January 31, 2013

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OnPoint Medical (ONMD-OTC)

ONMD: MRI Commercialization Underway

Current Recommendation	**Outperform**
Prior Recommendation	Neutral
Date of Last Change	02/23/2012
Current Price (01/30/13)	$0.76
Target Price	**$2.75**

OUTLOOK

OnPoint's MRI Quality Assurance software fills an unmet need in advanced imaging quality control. Validated on over 300k images, the software made its commercial launch in early 2012, commensurate with the critical Jan. 1, 2012 deadline requiring imaging providers to be quality-control accredited or risk losing Medicare reimbursement. A large market, little direct competition and low cost business model should bode well for ONMD.

We now model insignificant sales through the end of 2013. Pricing power and a larger installed base could significantly accelerate revenue in 2014 and beyond. We are maintaining our Outperform rating. Our price target has moved to $2.75/share based on our DCF model.

SUMMARY DATA

52-Week High	**$4.99**
52-Week Low	**$0.76**
One-Year Return (%)	**-24.00**
Beta	**0.34**
Average Daily Volume (sh)	**500**
Shares Outstanding (mil)	**12**
Market Capitalization ($mil)	**$10**
Short Interest Ratio (days)	**N/A**
Institutional Ownership (%)	**N/A**
Insider Ownership (%)	**N/A**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**N/A**
Earnings Per Share (%)	**N/A**
Dividend (%)	**N/A**
P/E using TTM EPS	**N/A**
P/E using 2011 Estimate	**N/A**
P/E using 2012 Estimate	**N/A**
Zacks Rank	**N/A**

Risk Level	**N/A**
Type of Stock	**N/A**
Industry	**Med-Drugs**

ZACKS ESTIMATES

Revenue
(in '000)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2011	$0 A	$0 A	$0 A	$0 A	$0 A
2012	$12 A	$54 A	$4 A	$4 E	$73 E
2013					$84 E
2014					$1425 E

Earnings per Share

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2011	-$0.06 A	-$0.09 A	-$0.03 A	-$0.04 A	-$0.22 A
2012	-$0.06 A	-$0.06 A	-$0.21 A	-$0.07 E	-$0.40 E
2013					-$0.19 E
2014					-$0.14 E

Zacks Projected EPS Growth Rate - Next 5 Years % **N/A**

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KEY POINTS

- Advanced imaging systems (MRI, CT, mammography, etc) must be regularly evaluated through a quality control (QC) program in order to ensure optimal performance and reliability and reduce downtime

- While imaging QC had been voluntary, this changed on January 1, 2012 when a federal statute became effective which requires that private outpatient facilities that bill for certain imaging procedures (including MRI and CT) receive QC accreditation in order to continue to receive Part B Medicare reimbursement

- The industry-standard QC program is antiquated, manually-intensive, fraught with potential for error and highly inefficient. Despite these shortcomings, it is used almost exclusively throughout the industry

- OnPoint's Quality Assurance software automates the quality control function and addresses all the drawbacks of manual quality control programs. It also offers additional functionality and information that manual QC programs do not

- OnPoint's software, developed at and licensed from Mayo Clinic, was tested on over 200k images prior to its commercial launch in early 2012. It's currently being used by ~40 facilities and on ~80 scanners. The customer base is expected to continue to grow, facilitated by several catalysts including greater awareness of the benefits of the software (ONMD just hired an industry veteran to help in this regard), a recent partnership agreement with one of the largest quality assurance services organizations, and increased functionality of the software (including use for CT).

- OnPoint faces very little competition. The market for automated imaging QC remains virtually untapped, offering OnPoint a rare first-mover advantage to grab potentially significant early market share

- If OEM manufacturers (GE, Siemens, Philips, Toshiba), which have not pursued a competing technology, decide to enter the space, OnPoint could potentially be an acquisition target

- OnPoint is led by a highly-experienced management team and board of directors. With broad experience in the advanced imaging space, including key contacts at major imaging centers, OnPoint's leadership provides significant intangible value

- Essentially a cloud-based software company with relatively modest operating infrastructure, the business is highly scalable. This, coupled with what we believe will be very "sticky" customer retention, means profitability and positive cash flow could materialize in fairly short order

- Low float with only 11.3 million shares outstanding. Including anti-dilutive outstanding derivatives and shares required to convert the small amount of remaining convertible debt, share count was only ~ 20 million shares at the most recent quarter end

- OnPoint will need to raise additional capital before becoming cash flow positive. With their best-in-class software nearing commercialization, lean operations (only ~$120k monthly cash burn through most recent quarter), and management's interests aligned with those of outside investors, we see no reason why OnPoint can not continue to be successful in raising operating funds for the foreseeable future

BUSINESS

Logging almost 30 million scans per year in the U.S. alone, magnetic resonance imaging (MRI) remains the imaging modality of choice for the visualization of many of the body's soft tissues including the brain, muscles and connective tissue. Complex and sensitive, MRI scanners need to be regularly evaluated, calibrated and maintained to ensure optimal performance and image quality. Today, MRI quality control is largely a manual process which is not only time and resource-intensive, it can also be highly subjective, inconsistent, inefficient and unreliable.

OnPoint Medical Diagnostics' (ONMD) MRI Quality Assurance software, which was developed by the world-renowned Mayo Clinic of Rochester, MN automates many of the ACR weekly quality control requirements that imaging facilities are required to perform in order to continue to receive Part B Medicare reimbursement. Used on almost 300k images to-date by highly-acclaimed imaging experts, OnPoint's MRI Quality Assurance software directly addresses the deficiencies of the antiquated manual methods, affording significantly faster and more reliable streamlined quality control which in-turn reduces expense, scanner down-time and risk of image degradation. Prior to its commercial launch in early 2012, the software had been in limited use since 2006 as it underwent refinements and ongoing field-testing on over 50 MRI scanners in major imaging centers. A measured commercial roll-out finally commenced in Q1 2012 and ONMD has since had success with bringing on new customers including Abbott Northwestern, a major Minneapolis, MN-based hospital which adopted the company's MRI QA software for their MRI quality assurance needs. In November the company announced a strategic partnership with West Physics Consulting, a major quality assurance services provider to imaging facilities which has 1,100 clients in over 49 states. West Physics will adopt ONMD's software for all of its relevant current and future customer accreditation related contracts.

Essentially a cloud-based software company (with revenue generated on a per-scanner basis) with only modest sales infrastructure, OnPoint's business model should be highly scalable. The company is led by highly-experienced management and advisory teams. Expected early adopters, including the company's network of industry contacts and West Physics clients, represent a large portion of the overall market. This affords the potential for rapid market penetration and, coupled with a low-cost business model and little direct competition, means revenue, profitability and cash flow could accelerate in short-order.

We estimate OnPoint's direct U.S. market opportunity for MRI QA at approximately $250 million annually with the international market worth another ~ $300 million. While substantial for a company of OnPoint's size, perhaps not significant enough for imaging heavyweights such as GE, Siemens, Philips or Toshiba to enter organically - if, however, they do decide to enter the space, OnPoint could be an acquisition target. While we believe OnPoint can reach profitability and generate positive cash flow with only a modest penetration of the domestic MRI market, the company is already looking to diversify into other imaging modalities including CT, mammography and nuclear which would substantially increase the size of their target market, as well as their visibility.

OnPoint Medical Diagnostics was the surviving entity of an April 2011 reverse merger with Vertical Health Solutions. The company is headquartered in Minneapolis, MN.

MRI QUALITY CONTROL

In order to ensure optimal image quality and reduce unexpected down-time, MRI scanners should be evaluated through a regular quality control program. The American College of Radiology's (ACR) MRI QC program recommends (which are now a requirement in order to receive Medicare reimbursement) that specific system measurements are taken on a weekly and annual basis (detailed under the subsequent section below). These tests encompass a range of potential system problems (i.e. - image degradation, component failure, mis-calibration, etc.) and provide information to help guide the imaging facility in scanner maintenance and repair decisions.

