

# *Tears for Life*

Changing the world, one woman at a time.



**Business Plan 2009**

Moot Corp Competition

**Chris Elizer  
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## Executive Summary

### Opportunity and Company Overview

Approximately 40,000 of the 240,000 women diagnosed with breast cancer each year in the U.S. are expected to die from the tragic disease. The annual cost of treatment in the U.S. is \$30 - \$40 billion, but research has shown that survival rates are much higher and treatment costs are much lower when breast cancer is diagnosed and treated at an early stage. However, the painful truth is that only about half of women ages 40 and older are screened for breast cancer at the recommended intervals, making it vital that innovative screening tools are developed that will increase breast cancer screening rates.

Tears for Life is a medical diagnostic equipment company that is developing a tear test kit (Figure 1) that will screen women for breast cancer using proteins found in tears. The tear test kit is a non-invasive, convenient, and objective screening tool that allows for early detection and treatment of breast cancer, saving lives and significantly reducing health care costs. Health care providers (HCP) will use the kit to obtain a tear sample from a woman during an office visit, and will receive results immediately, with no need to draw blood or send the test to a lab. The University of Arkansas for Medical Sciences (UAMS) has a patent pending on the method of using tears to detect cancer as well as on the protein patterns discovered. We have an exclusive license from UAMS granting use of the technology.



Figure 1

Tears for Life will guide the tear test kit through various value-creating milestones, including protein sequencing and validation, prototype development, clinical trial completion, and FDA clearance. Production of the kit will be outsourced to Boston BioProducts or Cayman Chemical. The kit will cost \$1 to produce and will sell for \$100. We will distribute the kits through Cardinal Health or McKesson. The kit will initially be marketed in the U.S. for use in a doctor's office. We will then introduce a home-based kit, expand internationally, and target R&D towards using tears as a screening medium for other types of cancers, such as ovarian cancer, where it has already shown promising results.

## **Market Analysis and Competitive Advantage**

The total annual market size for the tear test kit is \$15 billion in the U.S. and \$30 billion worldwide. The American Cancer Society recommends annual screening for women ages 40 and older. Our initial target market in the U.S. is women above the poverty line, with insurance, ages 40 and older. There are 65 million women in this group. Under the assumption of these women being screened annually using our \$100 tear test kit; the initial target market size is \$6.5 billion per year. Additionally, the kit will help reduce breast cancer costs by up to \$18 billion per year, or about 45%, in the U.S. alone.

Current competition for the tear test kit includes annual screening mammograms (49% of women ages 40 and over) and no annual screening (51%). The reasons women do not get screened as frequently as they should include inconvenience, physical discomfort, limitations in accuracy, and high cost. The competitive advantage of the tear test kit is derived from its convenience, lower cost, and elimination of discomfort. These competitive advantages position the tear test kit as an innovative screening tool that will increase screening rates, save lives, and reduce breast cancer treatment costs.

## **Management Team**

The Tears for Life management team includes Chief Medical Officer Dr. Suzanne Klimberg, a world renowned breast surgical oncologist who discovered breast cancer protein patterns in women's tears. The Chief Regulatory Officer, Dr. Michael Douglas, is the former CEO of a medical diagnostic equipment company. CEO Jared Greer brings 5 years experience in sales with Pfizer and 4 years managing a small business. CFO Bessie Williams, currently manages a \$120 million annual spend as a senior buyer for Alcoa. The VP of Sales & Global Business Development, Chris Elizer, has 17 years of sales and management experience serving Walmart, including 13 years of international experience. VP of Marketing Jordan Greer has excelled in the University of Arkansas Honor's College of Business and currently works in marketing with Tyson Foods. Additionally, Tears for Life has an outstanding board of advisors with a combined 100+ years of healthcare and general business experience.

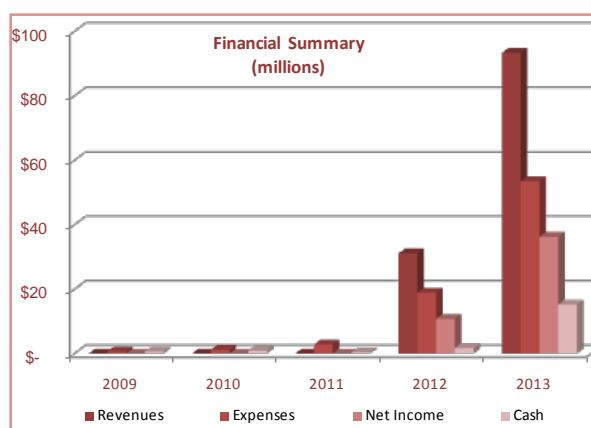
## Offering, Financial Summary, and Exit Strategy

Tears for Life is seeking two stages of funding from investors (Table 1). Current funding includes \$250,000 contributed by the management team and a \$75,000 grant already awarded to UAMS.

Investment Stage	Amount	Equity	Timing	Uses
Grant & Management Investment	\$ 325,000		present	Sequence & Validate Proteins
Series A	\$ 1,000,000	33%	Sep-2009	Diagnostic Testing Platform, FDA PMA Application
Series B	\$ 2,500,000	20%	Jun-2010	Clinical Trial, FDA Clearance, Full Market Launch

**Table 1**

We project 2013 EBITDA of approximately \$37.7 million based on \$93 million in revenue from projected sales of 930,000 units (Figure 2). At 6x EBITDA, Tears for Life will be valued at \$226 million, giving series A investors a 68x return on investment (ROI) and series B investors a 18x ROI. ROI is calculated based upon the diluted equity distribution after both stages of funding (Table 2). We have already drawn interest from a number of venture capital firms, including MB Venture Partners



**Figure 2**

in Memphis, TN, who provides equity capital to life sciences companies and has \$76 million under management. We view acquisition as the most likely exit strategy. Acquisitions are common in the

Owner	% Ownership*
Series A Investors	30%
Series B Investors	20%
UAMS	11%
Jared Greer, CEO	10%
Bessie Williams, CFO	6%
Chris Elizer, VP Sales	6%
Suzanne Klimberg, CMO	4%
Michael Douglas, CRO	4%
Jordan Greer, VP Marketing	3%
Tears for Life Employees	6%
*Remaining equity stake after all stages of investment	

**Table 2**

opportunities to exit. Recent acquisition examples include the Johnson & Johnson purchase of 9 year old Inverness Medical Technology's diabetes care products for \$1.3 billion, and QIAGEN's 2007 acquisition of eGene for 5x revenue.

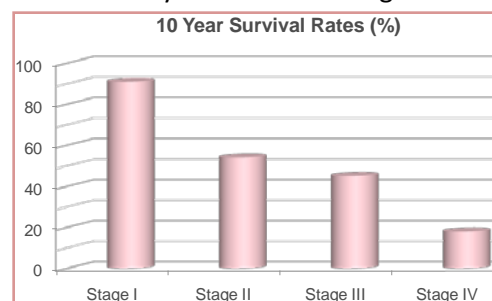
## Company Overview

- 240,000 women are diagnosed and 40,000 women die from breast cancer each year in the U.S.
- Breast cancer costs \$30 – \$40 billion in the U.S. and \$60 - \$80 billion worldwide each year.
- Early diagnosis and treatment of breast cancer saves lives and significantly reduces treatment costs.
- Tears for Life has negotiated an exclusive license from UAMS for a patent pending method of screening patients for breast cancer using proteins found in women's tears.

### Opportunity

An estimated 178,500 new cases of invasive breast cancer and 62,000 cases of in situ breast cancer are diagnosed each year, and 40,500 women die from the disease annually.<sup>1</sup> A woman living in the U.S. has a 1 in 8 lifetime risk of developing breast cancer.<sup>2</sup>

Screening has been shown to reduce breast cancer mortality and treatment is more successful<sup>3</sup> and less costly when it is diagnosed early. Ten year survival rates are over 90% when diagnosed in



**Figure 3**

early stages, but fall to less than 20% when the cancer is not diagnosed until later stages (Figure 3).<sup>4</sup>

Direct costs to treat breast cancer are up to 70% lower when it is diagnosed in the earliest stage

Cancer Stage	% of Cases	Direct Treatment Cost
O	17.9%	\$ 18,900
I	38.4%	\$ 23,200
II	28.0%	\$ 28,800
III	11.9%	\$ 60,000
IV	3.8%	\$ 50,000

versus later stages (Table 3).<sup>5</sup> Breast cancer costs the healthcare system \$30 – \$40 billion per year in the U.S. and \$60 – \$80 billion per year worldwide.<sup>6</sup> This includes

**Table 3**

the total direct and indirect costs associated with treatment, including physician visits, diagnostic costs, drug and radiation costs, surgery costs, home healthcare visit costs, and lost days of work.

