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INSIDE TRELYS



By Adrian Wilson

Economists often refer to venture capital as “patient” capital. It is patient capital because it usually takes four to six years, sometimes longer, to build a company from early stage to the point where it is ready for a liquidity event (sale, IPO, etc.). Venture capital is also patient by design because from an investor’s standpoint it is virtually illiquid from the date of investment to the date of exit.

Trelys, as you know, made its final initial investment in October 2005. Two of its portfolio company investments were made in 2002, three in 2003, two in 2004, and one in 2005. Under the original Trelys model, we targeted investment horizons of four to six years for each of our portfolio investments, with the expectation that two or three of those investments would likely fail in the meantime. While one investment will not return capital (iOnosphere), we are pleased that as of the date of this newsletter it appears that all of the other investments will do so. The ultimate success of the fund will hinge, therefore, on the level of success of the remaining companies. We remain bullish on the prospects for success of the fund.

We have now entered the time period where exit opportunities for our portfolio companies should start to present themselves. While we are expecting the most activity in the 2008 – 2009 time period, there are two or three events on the horizon this year that could provide returns to Trelys investors. The timing of exits is dependent on a wide variety of factors, including the overall economic climate, the level of activity in the public markets, and the attainment of milestones of the portfolio companies themselves. Sometimes deals simply fall apart. While we are hopeful that these, and possibly other, transactions will occur this year, there is no certainty until the papers are signed and the proceeds distributed. We will keep you posted along the way.

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PRODUCT REVISION
EXPANDS UNITRENDS

Unitrends

The first quarter of 2007 was a time of significant accomplishments and progress for Unitrends. Their core market of small and medium businesses is increasingly focused on data protection and disaster recovery after the 9/11 attacks and hurricane Katrina. This has accelerated the demand for Rapid Recovery appliances at a time when they are delivering impressive new product functionality. The company produced record revenue in Q1, and set aggressive performance targets for the rest of 2007.

The company embarked last fall a on a major revision of its underlying software architecture. The project plan had two broad phases, one of which was completed on schedule with the release of Unitrends' software version 3.0 at the end of March, 2007. They added an impressive new user interface and several important new features to maintain and extend their competitive position. This critical part of the company is receiving increased investment as they continue with the second broad phase of the system revision project.

Financially speaking, the company produced more than \$1,000,000 in revenue in the month of March, establishing a new high-water mark for revenue and income. First quarter results also set records on

The Trelys Investment Portfolio

Company	Headquarters	Top Executive	Website	Industry Sector	Business Description
1 Aldagen	Durham, NC	Tom Amick	www.aldagen.com	Biotechnology	Developer and manufacturer of hematoietic stem cell (HSC) identification products for the improvement of HSC transplants.
2 Biolex	Pittsboro, NC	Jan Turek	www.biolex.com	Biotechnology	Producer of human therapeutic proteins using a proprietary protein expression system based on the Lemma plant.
3 Champion Communications	Greenville, SC	Leighton Cabbage	ww.Championcommunications.biz	Telecom	Provider of Voice-over-Internet Protocol (VoIP) service to users worldwide through independent marketing representatives.
4 iOnosphere	Greenville, SC	James Bailey	www.ionosphere.net	Telecom	Provider of telecom services between developed and emerging markets and of VoIP phone service to traditional domestic markets.
5 Metabolon	Research Triangle Park, NC	John Ryals	www.metabolon.com	Biotechnology	Drug developer for cancer & CNS disorders. Provides proprietary metabolic profiling services for non-competitive drug developers.
6 Ometric	Columbia, SC	Walter Alessandrini	www.ometric.com	Nanotechnology	Designer and fabricator of optical components for application-specific spectroscopy.
7 TriVirix	Milaca, MN	Paul Fink	www.trivirix.com	Outsourced Manufacturing/Medical Devices	Contract manufacturer specializing in complex electronic and electromechanical medical and other life sciences equipment.
8 Unitrends	Columbia, SC	Sterling Wharton	www.unitrends.com	Information Technology	Provider of powerful backup, recovery and data protection systems to the small and medium business market (100 to 1,000 employees).

all important dimensions, and exceeded the 2007 plan. In the last six months, Unitrends has reduced its structural cost base by more than \$2,000,000 per year while expanding revenue by more than 50%. 2007 revenue should grow about 70%. The Unitrends Marketing team is developing a series

of whitepapers to use in prospecting efforts, and has begun a Google AdWords campaign in order to expand sales and marketing. They are establishing a much-improved dialog with the press and analysts, and are seeing many articles written about the company and its unique products.

