

Telzuit Medical Technologies, Inc. (TZMT-OTC:BB)

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Providing Ambulatory Medical Devices which Monitor, Measure and Record Physiological Signals Generated by the Body.

Recent Price: \$0.50

Market Data

Market Capitalization	\$15.1 mln
Enterprise Value	\$15.3 mln
Fully Diluted Shares	30.2 mln
Float	2.6 mln
Avg. Volume (50 day, approx.)	53,600
Institutional Ownership	11.59%
Insider Ownership	39.74%
Exchange	OTC-BB

Company Overview

Telzuit Medical Technologies, Inc. engages in the development of advanced mobile medical devices. The company's flagship product is the Bio-Patch Wireless Heart Monitor, an FDA approved & patented 12-lead wireless ECG heart-monitoring device. The Bio-Patch captures electrical impulses of the patient's heart and transmits this information to a cellular telephone/PDA that the patient carries. It can be worn by patients as they proceed with their daily routine while their data is being sent to the company's monitoring center on a near real-time basis.

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Summary and Investment Opportunity

- **A Unique Business Model Requiring NO Investment by Physicians**

Telzuit provides its Bio-Patch to physicians for free and requires no capital investment by the doctor. Telzuit derives its revenues through reimbursements from Medicare and insurance providers for the monitoring and information collecting services, while the physicians are paid by Medicare and insurance providers for patient hook-up, patient evaluation, and data review services that they provide.

- **500 Bio-Patch Pre-Orders to be Filled and Operating by June 2006**

In March 2006, Telzuit Medical announced that it had secured its first round of pre-orders for its Bio-Patch Wireless Holter Monitor System. At that time, the company had secured 500 pre-orders for the Bio-Patch with physicians in the Orlando, Florida area. Telzuit anticipates that the pre-orders will be filled and operating by May 1, 2006.

- **Sales and Distribution**

In March 2006, Telzuit signed a co-marketing and sales agreement with Cardiomedics, Inc. for the sale of Telzuit's Bio-Patch Wireless Holter Monitor System through Cardiomedics' existing sales and marketing channels. Comprised of 26 internal and contracted sales staff, the Cardiomedics' sales force intends to market the Bio-Patch alongside Cardiomedics' ECP equipment, which includes its Cardiassist and Cardiassess Systems. With an installed client base of over 500 cardiologists, Cardiomedics expects to place several thousand Bio-Patch units into the market within the first 12 months of usage.

- **Addressing Diagnostic Needs in Large and Growing Markets**

The Bio-Patch addresses the ambulatory cardiac monitoring market that, according to Frost and Sullivan, is by far the fastest growing market for new monitoring technologies and is forecast to grow by as much as 12% per annum over the next few years.



Company Overview

Telzuit Medical Technologies, Inc. is a company focused on researching, developing and marketing ambulatory medical devices which monitor, measure and record physiological signals generated by the body. The company's initial product is the **Bio-Patch Wireless Holter Monitor**, a patented and FDA-approved disposable bandage-like strip which allows patients to proceed with normal activities while their biometric data is collected and transmitted to a monitoring center on a near real-time, 24-hour basis for analysis. Utilizing an algorithm licensed from Philips Medical (NYSE-PHG), the Bio-Patch is capable of deriving a full 12-lead electrocardiogram (ECG) from a 6-lead vectorcardiographic configuration, also known as the EASI placement. This lead configuration is ideal for ambulatory cardiac monitoring because it provides true vectorcardiographic data with leads that are comfortable to wear and has a minimal impact on limb movement. Additionally, data gathered from a full 12-lead ECG configuration may help clinicians detect the origin of arrhythmias with a higher degree of accuracy.

The Bio-Patch captures electrical impulses from the patient's heart and transmits this information, via Bluetooth wireless technology, to a cellular telephone-like device carried by the patient. This device (the "Unit") measures and records the electrical activity of the patient's heart. Every two (2) to four (4) hours, the recorded information is sent through a cellular telephone network to a monitoring center where a medical professional evaluates information for anomalies and noticeable events. Additionally, physicians are able to log onto an encrypted Web portal to view events and generate reports online. At the discretion of the physician, reports can also be sent via fax and/or email.

Telzuit was founded in early 2000. The company fared poorly and subsequently changed its focus to developing wireless heart monitoring equipment in 2003. In May 2005, the company went public through a reverse merger. The shell company was previously known by the name Taylor Madison Corp., and subsequently changed its corporate name to Telzuit Medical Technologies, Inc. and its trading symbol to TZMT in August 2005.

In February 2006, Telzuit announced the completion of its medical monitoring center in Orlando, Fla. This medical monitoring center, complete with IBM-contracted (NYSE-IBM) hardware and software, is designed to support the data acquisition of Telzuit's line of Bio-Patch Wireless Heart Monitoring Products. Currently, the company is attempting to raise approximately \$5 million in equity financing that would be used primarily as working capital to finance inventories and accounts receivable. Because Telzuit receives its revenues from insurance providers, Medicare and Medicaid programs, its accounts receivable should typically be about 45 days in arrears.

A Unique Business Model

Unlike other suppliers of heart monitoring devices, Telzuit does not derive any its revenues directly from the sale of its Bio-Patch or Bio-Patch System. In fact, the company provides these products to physicians at no cost and requiring no capital investment on their part. In contrast, traditional Holter monitors typically cost the physician \$2,000 to \$10,000 per unit and have an ongoing cost associated with maintenance and repairs.

