

IRIS Q2-2004 Conference Call Script: Thursday, August 5, 2004, 1:00 PM Eastern Time

Forward Looking Statements

This interview contains forward-looking statements made in reliance upon the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Forward-looking statements include, but are not limited to, the Company's views on future commercial revenues, market growth, capital requirements, new product introductions, and are generally identified by phrases such as "thinks," "anticipates," "believes," "estimates," "expects," "intends," "plans," and similar words. Forward-looking statements are not guarantees of future performance and are inherently subject to uncertainties and other factors which could cause actual results to differ materially from the forward-looking statement. These statements are based upon, among other things, assumptions made by, and information currently available to, management, including management's own knowledge and assessment of the Company's industry, competition and capital requirements. Other factors and uncertainties that could affect the Company's forward-looking statements include, among other things, the following: the acceptance by customers of our new iQ[®]200 product platform, our substantial expansion of international sales and our reliance on key suppliers, the potential need for changes in long-term strategy in response to future developments; future advances in diagnostic testing methods and procedures, as well as potential changes in government regulations and healthcare policies, both of which could adversely affect the economics of the diagnostic testing procedures automated by the Company's products; rapid technological change in the microelectronics and software industries; and increasing competition from imaging and non-imaging based in-vitro diagnostic products. The Company refers interested persons to its most recent Annual Report on Form 10-K and its other SEC filings for a description of additional uncertainties and factors that may affect forward-looking statements. The Company assumes no duty to update its forward-looking statements.

Thank you Jennifer for presenting our forward-looking statements.

Cesar M Garcia:

Good afternoon and welcome everyone to the IRIS International second quarter conference call. Our Chief Financial Officer, Martin Paravato, joins me on this call.

I am pleased to report on the significant progress that IRIS International has achieved since the release of the iQ[®]200 in August 2003. We have achieved significant progress in all major aspects of the business. Our IRIS team has been successful in restructuring the Company strategically, financially and operationally. Our Company now has a fast growing top line, a strong balance

sheet, no debt and significant liquidity. We have achieved this while building a culture of high quality and excellent service, which has earned accolades from our customers and partners around the world. I want to take this opportunity to thank all the employees and business associates that have made this possible.

As previously reported today, we achieved another record revenue quarter with a 58% increase in revenue in comparison to second quarter 2003. As explained before, we are in the penetration phase of the iQ200 and the most important element of our strategy at this point in time is to ship as many units as possible to drive recurrent revenue in future years. Therefore, 2004 should be considered a transition year in terms of earnings. I am also pleased to report that all divisions are reporting significant achievements in the second quarter. I'd like to start with Iris Diagnostics.

IRIS Diagnostics

- Iris Diagnostics achieved a 64% revenue growth in comparison to last year's second quarter and year-to-date, they are 59% percent ahead of last year.
- Two hundred iQ200 analyzers were shipped in the last 11 months excluding shipments to Japan.
- The iQ200 will be officially launched in Japan this coming September. Fifteen units were shipped in July to support their launch plans.
- Our domestic group has made excellent progress selling stand-alone urine chemistry analyzers in addition to iQ200 Systems. More importantly, our domestic sales team has been successful in closing several hospital-wide transactions covering all their urinalysis needs.
- Shipments to Premier accounts, our GPO partner, started with seven iQ200's shipped to their participant hospitals.

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- **Our international expansion plans continue with great success. We now have distribution in 43 countries with iQ200 systems in routine use in 30 of those countries. Our international sales represent now 18% of revenue vs. 6% a year ago.**
- **The recent AACC Exhibition was the most successful ever for IRIS International. Iris Diagnostics received hundreds of leads for the iQ200 and over 100 hundred international customers visited our booth.**
- **As you know, our consumable revenue lags the instruments shipment by approximately 4-1/2 months and, it took up to 6 months in many of the early shipments. Now, we are beginning to see our consumable revenue progressing at the pace projected in our business plan. In spite of a reduction in service revenue due to a disproportionate number of iQ200 analyzers under warranty, our year-to-date consumable and service revenue is \$1.0 million higher than June 2003. This consumption will contribute to accelerate our earnings growth.**
- **Finally, our EBITDA has improved significantly.**
- **Since a number of shareholders have asked me about Bayer's recent announcement of the availability of their new urinalysis system, I would like to share with you our views. First, this announcement helps us to build the market awareness of the importance of urine microscopy. Bayer's has announced the connection of their automated urine chemistry analyzer called the Clinitek ATLAS with the Sysmex UF-100 urine sediment analyzer under the name ADVIA Urinalysis Work Cell. Although the Bayer-Sysmex system was pre-announced about 17 months ago, we do not know of any ADVIAs installed at customer sites. We still believe that our iQ200 System is the best product offering for the following reasons:**

- To the best of our knowledge, the ADVIA System provides no other major functionality than the connection of two systems that have been around for a long time.
- The ADVIA provides calculations for 5 urine particle-types only, but it has the capability of identifying possible “abnormals” in another 5, for a total 10 determinations. The abnormal specimens are flagged without a concentration. Then, the customer has to review all flagged specimens manually under the microscope. The iQ200 microscopy analyzer provides concentrations in twelve parameters instead of five and there is no need for manual review under microscope because all images are stored digitally in our review station.
- The iQ200 System provides calculations and images. The ADVIA provides calculations and scattergrams. Any review of the specimen morphology requires manual observations under a microscope. The review of abnormal specimens under a microscope is tedious and costly.
- Our System is smaller, more effective and more affordable.

