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TruTouch Technologies received a business makeover **Finding the right touch**

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Randy Siner | NMBW

TruTouch Technologies Inc. took a breather this year to reorient its business strategy and recapitalize the company.

The Albuquerque startup, which formed in 2005, created a groundbreaking intoxication-testing device that uses a flash of light to detect the presence of alcohol, eliminating the need for invasive and time-consuming blood, breath or urine tests.

The company began marketing its device in 2007. But despite reaching \$3.2 million in revenue by mid-2008, TruTouch was losing money because of high production costs and a misdirected marketing strategy, said Dave Durgin, TruTouch chairman and general partner with the **Verge Fund**.

In response, Durgin and other investors launched an overhaul of the business in early 2009 that culminated this fall in a redesigned product, an aggressive push into new markets and about \$1.1 million in fresh venture capital. Serial entrepreneur Richard Gill has also come on board as TruTouch's new CEO.

"I think the company has great momentum now," Durgin said. "In addition to the new financing, which is key to moving forward, we've had very positive meetings with potential customers and we're getting good feedback. I'm optimistic."

Durgin served as interim CEO in the spring, after former president and CEO Jim McNally stepped down. Verge is now the lead investor in the new round of funding, which includes a personal contribution from Richard Gill and from other individual investors in Massachusetts.

Gill was recruited to the company and became CEO in June after investors accepted his request for a recapitalization of TruTouch. The company had previously raised \$4.6 million in private equity from Verge, **Flywheel Ventures**, **New Mexico Community Capital** and **Fort Washington Capital Partners**. But Gill negotiated a "cram down" deal that revalued TruTouch at just \$460,000.

"To raise money, we needed to make the valuation attractive to the market," Gill said. "The recapitalization makes it a more compelling value to investors because the cost of shares went from 32 cents to just 7 cents. Shares held by the original investors would be worth only one-tenth

of their previous value, but folks accept a cram down because they expect the value to go way up later.”

New Mexico Angels President John Chavez said the revaluation has indeed enticed investors. A small group of angel investors is considering an additional \$300,000 commitment to TruTouch.

“There is a lot of capital already in the company, but because of the cram down, new investors can get a nice slice of the firm at very low cost,” Chavez said.

Technology upgrades and changes in marketing strategy have also raised investor interest.

The original TruTouch device cradles the arm of the person being tested. It shines infrared light on the subject’s skin to measure alcohol levels in the bloodstream, producing results in one minute. That compares to 20 minutes for a breath test and days for a standard blood or urine test.

The company sold or leased scores of machines since 2007 to corrections-related institutions nationwide, such as probation services and prison release programs. But expensive engineering squeezed profit margins, Gill said.

“The TruTouch team used a lot of money to develop the product, but the cost of goods was too high to make a profit,” he said.

The company re-engineered its device this year, leading to a second-generation product in September that is much cheaper to make, Gill said. The new device requires only a single finger to read alcohol levels, and it produces results in just 10 seconds.

“With the finger-touch device, the cost of goods went way down to permit profitable sales,” Gill said. TruTouch officials declined to disclose current revenue or bottom-line figures.

TruTouch is also focusing on more lucrative markets. Medical emergency clinics and hospitals are the primary targets, although the company still needs **U.S. Food and Drug Administration** approval to sell to them.

The company is also marketing to transportation-related businesses and other workplaces that need to monitor employees, as well as retail outlets such as liquor stores and bars that want to avoid sales to intoxicated customers.

TruTouch employs six people, down from 20 in 2009. It continues to assemble devices at a 6,000-square-foot facility in Albuquerque, but as sales ramp up, it will subcontract to other manufacturers.

Mark Walztoni, a “human capital adviser” to Flywheel who recruited Gill to TruTouch, said investors are closely watching the company.

“There’s a tremendous amount of interest in the TruTouch product, and Gill has the skills to bring it to market,” Walztoni said. “I believe the company is poised for growth.”