### History and Current Status

Tears for Life was created in September 2008 by three graduate students and one honors undergraduate student at the University of Arkansas to address this opportunity. We have negotiated an exclusive license with UAMS to develop a non-invasive, convenient, and objective screening tool that can detect breast cancer using protein patterns found in women's tears. The license gives us the right to use the patent pending method of using tears to detect cancer as well as the patent pending protein

patterns discovered. These protein patterns create a multiple marker “barcode” that accurately identifies the presence of breast cancer in the body. Our vision is that the test will make breast cancer screening easier and more accessible for women, resulting in higher screening rates, earlier diagnosis and treatment, increased survival rates, and reduced treatment costs for patients and insurers.

## Mission

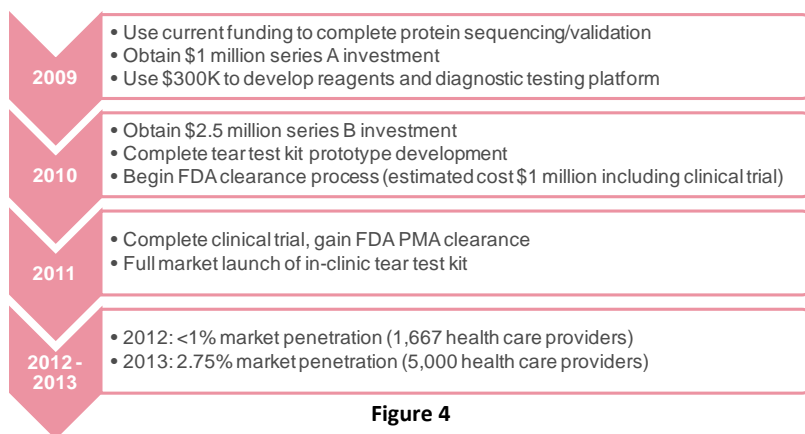
Tears for Life will extend and enhance human life by developing innovative screening technologies that promote early diagnosis and treatment of cancer, saving lives and reducing health care costs across the world. We will deliver value to patients, customers, and stakeholders by working in partnership with HCPs, managed care organizations, and governments.

## Strategy

The Tears for Life business model relies on effectively implementing a differentiation strategy by focusing on product R&D, marketing, and sales. We will initially focus on developing an in-clinic tear test kit. We will launch the kit in OB/GYN, family practice, and internal medicine clinics where it will be administered by HCPs during routine office visits such as annual exams and physicals.

## Goals and Objectives

A number of value creating milestones (Figure 4) must be achieved during the development of the tear test kit. Upon achievement of each milestone, Tears for Life will entertain offers to sell or license the technology to larger market participants.



**Figure 4**

## Product

- Only half of women ages 40 and older are being screened at recommended intervals.
- The tear test kit is a convenient, low cost, painless, and objective screening tool for breast cancer.
- The kit will increase screening rates and is a disruptive technology for screening mammograms.

## Features, Benefits, and Competitive Advantage

Research has consistently shown that survival rates are much higher and treatment costs are much lower when breast cancer is diagnosed and treated early. The American Cancer Society (ACS) recommends annual screening mammograms for every woman ages 40 and older, and mammograms are the most common breast cancer screening tool. Due to the many limitations of mammography, only 49% of these women actually get a screening mammogram each year. The tear test kit (Figure 5) is a non-invasive, convenient, and objective screening tool that promotes the early detection and treatment of breast cancer, saving lives and significantly reducing treatment costs. This is a disruptive technology for screening mammograms and has the following competitive advantages:



Figure 5

**Convenience:** Mammograms are inconvenient. A woman must schedule a separate appointment, and in many cases, travel long distances to a breast imaging center. This is especially true in rural areas of the U.S. with limited access to mammography. The tear test kit will be conveniently located at OB/GYN, family practice, and internal medicine clinics for use during routine office visits. Results will be available within minutes, with no need to draw blood or send the kit to a lab for analysis. Locating the kit in clinics significantly increases the availability of breast cancer screening. For example, in Northwest Arkansas, there are only 6 breast imaging outlets, but there are over 300 OB/GYN, family practice, and internal medicine providers. In the future, the tear test kit will be available for home use, which will be even more convenient and further increase screening rates.

**Cost:** Cost plays a significant role in low breast cancer screening rates. A screening mammogram can cost \$225,<sup>7</sup> which is especially difficult for women without insurance, who must pay the full amount. For insured women, each insurer pays a set reimbursement amount to the imaging center, and the patient is typically responsible for a co-pay of 20% (about \$45), after the woman has met her annual deductible.<sup>8</sup> The cost of diagnostic mammograms and other diagnostic tools are much

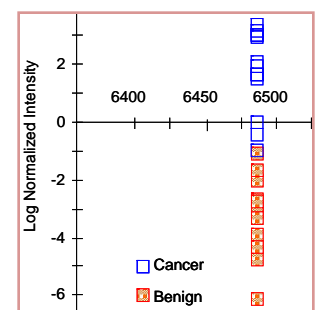


higher, and frequently are not covered by insurance. The tear test kit will cost the HCP \$100 and the payor will reimburse the HCP \$125. This allows the HCP to generate more revenue during an office visit, and it benefits the payor, who reimburses a much lower amount for the kit than for a screening mammogram. This cost difference saves payors \$3 - \$4 billion annually in the U.S., in addition to \$11 - \$14 billion in reduced treatment costs due to earlier diagnosis and treatment of breast cancer.

**Painless:** The smashing of the breast during a mammogram can create a very uncomfortable, and even painful, experience for women.<sup>9</sup> The tear test kit is non-invasive and completely painless.

**Early Detection:** When screening tests give their results as positive or negative, performance is described in terms of sensitivity – the probability that the results will be positive when a disease or condition is present; and specificity – the probability that the results will be negative when a disease or condition is not present. Historically, mammograms were thought to detect 80%-90% of breast cancer in women without symptoms<sup>10</sup> (sensitivity), but many recent studies have revealed the sensitivity of screening mammograms to be considerably lower at only 16%-40%.<sup>11,12,13,14,15,16</sup> This means that many patients who do have breast cancer are not diagnosed (false negative), which leads to later diagnosis, decreased survival rates, and increased treatment costs. Additionally, about 5%-10% of women have their mammogram interpreted as abnormal or inconclusive, when in fact the breast tissue is normal or benign<sup>17</sup> (specificity, false positive). This leads to unnecessary and costly additional imaging studies, biopsies, and other procedures that can cause anxiety and additional risks to women and their families.

Three sample sets of tears have been studied to determine the effectiveness of the proteins in detecting breast cancer. The first included samples from 45 women (Figure 6), and showed statistically significant differences between cancerous and benign tumors. These results were independently replicated using a second set from 45 different women.<sup>18</sup> The specificity and sensitivity of the proteins is being confirmed right now with the third set. The data suggests both are greater than 90%,<sup>19</sup>



**Figure 6**<sup>19</sup>

meaning that the proteins will be much better than a screening mammogram at detecting breast cancer.

## **Current Stage of Development**

As mentioned above, researchers are currently validating the accuracy of the protein “barcode.” A \$75,000 grant from the Rockefeller Cancer Institute is being used to fund this research. We estimate that another \$75,000 will be required to complete the sequencing and validation process.<sup>20</sup> Once complete, we will acquire unique reagents that will allow for the creation of a diagnostic testing platform for the analysis of tears. A reagent is a chemical substance that reacts with tears to produce a positive or negative result. We have been in contact with several companies that develop reagents, including Cayman Chemical and Boston BioProducts. Using their input and estimates from UAMS researchers, we estimate that \$300,000 will be required to acquire the reagents.

The FDA considers the tear test kit a class III device which requires a Premarket Approval (PMA) application. We plan to outsource the entire FDA clearance process, including clinical trials, to Emergo Group. They are currently working on our Pre-IDE Application, which is the first step in the process. Emergo has helped over 1,000 companies achieve regulatory compliance and they have offices worldwide. Emergo group estimates that the entire FDA clearance process will take approximately two years.<sup>21</sup> The FDA will require 100 – 300 patients in a clinical trial, and 3 trial sites must be used.

## **Proprietary Position**

UAMS has patents pending (USPTO Reference Numbers 60/643,489 and 11/332,702) on the method of using tears as a screening medium to detect cancer and the protein patterns discovered during research. Our patent attorney, Dr. Benjamin Adler, estimates that it is likely the patent will be issued within the next 3 months.<sup>22</sup> Tears for Life has negotiated an exclusive license from UAMS granting the use of this technology in exchange for equity, royalty payments, and milestone payments. We also have first right of refusal to license any additional patents that might be filed regarding this technology (i.e. proteins discovered for other cancers).