MRI QC: Inadequate QC Has Consequences…

Despite the relative fragility and high-maintenance nature of MRI machines, oftentimes regular QC falls short in many imaging facilities. According to Robert Bell, PhD, who provides consulting services to the advanced imaging industry, approximately 70% of the more than 450 newly-commissioned MRI systems he has tested were found to

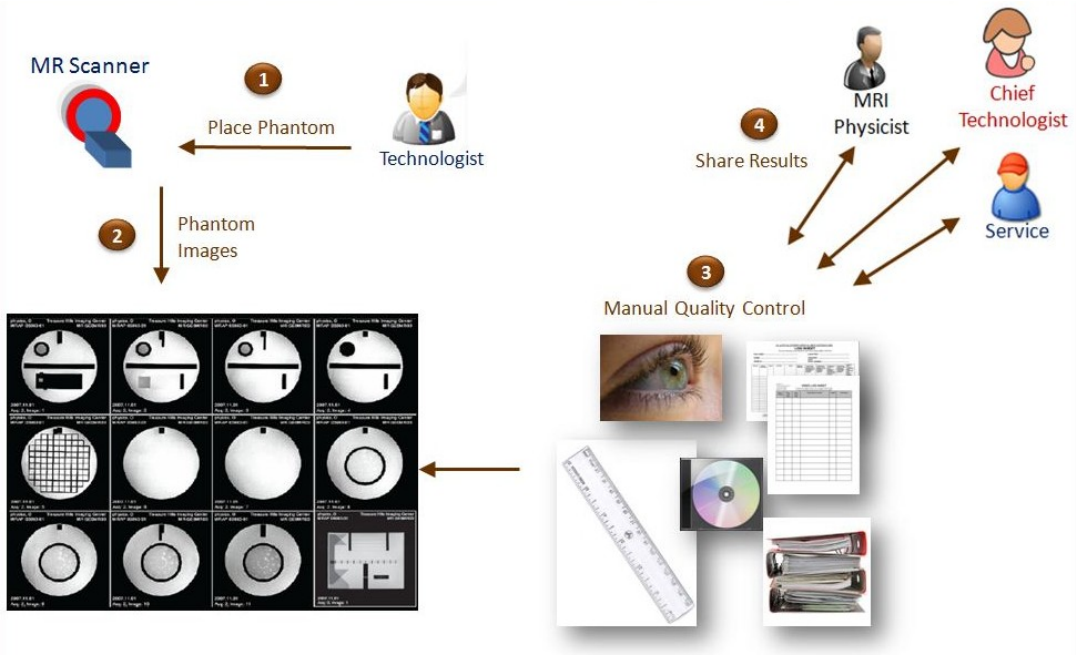
have an operational problem. Dr. Bell notes in an article titled, *MRI QC: Nuisance or Necessity* which was published in Imaging Economics that common reasons imaging facilities cite for failing to have an appropriate QC program are that it is too time-consuming, too costly, or too difficult to administer.

Lack of a proper QC program often results in increased down-time which, at about $1,000 per hour, can be very costly for an imaging facility. It also leads to image degradation which often results in useless or inconclusive scans which must be redone. This not only effects patient care, it is also being scrutinized by Medicare. Medicare has recently taken a stronger stance on what it believes is overutilization of advanced imaging (growth of which has skyrocketed over the last few years) which has the potential to penalize facilities which run redundant scans. In April 2011, the Medicare Payment Advisory Commission (MedPAC) recommended that Medicare require clinicians who order more imaging studies than their peers to obtain prior authorization for advanced imaging. While the rule that CMS ultimately adopted was slightly different from the MedPAC recommendation (and was widely criticized as missing the intended goal by many in the imaging community including ACR), the intent was aimed attempting to crack down on overutilization. We think further scrutiny of imaging overutilization is almost a certainty given recent health care overhaul efforts - and those facilities which run redundant MRI scans as a result of an inadequate MRI QC program could be one of the first to feel the brunt of it.

Industry Standard MRI QC: Manually Intensive…

Currently MRI QC is typically accomplished through a manual procedure, similar to what is depicted in the diagram below. While the initial part of the process (step 1) is similar to when using OnPoint's automated solution, it's the latter steps which are the most burdensome, time-intensive, and inefficient and which can lead to inconsistent and unreliable measurements and, ultimately unplanned scanner down-time. These latter steps are accomplished automatically with OnPoint's QA software, removing the risk of inconsistent and unreliable measurements and significantly reducing the time and effort of the process. As this QC procedure must be done with every MRI scanner, the time, cost and potential pitfalls of the manual process will be multiplied for facilities with several MRI systems. This is in contrast to when OnPoint's software is used, which can be linked to essentially an infinite number of MRI systems.

Manual MRI QC



SOURCE: OnPoint Medical Diagnostics

Manual MRI QC procedure

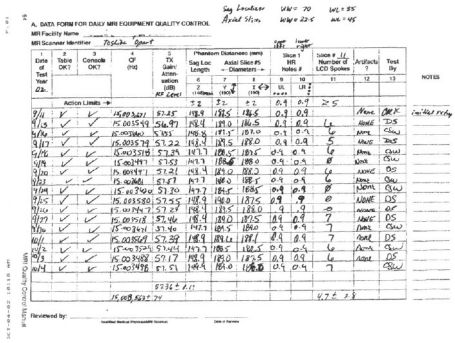
MRI Phanton



1) Imaging technologist places the phantom in the MRI system. Phantom's are anthropogenic devices purchased from third parties which are used to test the performance of MRI systems. They are typically filled with water or a gel which has a magnetic resonance signal.

2) Phantom images are produced and readied for evaluation

Manual QC Log Book



3) A technician reads images and enters data into a quality control log book. Reading/evaluating the images is not an exact science and the technician must often use their judgment as to what each image shows. This ambiguity introduces risk of inconsistent readings and potential for unreliable measurements - this is especially true for facilities with multiple scanners and different technicians evaluating the same scanner at various points in time (as this is a weekly function, the potential for technician-driven inconsistency is real). Mistakes can lead to insufficient system maintenance and image degradation. Reading the images, recording the information in the log book, and sharing the information with management, MRI Physicists and service technicians is also a hands-on and time-consuming task (~ 45 - 60 minutes) - which Dr. Bell lists as one of the major reasons why imaging facilities fail to implement a proper MRI QC program. In the right-hand margin is a picture of an actual QC MRI log book - in an age moving towards electronic medical records, this underscores the antiquation of the manual QC process.

4) More manual effort and inefficiency is borne with distribution of the performance evaluation reports and maintenance decision-making (this along with the reading/evaluating/logging of results are all an automatic process with OnPoint's software). These paper logs are shared with an MRI physicist and chief technologist which review the performance reports and the reading technician's evaluation to guide maintenance and repair decisions. If deemed necessary, a service call is scheduled. While the process is perhaps fairly streamlined in theory, in practice it is often riddled with inefficiency. Due to the inherent subjectivity in reading and evaluating images, it's not uncommon for the physicist and chief technologist to discount (or dismiss altogether) the (less knowledgeable) technicians' findings and request additional information including supplementary QC images before making maintenance decisions. This can seriously bog down the QC process which further delays any necessary repairs or maintenance. As repair/maintenance technicians (scanners are typically serviced by the OEM manufacturer) are often burdened with a backlog of service requests, scheduling a service call may mean sitting in a days-long (or even weeks-long) queue. This lengthy delay, coupled with as much as $1k in lost revenue for every hour an MRI system sits idle, means imaging facilities should have a significant interest in a more pro-active approach to servicing decision-making, which includes taking the guess-work out of reading and evaluating QC images - OnPoint's software does exactly that.