Telzuit derives its revenues through reimbursements from Medicare and insurance providers for the monitoring and information collecting services that it provides. Current Medicare and most insurance coverage provides reimbursements (approximately \$85/patient/day for Holter monitoring and \$111/patient/day for event monitoring) for heart monitoring and analysis, heart activity recording and patient activation services, all of which are services provided by Telzuit. Physicians who prescribe heart-monitoring devices also receive reimbursements from Medicare and insurance providers (approximately \$75/patient/day) for patient hook-up, patient evaluation, and data review services that they provide.

Traditional Ambulatory Heart Monitors

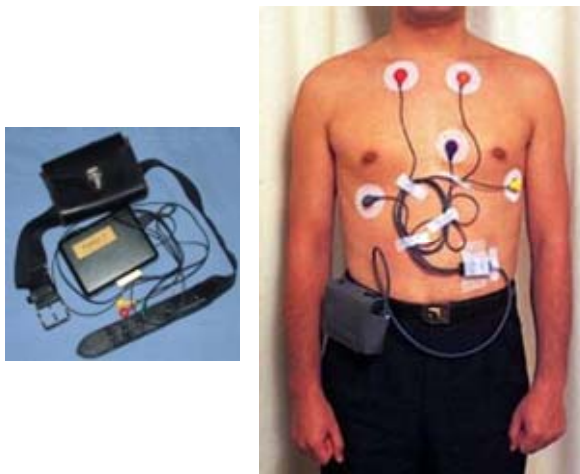
There are two types of mobile heart monitoring devices currently being utilized by the medical community: event monitors and Holter monitors. **Event monitoring devices** are designed to detect a specific heart symptom at or about the time it is taking place. These devices are typically used by the patient over a long time period (typically about a month) to detect symptoms of an abnormal heart rhythm that occurs infrequently

Event monitors require patients to determine if they are experiencing unusual heart activity and to initiate the data collection process by either holding a recording device to their chest or pushing a button on a device that the patient wears. The information collected by a cardiac event monitor may be transmitted over the phone to a doctor's office, clinic, or hospital for evaluation. Two types of cardiac event monitors are available:

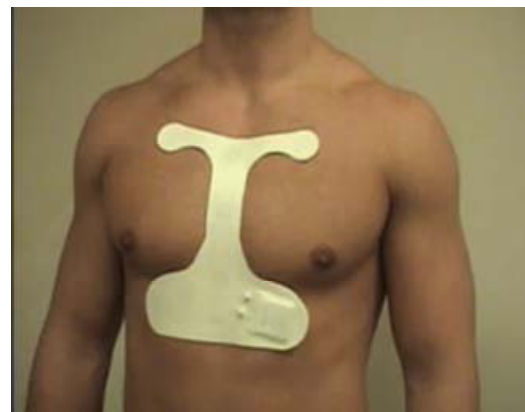
- **Presymptom event monitor.** This is a small device that attaches to the chest with electrodes. The smallest type of presymptom event monitor is about the size of a pager. It constantly records heartbeats. When symptoms occur, the patient presses a button on the monitor to make a permanent recording of his heart rhythm. This type of monitor also saves a small amount of information about how the patient's heart was beating before the save button was pressed (presymptom recording). This feature is especially useful for people who pass out when their heart problems occur and can press the button only after they wake up.
- **Postsymptom event monitor.** This small device is used only when symptoms of the heart problem occur. It does not have electrodes that are attached to the chest. One type is worn on the wrist like a watch. When symptoms occur, the patient presses a button to start the EKG recording. The other type is a device that the patient carries where he can reach it easily, such as in a purse or pocket. When symptoms occur, the patient presses the back of the device against his chest and then presses a button to start the recording. The back of the device has small metal discs that function as electrodes.

A Holter monitor – also called an ambulatory electrocardiography (ECG) device – is a portable device used to monitor and record changes in physiological signals associated with a patient's cardiovascular system, usually over a 24 to 48 hour period. Its extended recording ability is useful for observing occasional cardiac arrhythmias that would otherwise be difficult to identify over a shorter testing time period. The Holter monitor is named for its inventor, Dr. Norman J. Holter, who originally researched, developed, and validated this procedure in the 1940s. Much like a standard electrocardiography, the Holter monitor (pictured below) records electrical signals from the heart via a series of electrodes attached to the chest. The number and position of electrodes varies by model, but most Holter monitors employ from three to seven electrodes. The electrodes are connected to a recording device that is attached to the patient's belt and is responsible for keeping a log of the heart's electrical activity throughout the recording period. Older units use a standard C60 or C90 audio cassette to record data, while more modern devices record data onto digital flash memory. At the end of the testing period, the monitor is returned to the physician's office where the data is collected by uploading it onto a computer where it can then be analyzed by a physician.

Traditional Holter Monitor



Bio-Patch Wireless Holter Monitor



Source: Telzuit Medical Technologies, Inc.