## Expansion Possibilities

There are multiple opportunities for expansion into ancillary markets, including development of a home-based tear test kit, international expansion of both the in-clinic and home-based kit, development of new treatments for breast cancer using the proteins, and development of screening tests for other types of cancer. UAMS research on 46 tear samples has shown promising results for the detection of ovarian cancer.<sup>23</sup> One ancillary market Tears for Life will explore is the domestic retail market. We plan to develop a home-based tear test kit that offers women the convenience of screening for breast cancer from the privacy of their own home. We will contract with professional breast cancer counselors from the Komen Foundation in order to provide phone support for women using the test. The retail market provides an opportunity to generate significant additional revenue for the company.

The international market is another significant ancillary market that we will pursue. With over 3 billion women worldwide,<sup>24</sup> there will be opportunities for the in-clinic and home-based kit, and any other screening tools developed. Healthcare policy in each country will determine entry strategy and the business model will change according to market needs, rules, and regulations of each country.

### Market & Competitive Analysis

- The **total** annual market size for the tear test kit is **\$15 billion** in the U.S. and **\$30 billion** globally, with an **initial target** market size of **\$6.5 billion**.
- Aging demographics, rising health care costs, increasing breast cancer awareness, and the possibility of health care coverage for all Americans are current trends that benefit Tears for Life.
- Competitive technologies include screening mammograms, hair, blood, and saliva, but the tear test kit has competitive advantages over all of these.

#### Target Market

The total annual market size (Table 4) for the tear test kit is \$15 billion in the U.S. and \$30 billion worldwide.

Market	Female Population (millions)	Market Size \$100/kit (\$ billions)
United States	150	15
U.S. (over 40, above poverty line, with ins.)	65	6.5

**Table 4**

Since ACS guidelines recommend annual screening mammograms for all women ages 40 and older, our initial target market in the U.S. consists of women ages 40 and older, with insurance, and above the poverty line. Although we are certainly not limiting ourselves to this demographic, we feel that these 65

million<sup>25</sup> women represent those most likely to use the kit in a doctor's clinic. The annual market size for this initial target market alone is \$6.5 billion. According to the U.S. Department of Labor, there are over 180,000 OB/GYN, family practice, and internal medicine physicians in the U.S.<sup>26</sup> To reach revenue projections, we will target 1,667 (<1% market penetration) HCPs in 2012 and 5,000 (<3%) in 2013.

## **Competitive Environment**

**Imaging:** Annual screening mammograms are the main competition for the tear test kit. GE Healthcare (31% market share), Hologic (54%), and Siemens (15%) are the main vendors for mammography systems and average up-front costs for these systems are up to \$400,000.<sup>27</sup> Equipment cost plays a major role in which technology is utilized. Imaging facilities must follow strict budgets, making it very difficult to obtain, install, educate, and use the newest breast imaging advancements. Also, the learning curve is steep with much of the new equipment, and complacency or lack of time for training to master the technology is hindering progress.<sup>28</sup> Although the tear test kit is disruptive for *screening* mammograms, once breast cancer is detected with the kit, women will still utilize diagnostic tools such as diagnostic mammography, whole breast ultrasonography, and breast MRI for diagnosis and determination of the proper course of treatment. Thus, more accurate and frequent breast cancer screenings with our kit should drive additional business to the imaging centers.

**Diagnostic Kits:** The medical diagnostic kit market in the U.S. is growing at an average annual rate of 6.2%<sup>29</sup> and the home diagnostic test kit market is growing 5.7%, making it one of the highest growth categories in the U.S. consumer healthcare market.<sup>30</sup> Key players in this market include Johnson & Johnson, Roche, Bayer, and Abbott. Examples of tests initially launched in-clinic and now utilized at home are blood and urine glucose, pregnancy, ovulation, cholesterol, ketone, HIV, and drug tests, among others. There are currently no in-clinic or home kits approved for the screening of breast cancer.

**Future Competitors:** Saliva and blood have been mentioned as potential screening mediums, but saliva is unsterile, and blood contains large proteins that do not allow changes in small breast cancer

proteins to be seen. Thus, neither medium is currently viable to use for breast cancer screening.

Fermiscan Holdings is developing a test they hope will detect breast cancer through a change in the structure of hair. They must utilize multi-million dollar x-ray diffraction equipment, and the price of the test will be over \$200. Fermiscan successfully raised \$22.5 million through VC funding and an IPO three months after completing their clinical trial.<sup>31</sup> The tear test kit maintains significant competitive advantages over Fermiscan since they require expensive equipment, the hair must be sent to a lab, and it is more costly. Another potential competitor is Traycer Diagnostic Systems. Originally developed by an Ohio State University student team, and currently headed by scientists and VC's, TDS is developing an imaging technology they hope can identify cancer based on chemical signatures. TDS is continuing R&D and hopes to obtain FDA clearance in 2013.<sup>32</sup> Although these companies are possible competitors, they also illustrate the incredible potential for success that exists with Tears for Life.

## **Market Validation**

Key opinion leaders have validated the need for the tear test kit. We have contacted over 100 HCPs, and each has expressed interest. The reaction of Dr. Robert Hix, a well respected OB/GYN, is typical: "I am excited about using the tear test kit during every annual exam for women ages 40 and over." Payors have also reacted positively. Dr. Ray Bredfeldt, Regional Medical Director, Arkansas Blue Cross and Blue Shield stated, "I believe this technology has important potential in breast cancer screening, especially if it is found to have a high predictive value for early, high grade breast cancer." Alison Levin, Executive Director, Susan G. Komen Foundation Ozark, and Tami Hutchison, former Executive VP, Washington Regional Hospital, also welcome this addition to current screening methods.

## **Driving Forces/Trends**

Spending on health care in the U.S. is growing faster than the overall economy and presents a significant challenge for Medicare, Medicaid, and the private sector. Healthcare spending, currently at 15% of GDP, is projected to rise to 25% of GDP by 2025.<sup>33</sup> Aging demographics contribute significantly,

with the number of people ages 65 and older projected to reach one billion by 2030.<sup>34</sup> Americans face difficult choices between healthcare and other priorities, and this has become very visible politically. Health care costs are contributing to a lack of global competitiveness for U.S. companies. The tear test kit will reduce spending on breast cancer treatment costs, reducing overall healthcare spending.

Another driving force that aligns with our goals is the effort to increase breast cancer awareness and promote research aiming to eradicate it. This trend is being driven by the efforts of organizations such as Susan G. Komen, and individuals like Dr. Susan Love of [www.armyofwomen.org](http://www.armyofwomen.org). Since the goals of these groups are closely aligned to those of Tears for Life, we plan to utilize and partner with them, where appropriate, in order to promote early detection and treatment of breast cancer.

Another trend that should benefit Tears for Life is the Obama administration's focus on providing health care coverage for all Americans and promoting preventative medicine. More Americans with health insurance increases the target market for the tear test kit and will likely result in an increase in revenues above current projections. Breast cancer screening is also preventative, which could result in government mandates for use of the tear test kit similar to that of the HPV vaccine, Gardasil. As of 2007, 12 states had introduced legislation requiring girls to receive this vaccine.<sup>35</sup>

## Operating Strategies

- Production of the tear test kit will be outsourced to Boston BioProducts or Cayman Chemical.
- Production cost for the in-clinic tear test kit is \$1 per kit and the sale price is \$100 per kit.
- We are working with experienced medical marketing firm lee | stafford to develop and implement a comprehensive marketing plan for the tear test kit.

### Production Strategy

Once clinical research on the proteins is complete, we will outsource prototype development and product manufacturing to Boston BioProducts or Cayman Chemical. By partnering with one of these companies, we will have access to a manufacturer with extensive medical diagnostic kit experience that provides capabilities spanning the entire product development cycle. Boston BioProducts estimates that the fully integrated, ready to ship tear test kit will cost \$1 per kit to manufacture.

## **Pricing and Distribution Strategy**

Diagnostic test kits, supplies, and equipment used by HCPs are purchased by each clinic, sometimes directly, but typically through a 3<sup>rd</sup> party distributor such as McKesson or Cardinal Health. Tears for Life will accept direct orders for the tear test kit, and we will utilize these distributors in order to ensure quick and consistent product delivery. HCPs, or their staff, use the supply or test (i.e. a pregnancy test, tear test kit, etc.) and are then reimbursed by the patient's insurance company at a pre-negotiated rate. Reimbursement rates for covered services are initially determined by Medicare. Commercial insurance companies then establish their own reimbursement rates based upon Medicare reimbursement (i.e. AR BC/BS reimburses covered services at 150% of the Medicare rate).

The tear test kit will sell to a HCP for \$100. This price was established through market research conducted by our medical marketing firm, lee | stafford. The reimbursement rate from the payor to HCP will be \$125, determined through research on how payors reimburse covered services. This price structure provides incentive for the HCP to utilize the kit because they will be able to generate about \$25 more revenue during an office visit. The payor is also motivated because the \$125 reimbursement for the tear test kit reduces the current \$225 reimbursement for screening mammograms by about 45%. This is in addition to the long term cost savings potential of \$11 - \$14 billion per year that payors will realize from lower treatment costs associated with early diagnosis and treatment of breast cancer.

