
# Business Update
# Intelligent Medical Devices, Inc.
# December 2009

## CONFIDENTIAL

**Contents:**

# 1. Summary Description of Business and Strategy

***Overview and Structural Considerations***

Intelligent Medical Devices, Inc. is dedicated to creating innovative technology solutions to address large common needs of patients and people concerned with various aspects of their health. The historically primary focus of the company has been the development of molecular diagnostics for infectious diseases. In addition to molecular diagnostics, the company has developed novel intellectual property in other areas and applications that would contribute significantly to the potential value of the company.

The Company is currently preparing to commercialize its molecular diagnostics products with a robust pipeline capable of coming to market in a relatively short timeframe thereafter. The business opportunity is very large and can best be captured with an aggressive and accelerated development path along with more complete integration into manufacturing and sales and marketing without reliance on a partner. In order to fully realize the full potential of the opportunity, the company anticipates the need for additional capital.

Additionally, the Company has expended resources to develop a bioinformatics capability that has broader applications than solely molecular diagnostics. The utilization of this technology for the development of molecular diagnostic tests is disproportionately small relative to the ongoing development costs associated with a best in class bioinformatics capability. The Company is currently seeking a structure that would allow the Bioinformatics business opportunity to be fully realized and support itself. By separating the Bioinformatics business from the Molecular Diagnostics business, the Bioinformatics business could apply for government support, continue product specific development in areas outside of human molecular diagnostics, and broaden the applications to address alternative revenue streams in a self-sustaining and profitable manner.

In addition to the Molecular Diagnostics and Bioinformatics business, the Company has additional ideas and intellectual property. These ideas include a consumer device to measure Ketone bodies in one's exhaled breath to determine whether a person is in a catabolic metabolic state (burning fat). This application would allow people to monitor their metabolic status and set and reach personal weight and fitness goals. This application has a large potential market and would not be constrained by FDA regulation. Another intellectual property holding is the symptom-based diagnostics patent family which, put simply, allows the development of symptom-specific diagnostic panels that are aggregated tests based on the contribution to a clinical symptom(s) rather than based on infectious agent type or strains. An example would be a respiratory panel that would be run on the clinical presentation of a pediatric cough and would test for pneumococcus bacteria, respiratory syncytial virus (RSV), influenza virus, and potentially even non-infectious endogenous markers for asthma. The Company believes this patent has broad licensing opportunities and may even have current infringement cases that, if pursued, could lead to subsequent and potentially immediate licensing revenues.

Lastly, the Company co-founders, Drs. Alice Jacobs and Boris Nikolic have access to some very interesting deal flow and have generated some other interesting entrepreneurial ideas, but have largely been without an appropriate company in which to house the resultant intellectual property. Should Drs. Jacobs and Nikolic have a company through which to file various patents, the resulting intellectual property could be the basis for new business concepts or potential licensing revenues.

The structure currently being contemplated to address all the above-mentioned considerations would be to establish a molecular diagnostics subsidiary ("IMDx") that contained all molecular diagnostic product developments and product specific intellectual property. The remaining assets, including platform related intellectual property and the Bioinformatics capability, would remain within the parent company ("ParentCo") and would be exploited as a separate business (detailed business planning to be developed). It is the intent of IMDx to raise significant institutional capital from venture investors, of the magnitude of $15-20MM, with the ownership percentage maintained by ParentCo being determined by the negotiated pre-money valuation agreed to in the financing terms. The ParentCo would also issue a fully-paid, global, sub-licensable set of relevant intellectual property licenses restricted to human molecular diagnostic applications only in exchange for a one-time license fee to be negotiated between IMDx and ParentCo. Any laboratory development services required by ParentCo and performed by IMDx (e.g. sample testing or sequencing) or performed by ParentCo for IMDx (e.g. sequence optimization for primers/probes used in molecular diagnostic tests) would be performed under separate fee for service contracts developed as arms length transactions. Lastly, until otherwise established as a separate fully supported operating unit, the companies would structure an arms-length shared services/rent agreement to allow the bioinformatics group to continue to have access to existing infrastructure for a monthly fee paid to IMDx.

Management and the Board of Directors of Intelligent Medical Devices agree that this structure would serve the needs of all parties and would "unlock" resident value which, under the existing structure, is not given full credit. This structure allows IMDx to execute an aggressive growth plan while allowing the ParentCo to pursue various alternative business strategies, potential new businesses, funding sources and revenue streams.

### *ParentCo.*

***Currently, the structure and potential for ParentCo is being developed, but ParentCo will possess the following assets and will at a minimum examine these associated business opportunities. ParentCo is expected to have a first year expense rate of less than $2MM and will initially support itself from the initial IMDx license fee and grant submissions/federal monies as well as additional licensing fees.***

| Asset | Application(s)/Opportunity |
|---|---|
| Patent family: Symptom based diagnostics | Immediate licensing of IP |

| | |
|---|---|
| Bioinformatics Platform | Access to government grants<br>Fee-for-service revenues<br>Biologics/therapeutic applications<br>Research applications<br>Vaccine applications<br>Veterinary applications |
| "Ketone Breathalyzer" invention | Metabolic measurement in weight/fitness management |

## *IMDx (Molecular Diagnostics Subsidiary)*

Intelligent Medical Devices, Inc. (IntelligentMDx) is at a critical turning point in the history of any company – we are bringing our first products to market and are becoming a commercial company. IntelligentMDx is focused on the development and commercialization of differentiated, high quality molecular diagnostic tests. The Company has built a unique and proprietary development engine that can set new records in the rapidity with which high quality tests can be brought to market. From this engine IMDx is advancing 5 product groups towards commercialization.