5) Process is repeated for every MRI system

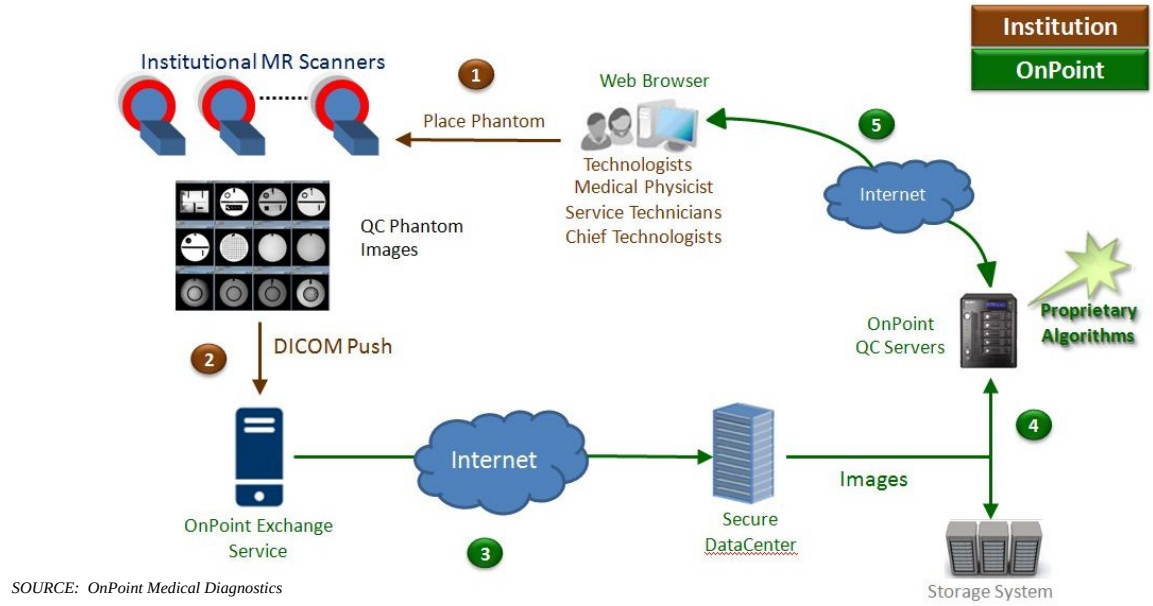
OnPoint's QA Assurance Software: Addresses Deficiencies of Manual Process…

Simple and relatively inexpensive to implement and administer and providing performance results which are reliable, consistent and is easily accessible in electronic format, OnPoint's MRI software addresses all the

deficiencies of manual QC programs. It also addresses all the major issues cited by imaging facilities as reasons for failing to have an appropriate QC program in place (i.e. - too time-consuming, too costly, or too difficult to administer).

Mayo Clinic developed image processing algorithms for ACR tests and licensed this technology to OnPoint. OnPoint's Quality Assurance software system detects gradual degradation in image quality, allowing identification of system problems such as compromised component integrity or mis-calibration. Providing performance trending analysis and standardized measurement, it takes the guess-work out of MRI QC and facilitates pro-active maintenance, reducing the risk of costly down-time. Using universal DICOM connectivity and developed to exceed ACR's accreditation requirements (detailed below), the software can be used with all MRI scanners and is expected to be a complete replacement for manual MRI QC programs.

OnPoint's QA Software



SOURCE: OnPoint Medical Diagnostics

OnPoint's QA Software automated procedure

1) Similar to a manual QC program, an imaging technologist places the phantom in the MRI system.

2) Phantom images are produced - but in contrast to the manual process where the images are then read and interpreted by a technologist, with OnPoint's system the images are automatically sent electronically to OnPoint's exchange service.

3) The image data is validated and sent to OnPoint's data center where the data is securely stored for the life of the customer's contract. This electronic format replaces the antiquated log-book used in the manual process and also offers additional functionality. Customers will be able to not only retrieve their own performance analytics from the database but will also be able to benchmark the performance of their scanners against best-in-class data which will also be stored on the servers.

4) The data is then run through proprietary algorithms which analyze the images for signs of degradation. This replaces the subjective analysis used in the manual process. OnPoint's software, unlike most manual QC programs, also provides a signal-to-noise (SNR) ratio measurement, offering additional performance information. Total time required to run the scans, data upload, validation, storage and analysis is approximately 5 minutes - compared to about 45- 60 minutes with manual QC.

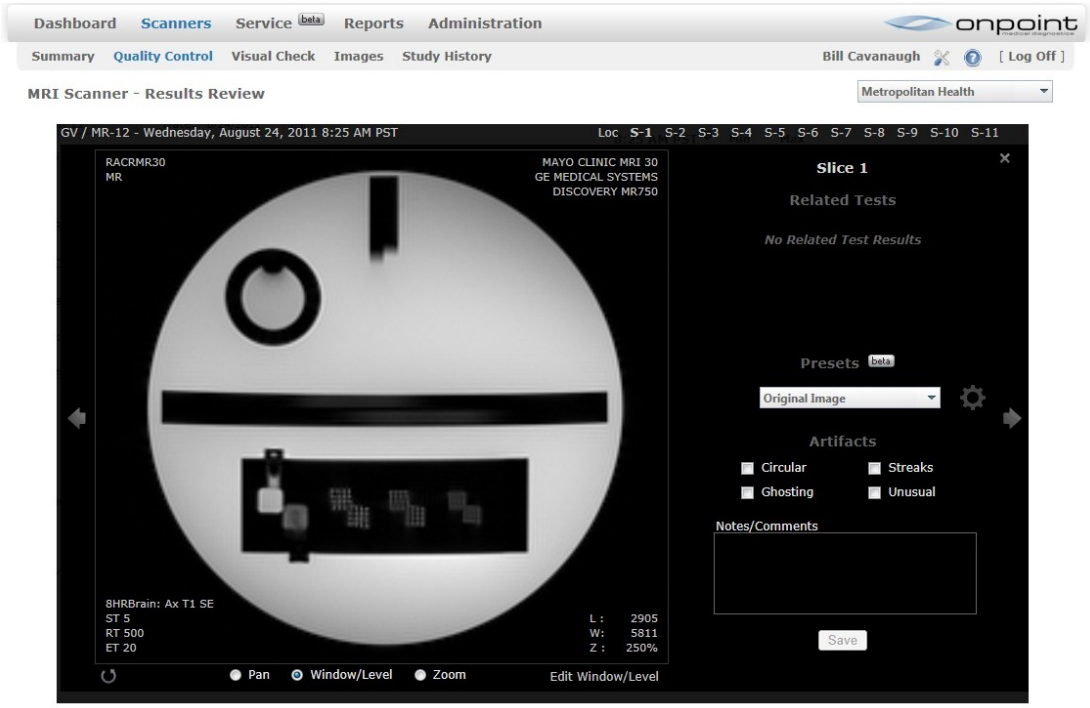
5) All QC images, performance results and related reports are stored in the "cloud" and easily available to all interested parties via a web-browser. This replaces the paper-trail from the manual process. OnPoint's software provides results in a dashboard format which includes a simple-to-interpret Pass/Fail indicator as well as all the supporting performance data. If a unit fails the evaluation, a service ticket is automatically generated and interested parties are automatically notified via e-mail or text message. This significantly reduces the reliance on a technologists' interpretive abilities, affording the MRI physicist and chief technologist confidence in the performance diagnosis which in-turn, facilitates streamlined decision-making. Reporting also includes charts and trending analysis showing each MRI systems' performance results over time,

allowing for greater predictability of the rate and degree of image degradation (image degradation is typically very incremental, making spotting trends difficult with the naked eye) as well as possible component failure. This greatly enhances an imaging facility's ability to pro-actively service their scanners, helping to minimize the number of patient re-scans and reducing the risk of system failure/down-time.

