

ITONIS, INC.

A Blockbuster OTC Drug in the Offing

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ITONIS, INC. (OTC:PK – ITNS - \$0.0177)

Price Target: \$0.27

Rating: Speculative Buy

COMPANY SNAPSHOT

Itonis Inc. is a holding company for the recently formed Itonis Pharmaceuticals, Inc., Paramount Discoveries, Inc. and AppRocket. Led by Dr. Charles Hensley, the founder of the Firm that launched the popular *Zicam® Cold Remedy*, the pharmaceutical division's mission is to create and market over-the-counter and prescription homeopathic products that better people's lives. The path to market is faster than traditional pharmaceutical drugs. Paramount's exciting, patent-pending electro-magnetic frequency technologies are on track for future licensing and commercialization.

KEY STATISTICS

Price as of 11/6/12	\$0.0177
52 Wk High – Low	\$0.089 – 0.0089
Est. Shares Outstanding	405.0M
Market Capitalization	\$7.2M
3 Mo Avg Vol	243,000
Exchange	OTC:PK

COMPANY INFORMATION

Itonis, Inc.
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 Irvine CA 92618
 949.200.8887
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INVESTMENT HIGHLIGHTS

The crown jewel in the Itonis family is Itonis Pharmaceuticals, which is developing what may be the first over-the-counter, systemically active preparation delivered via a nasal and/or sublingual spray for the alleviation of mild to moderate nausea.

Targeting those suffering from a variety of causes of nausea, including gastroenteritis, motion sickness, and migraines, this innovative delivery system has a major advantage over typical, counter-productive oral formulas which may be difficult for the consumer to digest, given the person's state of nausea. The size of this market is an estimated \$1 billion+ annually.

Itonis Pharmaceuticals is led by the famed homeopathic and nutraceutical pioneer and a founder of the Firm that launched the popular *Zicam® Cold Remedy*. Under his guidance, sales quickly reached the \$100M mark, prior to his departure in the late 1990's.

Dr. Hensley's product development innovation and marketing savvy helped make *Zicam®* a household name and transformed how homeopathic drugs are marketed and sold in the U.S. Dr. Hensley and his team plan to use the same methodologies to revolutionize the treatment of other common ailments and chronic diseases, including HIV.

With an end of 1Q13 launch date of the featured anti-nausea product, we believe that Itonis has home run potential. Plus, with other products in the pipeline, ITNS could emerge as a major player in the homeopathic arena.

Given the history of success, we believe that the ITNS pharmaceutical division alone could achieve \$100M in sales within 3 years. Our \$0.27 price target reflects 1x this preliminary revenue forecast and does not include the potential value of Paramount, which could be significant to shareholders once licensing and commercialization occur. We rate these shares Speculative Buy.

COMPANY OVERVIEW

Originally established in 2005, California-based Itonis, Inc. has undergone both a transformation and a revitalization, with the founding of Itonis Pharmaceuticals, Paramount Discoveries, and AppRocket..

Itonis Pharmaceuticals

The Company's pharmaceutical division's mission is to create and market over-the-counter and prescription homeopathic and nutraceutical preparations to treat both common ailments and chronic diseases. These preparations are categorized as derivative pharmaceuticals in that while the preparations will be both safe and effective, the path to market is faster than traditional pharmaceutical drugs.

Itonis Pharmaceuticals is led by Charles Hensley, Ph.D, a pioneer in the development and marketing of safe and effective therapeutic nutraceutical and homeopathic preparations. He was a founder of Geltech, LLC, the company that launched the *Zicam® Cold Remedy*, making the product a household name and forever transforming changing the marketing and product placement paradigm for homeopathic drugs in the U.S. Under his guidance, sales quickly reached the \$100M mark, prior to his departure in the late 1990's.

The Company's lead product under development may be the first over-the-counter, systemically active preparation delivered via a nasal and/or sublingual spray for the alleviation of mild to moderate nausea. There have been relatively few innovations within this product category over the past few years and management believes that the market is ripe for a new type of nausea preparation that is available over-the-counter.

Targeting those suffering from a variety of causes of nausea, including gastroenteritis, motion sickness, vertigo, chemotherapy, dizziness, food poisoning, and migraines, this innovative delivery system has major advantage over typical oral formulas.

Itonis vs. Existing Treatments

The most obvious advantage is the delivery system itself, which is likely faster and more effective than oral formulations. Given the person's state of nausea, it is often usually difficult for a consumer to digest and keep down oral formulations. Moreover, since the formulation is based on homeopathic preparations, the offering should not have many of the common side effects associated with current OTC and prescription treatments for nausea.

