Dear Shareholders:

During fiscal 2008, we met key milestones in executing our business plan. Implementation began early in the year on a substantially revised business model, with the singular goal of becoming a premier biomaterials company serving the medical device industry to support next-generation devices. To that end, we sharpened our focus and thereby gained broader recognition of our development and production expertise in supplying world-class biomaterials. We accomplished the following goals:

- The Company sold two business units that generated operating losses of approximately $2.0 million in fiscal 2008;
- The Company hired its first time biomaterials Global Sales Director to lead its aggressive industry marketing and re-branding initiatives;
- As part of the re-branding initiatives, AdvanSource Biomaterials Corporation was formed as the Company's operating subsidiary to better reflect its strategic marketing mission and in anticipation of a corporate name change at the 2008 Annual Meeting; and
- Royalties and development fees grew to a record $1.9 million in fiscal 2008, resulting in a 24% increase in fees.

Launch of AdvanSource Biomaterials

In fiscal 2008, the sale of two divisions that no longer fit our new business model laid the foundation for the launch of our AdvanSource Biomaterials brand early in fiscal 2009. We now have a targeted mission to leverage our core competency, that being the development and commercialization of advanced biomaterials that incorporate critical characteristics for use in a broad range of medical devices. We have invested in highly experienced sales and marketing talent and state-of-the-art facility improvements. Together these have already started to generate results, with product sales more than doubling in the fiscal fourth quarter.

With our recent launch of AdvanSource Biomaterials, we are now showcasing the broad scope of our leading-edge technology, including advanced materials such as ChronoFlex®, HydroMed™, and HydroThane™. These products have been developed to give medical companies a competitive edge in overcoming a wide range of design and functional challenges from the need for dimensional stability, ease of manufacturing, and demanding physical properties to reducing environmental stress-cracking and providing heightened lubricity for ease of insertion.

While we have been in business for more than 10 years, our advanced biomaterials technology has been a well-kept secret in the industry due mainly to little or no marketing of our products and services. We have radically shifted gears during this past year by hiring Khristine Carroll as the Company's first Global Sales Director to head our re-branding effort. She has been instrumental in helping us develop a new name and create a sharply-focused marketing format for a new website and the other tools necessary for our brand, including introduction to a wide range of contacts who did not previously have our Company on their radar. As a result of these efforts, we have experienced a dramatic increase to the number of quotations resulting from new and existing customers.

Novel Antimicrobial Polymer Technology

Through proprietary manufacturing processes, we have created advanced materials that have the potential to reduce foreign body patient infections and are less susceptible to bacterial growth and biofilm formations without the use of pharmaceuticals or costly secondary operations. We estimate that medical device infections cost hospitals in the United States approximately $9 billion annually. We are currently developing and testing antimicrobial extension lines that complement the ChronoFlex® and HydroMed™ product families. Our plan during the current year is to accelerate development of these polymers and implement a go-to-market strategy.

Looking Ahead

It is also important to recognize the extended timeframes for realizing income from projects for new or next-stage devices. An example of this lies in our current work with several companies with whom we are working to develop spinal implants. These devices result in breakthrough technology for orthopedic surgeons and thus, the industry is anxious to see this come to fruition However, to reach a viable end-product with this degree of complexity takes an investment of time. We estimate that one or two of these companies will take their product to the clinical trial phase within three to five years for FDA review. We continue to partner with several such companies, whereby initial market entry by any or all can substantially add to our development and royalty fee income.

After receiving Ministry of Health approval for a second test site and a second graft size last spring and FDA approval of an export license for the 4mm graft in July, we are now able to proceed at two sites with two graft sizes in the European clinical trial of CardioPass™. Since the trial has taken longer than all of us had hoped for, I would like to take this opportunity to review our protocol and explain why time is not the most critical factor for us. We are limiting the trial to patients that are healthy except for their underlying coronary artery disease. To be accepted in our trial, the patient must also have one vein that is healthy enough to be grafted and tested alongside our synthetic coronary bypass graft. With a second graft size and a second site, we feel that we are in a much better position to attract patients that are needed to complete our clinical trial. The trial surgeons are understandably being very careful when selecting patients that they deem appropriate for the surgery and who scrupulously meet the requirement for the ninety-day follow-up period.

We are looking forward to introducing our technology at major international trade conferences in Ireland in late September and in Germany next March, which represents our first international trade-show participation. Additionally we will be in a more prominent exhibitor position than in the past at key trade shows in the United States.

In closing, our goal is to create long-term shareholder value. To that end, I would like to thank our entire Company team for their dedication and hard work and our shareholders for their continuing support.

Sincerely,

President and Chief Executive Officer
September 3, 2008

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