The Bio-Patch Wireless Holter Monitor – Telzuit Medical’s Flagship Product

The Bio-Patch Wireless Holter Monitor is a full 12-lead, wireless Holter monitor, which measures, records, and transmits physiological signals associated with a patient’s cardiovascular system. The Bio-Patch is attached to a patient’s chest and consists of six (6) electrodes that are embedded in a disposable bandage-like strip shown above. The Bio-Patch utilizes the EASI lead placement to capture electrical impulses of the patient’s heart and transmits this information via Bluetooth technology to the patient’s Bio-Patch Personal Digital Assistant (PDA). The EASI is the only system in the marketplace capable of performing continuous 12-lead monitoring utilizing only 6 electrodes. The PDA receives, records, and stores the electrical activity of the patient’s heart and every two to four hours the recorded information is transmitted through a cellular network to the company’s monitoring station, where it is evaluated by a medical professional. Additionally, the Bio-Patch System can be programmed to transmit information at various time intervals. The device is capable of being activated by the patient or automatically activated based on a physician’s prescribed time limits. Because the Bio-Patch records information on a continuous basis and is also capable of transmitting event information upon its occurrence, management believes that the Bio-Patch System combines the technologies of both event and continuous-type heart monitoring devices.

In March 2006, Telzuit Medical announced that it had secured its first round of pre-orders for its Bio-Patch Wireless Holter Monitor System. At that time, the company had secured 500 pre-orders for the Bio-Patch with physicians in the Orlando, Florida area. Telzuit anticipates that the pre-orders will be filled and operating by May 1, 2006.

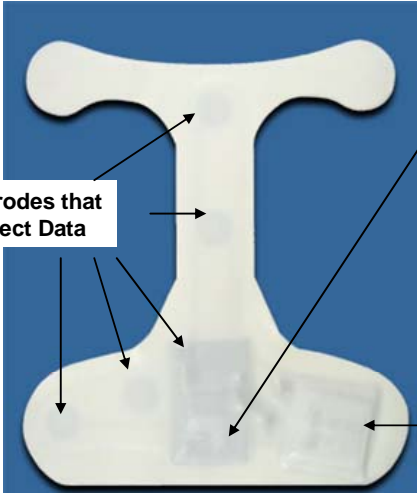
Bio-Patch Wireless Holter Monitor

Patented / FDA Approved Cardiac Monitoring Patch




BIO-DETEK
INCORPORATED

Patch Construction and Distribution
Bio-Detek is a wholly owned
subsidiary of Zoll Medical




Electrodes that
Collect Data




MBK
TECHNOLOGIES

Bluetooth Board
Production




PHILIPS

License Agreement for EASI
View 12-Lead Algorithm



cingular
raising the bar


Data Transmission



ULTRALIFE
Thin Cell
3-Volt Lithium Cell
US04
UltraLife Batteries, Inc.

ULTRALIFE
BATTERIES INC.

Patch Battery
Production



**Thin Lithium
Cell Battery**

Source: Telzuit Medical Technologies, Inc.

The Holter procedure typically lasts between 24-48 hours, which is the approximate battery life of the Bio-Patch. Once the session is over, the patient simply disposes of the Bio-Patch and returns the PDA to his physician. Other benefits of the Bio-Patch include:

1. 100% Completely Wireless
2. FDA Approved
3. Provided Free to Physician
4. Quick Patient Set-Up Time
5. Full 12-Lead Electrocardiogram (ECG)
6. 24-Hour Monitoring
7. Comfortable Design
8. High Patient Satisfaction and Compliance
9. Single, Easy-to-Apply Patch

Telzuit's manufacturing strategy is to rely upon third party FDA-certified contract manufacturers to satisfy its production requirements. As the diagram above shows, Telzuit has established strategic partnerships with several leading medical device manufacturers as well as producers of hardware devices, database and messaging enterprise applications and cellular network infrastructure. Most of the components utilized in the Bio-Patch are standard parts available from multiple supply sources at competitive prices. Management has indicated that the Bio-Patch costs about \$12 per unit to produce, with the battery accounting for about \$5 of that cost. Additionally, the reoccurring telecommunications costs approximately \$50 per month per PDA.

Telzuit has also forged strategic relationships with companies that provide consulting expertise in the areas of billing, credentialing and marketing. The list below outlines Telzuit's strategic partners and the product or service that each provides.

Product Manufacturing and Data Transmission Partners

- Philips Medical (NYSE-PHG) – License agreement for EASI view 12-lead algorithm
- Koninklijke Philips Electronics N.V. – A license of Zymed Holter Monitoring Software that supports the Bio-Patch back office data center. This reporting software allows the raw patient data from the Bio-Patch to be converted into a comprehensive 12 lead Holter monitor report which is then made available to the physician via a secure web portal or fax.
- Bio-Detek, Inc. – Wholly owned subsidiary of Zoll Medical that performs Bio-Patch construction and distribution
- Ultra-Life (NASDAQ-ULBI) – Bio-Patch battery production
- Mack Technologies – Bluetooth board production
- Cingular – Data transmission. Employing a proprietary PDA, Telzuit utilizes Cingular's national footprint to wirelessly transport the patient's cardiac data to its data center in Orlando, Florida. Additionally, Telzuit has signed an agreement with Asurion Managed Wireless for the staging of its Bio-Patch PDA hardware, equipment protection and all related support.