In addition, the Company just announced yesterday that it plans to offer nasal swabs as well as nasal spray to deliver its recently announced over-the-counter homeopathic nasal spray for the treatment of nausea. The Company feels that consumer experience with the product will be enhanced by giving each consumer a choice of either a nasal spray or a nasal swab. Regardless of the mode of delivery, nasal application of the anti-nausea preparation is preferable over oral delivery.

For example, typical current side effects for some of the popular treatments motion sickness and other related causes of nausea, including antimetics-based (OTC and prescription) or antihistamine-based products are drowsiness, blurred vision, dry mouth, and others. Moreover, not all products are recommended for children under 12 years of age, such as meclizine, which is used for motion sickness. Emetrol, which has been around for over 50 years to treat nausea and vomiting may not be the best bet for diabetics, given its high fructose content. Interestingly, some homeopathic consumers believe that ginger and peppermint is a good source for anti-nausea, based on small studies, but the use of these items for nausea is limited.

Company Report

The Key to Success

It is no secret that the key to the success of this division is its leader, since Dr. Hensley's product development innovation and marketing savvy helped make *Zicam®* a household name and transformed the marketing and product placement paradigm for homeopathic drugs in the U.S. , we are confident that his leadership ensures similar success. In our view, more than nearly any other industry sector, marketing and sales success history is the key determining factor for top-tier status in the homeopathic and nutraceutical world. Hensley did it with *Zicam®* and we believe he could do it for other products under development as well.

In the near term, we expect that the Company will engage in a case study during 4Q12, prior to the product launch by the end of 1Q13, with a meaningful clinical study in an Institutional Review Board to begin in 1H13, to determine safety and efficacy. Investors should be on the lookout for articles and study results in key publications in the coming months as well, which will further aid the product launch and sales. A manufacturing site arrangement for the product is nearing completion and we believe that the first small run of product production will occur around the turn of the year, with product availability on the Company's website, followed by large-scale, in-store distribution during 2013.

Although the market for the product is estimated to be in excess of \$1 billion annually, clearly the total available market is not as great as the cold medication produced and marketed by Hensley's former company, which generated roughly \$100M in sales in the first 3 years. Nonetheless, considering the advantages, likely efficacy and innovative delivery method, we believe it will ramp up to tens of millions in annual revenue relatively quickly.

As noted above, management plans to create and market over-the-counter and prescription homeopathic and nutraceutical preparations to treat other common ailments and chronic diseases as well. Another product under development is the recently announced an anti-HIV offering based on natural compounds that targets the viral entry step, giving it a broad application base. This offering, much like the anti-nausea product, could be revolutionary. However, we caution that given the fact that the targeted treatment patient/consumer is diagnosed with a life-threatening disease, in-depth clinical studies must first be undertaken to ensure safety and efficacy. As a result, we do not believe that material information regarding development progress will occur until 1H13 at the earliest.

In the meantime, we expect that management will announce the development of several new formulations in the coming months to build out the product line and ensure overall success which will be additional drivers for the stock.

Paramount Discoveries

Paramount Discoveries, Inc. is a scientific research company originally founded in 1995 by Stuart Robbins. The Company is the culmination of more than 16 years of dedicated research to develop a process that can stimulate magnetism in several common natural elements and minerals.

Paramount Discoveries' technologies use an arbitrary wave form generator combined with permanent magnets, and apply a rare frequency for each element or mineral to sustain its "magnetic moment", thus controlling the element or mineral.

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The ability to stimulate magnetism in Carbon could change how materials are created and processed, introducing many new and unparalleled opportunities in the scientific and industrial communities. Multi-billion dollar industries incorporate Carbon in their production and operating processes. The ability to sustain the magnetic moment in Carbon is expected to revolutionize diverse Carbon-based manufacturing sectors such as digital data storage and memory, carbon-based emissions abatement, and the production of more resilient paints.

Paramount Discoveries has applied for a provisional patent with the U.S. Patent & Trademark Office to protect its ability to magnetize carbon with its revolutionary electro-magnetic frequency technology.

There is huge potential with this subsidiary's ground-breaking technology, and likely tremendous hidden value as well. We expect Itonis management to truly begin to monetize this asset via some sort of joint research venture or business development in the coming quarters.

AppRocket

AppRocket, which is in the middle of a re-launch, is a consumer technology website that also functions as a PC and mobile apps hub. AppRocket provides access to a vast directory of apps for Windows and Mac operating systems, as well as current consumer technology news and reviews. The website will also be a platform to market proprietary mobile apps developed by AppRocket for Androids and iPhones. Once the re-launch occurs, we believe that additional guidance regarding specific app offerings will be provided. Clearly, this subsidiary while on the cutting-edge, is an early-stage project for Itonis management.

MANAGEMENT TEAM

For a small company, Itonis has that rare mix of leadership that has demonstrated significant success in previous endeavors combined with broad-based, complementary business and corporate experience.