## **Research and Development Strategy**

Tears for Life will work closely with UAMS researchers to continue clinical research on the protein patterns. The initial focus of R&D will be intensely focused on completing this research and developing the working prototype of the tear test kit. Tears for Life is committed to funding R&D because we view this as the foundation of being a sustainable medical diagnostic equipment company. Once the in-clinic tear test kit is on the market, the company will shift the main focus of R&D to the development of the home-based tear test kit. Additionally, research will be conducted on developing

tests for other types of cancer via the patent pending method of using tears as a screening medium. Initial research on using tears for the detection of ovarian cancer has already started. Using tears to screen for colon, pancreatic, and prostate cancer is also being explored.

## **Personnel, Sales, and Marketing Strategy**

We will initially outsource all personnel needs outside of the management team. As it becomes prudent, the company will begin hiring additional employees. We plan to launch our own outside sales force in 2012 by hiring seasoned sales representatives with established customer relationships from other medical diagnostic equipment companies. In addition to selling the tear test kit, our sales reps will be responsible for educating HCPs and staff on the appropriate utilization of the kit.

We will initially locate sales reps in areas of the country with the highest revenue potential, beginning with 6 strategically placed sales reps in 2012, and expanding to 17 reps in 2013. The efforts of the Tears for Life sales force will be supported by a website and toll free number that provides customers a convenient method of placing direct orders. We will also partner with a 3<sup>rd</sup> party contract sales force to sell the tear test kit. This will allow us to supplement the work of our own outside sales reps, further leverage existing sales networks and strong relationships of established representatives, and achieve revenue goals. The management team will also be intimately involved in the sales process.

Tears for Life will employ a three tier marketing strategy targeting physicians, 3<sup>rd</sup> party payors, and patients – similar to the strategy currently utilized by pharmaceutical, medical device, and durable medical goods industries. We will also present scientific evidence associated with the tear test kit at medical conferences and trade shows. We are also exploring possible partnerships with nonprofit organizations such as Susan G. Komen. To further develop our specific marketing plan, Tears for Life is working closely with Simon Lee, CEO of lee | stafford, a full-service marketing firm specializing in health care and medical device marketing and communications. The lee | stafford client list includes Smith & Nephew, Medtronic, Boston Scientific, and the University of Tennessee Cancer Institute.



## Management Team

- Our management team has over 80 years of business and over 50 years of healthcare experience.
- We will leverage the over 100 years of healthcare and business experience of our board of advisors.

The CEO is responsible for day to day operations, strategic corporate planning, relationship development with major stakeholders and external partners, and coordination of efforts between all areas of the company. The CFO is responsible for the accounting, finance, procurement, and controller functions. The Vice President of Sales & Global Business Development is responsible for all aspects of domestic sales and entry into emerging markets. The Vice President of Marketing is responsible for marketing functions, product branding, and the marketing aspect of new product development. The CMO is responsible for all medical aspects of the business, and the CRO is responsible for the complex regulatory aspect of the business. The Tears for Life management team has worked well together for the past 2 years on various projects and has been intimately involved with Tears for Life for over 8 months. We anticipate that these strong working relationships will continue in the future.

Management Team	Relevant Qualifications
<b>Suzanne Klimberg, M.D.</b> <i>Chief Medical Officer</i> Salary: \$100,000	<ul style="list-style-type: none"> <li>• Director, Breast Cancer Program, Winthrop P. Rockefeller Cancer Institute</li> <li>• Discovered breast cancer protein patterns in women's tears</li> <li>• Muriel Balsam Kohn Chair in Breast Surgical Oncology, UAMS</li> <li>• Professor, Surgery and Pathology, UAMS</li> </ul>
<b>Michael Douglas, Ph.D.</b> <i>Chief Regulatory Officer</i> Salary: \$100,000	<ul style="list-style-type: none"> <li>• Former CEO and Chairman, Sigma Diagnostics, successfully negotiated sale of the company</li> <li>• Director, UAMS BioVentures</li> <li>• Professor, Biochemistry and Molecular Biology, UAMS</li> <li>• Ph.D., Saint Louis University, 1983</li> </ul>
<b>Jared Greer</b> <i>Chief Executive Officer</i> Salary: \$100,000	<p><b>5 years experience in health care: Pharmaceutical Sales Representative - Pfizer</b></p> <ul style="list-style-type: none"> <li>• Manage all aspects of a \$3.5 million per year territory</li> <li>• Develop relationships with key medical professionals including physicians, pharmacists, and nurses</li> </ul> <p><b>3 years experience managing a small business: Founder and President - Greer Property Solutions</b></p> <ul style="list-style-type: none"> <li>• Maintain a portfolio of over \$1 million in residential rental properties</li> <li>• Active involvement in all business activities including construction, leasing, sales, marketing, and accounting.</li> </ul> <p><b>2009 MBA Candidate - University of Arkansas</b> <b>2002 BS in Industrial Engineering (Magna Cum Laude) - University of Arkansas</b></p>
<b>Bessie Williams</b> <i>Chief Financial Officer</i> Salary: \$75,000	<p><b>3 years experience in procurement: Senior Buyer and Buyer/Planner - Alcoa</b></p> <ul style="list-style-type: none"> <li>• Manage \$120 million in annual spend</li> <li>• Procure, plan, source, negotiate, contract, and execute agreements to fulfill customer needs</li> </ul> <p><b>2009 MBA Candidate - University of Arkansas</b> <b>2005 BS in Business Administration, Finance, and Real Estate - University of Arkansas</b></p>
<b>Chris Elizer</b> <i>Vice President, Sales &amp; Global Business Development</i> Salary: \$75,000	<p><b>17 years experience in sales and management: Assistant Vice President Corporate Accounts – Ecolab</b></p> <ul style="list-style-type: none"> <li>• Fluent in Spanish - 13 years of international sales experience</li> <li>• Manage Walmart account globally - 7 years experience both domestically and internationally</li> </ul> <p><b>2009 MBA Candidate - University of Arkansas</b> <b>2006 Negotiation Course - Harvard Business School</b> <b>1990 BS in Marketing - University of Colorado</b></p>
<b>Jordan Greer</b> <i>Vice President, Marketing</i> Salary: \$50,000	<p><b>1 year experience in marketing: Marketing Intern - Tyson Foods</b></p> <p><b>3 years experience in sales/management: Outdoor Sales Manager – Arkansas Democrat Gazette</b></p> <ul style="list-style-type: none"> <li>• Manage outdoor sales team and develop strategic sales training program</li> <li>• Acquire residential and commercial subscription accounts through cold calling</li> </ul> <p><b>2009 Candidate for BS in Marketing Management, Honor's College - University of Arkansas</b></p>

Table 5

## Compensation

The management team will receive a base salary (Table 5) and equity stake (Table 8) in Tears for Life. In addition, an incentive compensation plan based upon achievement of company goals will be developed for management and future employees of Tears for Life. We will also provide standard medical, dental, vision, and 401(k) benefits.

## Board of Advisors

Advisor	Area	Qualifications
Larry J. Suva, Ph.D.	Oncology Clinical Research	<ul style="list-style-type: none"> <li>Lead clinical investigator for breast cancer proteins in tears</li> <li>Professor, Physiology and Biophysics, UAMS</li> <li>Director, Center for Orthopedic Research, UAMS</li> <li>Ph.D., Medicine, University of Melbourne, Australia</li> </ul>
Ray Bredfeldt, M.D.	3rd Party Payor	<ul style="list-style-type: none"> <li>Medical Director, Northwest Region, Arkansas Blue Cross and Blue Shield</li> <li>Former Director, UAMS/AHEC NW Arkansas Family Practice Residency</li> <li>Former Director, Southern Illinois University, Decatur FP Residency</li> <li>Arkansas Family Physician of the Year, AAFP</li> <li>Family Physician Teacher of the Year, IAFP</li> </ul>
Simon Lee	Medical Marketing	<ul style="list-style-type: none"> <li>President/CEO, lee   stafford</li> <li>Full service medical marketing firm</li> <li>clients include the U of Tennessee Cancer Institute, Medtronic, and Smith &amp; Nephew</li> </ul>
Benjamin Adler, J.D., Ph.D.	Patent	<ul style="list-style-type: none"> <li>Owner, Adler &amp; Associates,</li> <li>J.D., Boston University School of Law</li> <li>Fellowship, Molecular Pharmacology, Memorial Sloan-Kettering Cancer Center</li> </ul>
Lisa Childs, J.D., Ph.D.	Patent	<ul style="list-style-type: none"> <li>Patent Attorney and Associate Vice Provost for Research, University of Arkansas</li> <li>J.D. (cum laude), Loyola University - Chicago School of Law</li> </ul>
Sissy Pederson, CRA, RT (R)(M)	Breast Imaging	<ul style="list-style-type: none"> <li>Director of Imaging Services, Washington Regional Hospital</li> <li>Former Director of Breast Imaging, MD Anderson Cancer Institute</li> </ul>
Alison Levin	Breast Cancer Awareness	<ul style="list-style-type: none"> <li>Executive Director, Susan G Komen Foundation: Ozark</li> </ul>
Tami Hutchison, MBA	Executive Management - Healthcare	<ul style="list-style-type: none"> <li>11 years of executive level management experience in hospitals</li> <li>23 years of overall experience in healthcare administration and business development</li> <li>MBA, University of Arkansas 2009</li> </ul>
John Price, CPA	Finance/Accounting	<ul style="list-style-type: none"> <li>35 years overall accounting experience in Arkansas</li> <li>24 years experience as controller for Gerdau MacSteel</li> </ul>
Ted Borgstadt	Medical Startup	<ul style="list-style-type: none"> <li>CEO and Founder, TrestleTree</li> <li>25 years startup, healthcare and pharmaceutical experience</li> </ul>
Gary Lehren	Manufacturing Executive Management	<ul style="list-style-type: none"> <li>President and CEO, Ayrshire Electronics</li> <li>Manages \$100 + million per year revenue contract electronics manufacturer with 4 domestic and international manufacturing locations</li> </ul>