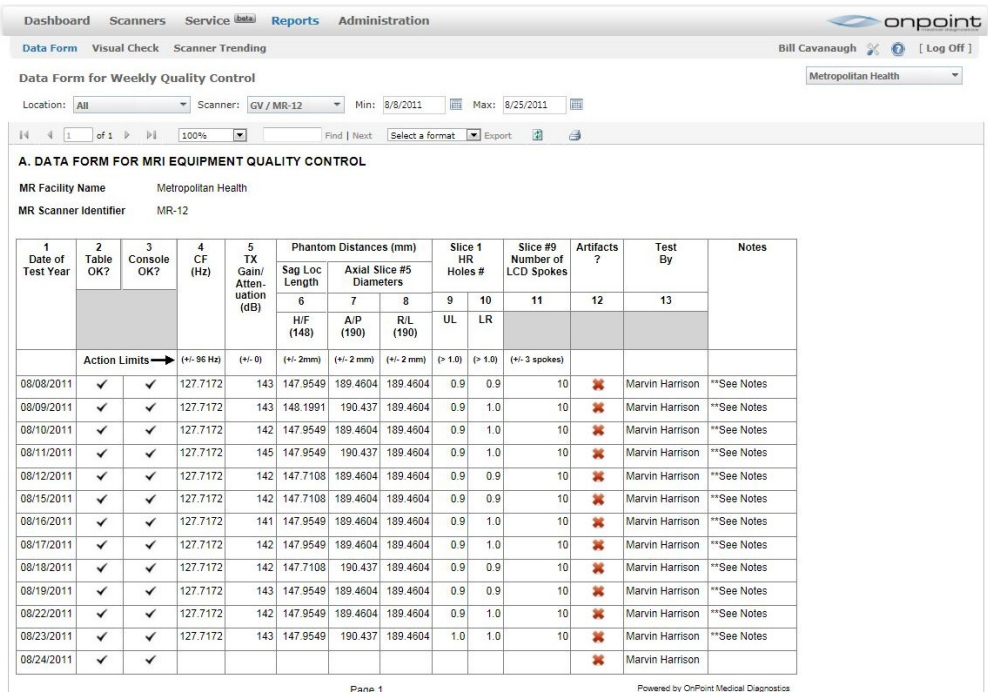
6) Can be linked to an infinite number of scanners

OnPoint's QA Dashboard Screen-Shots

"Scanners/QC" tab accesses all Phantom Images

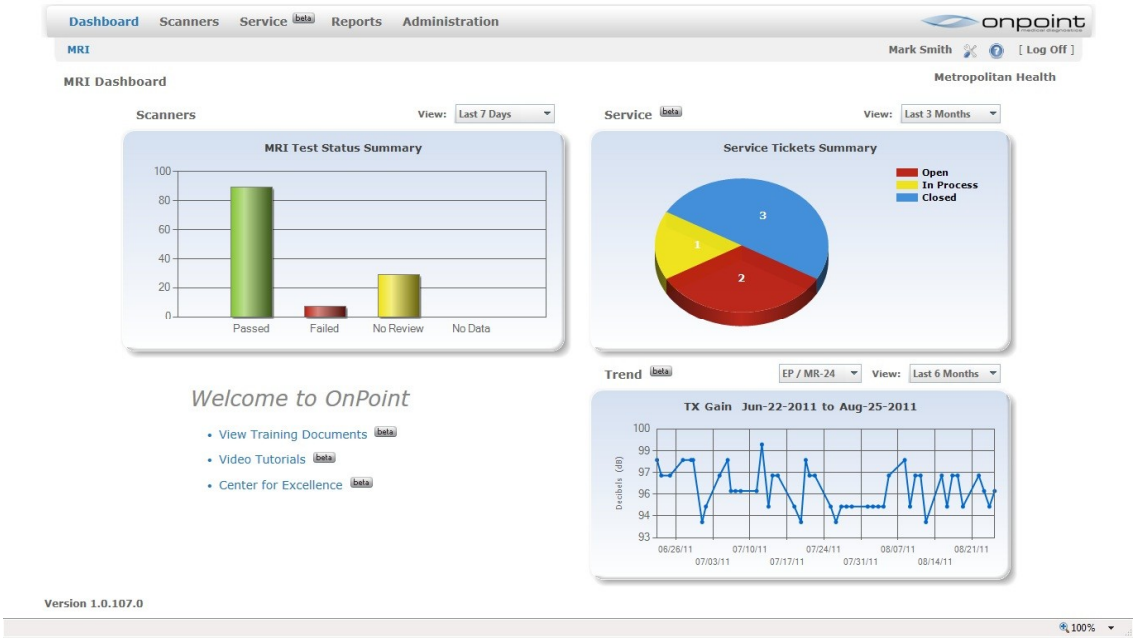


Electronic Log Book (auto data download) under "Reports"



1 Date of Test Year	2 Table OK?	3 Console OK?	4 CF (Hz)	5 TX Gain/ Atten-uation (dB)	Phantom Distances (mm)			Slice 1 HR Holes #		Slice #9 Number of LCD Spokes	Artifacts ?	Test By	Notes
					Sag Loc Length	Axial Slice #5 Diameters							
					6	7	8	9	10	11	12	13	
					H/F (148)	A/P (190)	R/L (190)	UL	LR				
	Action Limits →		(+/- 96 Hz)	(+/- 0)	(+/- 2mm)	(+/- 2 mm)	(+/- 2 mm)	(> 1.0)	(> 1.0)	(+/- 3 spokes)			
08/08/2011	✓	✓	127.7172	143	147.9549	189.4604	189.4604	0.9	0.9	10	✗	Marvin Harrison	**See Notes
08/09/2011	✓	✓	127.7172	143	148.1991	190.437	189.4604	0.9	1.0	10	✗	Marvin Harrison	**See Notes
08/10/2011	✓	✓	127.7172	142	147.9549	189.4604	189.4604	0.9	1.0	10	✗	Marvin Harrison	**See Notes
08/11/2011	✓	✓	127.7172	145	147.9549	190.437	189.4604	0.9	1.0	10	✗	Marvin Harrison	**See Notes
08/12/2011	✓	✓	127.7172	142	147.7108	189.4604	189.4604	0.9	0.9	10	✗	Marvin Harrison	**See Notes
08/15/2011	✓	✓	127.7172	142	147.7108	189.4604	189.4604	0.9	0.9	10	✗	Marvin Harrison	**See Notes
08/16/2011	✓	✓	127.7172	141	147.9549	189.4604	189.4604	0.9	1.0	10	✗	Marvin Harrison	**See Notes
08/17/2011	✓	✓	127.7172	142	147.9549	189.4604	189.4604	0.9	1.0	10	✗	Marvin Harrison	**See Notes
08/18/2011	✓	✓	127.7172	142	147.7108	190.437	189.4604	0.9	0.9	10	✗	Marvin Harrison	**See Notes
08/19/2011	✓	✓	127.7172	143	147.9549	189.4604	189.4604	0.9	0.9	10	✗	Marvin Harrison	**See Notes
08/22/2011	✓	✓	127.7172	142	147.9549	189.4604	189.4604	0.9	1.0	10	✗	Marvin Harrison	**See Notes
08/23/2011	✓	✓	127.7172	143	147.9549	190.437	189.4604	1.0	1.0	10	✗	Marvin Harrison	**See Notes
08/24/2011	✓	✓									✗	Marvin Harrison	

Pass / Fail Status and Alerts on "Dashboard" tab



Online History of Each Unit

Dashboard Scanners Service beta Reports Administration onpoint

Summary Quality Control Visual Check Images Study History Mark Smith [Log Off]

MRI Scanner - History Metropolitan Health

Location: Cottage Grove, MN Scanner: All Status: All Min: 5/2/2011 Max: 8/24/2011 Export

