the year ended June 30, 2004.

During the year ended June 30, 2006 Illinois Ventures, LLC started leasing space in the Research Park in Champaign. Additional capital assets were acquired in connection with this additional office space.

Consolidated Statements of Net Assets

	2006	**2005**
Current assets	$ 1,086,822	$ 591,819
Capital assets	106,158	55,958
Investments	4,046,227	2,348,248
Total assets	$ 5,239,207	$ 2,996,025
Current liabilities	$ 364,652	$ 305,368
Net assets:		
Reserve for minority interest in subsidiary	4,972	3,046
Invested in capital assets	106,158	55,958
Unrestricted	4,763,425	2,631,653
Total net assets	4,874,555	2,690,657
Total liabilities and net assets	$ 5,239,207	$ 2,996,025

The increased consulting and investment activity in start-up companies resulted in a similar increase in Service Income for fiscal 2006. During the year ended June 30, 2006 Illinois Ventures, LLC received grants through the University of Illinois from the State of Illinois Department of Commerce and Economic Opportunity of $1,111,500. Illinois Venture, LLC has deferred income of $86,522 at June 30, 2006 related to one of these grants. Illinois Ventures, LLC received support from the University in addition to these grants of $2,179,656. Illinois Ventures, LLC received management fees of $561,398 from Illinois Emerging Technology Fund.

ILLINOIS VENTURES, LLC AND ITS SUBSIDIARY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2006

(Unaudited)

FINANCIAL HIGHLIGHTS (CONTINUED)

Consolidated Statements of Revenues, Expenses, and Changes in Net Assets

	2006	2005
Operating revenue	$ 3,766,032	$ 3,010,135
Operating expenses:		
Salaries	1,331,188	1,000,615
Office supplies	15,584	17,862
Professional fees	201,137	160,229
Office rent	113,719	77,878
Depreciation	33,794	24,363
Insurance	43,162	44,417
Telephone	74,286	62,025
Sponsorships	20,000	5,000
Subscriptions	14,195	13,845
Conferences	19,041	26,877
Travel, meals, and entertainment	93,835	93,695
Miscellaneous	84,528	47,236
Total expenses	2,044,469	1,574,042
Operating income	1,721,563	1,436,093
Nonoperating revenue	53,131	52,211
Net increase of unrealized appreciation on investments held	407,725	-
Increase in net assets	$ 2,182,419	$ 1,488,304

ECONOMIC FACTORS THAT WILL AFFECT THE FUTURE

Illinois Ventures, LLC receives operating funding from public sources through the University of Illinois including the Offices of the President and the respective Offices of the Vice Chancellor of Research at UIUC and UIC. Future reductions in these sources of funding would adversely affect its ability to fulfill its mission.

Increases in valuation of and disposal of investments in and advances to start-up companies could favorably impact Illinois Ventures, LLC's operations. Conversely, decrease in valuation and/or failure to dispose of said securities could have an adverse impact on operations if these assets are written down.

ILLINOIS VENTURES, LLC AND ITS SUBSIDIARY
CONSOLIDATED STATEMENT OF NET ASSETS
June 30, 2006

ASSETS

CURRENT ASSETS		
Cash	$ 787,782	
Accounts receivable	268,386	
Prepaid and other assets	30,654	$ 1,086,822
CAPITAL ASSETS		106,158
INVESTMENTS		
Advances to start-up companies	557,791	
Equity investments in start-up companies	3,388,995	
Investment in Illinois Emerging Technology Fund	99,441	4,046,227
TOTAL ASSETS		$ 5,239,207

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts payable	$ 25,573	
Accrued expense	252,557	
Deferred income	86,522	$ 364,652
NET ASSETS		
Reserve for minority interest in subsidiary	4,972	
Invested in capital assets	106,158	
Unrestricted	4,763,425	4,874,555
TOTAL LIABILITIES AND NET ASSETS		$ 5,239,207

These consolidated financial statements should be read only in connection with the accompanying notes to consolidated financial statements.

ILLINOIS VENTURES, LLC AND ITS SUBSIDIARY
CONSOLIDATED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
Year Ended June 30, 2006

OPERATING REVENUES		
State of Illinois Economic Opportunity Grants	$ 1,024,978	
Support from the University of Illinois	2,179,656	
Management fees	561,398	$ 3,766,032
Operating revenue		
OPERATING EXPENSES		
Salaries	1,331,188	
Office supplies	15,584	
Professional fees	201,137	
Office rent	113,719	
Depreciation	33,794	
Insurance	43,162	
Telephone	74,286	
Sponsorships	20,000	
Subscriptions	14,195	
Conferences	19,041	
Travel, meals, and entertainment	93,835	
Miscellaneous	84,528	2,044,469
Operating income		1,721,563
NONOPERATING REVENUES		
Interest	50,278	
Income from investment in Illinois Emerging Technology Fund	2,853	53,131
NET INCREASE OF UNREALIZED APPRECIATION ON INVESTMENTS HELD		407,725
INCREASE IN NET ASSETS		2,182,419
NET ASSETS, BEGINNING OF YEAR		2,690,657
NET CHANGE IN RESERVE FOR MINORITY INTEREST IN SUBSIDIARY		1,479
NET ASSETS, END OF YEAR		$ 4,874,555

These consolidated financial statements should be read only in connection with the accompanying notes to consolidated financial statements.