***The Molecular Diagnostics Market***

There is a great deal of varied data regarding the size of the molecular diagnostics market, but most analysts agree that the market will double in the next three years (approximately $10BB to $20BB by 2013). The key drivers of this growth are:

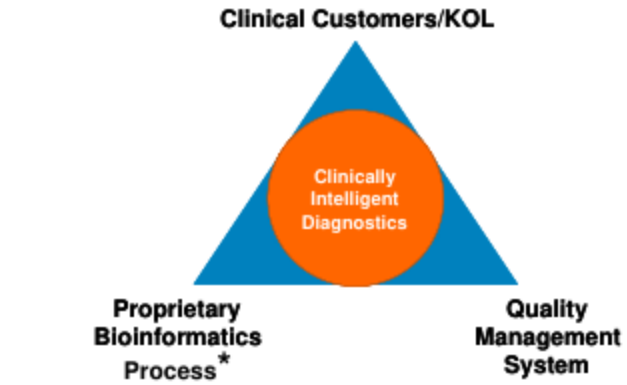
- Technology – larger penetration of equipment as it gets smaller, cheaper, and more automated
- Demand – greater resistance and globalization of pathogens (SARS, MRSA, multi-drug resistant TB, Swine and avian flu, bioterrorist threats)
- Drug Resistance – As drugs become more focused and targeted, there is more pressure on pathogens to select mutations that evade the targeted therapies (e.g. HIV, MRSA, seasonal influenza A)
- Regulatory and Clinical Trials requirements – molecular tests will allow for concise clinical trials to be conducted for new drug entities; the Food and Drug Administration is charged with enforcement of companion assay development for new drug entities

Companies competing in this space include the equipment providers (each selling a platform with a few tests that run best on their platform), the reagent suppliers (most of whom are building their own systems in order to sell more tests), and the large reference laboratories (who charge about 10 times what it costs to run a test in-house, making them best suited for micro-volume esoteric testing).

IMDx has performed a great deal of primary research and has concluded there is great demand for what we do – provide high quality, up-to-date tests that have key elements of differentiation that fill the needs of the patient, the doctor, and/or the laboratory. Even when there is an FDA approved test available, we find that the doctors and labs are frustrated and eager to support new entrants with up-to date offerings.

***The IMDx Platform – Clinically Intelligent Diagnostics Approach***

The key to IMDx's approach is an EARLY and PLANNED alignment of the major components required to commercialize a best-in-class test:




* exclusive access to this technology for Molecular Diagnostics under the proposed structure

IMDx has developed a proprietary development process that allows us to design tests differently than other development groups. At the beginning of the process, we essentially co-develop the concept and specifications with customers and key opinion leaders. This allows us to address their concerns and identify ***clinically relevant*** strains, biomarkers and sample elements that need detection/differentiation (e.g. two strains of seasonal flu may not require differentiation, but H1N1 needs to be differentiated from seasonal flu). IMDx then uses or accesses a bioinformatics process to design the best test ***in silico*** by taking into account a deep understanding of reaction chemistries, evolutionary biology, and even sequence patentability (exclusive access to this technology for Molecular Diagnostics under the proposed structure) . By applying more developed and more accurate algorithms, IMDx ***bypasses much of the trial and error*** approach to effective diagnostic design and reduced "wet" lab work to small amounts of verification work rather than a brute force high-volume screening approach. Additionally, all IMDx does is performed with ***strict adherence to FDA quality systems and regulations***, thereby eliminating a significant portion of the regulatory risk in seeking marketing approvals. The end result is a platform for creating high quality, high stringency tests with competitive differentiation and market appeal. By accelerating this process, it becomes feasible to provide ***continuous surveillance*** and launch test variants as a quick response as new test requirements emerge (e.g. a seasonal influenza test that matches the annual vaccine development strategy or a rapid development of a test to specifically detect a new MRSA mutation).

Another great feature of our development platform is ***flexibility***. In terms of selecting a platform on which to run our tests, we can apply our technologies to ANY well understood nucleic acid based (amplification/detection) chemistry. This has multiple effects:

- Customer demand - customers can increase capital efficiency by selecting under-utilized equipment to run IMDx tests
- Cost of Goods – royalty stacks can be minimized by using alternative chemistries
- Potential partners – we can develop specific tests for their platforms/chemistries if they pay for exclusivity

Furthermore, a nucleic acid based test, if robust enough, can be used for multiple applications:

- Molecular diagnostics of pathogens
- Companion diagnostics for therapeutics/drug development
- Oncology testing/typing
- Personalized genomics/endogenous testing of an individual's genes

IntelligentMDx has focused to date on pathogen molecular diagnostics as that is what the market demands most, but there is nothing to prevent the broader application of our platform and capabilities if customers or partners desire it.

***Commercialization Strategy***

IMDx is ultimately seeking full regulatory clearance to market *in vitro* diagnostic kits (IVD kits). IMDx is ideally looking for a global distribution partner to distribute our tests either specifically for their platforms (e.g. Abbott Molecular or Roche Molecular) or as a platform agnostic test distributor (e.g. Thermo-Fisher). IMDx is currently in partnership discussions with global platform players for distribution deals – some with single product focus, some with platform focus and all with an eye to a larger, broader applicability.