Date	Scanner	Status	Review	Z-Axis (mm)	X-Axis (mm)	Y-Axis (mm)	Res-X	Res-Y	LCD	SNR	CF (MHz)	TX (dB)
08-24-2011 9:24:30 PM CST	CG / MR-19	Passed	Yes	147.22	190.44	189.46	1.0	0.9	10	686.20	128.09	99.00
08-24-2011 8:52:40 PM CST	CG / MR-20	Passed	Yes	147.46	189.45	189.45	1.0	1.0	10	765.46	123.24	366.61
08-24-2011 4:45:48 PM CST	CG / MR-18	Passed	Yes	147.95	189.46	190.44	1.0	1.0	9	290.18	63.87	115.00
08-24-2011 7:27:59 AM CST	CG / MR-15	Passed	Yes	147.71	189.46	190.44	1.0	0.9	9	787.24	127.76	130.00
08-24-2011 6:29:59 AM CST	CG / MR-17	Passed	Yes	147.95	189.46	190.44	0.9	1.0	10	565.94	127.76	140.00
08-24-2011 5:36:28 AM CST	CG / MR-16	Passed	Yes	146.98	189.46	190.44	1.0	0.9	10	559.70	127.76	92.00
08-23-2011 5:53:17 PM CST	CG / MR-18	Passed	Yes	147.47	189.46	189.46	1.0	0.9	9	406.53	63.87	123.00
08-23-2011 4:57:02 PM CST	CG / MR-19	Passed	Yes	147.47	189.46	189.46	0.9	0.9	10	659.60	128.09	99.00
08-23-2011 8:01:16 AM CST	CG / MR-20	Failed	Yes	147.22	188.48	189.45	1.0	1.1	10	769.66	123.24	365.14
08-23-2011 7:31:56 AM CST	CG / MR-15	Passed	Yes	147.95	190.44	190.44	1.0	0.9	8	812.34	127.76	130.00
08-23-2011 6:32:30 AM CST	CG / MR-17	Passed	Yes	148.20	189.46	190.44	0.9	1.0	10	577.48	127.76	138.00
08-23-2011 5:15:02 AM CST	CG / MR-16	Failed	Yes	147.47	189.46	189.46	1.1	1.0	1	756.12	127.76	95.00
08-22-2011 6:44:30 PM CST	CG / MR-20	Passed	Yes	146.73	188.48	189.45	0.9	0.9	10	504.29	123.24	371.92
08-22-2011 6:04:46 PM CST	CG / MR-18	Passed	Yes	147.47	189.46	189.46	1.0	0.9	9	411.89	63.87	123.00
08-22-2011 8:51:01 AM CST	CG / MR-19	Passed	Yes	147.47	189.46	189.46	1.0	0.9	10	652.16	128.09	99.00
08-22-2011 7:26:06 AM CST	CG / MR-15	Passed	Yes	148.44	189.46	189.46	1.0	0.9	10	780.32	127.76	129.00
08-22-2011 6:30:49 AM CST	CG / MR-17	Passed	Yes	148.20	189.46	190.44	0.9	1.0	10	582.79	127.76	137.00
08-22-2011 6:19:16 AM CST	CG / MR-16	Passed	Yes	146.98	189.46	189.46	1.0	0.9	10	618.06	127.76	87.00
08-19-2011 9:56:53 PM CST	CG / MR-17	Passed	Yes	148.20	189.46	190.44	0.9	0.9	10	597.94	127.76	138.00
08-19-2011 6:13:42 PM CST	CG / MR-18	Passed	Yes	147.47	190.44	189.46	1.0	0.9	9	434.56	63.87	122.00

1 2 3 4 5 6 7 8 9 10 ... Displaying items 1 - 50 of 501

100%

Takes the Guess-work Out of Image Degradation Analysis



SOURCE: OnPoint Medical Diagnostics

MRI ACCREDITATION PROGRAM

As part of the Medicare Improvements for Patients and Providers Act of 2008 (MIPPA), effective January 1, 2012 all private outpatient facilities that bill for MRI, computerized tomography (CT), positron emission tomography (PET) and nuclear medicine under Medicare Part B must be accredited to be eligible to receive Medicare technical component (i.e. - for the equipment and technician running the scan) reimbursement. While the Medicare mandate applies only to private outpatient facilities and not to hospitals, many major private insurers are also requiring accreditation, prompting hospitals to also implement appropriate MRI QC programs. Re-accreditation is required every year and every MRI scanner must be evaluated.

In order to receive accreditation the Centers for Medicare & Medicaid Services (CMS) require that imaging facilities be tested in two general areas; equipment and personnel (these two categories are more specifically broken down into; personnel qualifications, image quality, equipment performance, safety of staff and patients, and quality assurance/control). CMS has designated three organizations to carry out the accreditation process; The American College of Radiology (ACR), Intersocietal Accreditation Commission (IAC), and The Joint Commission. While CMS provided direction on the general guidelines for accreditation, each of the accrediting organizations established their own accreditation standards. ACR accreditation is largely considered the gold-standard and its process is arguably the most arduous, especially in regards to image quality as, unlike the IAC (Joint Commission standards are not publicly available), the ACR requires image quality be evaluated with both an actual patient and a phantom. It is estimated that ACR accounts for approximately 95% of all accreditations.

The **personnel** portion of accreditation requires that physicians, medical physicists (responsible for the integrity of the MRI scanner) and technologists meet certain qualifications such as being licensed/board certified, have specific experience in reading/performing MRIs and (in the case of medical physicists) be knowledgeable in the field of nuclear MR physics. It also requires that they participate in and document their continuing education. Safety policies and procedures also must be well documented.

The **equipment** portion of the accreditation process (which OnPoint's software addresses) relates to an ongoing quality control program which assesses changes in performance of the MRI scanner over time. In order to receive or renew accreditation (accreditation is renewed annually), ACR requires that facilities perform and submit the results of an annual system performance evaluation as well as weekly quality control data. OnPoint's software addresses the weekly phantom-imaging requirements. The testing and procedures must adhere to guidelines established by ACR (which OnPoint's software meets).

ACR Required Equipment QC Tests

Technologist's Weekly QC Tests		Physicist/MR Scientist's Annual QC Tests
• Center Frequency	• Low-Contrast Resolution	• Magnetic Field Homogeneity
• Table Positioning	• Artifact Analysis	• Slice Position Accuracy
• Setup and Scanning	• Film Quality Control	• Slice Thickness Accuracy
• Geometric Accuracy	• Visual Checklist	• Radiofrequency Coil Checks
• High-Contrast Resolution		• Soft-Copy Displays (Monitors)

SOURCE: http://www.acr.org/accreditation.aspx

Equipment accreditation testing requires that the facility submit images from each MRI scanner. ACR's accreditation standards require images from both actual patients (clinical images) and phantom images. ACR notes in its guidelines that "Clinical image review and phantom review are intended to complement each other for comprehensive evaluation of the quality of MRI services."

Between four and six clinical images per unit are required - the number of images is dependent on the specific module (i.e. - head, spine, body, etc.) for which the imager is used. Unlike clinical tests, where image quality can be

effected by differences in characteristics of the patient, phantom images are measured against a uniform standard, eliminating any patient-influenced image variability.

PRODUCT STATUS

OnPoint's software (currently named "MRI Quality Assurance software") was developed at Mayo Clinic. OnPoint then enhanced the software and added software-as-a-service (or SaaS - deployed over the internet) functionality. Terms of the licensing agreement call for OnPoint to issue 1.11 million shares of common stock to Mayo Clinic (completed) and make an upfront payment of $100k (completed). OnPoint is also obligated to pay Mayo Clinic single-digit royalties on gross sales, with a minimum payment of $50k in 2011 and $100k per year thereafter.

Prior to the commercial launch in early 2012, the software underwent extensive and rigorous testing. Testing began at Mayo Clinic began in 2006 and the software was used in field-testing on over 50 MRI systems including those at Mayo Clinic's Florida and Minnesota sites. The pre-release software was also installed at Center for Diagnostic Imaging (CDI), one of the largest multi-scanner facilities in the U.S. These imaging clinics used OnPoint's software in parallel with their own manual QC programs and sent the head-to-head performance data to OnPoint in order to make final refinements prior to launch.

ONMD has been adding key customer accounts since the roll-out commenced in early 2012. In February OnPoint announced that Abbott Northwestern, a major Minneapolis, MN-based hospital adopted the company's software for their MRI quality assurance needs. In July Mayo Clinic Health System adopted the software. And most recently, in November the company announced a strategic partnership with West Physics Consulting, a major quality assurance services provider to imaging facilities which has 1,100 clients in over 49 states. West Physics will adopt ONMD's software for all of its relevant current and future customer accreditation related contracts.