ILLINOIS VENTURES, LLC AND ITS SUBSIDIARY
CONSOLIDATED STATEMENT OF CASH FLOWS
Year Ended June 30, 2006

CASH FLOWS FROM OPERATING ACTIVITIES		
Operating revenue	$ 3,852,554	
Payments to employees	(1,310,095)	
Payments to suppliers	(729,463)	
Net cash provided by operating activities		$ 1,812,996
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of capital assets	(83,994)	
Minority interest capital contribution	1,479	
Net cash used in capital and related financing activities		(82,515)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Cost incurred to be reimbursed by other entities	(329,340)	
Cost reimbursed by other entities	252,122	
Net cash used in noncapital financing activities		(77,218)
CASH FLOWS FROM INVESTING ACTIVITIES		
Advances to start-up companies	(257,231)	
Equity investment in start-up companies	(986,513)	
Investment in Illinois Emerging Technology Fund	(29,560)	
Interest income	36,181	
Net cash used in investing activities		(1,237,123)
INCREASE IN CASH		416,140
CASH, BEGINNING OF YEAR		371,642
CASH, END OF YEAR		$ 787,782

ILLINOIS VENTURES, LLC AND ITS SUBSIDIARY
CONSOLIDATED STATEMENT OF CASH FLOWS
Year Ended June 30, 2006

NONCASH ACTIVITIES	
Accrued interest on advances to start-up companies	$ 14,097
Income from investment in Illinois Emerging Technology Fund	$ 2,853
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating income	$ 1,721,563
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	33,794
Effects of changes in operating assets and liabilities:	
Prepaid and other assets	(1,645)
Accounts payable	(48,331)
Accrued expense	21,093
Deferred revenue	86,522
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 1,812,996

These consolidated financial statements should be read only in connection with the accompanying notes to consolidated financial statements.

NOTE 1 - NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Illinois Ventures, LLC (Ventures) was organized May 30, 2000 as an Illinois limited liability company with offices located in Chicago, Illinois. Ventures was organized by and is a component unit of the University of Illinois (University). The sole member is the University of Illinois, a body corporate and politic of the State of Illinois. To the extent provided by the Illinois Limited Liability Company Act, the member's liability is limited.

The University of Illinois made an initial capital contribution to Illinois Ventures, LLC of $50,000. Ventures has continued to receive funding primarily from the following sources:

- Direct support from the University of Illinois.
- Tobacco settlement fund provided by the State of Illinois.
- Grants through the University including grants from the Illinois Department of Commerce and Economic Opportunity.
- Management fees related to Illinois Emerging Technologies Fund.

The purpose of Ventures is to provide support to facilitate commercialization of various technologies including those originated or developed by faculty, staff, and/or students of the University of Illinois and other regional research institutions and federal laboratories by obtaining seed and venture capital funding to assist a select group of start-up companies.

Illinois Ventures GP, LLC was formed May 8, 2001 to be the general partner of the Illinois Emerging Technologies Fund, LP. The Illinois Emerging Technologies Fund, LP is a private fund whose purpose is to invest in start-up companies.

Basis of Presentation

Ventures prepared its financial statements as a business-type activity, as defined by Governmental Accounting Standards Board (GASB) Statement No. 34, using the economic resources measurement focus and the accrual basis of accounting. Business-type activities are those financed in whole, or in part, by fees charged to external parties for goods and services. Pursuant to GASB Statement No. 20, Ventures has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB) that were issued on or before November 30, 1989, and do not conflict with or contradict GASB pronouncements. Ventures has elected not to follow subsequent private sector guidance.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 1 - NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Ventures and its 95 percent-owned subsidiary Illinois Ventures GP, LLC. Intercompany transactions and balances have been eliminated in consolidation.

Capital Assets

Capital assets are stated at cost and depreciated over the estimated useful life which range from 5 to 7 years. Annual depreciation is computed using the straight-line method.