**Table 6**

## **Offering**

- Tears for Life will offer series A and series B investors a 33% and 20% equity stake in exchange for initial investments of \$1 million and \$2.5 million, respectively.
- Tears for Life projects a return of 68x to series A investors and 18x to series B investors.
- Tears for Life views acquisition by a major medical diagnostic company as the likely exit strategy.

## Offering and Value of Investment

Tears for Life will be seeking two stages of funding from investors (Table 7). Existing funding includes \$250,000 contributed by the management team and a \$75,000 grant awarded to UAMS that is

Investment Stage	Amount	Equity	Timing	Uses
Grant & Management Investment	\$ 325,000		present	Sequence & Validate Proteins
Series A	\$ 1,000,000	33%	Sep-2009	Diagnostic Testing Platform, FDA PMA Application
Series B	\$ 2,500,000	20%	Jun-2010	Clinical Trial, FDA Clearance, Full Market Launch

**Table 7**

being used for research on the protein patterns. The total of these investments will allow Tears for Life to complete the development of the tear test kit and successfully implement a full market launch (Table 8). We have already drawn interest from a number of venture capital firms, including MB Venture Partners in Memphis, TN, who provides equity capital to life sciences companies and has \$76 million under management. Tears for Life will also apply for all available grant opportunities. We are

Sources & Uses of Funds	
<b>Management Team Investment</b>	<b>\$ 250,000</b>
<b>UAMS Grant from RCI</b>	<b>\$ 75,000</b>
Sequence & Validate Proteins	\$ 75,000
Salaries	\$ 65,325
Other Expenses	\$ 25,163
Contingency Funds	\$ 159,512
<b>Series A Investment</b>	<b>\$ 1,000,000</b>
Develop Diagnostic Testing Platform	\$ 300,000
Begin FDA PMA Process	\$ 100,000
Salaries	\$ 540,103
Other Expenses	\$ 69,229
Contingency Funds	\$ 150,181
<b>Series B</b>	<b>\$ 2,500,000</b>
Complete FDA PMA Approval	\$ 1,000,000
Salaries	\$ 1,202,633
Other Expenses	\$ 39,175
Ending Contingency Funds	\$ 408,373

**Table 8**

currently exploring opportunities with the Susan G. Komen Foundation, National Cancer Institute, American Cancer Society, and others.

We project 2013 EBITDA of \$37.7 million based on \$93 million in revenue from projected sales

Owner	% Ownership*
Series A Investors	30%
Series B Investors	20%
UAMS	11%
Jared Greer, CEO	10%
Bessie Williams, CFO	6%
Chris Elizer, VP Sales	6%
Suzanne Klimberg, CMO	4%
Michael Douglas, CRO	4%
Jordan Greer, VP Marketing	3%
Tears for Life Employees	6%
*Remaining equity stake after all stages of investment	

**Table 9**

of 930,000 units. At 6x EBITDA, a discounted industry standard derived from the P/E ratio of microcap medical equipment & supplies companies,<sup>36</sup> Tears for Life will be valued at \$226 million, giving series A investors a 68x ROI and series B investors a 18x ROI. ROI is calculated based upon the diluted equity distribution after both rounds of funding (Table 9).

## Exit Strategy

We view acquisition by a major medical company as the preferred exit strategy. Acquisitions are common in our industry and typically occur when a company reaches a value creating milestone. Our major milestones are sequencing and validating the proteins, developing the tear test kit prototype, FDA

clearance, and market launch. Upon achievement of each milestone, we will entertain offers to sell the technology or to enter into a licensing agreement with larger market participants such as Abbott Laboratories, Johnson & Johnson, Immunodiagnostics, LabCorp, Quest Diagnostics, or Diagnostics Systems Laboratories. This means that there are many opportunities to provide an exit for investors. Recent acquisition examples include the Johnson & Johnson purchase of 9 year old Inverness Medical Technology's diabetes care products for \$1.3 billion,<sup>37</sup> and QIAGEN's 2007 \$34 million acquisition of eGene (\$7 million annual revenue).<sup>38</sup>

## Critical Risks

Tears for Life has a bright future ahead with the tear test kit. However, as with any venture, risks will be present. Outlined below are the critical risks we will face and our plans to mitigate them.

### Protein Sequencing and Validation

The biggest risk associated with the tear test kit is completing the sequencing and validation of the proteins. We are currently working to sequence the specific proteins of the protein barcode. An inability to complete this process poses a critical risk to our success. In order to mitigate this risk to investors, Tears for Life will be funding this stage of development with existing funding provided by the grant and the management team investment. We will not risk investor money until this portion of the research is complete.

### Regulatory

Medical products such as the tear test kit are regulated by the FDA. The path to FDA clearance can be very complicated and time consuming, and without clearance, the kit cannot be marketed to the public. We have taken a number of steps towards mitigating this risk. Our Chief Regulatory Officer, Dr. Michael Douglas, has extensive regulatory, medical diagnostic, and medical startup experience. He will be responsible for guiding the tear test kit through the complex regulatory process. Tears for Life is also

working with Emergo Group to obtain FDA clearance for the tear test kit. We will outsource the entire FDA clearance process, including clinical trials, to this company. Emergo has helped over 1,000 companies achieve regulatory compliance and they have offices in major North American, European, Asian, and Australian markets. We will also retain the outside legal counsel of Troy Whitlow until it becomes prudent to establish an internal general counsel position. Mr. Whitlow is experienced in representing health care related businesses and has worked with over 50 start-up firms.

Our CMO, Dr. Suzanne Klimberg, has experience with the FDA, clinical trials, R&D, and breast oncology. We will also utilize UAMS researchers who have previous experience with regulatory affairs. We feel that by leveraging the experience and knowledge of Emergo Group, Drs. Douglas and Klimberg, and UAMS researchers, we will be able to successfully mitigate the risk associated with FDA clearance.

### **3<sup>rd</sup> Party Payor**

A requirement for achieving revenue projections for the in-clinic tear test kit is obtaining the approval of the major payors (insurance companies, Medicare, Medicaid) to make the tear test kit a “covered service.” We have already started preliminary discussions with Arkansas Blue Cross and Blue Shield, the state’s largest insurer. Their approval process is very similar to that of the other payors. We have also initiated contact with representatives of Medicare. We feel that this early contact and development of relationships with key individuals will help Tears for Life mitigate this risk. Payors will also be key targets in our marketing strategy – similar to the strategy currently utilized by pharmaceutical and medical device industries. To further develop our specific marketing plan for payors, Tears for Life is working closely with Simon Lee, CEO of lee | stafford, a full-service marketing firm specializing in health care and medical device marketing and communications. We feel that our existing relationships, strategic partners, and intense focus on marketing to payors will mitigate this risk.