Billing, Credentialing and Marketing Partners

- PhyLogic – Billing provider reimbursement
- Vantage Point Consulting – Medicare and Medicaid credentialing, Third party contract negotiation and participation, Medicare petition for per diem cardiac event monitoring
- AlphaMedica – Rollout & initial marketing campaign

Patent Portfolio

Telzuit holds the following patent applications filed with the United States Patent and Trademark Office:

- Serial No. 10/476,437, captioned WIRELESS MEDICAL MONITORING APPARATUS AND SYSTEM filed on October 3, 2003, which relates to the field of medical monitoring of patients and, more particularly, to a disposable electrode patch and apparatus for wireless monitoring of medical patients;
- Serial No. 60/701,016, captioned WIRELESS MONITOR FOR SLEEP APNEA, filed on July 20, 2005 which relates to a medical monitoring apparatus and, more specifically, to a wireless patch for monitoring sleep apnea; and
- Serial No. 60/720,997, captioned ELDERLY PATIENT WIRELESS MONITORING SYSTEM, filed on September 27, 2005 which relates to medical monitoring and, more specifically, to a disposable electrode patch and apparatus for wireless monitoring of elderly patients and similarly debilitated individuals.

Sales and Distribution

In March 2006, Telzuit signed a co-marketing and sales agreement with Cardiomedics, Inc. for the sale of Telzuit's Bio-Patch Wireless Holter Monitor System through Cardiomedics' existing sales and marketing channels. Comprised of 26 internal and contracted sales staff, the Cardiomedics' sales force intends to market the Bio-Patch alongside Cardiomedics' ECP equipment, which includes its Cardiassist and Cardiassess Systems. With an installed client base of over 500 cardiologists, Cardiomedics expects to place several thousand Bio-Patch units into the market within the first 12 months of usage.

Competition

The market for ambulatory medical devices is highly competitive, and competition is expected to continue to increase. The market for medical monitoring products is characterized by rapidly changing technology, evolving industry standards, and price competition. There are no substantial barriers to entry, and competition will likely continue to be intense, and may increase. Telzuit's principal competitors in the ambulatory heart monitor market include the following:

- **CardioNet, Inc.**, which markets a 3-lead, ambulatory ECG monitor system that records and wirelessly transmits physiological data by radiofrequency (RF) to a handheld PDA for subsequent modem or Internet transmission
- **Cardiac Telecom, Inc.**, which markets an ambulatory heart monitor system that wirelessly transmit ECG data by way of a processor/phone-connected station
- **Raytel Medical**, which markets an ambulatory heart monitor system that transmits data by telephone
- **Mortara Instrument**, which manufacturers and markets a 12-lead Holter ECG system
- **Card Guard**, which markets event recorders as well as operating monitoring centers through its two divisions in the United States:
 - **Instromedix**, which manufactures the King of Hearts cardiac event recorders and CarryAll® pacemaker monitors
 - **Lifewatch**, which manufactures the LifeWatch cardiac monitor, a 30-day cardiac event monitoring system

Management Team

Warren D. Stowell – Chief Executive Officer and Member of the Board of Directors

Mr. Stowell has over 23 years of experience as CEO/COO in the Healthcare industry, working with both public and private companies. During his extensive tenure in those positions, he helped several companies to build revenues in the hundreds of millions of dollars. These companies included, among others, Ramsay HMO (acquired by United Healthcare), Care Florida, Inc. (acquired by Foundation Health), and Health America (acquired by Maxicare). In addition, Mr. Stowell has been involved in a successful health start-up company (Health Insurance Plan of Florida). His areas of expertise include the medical arena, especially as it relates to patients, practitioners and insurance providers. Mr. Stowell holds a Masters in Accounting from the University of Denver.

Michael J. Vosch – Senior VP of Research and Product Development and Member of the Board of Directors

Mr. Vosch has 17 years of experience in the IT industry. His areas of expertise include wireless and satellite networks as well as engineering and nursing. He has seven years of experience designing network systems for physicians. Mr. Vosch designed the company's first product, the Bio-Patch, and is a co-inventor of that product.

James Tolan – Senior VP of Business Development and Member of the Board of Directors

Mr. Tolan started his career as a linguist/analyst for the United States government. Following this, he worked extensively in Western and Eastern Europe in sales and marketing. He was Director of Sales for Halifax Properties for Eastern Europe until 1994. Upon returning to the U.S., he became a licensed securities broker, managing assets at International Assets Advisory Corp, First Union Securities and Park Financial Group. He held series 7, 65 and 63 NASD licenses. He holds a bachelor's degree from the University of Maryland.

Board of Directors

Jon Stemples – Chairman of the Board of Directors

Jon Stemples has over 35 years of experience in the semiconductor industry, having served at Agere Systems, Lucent Microelectronics, Ortel Corporation, Level One Communications and Linear Technology & National Semiconductor as Director of Marketing; Area, Regional and District Sales Manager; Product Marketing Manager and Field Applications Engineer. His technical expertise ranges from communications chips to data acquisition to microprocessors. Mr. Stemples holds a BSEE from the University of Miami.