TRIVIRIX RESTRUCTURING TRIGGERS GROWTH



2006 was a year of dramatic change and restructuring for TriVirix. They have refocused the company and discontinued all business activities that do not support a successful box build contract manufacturing business. They closed losing operations in Copenhagen and Belfast, and transferred the corporate offices from Durham, NC to Milaca, MN. Engineering offices in Indianapolis, IN were also consolidated in Milaca and refocused on manufacturing engineering support, technology transfer and cost reduction initiatives. They have a new management team and a motivated

workforce. The financial restructuring is complete and the company has been operating profitably.

The goals for 2007 are to increase revenue by at least 15% and achieve a run rate of 6% EBITA by the end of the year. The management team has developed detailed action plans to achieve these goals and the organizational metrics are in place to measure our progress.

The recent addition of a new Vice President for Business Development is a key to success. He comes to TriVirix with over 15 years of success in marketing and selling contract manufacturing services with significant experience in the medical market. His mission is to

develop and implement a marketing strategy that will ensure the company achieves its long term goal of annual, sustainable growth of 20%.

TriVirix ended the first quarter ahead of plan. They beat revenue and net income targets and expect to meet or exceed projections for the year. Sales and marketing efforts are beginning to provide opportunities for new business. Their accounting and administrative teams are developing reporting systems that focus on key operational metrics that will help better manage the business. They plan to continue to optimize and improve business processes throughout 2007.

OMETRIC TARGETS PET NUTRITION INDUSTRY



Spectroscopy innovator Ometric Corporation recently announced the availability of SpectrInline Processware™ Pet 1.5, a new application of real-time, inline process control for the pet nutrition industry. SpectrInline Processware™ Pet 1.5 will provide efficient, reliable high-volume process control for both wet and dry foods.

In the competitive pet food sector, manufacturers must ensure their products meet specified levels of moisture, fat, proteins, and other nutrients. In-lab testing of

large quantities requires long periods of time. Laboratory optical spectrometers are delicate and require constant calibration by highly qualified specialists. Thus, it is expensive for a pet-food manufacturer to implement adequate process control.

SpectrInline Processware Pet 1.5™ is installed directly in the process line, and it provides real-time measurement of the concentration of the compounds of interest. As with other industry applications of Ometric SpectrInline Processware™, Pet 1.5 utilizes patented Multivariate Optical Computing™ technology, refined over ten years of research and development. Manufacturing applications

of SpectrInline Processware™ Pet 1.5 include blending, mixing monitoring, drying monitoring, material inspection, extrusion, coating and other desired quality control points.

"SpectrInline Processware™ provides an unprecedented opportunity for pet food manufacturers to use process control to improve profit margins and reduce the risk of misbranding," said Ometric Corporation CEO Walter Alessandrini. "The MOC™ technology is ideal for manufacturing applications, because it can operate in harsh industrial environments and it needs no human intervention for operation and calibration."

RECORD ATTENDANCE AT THE TRELYS ANNUAL MEETING

The Trelys Funds held its Annual Meeting of Partners on June 13, 2007, at Nelson Mullins Law Firm in Columbia, SC., with a record number of Limited Partners in attendance.

This was to be expected considering the changes in the management of the fund's general partnership over the last year. On the other hand, with all initial investments made, it is understandable that Limited Partners are actively interested in the prospects for distributions from portfolio investments. We are pleased that, for whatever rea-

son, our Limited Partners take an active interest in the fund. We are also pleased that, at present, the news that we conveyed was positive.

Introductions to our new back office team, Mike Gorman and Colleen Suite (see below) were an important part of our successful Annual Meeting, along with our financial projections and portfolio company updates.

Face-to-face meetings such as our Annual Meeting of Partners are excellent forums for the exchange of information. Quar-

terly financial statements and portfolio updates are, by their nature and by industry convention, conservative and do not necessarily reflect the potential of our portfolio companies. While we will continue to value our portfolio companies according to industry norms, our hope and expectation is that their performance will exceed the "current" value as expressed in our quarterly financial statements.

The meeting was followed by a reception, attended by our Limited Partners and managers.

BACK OFFICE UPDATE

The Trelys Funds would like to welcome Mike Gorman and Colleen Suite to the back office team. Currently the CFO and Controller of Aurora Funds, respectively, their experience and knowledge will be well valued at The Trelys Funds. With our strong team, The Trelys Funds is on the path for success.



Mike Gorman
CFO

Mike brings more than 23 years of financial and operating experience to Trelys. He started his career with Ernst & Young, 5 years of which were focused on serving entrepreneurial and high growth companies. Mike has worked for a number of public and private companies throughout his career in various management and executive roles.

Mike holds a Bachelor of Science in Accounting from Canisius College, is a Certified Public Accountant and a Certified Management Accountant.



Colleen Suite
Controller

Colleen brings more than 19 years of financial and human resources experience to Trelys. Her previous years of experience has enabled her to work for such companies as Dun & Bradstreet and various industries such as construction, software, retail, architecture, leasing and manufacturing.

Colleen holds Associates in Computer/Accounting and a Bachelors Degree in Finance/Management from State University of New York at Utica.