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NEW MEXICO BUSINESS WEEKLY

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Diabetes device lures \$5M in venture funds

[Clay Holtzman](#)

NMBW Staff

A local medical device startup that wants to detect diabetes with the simple flick of a switch has received \$5 million in venture capital less than a year after spinning off from another diabetes technology company.

VeraLight executives say they will use \$750,000 of the money to start a 600-person pilot trial this week in conjunction with a local reference laboratory that will pit their diabetes screening technology against conventional tests that require fasting and blood draws. If the machine, known as Scout, proves more effective, investors will pay out much of the remaining funding round and work to finalize the noninvasive Scout for Food and Drug Administration approval. Scout looks for damaging diabetes byproducts by shining a beam of light through a patient's forearm.

"This first traunch of money is really meant to knock the remaining risk out of the technology," says John Maynard, VeraLight vice president of development and engineering.

If the product works and passes its tests, it could result in Albuquerque having yet another up-and-coming company in the burgeoning field of biotechnology -- but company officials haven't made any decisions as to where the Scout would be manufactured.

The technology behind VeraLight's Scout was first developed at Albuquerque's InLight Solutions, which over 12 years has received about \$50 million to develop noninvasive glucose monitoring systems. In October 2004, InLight decided its development work had significant potential in the arena of diabetes screening so it spun off VeraLight.

The \$5 million funding round was led by Utah's VSpring Capital and included [Wasatch Venture Fund](#), also of Utah, as well as the venture investing arms of [Dow Chemical](#) (NYSE: DOW) and the Southern Ute Indian Tribe of Colorado.

Wasatch and VSpring have offices in New Mexico and both have received investment commitments from the New Mexico State Investment Council.

"The thing that impressed me was the market pull," says Mike Connolly, VSpring associate. "And that the CEO, David Van Avermaete, is a very impressive guy. He has an excellent background in this industry."

Because conventional tests for diabetes require hours of fasting and are often inaccurate, VeraLight says its easy-to-use test will make early detection of the disease more common.

Diabetes, which inhibits the body's ability to produce adequate amounts of insulin needed to convert sugar into energy, affects 18.2 million Americans. Pre-diabetes can be found in 42 million Americans, many of whom are unaware of the health condition.

Scout can detect pre-diabetes and type 2 diabetes, which is the most common form of the disease.

VeraLight says the disease and its various complications, which can result in blindness, amputation, kidney and heart damage, cost the U.S. \$132 billion in 2002 -- equivalent to 10 percent of all national health care spending.

Those costs, combined with recent approval of Medicare reimbursement for diabetes screening, the pharmaceutical industry's desire to identify pre-diabetics who can be treated with drugs and VeraLight's technology that can deliver test results in one minute are creating a strong market for the technology, company officials say.

"You've got this unprecedented market pull. Usually with a new technology you have a market push," says company CEO David Van Avermaete, who previously was president of the [LifeScan](#) division of [Johnson & Johnson](#) (NYSE: JNJ), a partner and investor in InLight. "We're the tail wagging the dog."

If the pilot study, which will be carried out in conjunction with [TriCore Reference Laboratories](#) at [Presbyterian Hospital](#) shows favorable results for the Scout, work toward FDA approval will go into high gear.

That process will require clinical trials that VeraLight plans to test the device on more than 7,000 patients nationwide. The Southern Ute Tribe, which possesses assets approaching \$2 billion and invested in VeraLight out of its Southern Ute Growth Fund, has offered to host some trials at its health care facilities.

If the company gets FDA approval, the Scout could be available by late 2007, Van Avermaete says.


Dow Chemical, which invested in VeraLight out of its corporate treasury, says if VeraLight's technology advances as planned, it has the potential for better preventative treatment and management of diabetes.

John Dunning, senior associate with Wasatch Venture Fund, which will invest in VeraLight, says VeraLight is a good example of how the life sciences industry is transitioning from older existing methods of treatment and diagnostics to new, 21st century methods that incorporate technologies such as optics.

He says the state's various technological assets are poised to take advantage of that trend and that VeraLight is only the latest of a handful of New Mexico life sciences companies this year to gain traction with investors.

"The New Mexico technology is situated perfectly to support the life sciences market in the direction it is going," Dunning says.

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