***The Current IMDx Products***


## *IMDx Pan-FluOR™ - Influenza*

***2009 Version***

Detects influenza A, differentiates seasonal influenza A from novel H1N1 influenza A, and differentiates oseltamivir (Tamiflu™) and peramivir susceptibility versus resistance. Current market entrants do not have resistance detection and some tests are reporting erroneous results, likely due to poor test design and inability to account for genetic drift in the underlying test design. IMDx is seeking Emergency Use Authorization and is examining various distribution mechanisms for this season's testing.

***2010 and Subsequent Annual Versions***

The goal of IMDx is to create an annual test for flu that incorporates the elements specific to that year's flu concerns. For 2010, IMDx will incorporate additional elements to create a test whose first module detects and differentiates seasonal influenza A, Influenza B, and 2009 H1N1 influenza A while the second module determines oseltamivir (Tamiflu™) and peramivir resistance as well as differentiates H1 versus H3 subtypes. A further investigative project will be undertaken to determine whether a diagnostic test can be developed that would assess the potential severity of the infection in various influenza strains. If successful, IMDx will incorporate that element among others, including avian influenza testing as concern develops, into subsequent test generations. Additionally, IMDx will evaluate the utility of building the influenza test into a broader respiratory panel by adding such elements as respiratory syncytial virus, parainfluenza virus, and/or the respiratory strains of adenovirus.

### *IMDx Pan-Screen™ Infection Control*

Detects most commonly encountered resistance markers for infections, including *mec*A (methicillin resistance), *van*A/*van*B (vancomycin resistance) and *Clostridium difficile (C. diff.) tox*A/*tox*B genes. Currently, the incidence of hospital acquired infections, including antimicrobial resistant infections, is gaining visibility and is an area of great cost and concern. The government reimbursement agencies are now placing the responsibility squarely on the shoulders of the healthcare system itself by eliminating reimbursement for treatment of infections that are contracted while in a facility. To qualify for infection treatment reimbursement, the healthcare facility will need to develop infection control programs, including a) patient screening to prove the patient was infected or colonized prior to admission to the facility, b) detection and typing of infections spreading within a hospital, and c) environmental monitoring of surfaces, etc. The ideal infection control test would be a cost effective, rapid result, high-throughput test that could be used to detect and differentiate microbes regardless of sample source (patient or surfaces) or use (environmental monitoring, diagnosis, screening). IMDx is delivering just such a solution and believes this market will grow, but currently has the potential to be a $1.5BB global market.

### *IMDx Pan-Detect™ Bordetella – Pertussis/Parapertussis*

Detects infection with bacteria in the genus Bordetella and differentiates between *Bordetella pertussis*, *parapertussis*, and the minor Bordetella strains. Prior to the 1940's, when vaccines were developed, pertussis was a leading cause of infant and childhood deaths. The incidence of the infections decreased for a while, but we are now seeing a re-emergence of newer, more virulent strains of the bacteria. Currently, there is no commercially available test, yet this is nearly unanimous in placing high on the demand list by physicians and lab directors. The market for a Bordetella test is estimated to be between $50 and $100MM worldwide, with the availability of a cleared test expected to correct underreporting, which will drive more test growth as the relevance increases.

### *IMDx Pan-Quant™ Immunocompromised Viral Monitoring*

Detects and quantifies viral load for Epstein Barr Virus (EBV), Cytomegalovirus (CMV), BK Virus, and adenovirus; all are viruses commonly associated with transplant and immunocompromised patient health. The BK virus test also differentiates and detects the minor strains of BK, whose different clinical presentation is becoming increasingly relevant for treatment implications.

A number of tests exist in the marketplace for these viruses, but lab directors and hospital management find them to be very costly and inefficient. The current tests mainly use different cycle parameters, so the lab cannot run all five tests together in a single run and must instead run a number of frequent and partial runs. IMDx has optimized the tests under the same cycle parameters so the user has complete control in determining how many of each test is included in a single run setup. This random access control of the test configuration is very efficient and lab directors have indicated a strong preference for such a test over current existing solutions. The current market is estimated to be approximately $100MM for transplant and immunocompromised health monitoring, but these tests can also be used for maternal-fetal-medicine and sexually transmitted disease testing. Alternative markets would bring this group above $200MM per year in market size.

## *IMDx Pan-Detect™ Encephalitis – Herpes Simplex Virus and Enterovirus*

Encephalitis is not a specific disease, but is rather a disease state caused by various conditions. The most common cause of encephalitic brain inflammation are viral infections, most notably the herpes simplex viruses and enterovirus. While the incidence of virally induced encephalitis is not a relatively large number, the high rate of mortality and morbidity makes it tested quite frequently for the reassurance of the confirmation that a patient is not virally encephalitic. This creates a large test market and more components can be added as the incidence of other viral infections associated with encephalitis increase (e.g. West Nile Virus, Eastern Equine Virus, etc).

## *Current Developments*

### *Novel H1N1 Flu (2009)*

On August 21st, the CDC published the first report of oseltamivir resistance and IMDx was urged by customers to develop a differentiated novel H1N1 test that a) detects the presence of influenza A, b) differentiates seasonal influenza A from novel (2009) H1N1 influenza A, and c) determines susceptibility or resistance to oseltamivir (the most widely used anti-influenza therapy, marketed as Tamiflu™). IMDx decided to develop such a test and likely set a new record for design and initial feasibility studies as we presented initial data to the FDA on September 22nd. The FDA was encouraging and we completed clinical trials at 4 geographically dispersed clinical sites and have submitted an Emergency Use Authorization (EUA) clearance application to the FDA. Clearance will allow the sale of IVD kits as early as January, and experts agree that this strain of H1N1 will be prevalent at least through the 2010-2011 influenza season. Additionally, during our clinical study, when a patient who tested negative for multiple other commercially available H1N1 tests was tested with IMDx PanFluOR test, the patient tested positive for H1N1 and the strain was oseltamivir resistant. The clinician is preparing a manuscript to submit a journal article indicating the false negatives with other tests and the accurate positive with IMDx Pan-FluOR. The company believes there will be more rapid adoption of IMDx Pan-FluOR after this paper is presented and published.