MARKET / COMPETITION

MARKET:

With very little direct competition and a total worldwide market that could be in the billions of dollars (combined for multiple imaging modalities), OnPoint's market opportunity is very attractive. Their game-plan is to initially target the U.S. MRI market, then expand into other imaging modalities as well as potentially overseas. As the domestic MRI and CT markets represent those which we believe hold the most near-term opportunity and the least resistance to success, our model currently does not incorporate any contribution from ancillary modalities or any international sales. If and when there is more clarity relative to OnPoint's potential game plan outside of domestic MRI and CT, we will update our model if appropriate. However, as we illustrate below, the size of the domestic MRI market alone offers a tremendous opportunity for a company of OnPoint's meager size and cost base.

U.S. MRI Market…
There are approximately 11k MRI scanners currently in-use at ~ 7k imaging facilities in the U.S. which, in aggregate, produce almost 30 million scans per year. OnPoint's current customer base represents small (average of 2 scanners) imaging facilities. Roughly 80% of all imaging facilities, or ~5,600, have only one or two MRI scanners. While the scrutiny over overutilization (initiated with the 2005 Deficit Reduction Act) and reduction in reimbursement rates have slowed the annual growth in the number of MRI scans to about 3% (from ~15% over the period 1999 - 2003), MRI will remain a top imaging modality for the foreseeable future. Growth in MRI procedures could also soon be on the upswing as a result of the introduction of lower cost and more advanced systems as well as use with relatively novel applications such as breast MRI which is becoming more commonplace.

OnPoint bills customers on a per-scanner, per month basis with contract terms ranging from between 12 and 36 months. Volume discounts may also be offered for multiple scanners as well as preferred pricing for longer-term contracts. We expect that the West Physics partnership will be structured similar to a distribution arrangement whereby West Physics will receive a percentage of the subscription fee for each contract that they secure. Since the initial commercialization OnPoint has been offering the software at a relatively low price-point in order to build their customer base. Assuming customers find the software provides significantly value (i.e. - streamlines QC, reduces scanner downtime, etc.), customer churn should be low and offer OnPoint an opportunity to rapidly gain share of the market. With market share gains should come pricing power.

Assuming only moderate growth (~ 3%) of MRI over the next few years, on a fully-priced basis, we ballpark the total annual domestic MRI QC market opportunity will approach $250 million.

U.S. CT Market…
Following the U.S. launch for MRI QC, OnPoint will look to expand into other imaging modalities, with CT first on-deck. ACR accreditation requirements are similar to that for MRI, with the only significant exception being a required measurement for radiation dose with CT. Now with the software full validated and launched for MRI, the expectation is that programming changes and updates can be made in relatively short order (within 6 months) and inexpensively (~$500k) in order to have the software adapted for CT.

There are approximately 13k CT scanners currently in-use at about 8k facilities (most of which also offer MRI) in the U.S., producing about 80 million CT scans per year. According to IMV Medical Information, the CT scanner installed base increased 22% from 2007 - 2011 and the average number of scanners per facility grew from 1.4 to 1.6 over that same period. Despite a greater concern over radiation exposure, growth in CT utilization has averaged about 6% annually over the last several years (compared to ~3% growth in MRI) and has been bolstered by use in newer applications (i.e. - imaging of the chest, spine, head and brain).

As many imaging facilities offer both CT and MRI, there is significant overlap in these two markets. As such, the addition of CT functionality in the software will not double OnPoint's market size opportunity but should offer an opportunity to up-sell for those facilities requiring functionality for both modalities. We assume OnPoint will offer existing MRI customers CT functionality at what will essentially be a volume discount. Assuming the CT market grows at about 5% annually over the next several years, we think the up-sell market opportunity will be roughly $200 million per year (on a fully-priced basis).

Ancillary Modalities…
OnPoint may also look to tap other imaging modalities including mammography and nuclear imaging such as PET/SPECT. There are currently about 9k facilities in the U.S. performing 39 million mammograms per year on approximately 12k systems. PET and SPECT combined account for approximately 20 million scans per year on about ~14k systems in ~7k facilities.

International Market…
The accessible international imaging market can be roughly estimated to be about the same size as (or slightly larger than) the U.S. market. And while sizeable, the international market may be more difficult to penetrate. This is not only due to natural hindrances caused by geographic proximity but also differences in quality assurance and accreditation protocols. Nonetheless, all imaging facilities, no matter their domicile, all face similar issues such as component failure and unplanned system downtime which means there could be significant demand for OnPoint's software overseas, even if not driven by accreditation requirements. Similar to mammography and nuclear imaging, we currently view the international market as analogous to a long-dated call option at this point - offering potentially significant upside with little downside risk - but also something that may not be exercised in the near-term. As such, we currently do not incorporate either (i.e. - modalities outside of MRI and CT, and international sales) into our financial model for OnPoint.

COMPETITION:

Aside from manually performed QC, OnPoint faces little direct competition. **Radiological Imaging Technology** (RIT), a small, privately-held company out of Colorado is the only direct competitor to OnPoint that we know of. While we have no specific information or insight into RIT's market share, based on conversations with OnPoint's management (which has fairly deep-reaching tentacles in the imaging industry including contacts/relationships with major imaging centers, medical institutions and hospital networks), their share is likely insignificant, which leaves the market is essentially untapped and almost completely up for grabs. **Atirix Medical Systems** offers imaging QC reporting and tracking software, although we do not consider this as direct competition.

OnPoint vs. RIT…
Similar to OnPoint, RIT is clearly positioning their software as a replacement for manual QC. RIT's *Radia* software product currently supports MRI and CT and meets ACR accreditation guidelines for both modules. The company's website notes that they are also developing modules for mammography, fluoroscopy and nuclear medicine.

While it's very difficult for us to make a determination regarding the relative strengths/weaknesses of OnPoint's product versus that of RIT's, one important difference is that *Radia* is a work-station based product where OnPoint's software is cloud-based. This means *Radia*, unlike OnPoint's software, can not be accessed externally. The

difference, while maybe somewhat trivial from a regular day-to-day QC procedure standpoint, is meaningful as the external-oriented functionality of the workstation-based software will be much more limited. With web-based data storage, OnPoint's customers will have the ability to not only access their own performance data but will also be able to retrieve supplementary information such as benchmarking data, allowing them to see how their scanners' performance stacks up against best-in-class metrics. This interactive quality could be a major selling point for OnPoint and is an area that the company expects to further expand on. *Radia* will not have this ability. Another clear downside with work-station software is with updates. Virtually all software products are updated on a regular basis - and imaging QC software is no different. OnPoint's cloud-based software is accessed over the internet via any device with a web browser, as are all updates - this not only provides OnPoint's customers with instant access to the most up-to-date product, it also allows the software to be easily configured to customers' unique IT requirements. As a bonus, it also means lower material, labor, production and shipping costs compared to work-station oriented software. By contrast, initial installation and all updates come from a CD with RIT's software. This means updates come through the mail and if not configured to the specifics of the customer's IT system, resolution of compatibility issues may be much more cumbersome.

Atirix…
Atirix's *QC-Track* system is designed primarily to aid in the reporting and tracking function of mammography quality control. While *QC-Track* provides MRI QC data entry functionality and electronic report distribution to various stakeholders (MRI physicist, etc.), it does not address the manual measurements, evaluation and logging problem - which are at the heart of the problem of manual QC. As such we do not view *QC-Track* as much of a threat to OnPoint.

FINANCIAL CONDITION

Cash
As of their most recent reporting period (9/30/2012) OnPoint had $461k in cash and equivalents. The company has funded operations through the issuance of common stock and convertible debt and will require additional financing to maintain operations and to fund the final development for CT functionality.

With a best-in-class product now generating revenue and the company running very lean (only ~$120k per month cash burn), we expect OnPoint to continue to be successful in attracting operating capital. Insider ownership is also significant which should also bolster confidence that management's interests are aligned with those of outside investors.