Kenneth F. Adams, CPA

Mr. Adams has over 35 years of experience in the financial area. Mr. Adams served with Saab Cars USA, Inc. from 1974-2005, most recently as Vice President and Chief Financial Officer from 1992-2005. In 1997, he set up and incorporated Saab Financial Services Corporation. While serving as CEO of SFSC, he led his team in creating a corporate structure that included operating, trust, and bankruptcy remote companies, as well as establishing a \$1 billion warehouse line of credit. Mr. Adams started his professional career at Price Waterhouse after obtaining a BS in Finance from Mount Saint Mary's University.

Christopher Phillips, CPA

Mr. Phillips is currently the President and CEO of Apogee Financial Investments, Inc., which provides financial consulting and acts as a merchant bank. He is also the managing member of Total CFO, LLC, which provides consulting and CFO services to a number of companies and high-wealth individuals. Mr. Phillips holds a Masters in Accounting from the University of Florida and is a Certified Public Accountant.

U.S. Healthcare Spending – 16% of U.S. GDP and Growing

Healthcare spending in the United States amounted to \$1.9 trillion in 2004, or about 16% of U.S. gross domestic product, equating to about \$6,280 per person. According to the Organization for Economic Cooperation and Development, the share of U.S. GDP dedicated to healthcare spending has more than doubled over the past 35 years, increasing from 7.2% of GDP in 1970 to 16% in 2004. Furthermore, U.S. healthcare spending is expected to continue increasing at similar levels for the next decade, reaching \$4 trillion in 2015, accounting for about 20% of U.S. GDP and growing at a compound annual rate of 7.2% over this period of time.

Cardiovascular Disease (CVD) – A \$393.5 Billion Industry

Cardiovascular disease accounted for approximately 35.2% of all deaths in the United States in 2002. In fact, as the table below shows, CVD claims about as many lives each year as the next 5 leading causes of death combined. Additionally, the CDC estimates that each year 400,000 to 460,000 people die of heart disease in an emergency room setting or before reaching a hospital, accounting for over 60% of all cardiac deaths.

Heart failure and cancer cause over half of all deaths of people over 45. Accidents and adverse effects resulting from accidents are the leading cause of death for people from 1 to 45 years of age. Of all the causes of death due to accidents, the leading cause is motor vehicle accidents. Motor vehicle accidents remain a high risk for all age groups.

Leading Causes of Death in the U.S., 2002

Rank	Cause of Death	Number of Deaths	Percentage of All Causes of Death
1	Cardiovascular Disease (CVD) ¹	859,619	35.2%
2	Cancer	557,271	22.8%
3	Chronic lower respiratory diseases	124,816	5.1%
4	Accidents	106,742	4.4%
5	Diabetes mellitus	73,249	3.0%
6	Influenza and pneumonia	65,681	2.7%
7	Alzheimer's disease	58,866	2.4%
8	Nephritis (inflammation of the kidney)	40,974	1.7%
9	Septicemia (infection)	33,865	1.4%
All Causes of Death		2,443,387	

¹ Cardiovascular Disease includes diseases of the heart (696,947 deaths) and cerebrovascular diseases / stroke (162,672 deaths).

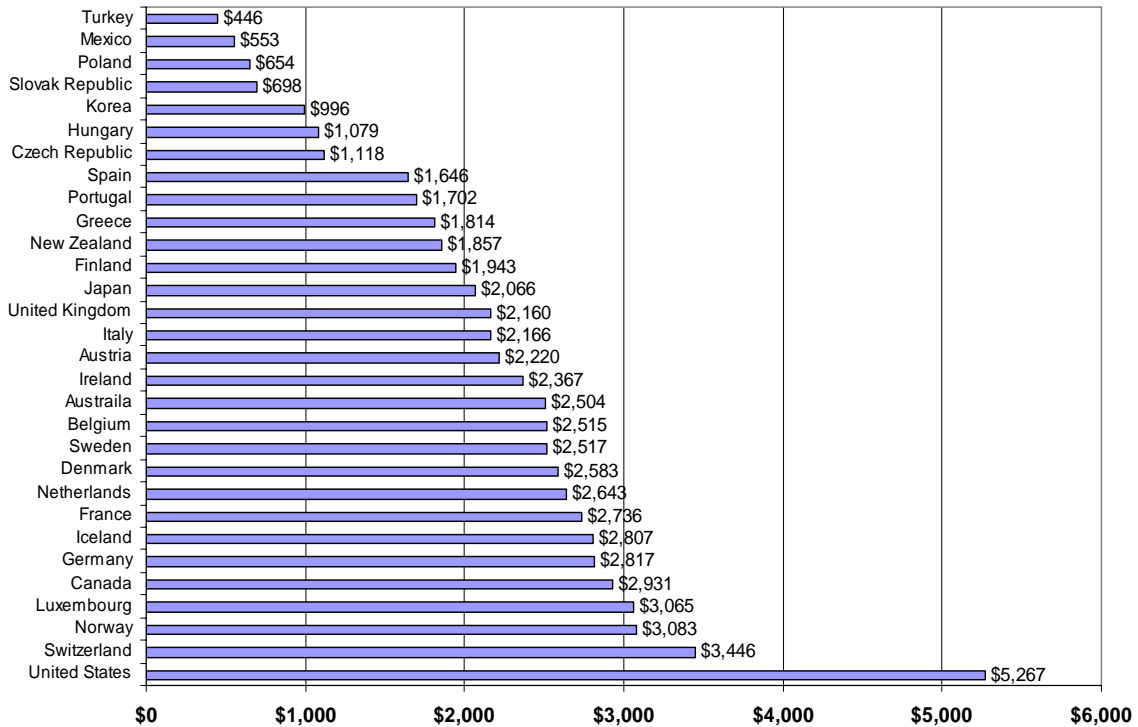
Source: U.S. National Center for Health Statistics, *Health, United States, 2004*