Mark Cheung – President and CEO

Mr. Cheung has more than 20 years of business law and entrepreneurial experience in the legal fields of business litigation and appeals. He has been a name partner at his Irvine, California law firm that has handled numerous business litigation and intellectual property matters, including a trademark case that ended favorably in the U.S. Supreme Court. Through years of litigation matters, Mr. Cheung has confronted unprecedented business operational disputes and relationship issues, providing industry opportunities to enhance and apply problem-solving skills at all levels.

Since 2001, Mr. Cheung has served on and chaired various not-for-profit boards for several organizations in Orange County, California. He chaired a consumer financial non-profit organization that included 20+ staff, over \$2 million in assets and \$1.7 million in annual revenues. He has chaired at a community college foundation with over \$1.5 million in assets and endowments. Mr. Cheung has also served as a board member to several attorney bar associations, including the chair position for one such association.

Through his decade-long experience of serving and giving back to his community, Mr. Cheung found that such charitable organizations provided him first-hand experience with all aspects of the corporate and business world, including personnel, operations, financial, competition concerns, and reserve investing.

Since 2005, Mr. Cheung has also served as an adjunct professor, teaching upper-class levels at Chapman University School of Law.

Company Report

Mr. Cheung received his Bachelor of Arts degree in Economics from Brandeis University, and his law degree from Boston College Law School. He has also published scholarly articles in the law.

Charles Hensley, Ph.D – President of Subsidiary Itonis Pharmaceuticals

Charles Hensley, Ph.D., the inventor of Zicam® cold remedy is a pioneer in the development and marketing of safe and effective therapeutic nutraceutical and homeopathic cocktails. In 1997, Dr. Hensley founded Geltech, LLC, the company that launched Zicam® and made the product a household name. With the launch of Zicam® cold remedy, Dr. Hensley and co-workers changed the marketing and product placement paradigm for homeopathic drugs in the United States. Dr. Hensley also developed Zicam® Allergy and the nasal delivery systems used in the Zicam® product line extensions. Dr. Hensley and his partners sold their stake in Geltech to Matrixx Initiatives (MTXX).

In 2000, Dr. Hensley was president of Zengen, Inc., a bio-pharmaceutical company, and 2003 founded and served as Chairman and CEO of PRB Pharmaceuticals. He recently co-founded Universal Bio Innovations.

He received his B.S. from the University of Oklahoma and his Ph.D. in Physiology and Biophysics from the University of Southern California. He completed his post-doctoral fellowship in Molecular Cardiology at The University of Southern California in 1993. Subsequently he taught at The University of Southern California School of Pharmacy and medical students at the University of California, Riverside.

Stephen R. Pidliskey Jr. - Vice President, Secretary

Mr. Pidliskey has over 32 years of experience working for a Fortune 100 company in the Information Technology Industry. He has held numerous management positions for over 25 years and was responsible for business functions that included regional sales operations, global customer delivery, service support, project management, product planning, complex solution development, and technical sales support.

Mr. Pidliskey's industry accomplishments include the re-engineering and consolidation of 5 regional sales support centers to a National Sales Solutions Center, supporting new services contract revenues of over \$1B annually. By building strong teams and integrating strategic business relationships, his "go to" sales support model was known for delivering high levels of client satisfaction to customer sets ranging from small and medium size businesses to Fortune 500 companies.

As a leader within his community, Mr. Pidliskey has served as a county board member to a Citizens Advisory Council for more than 22 years. He has held several executive committee positions on the council, and meets monthly with local government leaders to help manage change within his community. In addition, Mr. Pidliskey is also a committee member to a local Boy Scout troop, holding various Chair and fund raising positions over the years in support of the Boy Scouts of America.

Donald L. Jolly, Ph.D. – CFO, Treasurer

Dr. Donald L. Jolly, Ph.D. has more than 20 years of experience in the Finance Industry. He has served at both the board and executive levels within the banking community, holding numerous executive positions ranging from the Vice President of Marketing to the President/CEO of several California banks. His wide array of corporate and retail experience include all aspects of banking operations, loans, marketing, personnel, and customer relations. His founding of a California bank provided him valuable experience in managing the early developments of a business.

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Dr. Jolly also serves as the Chairman and CEO of the Richard A. Neubauer Research Institute, a 501(c)(3) non-profit organization established to further research, medical improvements, and education in Hyperbarics. He has studied in London, Aberdeen, Scotland and California with internationally renowned doctors, developed research facilities in California, worked in Africa and Romania, and made great strides in research as well as the application of Hyperbaric Oxygen Therapy (HBOT). This pursuit has supplemented his banking career with additional operational and business growth experience.