Operating cash burn was $364k and $1,066k in the three and nine month periods ending 9/30/2012.

Debt
At 9/30/2012 debt consisted of three series of convertible notes aggregating to $279k ($149k ST, $130 LT). $132k of the ST debt accrues interest at 10% and is automatically convertible to common stock - interest in payable in stock or cash at the holders' option. The long-term debt accrues interest at between 6% and 8% and is convertible at the option of the holder.

OUTLOOK

As OnPoint just recently began commercialization, there remains a significant amount of unknowns which makes predicting its future challenging. And although OnPoint's software appears to be a major improvement over manual QC with the potential for significant added-value (including streamlined processes and less scanner downtime), novel technologies often suffer from slow acceptance. This may especially prove to the case with smaller imaging facilities which may have only one scanner and have less of an opportunity to reap the benefits of OnPoint's software. Our "Outlook" considers these challenges and risks and reflects our "best guess" of how OnPoint's future will develop based on our due diligence of the company, industry, market and competition.

Management has proven to be fairly frugal and cash-conscious and we expect the ongoing roll-out to continue to be reflective of this cautious approach. The selling function is initially being handled inside as well as with a contracted telemarketing company. The inside sales effort includes a skeleton crew of industry veterans including OnPoint's CEO and a recently hired Director of Revenue who are calling on high-potential business contacts. The partnership

with West Physics greatly and instantly expands ONMD's marketing reach (although the margin to ONMD will be lower on these subscriptions).

The initial launch, as expected, has been somewhat anti-climactic from a revenue standpoint but has already made an impact in terms of generating publicity and interest in the software as well as receiving customer feedback. With virtually no direct competition, OnPoint has a rare first-mover advantage and we expect the company will exploit this opportunity by offering attractive front-end pricing in an attempt to grab early market share. Assuming feedback is positive and customer retention high (both of which we expect will be the case), there will hopefully be opportunity to significantly raise prices over the longer-term.

OnPoint expects to continue to further develop the software (handled by outside consultants) so as to include additional functionality. Management will also be gauging demand and collecting feedback which will help determine staffing requirements (sales and support staff will be added in increments) and assist in directing marketing initiatives. While OnPoint will need to raise additional capital to fund these initiatives, as noted above, we feel comfortable that there will be sufficient investor interest to continue to finance operations for the foreseeable future.

With the MRI launch now commenced, we expect OnPoint will begin a greater focus on follow-on imaging modalities, including CT which we think could come to market in 2013. We note, however, that while our model incorporates revenue contribution from CT (which we more conservatively model to begin making a contribution in 2014), that we assume that this added functionality is more of an up-sell opportunity offered at a significant discount to existing MRI customers - meaning margins on the CT product will be a fraction of that for MRI (and with little in the way of fixed costs, OnPoint has flexibility in trimming expenses based on the level revenue). Based on our current model, we believe OnPoint can reach profitability and generate positive cash flow on their MRI product alone. There may also be an opportunity to begin selling overseas, although we do not currently incorporate any international sales into our model. We believe longer-term success will be largely determined by the rate of penetration of the domestic MRI (and to a lesser extent the CT) market.

VALUATION

Given that we now model PLC to generate a net loss through 2014 and barely eke out positive earnings in 2015, we've moved our valuation methodology to DCF.

Based on our 10-year DCF model which uses a 10% discount rate (based on CAPM) and 2% terminal growth rate, ONMD is valued at $2.73/share (share count figured on a fully-diluted basis) - which we round to $2.75/share. The stock is currently quoted at $0.76, indicating the shares are cheaper than warranted. We recommend accumulating towards our $2.75/share price target.

KEY PERSONNEL

William Cavanaugh, ***Chairman and Chief Executive Officer***

William Cavanaugh joined OnPoint in February 2010 as its President. In September 2010, Mr. Cavanaugh assumed the role of President and Chief Executive Officer and was granted a seat on the Board. Between November 2007 and January 2010, Mr. Cavanaugh was the director of global sales operations and professional services for Vital Images, a publicly held provider of advanced visualization and analysis software for medical imaging. From September 2005 to November 2007, he was a director of development and operations at UnitedHealth Group. Prior to UnitedHealth Group, Mr. Cavanaugh was CEO of Solonis, which he founded and grew as a software and professional services business from an initial capital investment of $3 hundred to over $12 million in revenues, delivering 11 consecutive years of profitability and growth. Among the experiences, qualifications, attributes and skills that Mr. Cavanaugh brings to the Board are his leadership capabilities in growing a development stage company, a solid medical imaging background, and a passion for delivering innovative solutions to the health care industry. Mr. Cavanaugh has a computer science degree from the University of St. Thomas and an MBA from the Kellogg School of Management at Northwestern University.

Richard L. Lindstrom MD. , *Lead Director*

Richard L. Lindstrom MD has served on the board of OnPoint since December 2010. Dr. Lindstrom is founder and attending surgeon at Minnesota Eye Consultants, a 21 year old Ophthalmology practice. He is Chairman of the Board and CEO of Lindstrom Restoration/Environmental, a 66 year old family owned construction company focused on insurance restoration. He currently serves on the board of one other public company, Tearlab. He also serves on the board of several private companies including TLCVision, Refractec, Acufocus, WaveTec, Encore, RevitalVision, and Improve Your Vision. Dr. Lindstrom is also active on several not for profit boards including the Minnesota Medical Foundation, Inner City Tennis, the American Society of Refractive Surgery and it′s Foundation, the International Society of Refractive

Surgery of the American Academy of Ophthalmology, and the Eye Bank Association of America. Dr. Lindstrom invests widely in startup companies and many, including Intralase, eyeonics and LenSx, have been successfully divested. He consults for industry widely in Ophthalmology and for select Venture Capital companies.

Percy C. (Tom) Tomlinson, *Director*

Mr. Tomlinson has served on the board of OnPoint since December 2010. Mr. Tomlinson currently serves as President and COO of Center for Diagnostic Imaging, Inc., or CDI. After joining CDI in 2002, he held several executive level positions, including CFO and COO. He is currently responsible for the organization's information technology, marketing, sales and clinical operations functions, which includes 59 medical imaging centers in ten states. Prior to joining CDI in 2002, Mr. Tomlinson was Executive VP and CFO of Department 56, a publicly traded wholesale and retail consumer products company. From 1995 through 1999 Mr. Tomlinson held several executive roles within Apogee Enterprises including; President of Harmon Solutions Group, CFO for the Automotive Group, and Corporate Treasurer. Apogee is a publicly traded company. Throughout his career Mr. Tomlinson has also held a number of finance and business development positions in investment banking and the airline industry. Mr. Tomlinson is also an active investor with ownership interests in a number of finance, real estate, and industrial companies. He is also actively involved in the community having served on the boards of Special Olympics Minnesota and Inner City Christian Ministries. He holds an M.B.A. from Columbia University and a B.A. from the University of St. Thomas.

Blake Whitney, *Director*

Mr. Blake Whitney has served on the board of OnPoint since December 2010. Mr. Whitney is the President, CEO and Chairman of BW Advisors, Inc., a privately held firm providing specialized healthcare advisory services. Previously, Mr. Whitney was the President, CEO and Chairman of MDdatacor, Inc., a privately held health data informatics company. Mr. Whitney currently serves as a director on the following boards: Neurostar Inc., Gateway Medical Management Systems, Inc., and ERLink. Within the past five years, Mr. Whitney also served on the boards of the following companies: SendItCertified, dba Privacy Data Systems, and MDdatacor, all of which are privately held firms in the medical technology business. Mr. Whitney has spent his career in healthcare where his experience has spanned medical devices, outsourced diagnostic services, medical product distribution, IT enabled services, web-centric health data management, professional and consumer medical web site, and advisory services to a range healthcare companies from pre-revenue start-ups to global leaders. Notably, he was on the founding management team and first president of WebMD. Mr. Whitney has a Bachelor of Science from the University of Iowa.