In 2005, the cost of cardiovascular diseases and stroke in the U.S. was estimated by the American Heart Association to be \$393.5 billion. This figure includes health expenditures (direct costs, which include the cost of physicians and other professionals, hospital and nursing home services, the cost of medications, home health care and other medical durables) and lost productivity resulting from morbidity and mortality (indirect costs). By comparison, in 2004 the estimated cost of all cancers was \$190 billion (\$69 billion in direct costs, \$17 billion in morbidity indirect costs and \$104 billion in mortality indirect costs). In 1999 the estimated cost of HIV infections was \$28.9 billion (\$13.4 billion direct and \$15.5 billion indirect).

A Global Overview of Healthcare Spending

While many poor countries are struggling to provide even basic healthcare services, industrialized countries are striving to keep their high levels of healthcare affordable. The latest data from the Organization for Economic Cooperation and Development (OECD), illustrated below, shows that the United States spends much more on healthcare than any other country. In 2002, the U.S. spent \$5,267 per capita – \$1,821 more than Switzerland, which had the second-highest per capita healthcare expenditures, and \$3,074 more than the median OECD country (\$2,193).

Per Capita Health Spending In Organization For Economic Cooperative and Development (OECD) Countries, 2002



Source: Health Affairs, Volume 24, Number 4, Page 905

In 2002, per capita healthcare spending in the U.S. was 53% greater than that of Switzerland, the next-highest-spending country, and 140% above the OECD median. In that same year, healthcare spending accounted for 14.6% of U.S. GDP. Only two other countries, Switzerland (11.2%) and Germany (10.9%), spent more than 10% of their GDP on healthcare.

One of the most puzzling aspects of international comparisons is that higher healthcare outlays do not necessarily correspond with better outcomes. For example, the United States spends more than twice as much on healthcare as Canada, yet Canadians have a higher life expectancy than Americans.

Telzuit Medical is currently in the process of patenting its technology in 18 countries, and has already received patent approval in South Africa and Mexico. Management has indicated that it has identified several European countries where it feels its product has a high probability of adoption and potential success.

Major Factors Creating Demand for Cardiovascular Medical Devices

Favorable Demographics – Aging Baby Boomers

According to the American Heart Association, over 83% of people who die of coronary heart disease are 65 years of age or older. The Social Security Administration and Medicare trustees project a major rise in the older share of the population in the coming decades. While people aged 65 and older represent 12% of the overall population today, they will represent 18% in 2025. Moreover, the rise is not solely the result of the post-World War II baby boom generation reaching its advanced years. Major improvements in longevity and a decline in the nation's birth rate over the past 30 years are projected to lead to further increases in the older share of the population, even after the passing of the baby boomers.

Projected Rise in Aged Population					
	2005	2025	2045	2065	2080
Number of aged	37 million	62 million	79 million	89 million	96 million
Share of total population	12%	18%	21%	22%	23%

Source: The 2005 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds, Washington, D.C., March 23, 2005

For Medicare, these looming demographics mean a growing number of people will become eligible for coverage each year, and each successive group of new enrollees will receive benefits for a longer period of their lives. For Medicaid, this means a growing number of people will need and become eligible for nursing home and related institutional care. For both programs and the federal government generally, this means a declining proportion of the population will be in the primary working age band of 20 to 65, from which much of the government's tax base emanates.

Tobacco Use

According to the Centers for Disease Control and Prevention (CDC), approximately 20.9% (or 44.5 million) of adults in the United States are current smokers, down from 22.5% in 2002 and 24.1% in 1998. In 2004, an estimated 45.6 million adults were former smokers, representing 50.6% of those who had ever smoked. According to the American Lung Association, a recent study found smoking even one to four cigarettes a day nearly triples a woman's risk of death from heart disease and quintuples her risk of dying from lung cancer than if she had never smoked. Furthermore, secondhand smoke is estimated to cause 35,000 heart disease deaths each year. Another study found that nonsmokers exposed to environmental smoke were 25% more likely to have coronary heart disease than nonsmokers not exposed to smoke. Persons living with a smoking spouse or working in a location where smoking occurs have an increased risk of heart attack. Additionally, the average daily number of cigarettes smoked by a spouse was correlated with the risk of a heart attack, as was the number of years of environmental smoke exposure.

Diabetes

According to the American Diabetes Association (ADA), 2 out of 3 people with diabetes die from heart disease and stroke. Most people with diabetes have health problems, or risk factors, such as high blood pressure and cholesterol, that increase one's risk for heart disease and stroke. With diabetes, heart attacks occur earlier in life and often result in death.

The ADA estimates that there are 20.8 million children and adults in the United States, or 7% of the population, who have diabetes. While an estimated 14.6 million have been diagnosed, unfortunately, 6.2 million people (or nearly one-third) are unaware that they have the disease. In 2002, the ADA estimated the total annual economic cost of diabetes to be \$132 billion. Direct medical expenditures for diabetes totaled \$92 billion, of which \$23.2 billion was spent for diabetes care, \$24.6 billion for chronic diabetes-related complications, and \$44.1 billion for excess prevalence of general medical conditions. Indirect costs resulting from lost workdays, restricted activity days, mortality, and permanent disability due to diabetes totaled \$40.8 billion.