Corey Washington - Chief Technology Officer

Corey Washington brings more than 10 years of experience in Information Technology as a Web Developer. He has experience in analyzing technical feasibility, multimedia planning and enhancing digital content. Washington's role with Itonis is to support the Company's technology needs with an immediate focus on the IT development phase of new projects and future planned acquisitions.

Washington's educational background includes Information Technology and Journalism, which led to his experience working with two Los Angeles Newspaper Group publications as a Web Producer. He has led digital campaigns in the news, was a recipient of the Scripps Howard Award in 2002, and has also worked in non-profit and political arenas. Washington's professional experiences have helped him cultivate a strong understanding of how to support businesses with the integration of technical inputs to support projects of different scales. Washington also has experience in strategic planning with new media, which will assist Itonis with digital communications and project development.

David K. Liu, Ph.D. - Scientific/Technology Consultant

Dr. David K. Liu received his B.A. (magna cum laude) in Chemistry and Biology from Wesleyan University in Middletown, Connecticut and his Ph.D. in Chemistry from Massachusetts Institute of Technology (MIT) in Cambridge, Massachusetts.

After obtaining his Ph.D. degree, Dr. Liu accepted a position as a Post-doctoral Research Associate at Brookhaven National Laboratory (BNL) in Upton, New York, a U.S. Department of Energy (DOE) National Laboratory managed by Associated Universities, Inc. He then became a Staff Scientist/Principal Investigator at Lawrence Berkeley Laboratory (LBL), a DOE National Laboratory managed by the University of California, Berkeley, California. While at LBL, Dr. Liu was also a Lecturer in the Chemistry and Biochemistry Department of San Francisco State University.

Dr. Liu is a recognized scientist and an accomplished researcher. His undergraduate thesis research at Wesleyan University was in organometallic chemistry and catalysis. While at MIT, his Ph.D. research focused on the photochemistry and photocatalytic properties of inorganic compounds, an area which he continued to pursue as a Post-doctoral Research Associate at BNL. During his career at LBL, Dr. Liu was engaged in applied research and technology development of various acid rain control technologies, wastewater treatment technologies, and advanced magnetic materials.

Dr. Liu's research has been published extensively in leading peer-reviewed scientific journals and presented at various national and international scientific conferences. Dr. Liu holds a number of U.S. and international patents in acid rain control technologies and advanced magnetic materials.

In addition to his research and technology development experience, Dr. Liu has more than 20 years of consulting experience in the environmental field and has published, presented, and lectured extensively in that area.

Company Report

Dr. Liu is a member of the American Chemical Society, American Society for Testing and Materials, and Sigma Xi, the Scientific Research Society. He also holds a Management Development Program Certificate from the University of Southern California.

RISK FACTORS

In our view, ITNS's biggest risk near term is the development timeline for the pharmaceutical products. Given the steady hand and experience of Hensley, and the homeopathic-based offerings, getting products to market quickly should not be a major challenge, in our view. Execution risks in its new platforms could impair meaningful revenue generation and profitability out to a later date, or result in a smaller initial ramp, thus impacting revenue and income goals. Slower sales penetration as a result of competition from larger firms, the time required for market education, branding, or even competition from newer firms are all typical concerns and consistent with firms of ITNS's size and standing.

VALUATION AND CONCLUSION

The bottom line with ITNS is that this is a bet on Dr. Hensley, which in our view, is a solid bet. With limited competition and major advantages over other existing offerings, the Itonis Pharmaceuticals anti-nausea product should be huge for the Company and other Itonis products will likely ride the coattails of success next year as well. Given the history of Hensley's product development and marketing success, we believe that the ITNS pharmaceutical division alone could achieve \$100M in sales within 3 years. Our \$0.27 price target reflects 1x this preliminary revenue forecast and does not include the potential value of Paramount, which could be significant to shareholders once licensing and commercialization occur. Investors should also keep in mind that with only 30 million shares in the public float it will not take a great deal to take the stock higher as news and milestones occur.

We rate these shares Speculative Buy.

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Recent Trading History For ITNS

(Source: Stockta.com)



Company Report

Analyst: Robert Goldman

Rob Goldman has over 20 years of investment and company research experience as a senior research analyst and as a portfolio and mutual fund manager. During his tenure as a sell side analyst, Rob was a senior member of Piper Jaffray's Technology and Communications teams. Prior to joining Piper, Rob led Josephthal & Co.'s Washington-based Emerging Growth Research Group. In addition to his sell-side experience Rob served as Chief Investment Officer of a boutique investment management firm and Blue and White Investment Management, where he managed Small Cap Growth portfolios and *The Blue and White Fund*.

Analyst Certification

I, Robert Goldman, hereby certify that the view expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the recommendations or views expressed in this research report.

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