## Appendices

### Appendix A: Financial Assumptions

- Revenue projections: Sales price is \$100/kit. Estimates include selling 187 kits per HCP per year to 1,667 HCPs in year 2012 (<1% market penetration in the US) and 5,000 HCPs (<3% market penetration) in year 2013.
- COGS: Estimated at \$1.00/kit per Boston BioProducts, Inc. All licensing fees calculated according to the UAMS licensing agreement: \$5K at the end of each year. A \$50K bonus when net sales reach \$2M plus the following royalty fee calculations: 4.0% of the aggregate NET SALES from \$1 to \$15M, then 3.0% of the aggregate NET SALES from \$15,000,001 to \$30M, then 2.0% of the aggregate NET SALES from \$30,000,001 to \$50M, then 1.0% of the aggregate NET SALES over \$50M.
- Salary expense: Sales force of (6) in 4<sup>th</sup> Qtr 2011 and (17) in 4<sup>th</sup> Qtr 2012. See Chart for others.
- Employee benefits are calculated at 20% of salaries. FICA and Medicare taxes at 7.65%.
- Professional services: Outside sales force estimated with quote from HR Design Solutions, LLC at \$55/hr averaging 20/hours per month the first year and increasing to 40 hours/month by third year. We will hire these positions in house in fifth year. Services include payroll, compliance, tax forms, establish employment policies, incentive compensation plans, design benefits package, create job descriptions, and aid with new hires. Troy Whitlow quoted \$500/month for attorney fees
- Business liability insurance estimated at \$818/year for first three years per quote from McLeod Insurance Agency (based on minimum requirements outlined in licensing agreement). Increase to \$4,090 for \$10M liability insurance for 2012-2013.
- Allowance for bad debt: estimated expense is 1%.
- Rent expense: we will work out of our home for the first two years. Office space, utilities, and office furniture were quoted by a Bentonville brokerage firm, Colliers International - \$16.50 per s/f with 3% increases year over year. Quote includes utilities, taxes, and insurance.
- Other expenses: estimated at 10% of revenue.
- Marketing expense: estimated at \$50,000/yr for two years, \$100,000 per year plus \$500,000 marketing launch expense in 2011, and then calculated at 20% of revenues (industry standard per lee | stafford) to include warehousing and distribution
- Shipping & Delivery: estimated at 5% of revenues (overnight supplies to medical providers)
- Travel expense: \$2500/month in 2009 & 2010; \$5,000/month in 2011, 5% revenue in 2012 & 2013
- Research & Development: projected at 10% of revenues beginning 2012 in order to invest in other cancer detection research
- Interest income is calculated on 0.5% annual interest rate of ending cash.
- Accounts receivable: observed DOS for medical supply companies at 36. Estimated that 20% of sales will not be collected in the quarter billed, 1% will not be collected in the second quarter billed.
- Accounts payable: estimated at 75% of expenses in the period.
- Depreciation expense: assets depreciated using straight line method with expected life of 5 years.
- Distribution to Members: 35% of net income for tax liability in April each year. \$10M payout to investors in 2012, \$20M payout to investors in 2013 to be distributed equally.

Associate	Annual Salary	Hired
Jared Greer, CEO	\$100,000	Jun-2009
Bessie Williams, CFO	\$75,000	Jun-2009
Chris Elizer, VP Sales	\$75,000	Jun-2009
Jordan Greer, VP Marketing	\$50,000	Jun-2009
Chief Medical Officer	\$100,000	Jun-2009
Chief Regulator Officer	\$100,000	Jun-2009
Operations Manager	\$75,000	Jan-2012
Customer Service Rep	\$45,000	Jan-2012
Administrative Asst	\$25,000	Jan-2012
IT Manager	\$75,000	Jan-2012
General Counsel	\$75,000	Jan-2013
Accountant	\$50,000	Jan-2013
HR Manager	\$75,000	Jan-2013

## Appendix B: Income Statements

Tears for Life													
Pro Forma Income Statement													
For the Year Ending 2009													
	January	February	March	April	May	June	July	August	September	October	November	December	Total
Net Sales	-	-	-	-	-	-	-	-	-	-	-	-	-
Cost of Goods Sold	-	-	-	-	-	-	-	-	-	-	-	-	-
Gross Profit	-	-	-	-	-	-	-	-	-	-	-	-	-
Operating Expenses													
Bad debt expense	-	-	-	-	-	-	-	-	-	-	-	-	-
Depr. and amort.	-	-	-	-	-	-	-	-	-	-	-	-	-
Business Insurance	-	-	-	-	-	68	68	68	68	68	68	68	476
Licenses and fees	-	-	-	-	-	5,150	-	-	-	-	-	-	5,150
Marketing and sales	-	-	-	-	-	4,167	4,167	4,167	4,167	4,167	4,167	4,167	29,167
Office supplies	-	-	-	-	-	200	200	200	200	200	200	200	1,400
Payroll expenses													
Salaries and wages	-	-	-	-	-	16,667	16,667	16,667	41,667	41,667	41,667	41,667	216,667
Payroll taxes	-	-	-	-	-	1,275	1,275	1,275	3,188	3,188	3,188	3,188	16,575
Benefits	-	-	-	-	-	3,333	3,333	3,333	8,333	8,333	8,333	8,333	43,333
Professional services	-	-	-	-	-	500	500	500	500	500	500	500	3,500
Rent <sup>1</sup>	-	-	-	-	-	-	-	-	-	-	-	-	-
Research & Development	-	-	-	-	-	75,000	-	-	200,000	-	-	100,000	375,000
Travel	-	-	-	-	-	2,500	2,500	2,500	2,500	2,500	2,500	2,500	17,500
Other expenses	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Operating Expenses	-	-	-	-	-	108,860	28,710	28,710	260,622	60,622	60,622	160,622	708,768
Operating Income	-	-	-	-	-	(108,860)	(28,710)	(28,710)	(260,622)	(60,622)	(60,622)	(160,622)	(708,768)
Interest income (expense)	-	-	-	-	-	93	56	44	425	337	312	276	1,543
Net income	-	-	-	-	-	(108,767)	(28,654)	(28,666)	(260,198)	(60,285)	(60,310)	(160,346)	(707,225)

<sup>1</sup>We will work out of our homes for the first two years of business

<sup>2</sup>CEO, CFO, VP Sales, and VP Marketing will forego salaries until September 2009

Tears for Life  
Pro Forma Income Statement  
For the Year Ending 2010

	January	February	March	April	May	June	July	August	September	October	November	December	Total
Net Sales	-	-	-	-	-	-	-	-	-	-	-	-	-
Cost of Goods Sold	-	-	-	-	-	-	-	-	-	-	-	-	-
Gross Profit	-	-	-	-	-	-	-	-	-	-	-	-	-
Operating Expenses													
Bad debt expense	-	-	-	-	-	-	-	-	-	-	-	-	-
Depr. and amort.	-	-	-	-	-	-	-	-	-	-	-	-	-
Business Insurance	68	68	68	68	68	68	68	68	68	68	68	68	818
Licenses and fees	-	-	-	-	-	5,150	-	-	-	-	-	-	5,150
Marketing and sales	4,167	4,167	4,167	4,167	4,167	4,167	4,167	4,167	4,167	4,167	4,167	4,167	50,000
Office supplies	200	200	200	200	200	200	200	200	200	200	200	200	2,400
Payroll expenses													
Salaries and wages	41,667	41,667	41,667	41,667	41,667	43,333	43,333	43,333	43,333	43,333	43,333	43,333	511,667
Payroll taxes	3,188	3,188	3,188	3,188	3,188	3,315	3,315	3,315	3,315	3,315	3,315	3,315	39,143
Benefits	8,333	8,333	8,333	8,333	8,333	8,667	8,667	8,667	8,667	8,667	8,667	8,667	102,333
Professional services	500	500	500	500	500	1,600	1,600	1,600	1,600	1,600	1,600	1,100	13,200
Rent <sup>1</sup>	-	-	-	-	-	-	-	-	-	-	-	-	-
Research & Development	100,000	-	-	-	-	-	55,556	55,556	55,556	55,556	55,556	55,556	433,333
Travel	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	30,000
Other expenses	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total Operating Expenses</b>	<b>160,622</b>	<b>60,622</b>	<b>60,622</b>	<b>60,622</b>	<b>60,622</b>	<b>69,000</b>	<b>119,405</b>	<b>119,405</b>	<b>119,405</b>	<b>119,405</b>	<b>119,405</b>	<b>118,905</b>	<b>1,188,044</b>
<b>Operating Income</b>	<b>(160,622)</b>	<b>(60,622)</b>	<b>(60,622)</b>	<b>(60,622)</b>	<b>(60,622)</b>	<b>(69,000)</b>	<b>(119,405)</b>	<b>(119,405)</b>	<b>(119,405)</b>	<b>(119,405)</b>	<b>(119,405)</b>	<b>(118,905)</b>	<b>(1,188,044)</b>
Interest income (expense)	210	153	128	103	77	1,093	1,060	1,011	961	912	862	813	7,383
<b>Net income</b>	<b>(160,413)</b>	<b>(60,469)</b>	<b>(60,494)</b>	<b>(60,520)</b>	<b>(60,545)</b>	<b>(67,906)</b>	<b>(118,346)</b>	<b>(118,395)</b>	<b>(118,444)</b>	<b>(118,494)</b>	<b>(118,543)</b>	<b>(118,092)</b>	<b>(1,180,661)</b>