Physical Inactivity

Low levels of physical activity are a major risk factor for ill health and mortality from all causes. People who are physically inactive have a greater risk of cardiovascular disease, colon and breast cancers, Type 2 diabetes and osteoporosis. Additionally, less active, less fit persons have a 30% to 50% greater risk of developing high blood pressure. Physical inactivity is a significant risk factor for CVD, ranking similarly to cigarette smoking, high blood pressure, and elevated cholesterol. One reason it has such a large affect on mortality is because of its prevalence. Twice as many adults in the United States are physically inactive than smoke cigarettes. Regular physical activity has been shown to

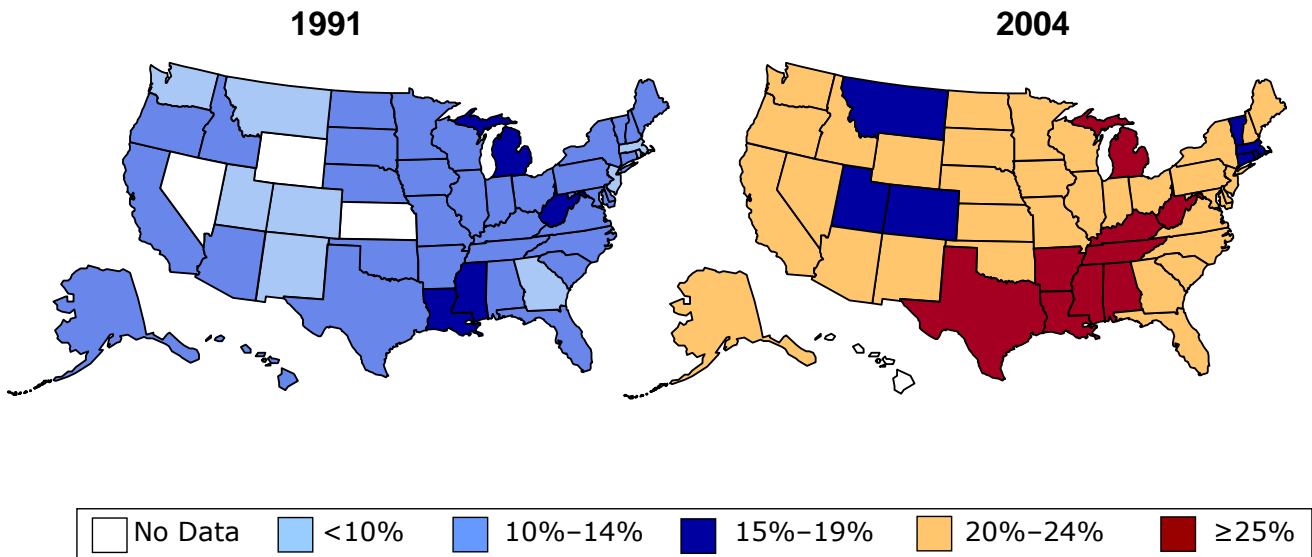
help protect against a first cardiac episode, help patients' recovery from coronary surgeries, and reduce the risk of recurrent cardiac events and the risk of dying prematurely from CVD.

It is estimated that approximately 35% of coronary heart disease mortality is due to physical inactivity. The significance of this relationship lies in the fact that coronary heart disease is the leading cause of death in the United States, with over 700,000 deaths annually. Approximately 60% of all Americans age 18 and older report that they are physically inactive. Physical inactivity has a major economic impact that is derived not only from the direct costs of disabling diseases, but also from the loss of income and productivity. It was estimated that in 1989 physical inactivity cost the nation \$5.7 billion due to hospitalizations and other related health care costs.

Overweight & Obesity

In April 2004, the CDC issued a report estimating that obesity is fast approaching tobacco as the top underlying preventable cause of death in the U.S. In fact, currently 34% of U.S. adults are considered overweight, and an additional 31% are obese. The CDC defines anyone with a body mass index (BMI) of 25 to 29.9 as overweight, while people with a BMI of 30 or above are considered obese. The BMI is calculated using the following formula: $BMI = (\text{Weight in Pounds} / (\text{Height in inches}) \times (\text{Height in inches})) \times 703$. During the past 20 years, there has been a dramatic increase in obesity in the United States. In 1985 only a few states were participating in the CDC's Behavioral Risk Factor Surveillance System (BRFSS) and providing obesity data. As the chart below shows, in 1991, only four states had obesity prevalence rates of 15%-19% and no states had rates at or above 20%. In stark contrast, in 2004, seven states had obesity prevalence rates of 15%-19%; thirty-three states had rates of 20%-24%; and nine states had rates more than 25% (with no data for Hawaii). The highest regional prevalence of obesity has consistently been in the South.