IMDx planned the clinical trial and EUSA submission with the FDA with an intent to leverage existing work and create minimal additional work to submit a 510(k) submission to the FDA, which would allow clearance to market after the existing health emergency is declared over. Additionally, IMDx is preparing to add test elements, such as an influenza B test element to the 510(k) submission for a more robust test..

### *FDA*

On September 22nd, IMDx had a positive meeting with the Medical Devices group at the FDA. The FDA not only encouraged the submission of an application for the clearance of our influenza test (see above) under the Emergency Use Authorization statute and subsequent 510(k) clearance, but also was intrigued with what they expressed was our unique way of thinking about mutation and drift in microbial populations. The FDA has requested that more information be supplied regarding our unique process and wanted IMDx to present our approach to the Commissioner of the FDA.

***Major hospital network traction***

IMDx is also initiating a pilot program to introduce tests into a single center within a buying consortium with 1400+ member hospitals and facilities.

***Business Development Progress***

IMDx has a term sheet out to one global player for PanFluOR (multi-generation influenza program). Another global leader is interested in choosing a pilot target for IMDx to apply its development capability. Once our unique approach is proven to this group, a larger strategic deal would likely follow. Two other large companies are interested in potential collaborations and/or licensing existing products.

***Operations and Management***

24 employees, 12 PhDs and MDs
~18,000 square foot mixed lab/office facility in Cambridge, Massachusetts

**Alice Jacobs**, [redacted]., *Chairman, CEO, Founder*
Raised ~$27M for Intelligent Medical Devices, Inc. to date. Assembled team of visionary scientific and business leaders. Company co-founder and inventor of symptom-based diagnostics.

**Charles R. Carter**, [redacted]., [redacted]., *Chief Financial Officer*
Over 17 years of business, financial and biotechnology experience. Oversaw finance and operations for Adnexus Therapeutics, purchased by Bristol-Meyers Squibb. Senior Director of financial Planning and Analysis for Shire Pharmaceuticals/TKT where he played a key role in the $1.6B acquisition of TKT. Life sciences consulting partner at Mercer Management Consultants

**David L. Dolinger**, [redacted]., *Vice President, Research and Development*
Over 18 years industry experience, former Director of Research and Development for IQuum, Inc. former Senior Manager of Product Support for Bayer Diagnostics, co-developer of the first FDA cleared sequencing based assay and thought leader in the areas of diagnostics and molecular diagnostics

**Sarah Toomey,** *Corporate and intellectual property counsel*
B.S. in Bacteriology from the University of Wisconsin-Madison and her [redacted]., with a concentration in intellectual property, from Suffolk University Law School. Ms. Toomey is registered to practice before the U.S. Patent and Trademark Office, and is admitted to practice in the Commonwealth of Massachusetts and the U.S. Court of Appeals for the Federal Circuit.

**Elizabeth Holland**, *Senior Director of Human Resources*
Over 20 years of experience in the role of Human Resource Business Partner, the last 13 in the biotechnology industry with drug discovery companies, genomic services and nucleic acid purification products, and companies developing automation and bioinformatics platforms.

**Jim Hully**, [redacted]., *Director of Research*
Inventor of PriMD, our proprietary next generation molecular diagnostics bioinformatics system, thought leader in molecular biology. Held senior scientific positions at Ventana Medical Systems and Applied Biosystems.

**Mark Nadel**, [redacted]., *Director of Bioinformatics and Research Development*
A mathematical logician by training, having assembled one of the foremost groups of model theorists in the world. Transitioned into computational biology with most recent positions at the Dana Farber and the Broad Institute.

**Philip Moen,** [redacted]., *Director of Product Development*
Dr. Moen has a broad background in molecular and cellular diagnostic assay development, having held senior research and product development positions for several major Biotechnology companies including E.I DuPont de Nemours, Inc., NEN Life Sciences, Inc. (now PerkinElmer), and SeraCare Life Sciences, Inc.

## Description of Capital Stock

*General*. The rights of the holders of Common Stock, and Series A Stock, Series B Stock, Series C Stock, and Series D Stock (together, the "Existing Preferred Stock") are identical except for conversion rights and liquidation rights described below.

*Voting Rights*. The holders of the Existing Preferred Stock are entitled to one vote and they shall vote on an as-converted basis with the Common Stock as one class except that each class shall vote as a separate class as required by law, in order to amend, alter or repeal the Certificate of Incorporation if such amendment would adversely change the rights of the respective stock, or with regard to voting for an automatic conversion of shares as described below.

*Transfer Restrictions*. The Existing Preferred Stock are not subject to restrictions on transfer other than those imposed by the Securities Act. The Common Stock are subject to restrictions on transfer imposed by the Securities Act and are also subject to transfer restrictions as defined in the stock incentive plans under which the Common Stock is granted.