Gus A. Chafoulias, *Director*

Mr. Chafoulias has served on the board of OnPoint since February 2009. Mr. Chafoulias is also chairman of the board of Titan Ventures, a company he founded consisting of retail liquor, hotels, real estate, office building and various other investments. He has successfully developed more than 3 million square feet of apartments and commercial real estate during more than 40 years in the business development business. Mr. Chafoulias is also a United Way Alexis de Tocqueville Society member, Leadership 100 board member, and Blue Cross Blue Shield Champions of Health award winner. He currently serves as Chairman on the following private company's boards: Kardia Health Systems, Inc., Prosthetic and Orthotic Laboratories TriPrima, LLC, Andy's Liquor, Inc., and NISCO, Inc. He was formerly on the board of Southwest Casino Corp, a once public company. Among the experiences, qualifications, attributes and skills that Mr. Chafoulias brings to the Board are his extensive leadership capabilities and a wide variety of business experience with a track record of building successful companies.

FINANCIAL MODEL

OnPoint Medical Diagnostics, Inc.

	2011 A	Q1A	Q2A	Q3A	Q4E	2012 E	2013 E	2014 E	2015 E
Revenue	$0.0	$11.9	$53.7	$3.8	$4.0	$73.3	$84.3	$1,425.0	$5,552.4
YOY Growth	-	-	-	-	-	-	*14.9%*	*1590.7%*	*289.6%*
Cost of Goods Sold	$0.0	$20.2	$71.4	$61.3	$65.5	$218.4	$336.0	$540.2	$892.9
Gross Income	$0.0	($8.3)	($17.7)	($57.5)	($61.5)	($145.1)	($251.7)	$884.9	$4,659.5
Gross Margin	-	-	-	-	-	-	-	*62.1%*	*83.9%*
SG&A	$1,178.0	$387.0	$412.4	$341.9	$395.0	$1,536.2	$2,215.0	$3,130.0	$3,487.0
% G&A	-	*3259.4%*	*768.4%*	*9018.2%*	*9857.7%*	*2094.8%*	*2627.9%*	*219.6%*	*62.8%*
R&D	$147.6	$104.8	$27.1	$67.9	$70.0	$269.8	$552.0	$641.0	$788.0
% R&D	-	*882.8%*	*50.5%*	*1790.3%*	*1746.9%*	*367.9%*	*654.9%*	*45.0%*	*14.2%*
Merger-related Expenses	$347.3	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Operating Income	($1,672.8)	($500.1)	($457.2)	($467.3)	($526.5)	($1,951.1)	($3,018.7)	($2,886.1)	$384.5
Operating Margin	-	-	-	-	-	-	-	-	*6.9%*
Interest income, net	($349.3)	($132.5)	($182.2)	($300.2)	($285.0)	($899.9)	($1,220.0)	($882.0)	($270.0)
Other income, net	$0.0	$0.0	$1.1	($1,629.6)	$0.0	($1,628.4)	$0.0	$0.0	$0.0
Pre-Tax Income	($2,022.2)	($632.6)	($638.3)	($2,397.1)	($811.5)	($4,479.5)	($4,238.7)	($3,768.1)	$114.5
Taxes (benefit)	($2.1)	$0.0	($18.9)	$0.0	$0.0	($18.9)	$0.0	$0.0	$0.0
Tax Rate	*0.0%*	-	-	-	-	-	*0.0%*	*0.0%*	*0.0%*
Net Income	($2,020.1)	($632.6)	($619.4)	($2,397.1)	($811.5)	($4,460.6)	($4,238.7)	($3,768.1)	$114.5
Net Margin	-	-	-	-	-	-	-	-	*2.1%*
EPS	($0.22)	($0.06)	($0.06)	($0.21)	($0.07)	($0.40)	($0.19)	($0.14)	$0.00
YOY Growth	-	-				*83.4%*	*-52.8%*	*-28.3%*	*-102.8%*
Diluted Shares O/S	9,249	10,696	10,838	11,248	11,766	11,137	22,441	27,810	30,500

Brian Marckx, CFA

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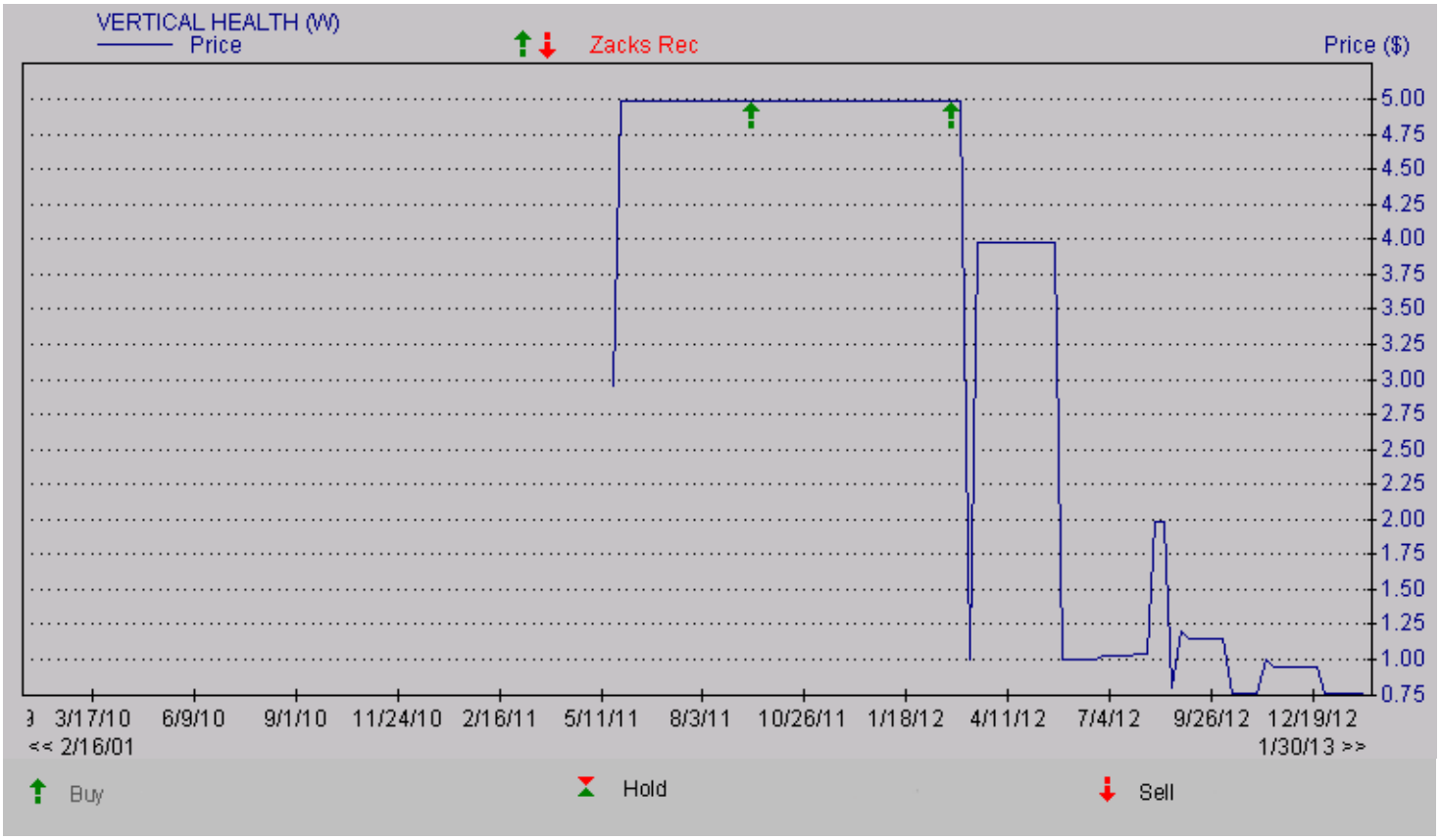

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