Investments

Advances To Start-Up Companies

Advances to start-up companies are generally in the form of convertible debt or promissory notes, which are not readily transferable. The advances in some cases have stock warrants associated with them. The fair value of any equity securities, stock warrants, or stock rights are not readily determinable. The advances are carried at the lower of cost, adjusted for accrued interest as defined in the debt agreement, or estimated fair value. Because of inherent uncertainties of valuation of advances to start-up companies, the estimated fair value may differ significantly from the values that would have been used had a ready market for the convertible debt existed, and the differences could be material.

Equity Investment in Start-Up Companies and Investment in Illinois Emerging Technology Fund

Equity investment in start-up companies are generally in the form of preferred or common stock, which are not readily transferable. Investment in Illinois Emerging Technology Fund is a private fund whose purpose is to invest in start-up companies. The fair value of the equity investment in start up companies in the absence of readily ascertainable market values are valued taking into consideration recent relevant transaction in the security, developments concerning the issuing company subsequent to the acquisition of the securities, any financial data and projections of the issuing company provided and such other factors as are deemed relevant. Because of inherent uncertainties of valuation of investments in start-up companies, the estimated fair value may differ significantly from the values that would have been used had a ready market for the investments existed, and the differences could be material.

Compensated Absences

It is Venture’s policy to permit employees to accumulate earned but unused vacation up to a maximum of 48 days. All vacation pay is accrued when incurred.

NOTE 1 - NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes

Ventures' sole member, the University of Illinois, has elected to have Ventures' income taxed as a limited liability company under provisions of the Internal Revenue Code and a similar section of the Illinois income tax law; therefore, taxable income or loss is reported to the sole member. No provision for federal and state income taxes is included in these statements.

Revenue Recognition and Classification

Revenue is recognized as services are provided. Ventures has classified its service revenue as operating. All other revenues are classified as nonoperating.

NOTE 2 - DEPOSITS

Custodial credit risk is the risk that in the event of a bank failure, the Company's deposits may not be returned to the Company. Ventures has no formal policy in regard to custodial credit risk for deposits. The Company does not have custodial credit risk as of June 30, 2006.

NOTE 3 - ACCOUNTS RECEIVABLE

During the year ended June 30, 2006, Ventures incurred legal and other costs on behalf of other entities. Ventures intends to seek reimbursement from these entities for these expenses. Management believes all items are collectible and, therefore, an allowance is not necessary.

The following is an analysis of the accounts receivable as of June 30, 2006:

IETIF	$ 97,817
Illini-ITEC	29,501
Transplan, Inc.	27,542
Tekion	20,108
Other	93,418
Total	$ 268,386

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2006 was as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
Office equipment	$ 119,214	$ 83,994	$ -	$ 203,208
Less accumulated depreciation	63,256	33,794	-	97,050
Total	$ 55,958	$ 50,200	$ -	$ 106,158

NOTE 5 - INVESTMENTS

Ventures is authorized to make investments in start-up companies in the form of convertible debt, promissory notes, warrants, common stock and preferred stock. The investments are made directly by Ventures or through a private fund which Ventures manages, (Illinois Emerging Technology Fund). Ventures manages all of its investments. Ventures did not engage in any significant derivative transactions during the year ended June 30, 2006. Ventures does not participate in security lending transactions. The Company had unrealized losses on investments of $657,728 and unrealized gains on investments of $1,065,453, during the year ended June 30, 2006. The following is a summary of the carrying value of Venture's investment portfolio as of June 30, 2006:

Advances to start-up companies:	
Convertible debt	$ 557,791
Equity investments in start-up companies:	
Preferred stock	2,250,505
Common stock	1,138,490
Investment in Illinois Emerging Technology Fund	99,441
Total	$ 4,046,227

Interest Rate Risk: Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Ventures minimizes interest rate risk by generally limiting the terms of the convertible debt to between 2 and 3 years. Venture's investments in fixed income obligations and maturities at June 30, 2006 are illustrated below:

Maturities in Years

	Less Than 1	1-5	5-10	Greater Than 10	None Stated	Total
Convertible debt	$ 398,992	$ 158,799	$ 0	$ 0	$ 0	$ 557,791

NOTE 5 - INVESTMENTS (CONTINUED)

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Venture's investments are in start-up companies that are developing new technologies. By their very nature these investments have a higher credit risk associated with them than other investments. The investments are not publicly traded and are not subject to quality ratings.

Custodial Credit Risk: Custodial credit risk is the risk that, in the event of the failure of the counterparty, Ventures will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Exposure to custodial credit risk relates to investment securities that are held by someone other than Ventures and are not registered in Venture's name. Ventures has no formal policy in regard to custodial credit risk. At June 30, 2006, Venture's investments are all held by Ventures and have no custodial credit risk exposure.