<sup>1</sup>We will work out of our homes for the first two years of business



Tears for Life  
Pro Forma Income Statement  
For the Year Ending 2011

	Qtr 1	Qtr 2	Qtr 3	Qtr 4	Total
Net sales	-	-	-	-	-
Cost of goods sold	-	-	-	-	-
Gross profit	-	-	-	-	-
Operating expenses					
Bad debt expense	-	-	-	-	-
Depr and amort	667	667	667	1,267	3,269
Business insurance	205	205	205	205	818
Licenses and fees	-	5,150	-	-	5,150
Marketing and sales	25,000	25,000	25,000	525,000	600,000
Office supplies	600	600	600	600	2,400
Payroll expenses					-
Salaries and wages	130,000	131,733	135,200	285,200	682,133
Payroll taxes	9,945	10,078	10,343	21,818	52,183
Benefits	26,000	26,347	27,040	57,040	136,427
Professional services	8,100	8,100	8,100	8,100	32,400
Rent	9,033	6,875	6,875	6,875	29,658
Research & development	166,667	166,667	166,667	166,667	666,667
Shipping and delivery	-	-	-	-	-
Travel	15,000	15,000	15,000	15,000	60,000
Other expenses	-	-	-	-	-
Total operating expenses	391,217	396,421	395,696	1,087,771	2,271,105
Operating income	(391,217)	(396,421)	(395,696)	(1,087,771)	(2,271,105)
Interest income (expense)	2,192	1,705	1,212	386	5,494
Net income	(389,024)	(394,717)	(394,485)	(1,087,385)	(2,265,611)

Tears for Life  
Pro Forma Income Statement  
For the Year Ending 2012

	Qtr 1	Qtr 2	Qtr 3	Qtr 4	Total
Net sales	1,555,392	4,666,177	7,776,961	17,109,315	31,107,845
Cost of goods sold	77,770	283,309	388,848	834,373	1,584,299
Gross profit	1,477,623	4,382,868	7,388,113	16,274,942	29,523,546
Operating expenses					
Bad debt expense	15,554	46,662	77,770	171,093	311,078
Depr and amort	1,267	1,267	1,267	2,966	6,767
Business insurance	1,023	1,023	1,023	1,023	4,090
Licenses and fees	-	5,150	-	-	5,150
Marketing and sales	311,078	933,235	1,555,392	3,421,863	6,221,569
Office supplies	600	600	600	600	2,400
Payroll expenses					-
Salaries and wages	340,200	342,003	345,608	776,608	1,804,419
Payroll taxes	26,025	26,163	26,439	59,411	138,038
Benefits	68,040	68,401	69,122	155,322	360,884
Professional services	8,100	8,100	8,100	8,100	32,400
Rent	7,081	7,081	7,081	7,081	28,325
Research & development	116,654	466,618	777,696	1,710,931	3,071,900
Shipping and delivery	77,770	233,309	388,848	855,466	1,555,392
Travel	77,770	233,309	388,848	855,466	1,555,392
Other expenses	155,539	466,618	777,696	1,710,931	3,110,785
Total operating expenses	1,206,701	2,839,537	4,425,490	9,736,861	18,208,589
Operating income	270,921	1,543,331	2,962,624	6,538,082	11,314,957
Interest income (expense)	420	1,809	5,938	3,348	11,515
Net income	271,341	1,545,139	2,968,562	6,541,429	11,326,472

Tears for Life  
Pro Forma Income Statement  
For the Year Ending 2013

	Qtr 1	Qtr 2	Qtr 3	Qtr 4	Total
Net sales	20,531,178	21,464,413	22,397,648	28,930,296	93,323,535
Cost of goods sold	821,247	858,577	895,906	1,157,212	3,732,941
Gross profit	19,709,931	20,605,837	21,501,742	27,773,084	89,590,594
Operating expenses					
Bad debt expense	205,312	214,644	223,976	289,303	933,235
Depr and amort	2,966	2,966	2,966	2,966	11,865
Business insurance	1,023	1,023	1,023	1,023	4,090
Licenses and fees	-	5,150	-	-	5,150
Marketing and sales	4,106,236	4,292,883	4,479,530	5,786,059	18,664,707
Office supplies	600	600	600	600	2,400
Payroll expenses					-
Salaries and wages	828,808	830,683	834,432	851,432	3,345,355
Payroll taxes	63,404	63,547	63,834	65,135	255,920
Benefits	165,762	166,137	166,886	170,286	669,071
Professional services	8,100	8,100	8,100	8,100	32,400
Rent	7,294	7,294	7,294	7,294	29,175
Research & development	2,053,118	2,146,441	2,239,765	2,893,030	9,332,354
Shipping and delivery	1,026,559	1,073,221	1,119,882	1,446,515	4,666,177
Travel	1,026,559	1,073,221	1,119,882	1,446,515	4,666,177
Other expenses	2,053,118	2,146,441	2,239,765	2,893,030	9,332,354
Total operating expenses	11,548,856	12,032,350	12,507,936	15,861,287	51,950,429
Operating income	8,161,074	8,573,487	8,993,807	11,911,797	37,640,165
Interest income (expense)	14,093	20,016	31,426	22,246	87,780
Net income	8,175,167	8,593,503	9,025,233	11,934,043	37,727,945

## Appendix C: Statement of Cash Flows

Tears for Life													
Pro Forma Statement of Cash Flows													
For the Year Ending 2009													
	January	February	March	April	May	June	July	August	September	October	November	December	Grand Total
Cash Flows from Operating Activities													
Net Income	-	-	-	-	-	(108,860)	(28,710)	(28,710)	(260,622)	(60,622)	(60,622)	(160,622)	(708,768)
Change in Accounts Receivable	-	-	-	-	-	-	-	-	-	-	-	-	-
Change in Inventory	-	-	-	-	-	-	-	-	-	-	-	-	-
Change in Accounts Payable	-	-	-	-	-	81,645	(60,113)	-	173,934	(150,000)	-	75,000	120,467
Depreciation Expense	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Cash from Operating Activities	-	-	-	-	-	(27,215)	(88,822)	(28,710)	(86,688)	(210,622)	(60,622)	(85,622)	(588,301)
Cash Flows from Investing Activities													
Purchase of Office Equipment	-	-	-	-	-	-	-	-	-	-	-	-	-
Interest Income	-	-	-	-	-	93	56	44	425	337	312	276	1,543
Net Cash from Investing Activities	-	-	-	-	-	93	56	44	425	337	312	276	1,543
Cash Flows from Financing Activities													
Capital Contributions	-	-	-	-	-	250,000	-	-	1,000,000	-	-	-	1,250,000
Distribution to Members	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Cash from Financing Activities	-	-	-	-	-	250,000	-	-	1,000,000	-	-	-	1,250,000
Net Change in Cash													
Cash at Beginning of Period	-	-	-	-	-	222,878	(88,766)	(28,666)	913,737	(210,285)	(60,310)	(85,346)	663,241
Cash at End of Period	-	-	-	-	-	222,878	134,111	105,446	1,019,183	808,898	748,587	663,241	663,241

Tears for Life  
Pro Forma Statement of Cash Flows  
For the Year Ending 2010

	January	February	March	April	May	June	July	August	September	October	November	December	Grand Total
Cash Flows from Operating Activities													
Net Income	(160,622)	(60,622)	(60,622)	(60,622)	(60,622)	(69,000)	(119,405)	(119,405)	(119,405)	(119,405)	(119,405)	(118,905)	(1,188,044)
Change in Accounts Receivable	-	-	-	-	-	-	-	-	-	-	-	-	-
Change in Inventory	-	-	-	-	-	-	-	-	-	-	-	-	-
Change in Accounts Payable	0	(75,000)	-	-	-	6,283	37,804	-	-	-	-	(375)	(31,288)
Depreciation Expense	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Net Cash from Operating Activities</b>	<b>(160,622)</b>	<b>(135,622)</b>	<b>(60,622)</b>	<b>(60,622)</b>	<b>(60,622)</b>	<b>(62,717)</b>	<b>(81,601)</b>	<b>(119,405)</b>	<b>(119,405)</b>	<b>(119,405)</b>	<b>(119,405)</b>	<b>(119,280)</b>	<b>(1,219,331)</b>
Cash Flows from Investing Activities													
Purchase of Office Equipment	-	-	-	-	-	-	-	-	-	-	-	-	-
Interest Income	210	153	128	103	77	1,093	1,060	1,011	961	912	862	813	7,383
<b>Net Cash from Investing Activities</b>	<b>210</b>	<b>153</b>	<b>128</b>	<b>103</b>	<b>77</b>	<b>1,093</b>	<b>1,060</b>	<b>1,011</b>	<b>961</b>	<b>912</b>	<b>862</b>	<b>813</b>	<b>7,383</b>
Cash Flows from Financing Activities													
Capital Contributions	-	-	-	-	-	2,500,000	-	-	-	-	-	-	2,500,000
Distribution to Members	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Net Cash from Financing Activities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,500,000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,500,000</b>
Net Change in Cash	(160,413)	(135,469)	(60,494)	(60,520)	(60,545)	2,438,377	(80,541)	(118,395)	(118,444)	(118,494)	(118,543)	(118,467)	1,288,051
Cash at Beginning of Period	663,241	502,829	367,359	306,865	246,345	185,800	2,624,177	2,543,636	2,425,241	2,306,797	2,188,303	2,069,760	663,241
<b>Cash at End of Period</b>	<b>502,829</b>	<b>367,359</b>	<b>306,865</b>	<b>246,345</b>	<b>185,800</b>	<b>2,624,177</b>	<b>2,543,636</b>	<b>2,425,241</b>	<b>2,306,797</b>	<b>2,188,303</b>	<b>2,069,760</b>	<b>1,951,293</b>	<b>1,951,293</b>