*Dividends and Liquidations*. The holders of the Existing Preferred Stock and the holders of the Common Stock have an equal right to receive dividends when and if declared by the Board; provided, however, that if we declare or pay a dividend on the Common Stock consisting in whole or in part of Common Stock, then no such dividend shall be payable to holders of Existing Preferred Stock, and in lieu thereof the conversion price for the Existing Preferred Stock will be proportionally adjusted. In the event of the liquidation, dissolution or winding-up of IntelligentMDx, Inc., the holders of Series D Stock are entitled to receive, in preference to the holders of Common Stock, Series A Stock, Series B Stock and Series C Stock an amount for each share of Series D Stock equal to the original purchase price of such share of Series D Stock. Thereafter, the holders of Series C Stock are entitled to receive, in preference to the holders of Common Stock, Series A Stock, and Series B Stock an amount for each share of Series C Stock equal to the original purchase price of such share of Series C Stock. Thereafter, holders of the Series A Stock are entitled to receive, in preference to the holders of Common Stock and Series B Stock, an amount for each share of Series A Stock equal to the original purchase price per share. Thereafter, holders of the Series B Stock are entitled to receive, in preference to the holders of Common Stock an amount for each share of Series B Stock equal to the original purchase price per share. Following full payment to the holders of the Existing Preferred Stock, the remaining assets shall be distributed to the holders of the Common Stock.

*Conversion Rights*. Each share of Existing Preferred Stock may, at any time and upon the option of the holder, be converted into a number of shares of Common Stock determined by dividing the original purchase price by such purchase price as adjusted for certain corporate events such as stock dividends, stock splits or reorganizations. The Existing Preferred Stock will automatically convert into Common Stock upon the written consent of greater than 50% of the Existing Preferred Stock then outstanding, each voting

as a separate class and shall convert automatically immediately prior to an initial public offering of the equity securities of the Company registered under the Securities Act.

*Other Provisions*. The holders of the Existing Preferred Stock and Common Stock have no pre-emptive rights to subscribe to any additional securities of any class which we may issue.

*Preferred Stock*. The Certificate of Incorporation allows us to issue up to 5 million shares of preferred stock in one or more series as may be determined by the Board who may establish from time to time the number of shares to be included in each series, fix the designation, powers, preference and rights of the shares in each series and any qualifications, limitations, or restrictions thereof without the further vote or action by the stockholders. The Board may authorize, without approval by the stockholders, the issuance of preferred stock with voting, conversion rights and rights upon liquidation that could adversely affect the voting power and other rights of the holders of the Existing Preferred Stock.

# 2. Summary of Current Capital Structure

| Investor | Preferred Shares Series A | Series B | Series C | Series D | Common Shares Outstanding | Total Stake of Outstanding Common Equivalents | % Ownership |
|---|---|---|---|---|---|---|---|
| Series A Investors | 246,320 | | | | | 246,320 | 6.7% |
| Series B Investors | | 332,716 | | | | 332,716 | 9.0% |
| Series C Investors | | | 387,730 | | | 387,730 | 10.5% |
| Series D Investors | | | | 660,458 | | 660,458 | 17.9% |
| Ex-Directors & Advisors | | | | | 17,119 | 17,119 | 0.5% |
| Ex-Management | | | | | 49,741 | 49,741 | 1.3% |
| Ex-Employees | | | | | 15,286 | 15,286 | 0.4% |
| Founders | | | | | 1,862,861 | 1,862,861 | 50.5% |
| Directors & Advisors | | | | | 71,219 | 71,219 | 1.9% |
| Management | | | | | 36,502 | 36,502 | 1.0% |
| Employees | | | | | 11,172 | 11,172 | 0.3% |
| Totals | 246,320 | 332,716 | 387,730 | 660,458 | 2,063,900 | 3,691,124 | 100% |
| Amount Raised | $ 2,460,000 | $ 3,660,000 | $ 5,616,010 | $ 11,558,037 | $ 250,101 | $ 23,734,148 | |

| Investor | Warrants | Unvested Restricted Stock | Overhang Vested Options (SIP) | Unvested Options (SIP) | SIP Reserve | Total Stake of Outstanding Plus Overhang Common Equivalents | % Ownership |
|---|---|---|---|---|---|---|---|
| Series A Investors | | | | | | 246,320 | 5.6% |
| Series B Investors | | | | | | 332,716 | 7.6% |
| Series C Investors | | | | | | 387,730 | 8.9% |
| Series D Investors | | | | | | 660,458 | 15.1% |
| Warrants | 54,715 | | | | | 54,715 | 1.2% |
| Ex-Directors & Advisors | | | - | | | 17,119 | 0.4% |
| Ex-Management | | | - | | | 49,741 | 1.1% |
| Ex-Employees | | | - | | | 15,286 | 0.3% |
| Founders | | | | | | 1,862,861 | 42.5% |
| Directors & Advisors | | 55,221 | - | - | | 126,440 | 2.9% |
| Management | | - | 33,137 | 119,671 | | 189,310 | 4.3% |
| Employees | | - | 38,625 | 135,875 | | 185,672 | 4.2% |
| SIP Reserve | | | | | 252,535 | 252,535 | 5.76446% |
| Totals | 54,715 | 55,221 | 71,762 | 255,546 | 252,535 | 4,380,903 | 100% |

In addition to the sale of the Series D Convertible Preferred Stock, the Company has offered a combination security comprised of a Note and attached warrants for Series D Preferred Shares. The features of the note are an 8% annual interest rate, paid in cash quarterly, and a return of principal 3.5 years from date of issue. The warrants provide 30% coverage of the note principal value at strike price of $17.50 and with a termination 7 years after the issuance of the warrant.