Obesity Trends Among U.S. Adults



Source: Centers for Disease Control and Prevention (CDC)

Like tobacco, obesity and inactivity increase the risks for the top three killers: heart disease, cancer and cerebrovascular ailments including strokes. Obesity and inactivity also significantly increase the risk of diabetes, the sixth leading cause of death. Any one of these major risk factors significantly increases the risk of cardiovascular disease. Unfortunately, many of these major risk factors tend to be interrelated, with people having exposure to multiple risk factors.

Sleep Apnea

Sleep apnea is disturbed or interrupted breathing during sleep. For people affected with sleep apnea, there can be many temporary interruptions in breathing, each usually lasting about 10 seconds, throughout the sleep period. These interruptions in breathing can occur as often as 20 to 30 times per hour. There are three types of sleep apnea:

1. **Obstructive Sleep Apnea (OSA):** Obstructive Sleep Apnea is the most common type of sleep apnea. OSA is caused by an obstruction in the airway, which actually stops the air flow in the nose and mouth. Throat and abdominal breathing continue normally. Obstructive Sleep Apnea is commonly accompanied by snoring and causes the sleeper to wake up, gasping or snorting, and then go back to sleep again.
2. **Central Sleep Apnea (CSA):** Central Sleep Apnea is a much less common type than Obstructive Sleep Apnea. Central Sleep Apnea is a result of a brain signal problem: the brain signal that instructs the body to breathe is delayed. With CSA, oral breathing and throat and abdominal breathing all cease at the same time. The periods of breathing interruption may last a few seconds, and breathing may be too shallow to provide oxygen to the blood and tissues. Central sleep apnea may be associated with irregular heartbeat, high blood pressure, heart attack, and/or stroke.
3. **Mixed sleep apnea:** When individuals experience a combination of the two other types of sleep apnea, Obstructive Sleep Apnea and Central Sleep Apnea, they have mixed sleep apnea.

The National Institutes of Health estimates that sleep apnea affects more than 12 million Americans, while the National Sleep Foundation estimates that more than 18 million American adults have sleep apnea. The most common signs of sleep apnea are loud snoring and choking or gasping during sleep and being sleepy during the day. Untreated sleep apnea can lead to an increased risk of heart disease, stroke and other respiratory conditions. Furthermore, only about 25% of people with sleep apnea are currently being diagnosed.

The costs of sleep-related problems are staggering. The National Commission on Sleep Disorders Research estimates the direct costs of sleeplessness to be \$15.9 billion annually and another \$100 billion or more in indirect costs, such as litigation, property destruction, hospitalization and death resulting from sleep disorders and sleep deprivation.

Drivers suffering from obstructive sleep apnea syndrome (OSAS) have an increased risk for being involved in motor-vehicle collisions. A study published in *The Journal SLEEP* (May 2004) estimated that more than 800,000 drivers were involved in OSAS-related motor-vehicle collisions in the year 2000, costing \$15.9 billion and 1,400 lives. In the United States, treating all drivers suffering from OSAS with CPAP would cost \$3.18 billion, save \$11.1 billion in collision costs, and save 980 lives annually.

Telzuit has filed an application with the FDA for approval of a new sleep apnea monitoring device based on the Bio-Patch Wireless System. Management believes that its sleep apnea device will offer a significantly less intrusive means of assisting in the diagnosis of this condition.

Other potential markets that the Bio-Patch Wireless System might be adapted to address include (1) long-term care, (2) Emergency Medical Services and (3) Pharmaceutical Clinical Trials.

Conclusion

Telzuit Medical's Bio-Patch offers an innovative and cost-effective alternative to traditional ambulatory cardiac monitoring devices. Given that there is no capital investment required on the part of physicians, it appears that the Bio-Patch is likely to be well received, provided that it performs at least as well as, if not better than competing devices. The high quality of the company's strategic partners is likely to mitigate a vast majority of any product quality concerns. A number of other companies are attempting to develop and market competing wireless ambulatory cardiac monitoring systems. Consequently, there is likely to be some first-movers advantage in the marketplace, with only two or three companies being viable in the long-run. Additionally, the long-term viability of a single-product medical device company can be highly challenging, with most being acquired by larger companies seeking to diversify their portfolio of product offerings or eventually succumbing to larger competition. However, Telzuit Medical's Bio-Patch addresses some very large and fast-growing markets that have favorable demographics and customers that are seeking cost-effective solutions to clinical needs.

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Analyst Highlight

Michael A. Bain, CFA, Senior Research Analyst Special Situations and Healthcare

Mr. Bain has experience conducting both sellside and buy-side equity research, primarily in the healthcare, industrial equipment and transportation sectors. Most recently, Mr. Bain worked as an equity analyst for Institutional Research Consultants, where he provided customized research services to institutional investors. Prior to that, Mr. Bain worked on the sellside for Raymond James, where his research focused on companies that provide transportation and logistics services. Mr. Bain entered the securities industry in 1996, when he joined NatWest Securities. At that time, he conducted research primarily on manufacturers of cardiovascular medical devices and industrial equipment. That office was subsequently acquired by HSBC Securities in 1998, and his coverage universe was broadened to include manufacturers of disposable medical supplies. Prior to entering the securities business Mr. Bain served as a Commercial Property Analyst for USAA and as an independent consultant.

Mr. Bain holds a Bachelor of Arts degree with a major in economics and a Master of Business Administration degree with a concentration in finance, both from the University of Florida. Additionally, he is a CFA Charterholder and a member of the CFA Institute.

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