Tears for Life  
Pro Forma Statement of Cash Flows  
For the Year Ending 2011

	Qtr 1	Qtr 2	Qtr 3	Qtr 4	Grand Total
<b>Cash Flows from Operating Activities</b>					
Net Income	(391,217)	(396,421)	(395,696)	(1,087,771)	(2,271,105)
Change in Accounts Receivable	-	-	-	-	-
Change in Inventory	-	-	-	(81,658)	(81,658)
Change in Accounts Payable	204,233	3,903	(544)	519,056	726,649
Depreciation Expense	667	667	667	1,267	3,269
<b>Net Cash from Operating Activities</b>	<b>(186,316)</b>	<b>(391,850)</b>	<b>(395,573)</b>	<b>(649,106)</b>	<b>(1,622,845)</b>
<b>Cash Flows from Investing Activities</b>					
Purchase of Office Equipment	(13,346)	-	-	(11,994)	(25,340)
Interest Income	2,192	1,705	1,212	386	5,494
<b>Net Cash from Investing Activities</b>	<b>(11,154)</b>	<b>1,705</b>	<b>1,212</b>	<b>(11,608)</b>	<b>(19,846)</b>
<b>Cash Flows from Financing Activities</b>					
Capital Contributions	-	-	-	-	-
Distribution to Members	-	-	-	-	-
<b>Net Cash from Financing Activities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net Change in Cash</b>	<b>(197,470)</b>	<b>(390,146)</b>	<b>(394,361)</b>	<b>(660,714)</b>	<b>(1,642,691)</b>
Cash at Beginning of Period	1,951,293	1,753,823	1,363,677	969,316	1,951,293
<b>Cash at End of Period</b>	<b>1,753,823</b>	<b>1,363,677</b>	<b>969,316</b>	<b>308,602</b>	<b>308,602</b>

Tears for Life  
Pro Forma Statement of Cash Flows  
For the Year Ending 2012

	Qtr 1	Qtr 2	Qtr 3	Qtr 4	Grand Total
<b>Cash Flows from Operating Activities</b>					
Net Income	270,921	1,543,331	2,962,624	6,538,082	11,314,957
Change in Accounts Receivable	(311,078)	(622,157)	(622,157)	(1,866,471)	(3,421,863)
Change in Inventory	(23,331)	(244,974)	(233,309)	(699,927)	(1,201,541)
Change in Accounts Payable	89,198	1,224,627	1,189,464	3,983,528	6,486,817
Depreciation Expense	1,267	1,267	1,267	2,966	6,767
<b>Net Cash from Operating Activities</b>	<b>26,977</b>	<b>1,902,093</b>	<b>3,297,889</b>	<b>7,958,179</b>	<b>13,185,138</b>
<b>Cash Flows from Investing Activities</b>					
Purchase of Office Equipment	-	-	-	(33,983)	(33,983)
Interest Income	420	1,809	5,938	3,348	11,515
<b>Net Cash from Investing Activities</b>	<b>420</b>	<b>1,809</b>	<b>5,938</b>	<b>(30,635)</b>	<b>(22,468)</b>
<b>Cash Flows from Financing Activities</b>					
Capital Contributions	-	-	-	-	-
Distribution to Members	-	(792,964)	-	(10,000,000)	(10,792,964)
<b>Net Cash from Financing Activities</b>	<b>-</b>	<b>(792,964)</b>	<b>-</b>	<b>(10,000,000)</b>	<b>(10,792,964)</b>
<b>Net Change in Cash</b>	<b>27,397</b>	<b>1,110,938</b>	<b>3,303,827</b>	<b>(2,072,456)</b>	<b>2,369,706</b>
Cash at Beginning of Period	308,602	335,999	1,446,937	4,750,764	308,602
<b>Cash at End of Period</b>	<b>335,999</b>	<b>1,446,937</b>	<b>4,750,764</b>	<b>2,678,308</b>	<b>2,678,308</b>

Tears for Life  
Pro Forma Statement of Cash Flows  
For the Year Ending 2013

	Qtr 1	Qtr 2	Qtr 3	Qtr 4	Grand Total
<b>Cash Flows from Operating Activities</b>					
Net Income	8,161,074	8,573,487	8,993,807	11,911,797	37,640,165
Change in Accounts Receivable	(684,373)	(186,647)	(186,647)	(1,306,529)	(2,364,196)
Change in Inventory	(256,640)	(69,993)	(69,993)	(489,949)	(886,574)
Change in Accounts Payable	1,358,997	362,620	356,690	2,515,013	4,593,320
Depreciation Expense	2,966	2,966	2,966	2,966	11,865
<b>Net Cash from Operating Activities</b>	<b>8,582,025</b>	<b>8,682,433</b>	<b>9,096,823</b>	<b>12,633,299</b>	<b>38,994,579</b>
<b>Cash Flows from Investing Activities</b>					
Purchase of Office Equipment	-	-	-	-	-
Interest Income	14,093	20,016	31,426	22,246	87,780
<b>Net Cash from Investing Activities</b>	<b>14,093</b>	<b>20,016</b>	<b>31,426</b>	<b>22,246</b>	<b>87,780</b>
<b>Cash Flows from Financing Activities</b>					
Capital Contributions	-	-	-	-	-
Distribution to Members	-	(3,964,265)	-	(20,000,000)	(23,964,265)
<b>Net Cash from Financing Activities</b>	<b>-</b>	<b>(3,964,265)</b>	<b>-</b>	<b>(20,000,000)</b>	<b>(23,964,265)</b>
<b>Net Change in Cash</b>	<b>8,596,118</b>	<b>4,738,184</b>	<b>9,128,249</b>	<b>(7,344,456)</b>	<b>15,118,095</b>
Cash at Beginning of Period	2,678,308	11,274,426	16,012,610	25,140,859	2,678,308
<b>Cash at End of Period</b>	<b>11,274,426</b>	<b>16,012,610</b>	<b>25,140,859</b>	<b>17,796,403</b>	<b>17,796,403</b>

## Appendix D: Balance Sheet

Tears for Life Pro Forma Balance Sheet For the Year Ending 2009, 2010, 2011, 2012, 2013					
	2009	2010	2011	2012	2013
<b>Assets</b>					
Current Assets					
Cash	663,241	1,951,293	308,602	2,678,308	17,796,403
Accounts Receivable	-	-	-	3,421,863	5,786,059
Inventory	-	-	81,658	1,283,199	2,169,772
Total Current Assets	663,241	1,951,293	390,260	7,383,370	25,752,234
Office Equipment	-	-	25,340	59,323	59,323
Accumulated Depreciation	-	-	(3,269)	(10,036)	(21,901)
Net Equipment	-	-	22,071	49,287	37,422
<b>TOTAL ASSETS</b>	<b>663,241</b>	<b>1,951,293</b>	<b>412,331</b>	<b>7,432,657</b>	<b>25,789,656</b>
<b>Liabilities</b>					
Current Liabilities					
Accounts Payable	120,467	89,179	815,828	7,302,645	11,895,965
Total Liabilities	120,467	89,179	815,828	7,302,645	11,895,965
Equity					
Retained Earnings	(707,225)	(1,887,886)	(4,153,497)	7,172,975	44,900,920
Management Units	250,000	250,000	250,000	250,000	250,000
Non-management Units	1,000,000	3,500,000	3,500,000	3,500,000	3,500,000
Distribution to Members	-	-	-	(10,792,964)	(34,757,229)
Total Equity	542,775	1,862,114	(403,497)	130,011	13,893,691
<b>TOTAL LIABILITIES &amp; EQUITY</b>	<b>663,241</b>	<b>1,951,293</b>	<b>412,331</b>	<b>7,432,657</b>	<b>25,789,656</b>

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