As of October 28, 2009 the Company has issued such notes for an aggregate face value of $3,075,000 to mature on December 31, 2012 with attached warrants for the right to purchase 52,715 Series D Preferred Shares at $17.50 per share.

# 3. Historical Financial Summary

The following summary of our historical financial statements is taken from our audited financial statements from inception to December 31, 2003 and for the fiscal years ending on December 31 for the years 2004 through 2007. Our auditors for inception to December 31, 2003 and for fiscal years ending December 31 from 2004 through 2007 are Carlin, Charron and Rosen, LLP. Our auditors for fiscal 2008 are Ernst & Young, LLP.

**Summary of Audited Historical Financial Data**
**IntelligentMD, Inc.**
**Inception (October, 2000) to fiscal year end 2007**

| *All amount in $* | October, 2000 to fiscal year end 2003 | Fiscal Year Ending December 31, 2004 | 2005 | 2006 | 2007 |
|---|---|---|---|---|---|
| **Summary Income Statement** | | | | | |
| Grant revenue | $ 33,020 | $ 66,786 | $ - | $ 87,246 | $ - |
| Operating expenses | | | | | |
| Research and development | $ 2,006,794 | $ 1,272,006 | $ 1,876,703 | $ 1,458,474 | $ 1,785,561 |
| Marketing | - | 47,887 | 83,815 | 7,003 | 404,199 |
| General and administrative | 2,097,913 | 823,721 | 1,334,980 | 1,475,671 | 1,462,656 |
| Impairment of patent costs | - | - | - | 488,475 | - |
| Operating loss | $ (4,071,687) | $ (2,076,828) | $ (3,295,498) | $ (3,342,377) | $ (3,652,416) |
| Other income(expense) | $ (63,410) | $ 12,108 | $ 23,190 | $ 3,005 | $ 208,659 |
| **Net loss** | **$ (4,135,097)** | **$ (2,064,720)** | **$ (3,272,308)** | **$ (3,339,372)** | **$ (3,443,757)** |
| **Summary Balance Sheet** | | | | | |
| Current assets | | $ 1,132,760 | $ 2,429,405 | $ 752,467 | $ 891,848 |
| Net property and equipment | | 68,427 | 54,517 | 59,235 | 92,059 |
| Other assets | | 1,014,584 | 943,575 | 463,769 | 326,554 |
| **Total assets** | | **$ 2,215,771** | **$ 3,427,497** | **$ 1,275,471** | **$ 1,310,461** |
| Current liabilities | | $ 623,057 | $ 748,069 | $ 921,218 | $ 446,000 |
| Long-term liabilities | | 528,084 | 375,106 | 18,673 | - |
| Preferred stock | | 652 | 953 | 1,036 | 1,262 |
| Common stock | | 2,050 | 2,065 | 2,036 | 2,036 |
| Additional paid in capital | | 7,261,745 | 11,773,429 | 13,150,015 | 17,103,745 |
| Accumulated deficit | | (6,199,817) | (9,472,125) | (12,817,507) | (16,242,582) |
| **Total liabilities and stockholders' equity** | | **$ 2,215,771** | **$ 3,427,497** | **$ 1,275,471** | **$ 1,310,461** |
| **Summary Statement of Cash Flows** | | | | | |
| Cash - opening balance | $ - | $ 243,009.00 | $ 1,113,046.00 | $ 2,428,091.00 | $ 661,972.00 |
| Cash to/from operating activities | | $ (2,061,894) | $ (3,126,841) | $ (3,509,523) | $ (3,872,599) |
| Cash to/from investing activities | | (377,047) | (70,114) | 396,952 | (133,447) |
| Cash to/from investing activities | | 3,308,978 | 4,512,000 | 1,346,452 | 3,953,956 |
| **Change in Cash** | **$ 243,009** | **$ 870,037** | **$ 1,315,045** | **$ (1,766,119)** | **$ (52,090)** |
| **Cash - ending balance** | **$ 243,009** | **$ 1,113,046** | **$ 2,428,091** | **$ 661,972** | **$ 609,882** |

# 2008 PRELIMINARY FINANCIAL STATEMENTS
# 2008 PRELIMINARY Balance Sheet

| | December 31, 2008 |
|---|---|
| **Assets** | |
| Current assets: | |
| Cash and cash equivalents | $ 754,783 |
| Prepaid expenses and other current assets | 57,788 |
| Total current assets | **812,571** |
| | |
| Property and equipment, net | 929,966 |
| Other | 442,974 |
| Total assets | **$ 2,185,511** |
| | |
| **Liabilities and stockholders' equity (deficit)** | |
| Current liabilities: | |
| Accounts payable | $ 151,021 |
| Accrued expenses | 341,293 |
| Current portion of c apital lease | 3,592 |
| Total current liabilities | **495,906** |
| | |
| Long term capital lease | **16,920** |
| Long term deferred rent | **759,460** |
| | |
| Stockholders' equity (deficit): | |
| Series A convertible preferred stock, $0.001 par value: | 266 |
| Authorized – 276,320 shares at December 31, 2008 | |
| Issued and outstanding – 266,320 shares at December 31, 2008 | |
| Series B convertible preferred stock, $0.001 par value: | 333 |
| Authorized – 500,000 shares at December 31, 2008 | |
| Issued and outstanding – 332,716 shares at December 31, 2008 | |
| Series C convertible preferred stock, $0.001 par value: | 387 |
| Authorized – 534,334 shares at December 31, 2008 | |
| Issued and outstanding – 387,730 shares at December 31, 2008 | |
| Series D convertible preferred stock, $0.001 par value: | 552 |
| Authorized – 685,714 shares at December 31, 2008 | |
| Issued and outstanding – 551,885 shares at December 31, 2008 | |
| Common stock, $0.001 par value: | 2,046 |
| Authorized – 10,000,000 shares at December 31, 2008 | |
| Issued and outstanding – 2,045,527 shares at December 31, 2008 | |
| Additional paid -in capital | 22,514,097 |
| Deficit accumulated during the development stage | (21,604,456) |
| Total stockholders' equity (deficit) | **913,225** |
| Total liabilities and stockholders' equity (deficit) | **$ 2,185,511** |