Concentration of Credit Risk: Concentration of credit risk is the risk of loss attributed to the magnitude of Venture's investment in a single issuer. Ventures does not have a policy that limits the maximum amount that may be invested in any one security. Venture's involvement with Illinois Emerging Technology Fund allows for additional sources of funds for investments in start-up companies and makes more diversification of investments possible than Ventures could attain on its own. The Company had investments in the following companies that represent more than 5 percent of total assets.

	Advances to Start-up Companies	Equity Investment in Start-up Companies	Total
DzymeTech, Inc.	$ -	$ 426,381	$ 426,381
iCyt Mission Technologies, Inc.	50,187	441,722	491,909
Phoenix Coal Corporation	-	325,000	325,000
Psi-Tech	-	268,924	268,924
Tekion, Inc.	-	437,500	437,500
Transplan, Inc.	-	300,000	300,000

Foreign Currency Risk: Foreign currency risk is the risk that changes in exchange rate will adversely affect the fair value of an investment. Venture's investments are generally not exposed to foreign currency risk. As of June 30, 2006, Ventures was not exposed to foreign currency risk.

NOTE 5 - INVESTMENTS (CONTINUED)

Advances to Start-Up Companies

Advances to private start-up companies are valued at cost plus accrued interest, unless there has been a significant change in current operating performance of the start-up company. The value of the advances will be adjusted when, in the opinion of Illinois Ventures management, events or circumstances indicate that there has been impairment in value.

The investments in start-up companies are all technology related. The technologies under development might not become feasible businesses. As such, there is increased inherent risk associated with these investments and the ultimate realization of Venture's investment in these companies is uncertain.

Investment in Illinois Emerging Technology Fund

During the year ended June 30, 2005, Illinois Emerging Technology Fund was created, with total capital commitments of $20,202,020. As of June 30, 2006, additional capital commitments have been received for $6,325,758, increasing the total commitments to $26,527,778. The purpose of the fund is to make venture capital investments that promote the commercialization of various technologies including those originated or developed by faculty, staff, and/or students of the University of Illinois. Illinois Ventures GP, LLC is the general partner of the Fund with a 1 percent ownership interest. Illinois Ventures GP, LLC total capital committed to the fund is $265,278 as of June 30, 2006. The following is a schedule of Illinois Ventures GP, LLC capital commitments to the fund as of June 30, 2006:

Capital calls to date	$ 106,111
Remaining capital commitment	159,167
Total capital commitment	$ 265,278

Illinois Ventures, LLC owns 95 percent of Illinois Ventures GP, LLC.

Illinois Ventures, LLC has been hired by Illinois Emerging Technology Fund to manage the fund. Illinois Ventures is to be paid a fee of 2 percent of committed capital through January 27, 2009. After that date, the management fee will be an annual rate of 2 percent of funded investments. The fee is paid at the start of each calendar quarter.

NOTE 6 - OPERATING LEASES

Ventures leases office space under noncancelable operating leases expiring in various years through June 30, 2009. Ventures has an informal agreement to sub lease a portion of the office space. Future minimum lease payments under these leases are as follows:

Years ended June 30:	
2007	$ 132,028
2008	133,414
2009	69,632
2010	56,645
2011	18,882
Total	$ 410,601

Total rent expense for the year ended June 30, 2006 was $113,719.

NOTE 7 - RELATED PARTY TRANSACTIONS

The University provides support to Ventures including salaries, bookkeeping and accounting services, and certain administrative costs as provided in the operating and service agreement. For the year ended June 30, 2006, the University provided support in the amount of $3,204,634 to Ventures. Included in support provided was $11,850 of legal services and $4,500 of facilities provide to the Company by the University of Illinois.

During the year ended June 30, 2006, Ventures earned management fees from Illinois Emerging Technology Fund of $561,398. As of June 30, 2006, Ventures had receivables from Illinois Emerging Technology Fund of $97,817.

NOTE 8 - RETIREMENT PLAN AND OTHER EMPLOYEE BENEFITS

Employees of Ventures are generally treated as employees of the University of Illinois and as such participate in the University retirement plan and other employee benefit plans to the extent they meet eligibility requirements of the University plans. Ventures does not make contributions to any retirement plan or other benefit plan for its employees. The University of Illinois makes any contributions due to the retirement plan and other benefit plans for Company employees.

NOTE 9 - SERVICES AND MANAGEMENT AGREEMENTS

As discussed in Note 5, Ventures has been hired to provide management services to the Illinois Emerging Technology Fund and receives a fee for these services.

During the year ended June 30, 2005, Ventures entered into service and management agreements with Chicago-ITEC and Illini-ITEC. Under the terms of the agreements, Ventures agreed to provide management services and administer the ITEC funds through May 2005. The agreement is automatically extended on an annual basis there after. The status of the Chicago-ITEC and the Illini-ITEC is uncertain as they have not received funding commitments for 2007. Ventures does not receive any fee for these services.