# 2008 PRELIMINARY Income Statement

| | December 31, 2008 | Period From October 23, 2000 (Inception) to December 31, 2008 |
|---|---|---|
| Grant revenue | **$ -** | $ 187,052 |
| Operating expenses: | | |
| Research and development | 2,261,422 | 11,108,979 |
| Marketing | 192,944 | 735,848 |
| General and administrative | 2,127,405 | 9,623,581 |
| Impairments of acquired and internally developed patent costs | - | 488,475 |
| Total operating expenses | 4,581,771 | 21,956,883 |
| Operating loss | (4,581,771) | (21,769,831) |
| Other income (expense): | | |
| Debt forgiveness | - | 218,000 |
| Interest income (expense) | 6,053 | (52,625) |
| Other income (expense), net | 6,053 | 165,375 |
| Net loss | **(4,575,718)** | **(21,604,456)** |
| Deficit accumulated during the development stage - beginning | (17,028,738) | - |
| Deficit accumulated during the development stage - ending | **$ (21,604,456)** | **$ (21,604,456)** |

# 2008 PRELIMINARY Statement of Cash Flows

| | December 31, 2008 | Period From October 23, 2000 (Inception) to December 31, 2008 |
|---|---|---|
| **Operating activities** | | |
| Net loss | $ (4,575,718) | $ (21,604,456) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Depreciation and amortization | 180,120 | 586,863 |
| Stock-based compensation expense | 137,460 | 579,506 |
| Gain on disposal of property and equipment | - | (374) |
| Issuance of common stock for services | - | 30,188 |
| Debt forgiveness | - | (200,000) |
| Change in operating assets and liabilities: | | |
| Restricted cash | 210,578 | - |
| Prepaid expenses and other current assets | 13,600 | (57,788) |
| Security deposits | (412,747) | (442,974) |
| Accounts payable | (177,727) | 151,021 |
| Accrued expenses and other current liabilities | 97,979 | 341,293 |
| Deferred rent | 759,460 | 759,460 |
| Other liabilities | 13,283 | 20,512 |
| Net cash used in operating activities | (3,753,712) | (19,836,749) |
| **Investing activities** | | |
| Purchases of property and equipment | (1,009,605) | (1,414,287) |
| Proceeds from disposal of property and equipment | - | 1,922 |
| Acquisition of intellectual property | - | (278,593) |
| Goodwill impairment loss | - | 488,475 |
| Net cash used in investing activities | (1,009,605) | (1,202,483) |
| **Financing activities** | | |
| Proceeds from issuance of promissory notes | - | 1,250,000 |
| Proceeds from issuance of common stock | 89 | 250,089 |
| Proceeds from sale of convertible preferred units | - | 4,910,968 |
| Proceeds from sale of convertible preferred stock | 5,104,281 | 15,665,699 |
| Proceeds from issuance of common stock warrants | - | 3,975 |
| Payment of debt instruments | (286,716) | (286,716) |
| Net cash provided by financing activities | 4,817,654 | 21,794,015 |
| Net increase (decrease) in cash and cash equivalents | 54,337 | 754,783 |
| Cash and cash equivalents at beginning of period | 700,446 | - |
| Cash and cash equivalents at end of period | 754,783 | 754,783 |

## 5. Current Strategic Plan Output

**The company's financial projections are "forward-looking statements" within the meaning of the federal securities laws, including 1) statements concerning Intelligent Medical Devices, Inc.'s plans, objectives, expected performance, expenditures and capital funding, and 2) any and all underlying assumptions and other statements that are other than statements of historical fact. Projections are based on good faith assumptions and involve judgments with respect to future development and commercialization of our potential products and competitive, regulatory and market conditions, as well as future business, all of which are difficult or impossible to predict accurately and many if which are beyond our control. We assume, among other things, that we will be able to develop and commercialize our products on the timeline that we propose and that others will use our medical devices and diagnostic tests and purchase them at the prices we propose. We have never successfully commercialized a product and may not be able to commercialize any of our potential products. If our assumptions prove to be inaccurate, our actual results may be substantially and materially worse than these projections. Furthermore, historical results may not be indicative of Intelligent Medical Devices, Inc.'s future performance.**

## Product Pipeline and Commercialization Timing

**Development capacity cycling off of launched projects will be redeployed to develop next generation test or new projects – very efficient development group will be maintained, but will be grown only with proven need/available investment capital from business**

- Feasibility/Verification
- Validation
- Clinical studies
- CE Mark/ European Launch
- FDA Kit clearance/ U.S. Launch



## Pro Forma Statement of Income

| | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|---|
| **Revenues** | | | | | | |
| License and Research Revenues | 1,307,143 | 992,857 | 992,857 | 992,857 | 992,857 | 642,857 |
| Product Sales | 1,163,810 | 25,958,788 | 67,159,652 | 120,682,547 | 193,187,427 | 288,780,444 |
| Royalty Revenues | - | - | - | - | - | - |
| **Total Revenues** | **2,470,953** | **26,951,645** | **68,152,509** | **121,675,404** | **194,180,284** | **289,423,302** |
| **Cost Of Goods Sold** | | | | | | |
| COGS | 117,522 | 1,929,086 | 4,652,884 | 9,109,447 | 15,118,719 | 22,344,662 |
| Royalty Stack | 117,154 | 2,479,768 | 6,316,118 | 11,238,108 | 17,973,244 | 27,381,191 |
| Period Charges | 504,804 | 1,525,956 | 2,009,239 | 5,531,887 | 4,277,524 | 5,383,904 |
| **Total COGS** | **739,480** | **5,934,810** | **12,978,241** | **25,879,442** | **37,369,487** | **55,109,758** |
| **Gross Margin** | 1,731,473 | 21,016,835 | 55,174,268 | 95,795,962 | 156,810,797 | 234,313,544 |
| **Operating Expenses** | | | | | | |
| Research & Development | 11,163,996 | 11,181,148 | 11,235,035 | 10,515,957 | 11,560,089 | 9,746,649 |
| Sales & Marketing | 1,619,478 | 3,742,571 | 5,634,174 | 9,024,068 | 13,684,208 | 19,178,393 |
| General & Administrative | 2,694,743 | 2,872,665 | 3,079,836 | 3,286,747 | 3,532,079 | 3,712,131 |
| **Total OPEX** | **15,478,217** | **17,796,384** | **19,949,046** | **22,826,771** | **28,776,376** | **32,637,173** |
| **Operating Margin** | **(13,746,744)** | **3,220,451** | **35,225,223** | **72,969,191** | **128,034,421** | **201,676,371** |
| Interest Income | 50,833 | 50,000 | 50,000 | 50,000 | 50,000 | 50,000 |
| Interest Expense | (880,819) | (880,157) | (806,209) | (100) | - | - |
| Other Income/(Expense) | - | - | - | - | - | - |
| Allowance for Income Taxes | - | - | (8,928,390) | (29,207,716) | (51,233,768) | (80,690,548) |
| **Net Income** | **(14,576,729)** | **2,390,294** | **25,540,623** | **43,811,375** | **76,850,652** | **121,035,822** |

## Pro Forma Statement of Cash Flow

| | | 2010 | 2011 | 2012 | 2013 | 2014 |
|---|---|---|---|---|---|---|
| **Sources of Cash** | | | | | | |
| | Revenues | 2,470,953 | 26,951,645 | 68,152,509 | 121,675,404 | 194,180,284 |
| | Net Financing | 67,073 | 85,584 | 111,906 | 141,883 | 176,652 |
| **Uses of Cash** | | | | | | |
| | Operating Activity | (14,287,114) | (22,502,079) | (40,185,982) | (71,787,276) | (115,114,721) |
| | Net Working Capital | (92,609) | (372,689) | 254,249 | (2,462,987) | 1,236,481 |
| | CAPEX/License | (5,339,250) | (4,247,000) | (579,750) | (216,500) | (711,500) |
| Net Change | | (17,180,947) | (84,540) | 27,752,932 | 47,350,524 | 79,767,196 |
| Beginning Balance | | - | (17,180,947) | (17,265,487) | 10,487,445 | 57,837,970 |
| **Ending Cash Balance** | | **(17,180,947)** | **(17,265,487)** | **10,487,445** | **57,837,970** | **137,605,166** |

**Cash trough without additional funding = $18MM**

**Cash flow positive starting Q32011**

**$15-$20MM raise would allow execution of this aggressive growth plan**



## Use of Proceeds

| | |
|---|---|
| Upfront payment for global Roche/Baylor human pathogen test license | $6.3MM |
| Manufacturing facility build-out and equipment for 1.5MM tests/mo capacity | $2.0MM |
| Clinical studies | $9MM |
| Operating expenses | $2.5MM |
| | $20MM |

**A significant amount of risk to timing and value capture can be mitigated with $20MM raise: Impacts manufacturing risk, clinical/regulatory risk and cash runway risk**

## Exit Strategies

Care with Certainty™

**Potential Envisioned Outcomes**

**Strategic Acquisition**
Large menu offering, unique approach, customer lockup, and very positive FDA relationships increase likelihood of acquisition in next 12 months by large platform provider currently in discussions

**IPO**
Markets unlocking – attractive investment thesis as Molecular Diagnostics is attractive, but few small/high growth potential independent pure-play companies as an alternative to multi-billion dollar platform and conglomerate companies

**Stand Alone**
IntelligentMDx envisions a very solid, cash flow positive business with high level of self-funded growth



## Valuation Estimates

Care with Certainty™

| Earnings Multiple Method | Revenue Multiple Method |
|---|---|
| Base year = 2014 | Base year = 2014 |
| Earnings = $77MM | Revenues = $200MM |
| P/E of 24 (GPRO as proxy) | Revenue Multiple 5 (GPRO as proxy) |
| $1.8BB in 2014 | $1BB in 2014 |
| **Discounted to 2009 at 40% for risk and good rate of return** | |
| **NPV = $468MM** | **NPV = $268MM** |

**IMDx margins higher than GPRO due to only being in the higher margin content business, so likely somewhere in between the range of $250-$500MM**

| Current Issued/Outstanding Stock Extrapolation |
|---|
| Issued/Outstanding Stock @ $17.50 ~$64MM |
| Current Overhang (options/warrants) @ $17.50 ~$8MM |
| Additional $15MM raise |
| **$87MM** |