Our R&D organization has a track record of being responsive to customer needs. In June 2004, we made our second major software release. This release further simplifies the specimen handling on the iQ200 by practically eliminating dilutions and improving our neural network to handle cloudy specimens. This represents a significant reduction in specimen handling in 30% of the patient workload.

I am also pleased to report that in response to many customers' requests, IRIS Diagnostics will be releasing a new product early in 2005. The new product meets the requirements of the high volume lab and the clinical reference lab

market, a market segment that is characterized by extreme demands on specimen handling and throughput. We plan to sell two different products, the iQ200 and the new system, whose name has not been established yet. The principal features of this new product are:

- Over 100 specimens per hour. This would make the new system the fastest and by far, the most effective in the market.
- High volume load and unload conveyors capable of handling up to 200 specimens per load.
- Simplified user interface
- Improved quality control and data handling
- Improved service diagnostics and many other features required on the high volume environment.
- All of this has been packaged in a smaller footprint than the competing product.

It is important to mention that there are over 1000 clinical reference labs that process between 300 and 2000 specimens per day. This is the market that Iris Diagnostics had not been able to penetrate with its legacy products.

STATSPIN:

- I'd like to turn our attention to our StatSpin Subsidiary. StatSpin achieved a 36% revenue growth in comparison to last year's second quarter and, year-to-date, they are 44% percent ahead of last year averaging approximately \$2 million per quarter.
- Our new DNA processing workstation has been a success with over 100 units shipped since March and we now carry a backlog of 200 additional units.

- In spite of sudden increases in volume, the segment profitability has not been compromised.
- StatSpin is also working on new products that will be released during the second quarter of 2005.
- In conclusion, StatSpin makes a significant profit contribution and they continue to achieve a very high return on investment.

ADIR

Our ADIR subsidiary has been successful in securing this year approximately \$3.4 million in grants to be used over the next three years. This is an acknowledgement of the quality and excellent reputation of this group. We are proceeding per plan in our major research and development effort, three-dimensional face recognition. Due to the early stages of this program we are not in position to discuss this in further detail.

Now, I want to bring to your attention a few important points before Marty presents the financial statements. Iris continues to perform well, achieving record revenues driven by a rapid transition into the iQ200. Some transitional expenses, relating to product improvements and reserves, have impacted our cost structure in the first half. Our earnings should continue to improve as these variances disappear and the usage of consumables accelerates. It is also important to remember that our EBITDA has increased to \$1.3MM this quarter. We have significant NOL's and taxes are calculated but not paid, therefore, our cash should continue to grow. A final point to remember is that our share count increased significantly with the recent financing and exercise of warrants and options. With this preamble, I now introduce Marty Paravato.

MARTIN PARAVATO:

Thank you very much Cesar. I am pleased to report on the results for the second quarter.

As announced earlier today, for the second quarter ended June 30, 2004, we reported net income of \$437,000 or 3 cents per fully diluted share on record revenues of \$10.3 million, as compared to a net loss of \$250,000 or 2 cents per fully diluted share in the comparable quarter of 2003. For the six months ended, we reported net income of \$966,000 or 7 cents per fully diluted share as compared to a net loss of \$739,000 or 7 cents per fully diluted share for the first half of 2003.

As I mentioned, consolidated revenues grew to \$10.3 million in the second quarter, a very satisfying 58% increase over the comparable quarter of 2003. The increased revenues resulted from another quarter of strong sales of our iQ200 analyzers and systems, related consumables and service as well as increased sales at our StatSpin subsidiary.

Reviewing our business segments, our IVD products segment also referred to as Iris Diagnostics which includes revenues from our iQ200 analyzers and systems, consumables, service and parts, reported net revenues of \$8.4 million during the second quarter up from \$5.1 million during the second quarter of 2003, a 64% increase for the quarter.

Revenues from StatSpin, our laboratory device division, amounted to \$1.9 million for the quarter, up from \$1.4 million for the prior year quarter, a 36% increase. The increase is due to strong sales of centrifuges and the recently introduced DNA processing workstation plus increased revenues from related supplies and service.

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Also contributing to consolidated revenues were royalty fees received from the licensing of certain technology abroad. Such fees amounted to \$131,000 during Q2 as compared to \$89,000 during the second quarter of 2003.

Gross profit margins were 46% for the second quarter as compared to 53% during the same quarter a year ago. Profit margins were impacted by international sales of instruments and consumables to distributors, which traditionally generate lower profit gross margins. Additionally, we incurred approximately \$300,000 of additional costs during the quarter stemming from engineering and retrofit changes relating to product improvement. We also recorded approximately \$200,000 for estimated reserves for potential product exchanges and upgrades. Additionally, during the quarter, profit margins were impacted by lower expected service revenue resulting from new product sales that include up to a 15-month warranty period. During this period, service and repair costs are covered by warranties, therefore not generating normal service profit margins.

Gross Profit Margins at StatSpin amounted to 49% both for the current year and prior year quarters.

Operating expenses (which includes sales / marketing / general & administrative as well as research and development costs) increased during the second quarter by \$107,000 or 3%. Operating expenses as a percentage of revenues decreased to 38% from 59% in the prior year QTR. Sales and marketing expenses increased \$520,000 during the quarter, primarily incremental commissions and payroll cost supporting the increased revenues. As percentage of revenues, however, sales and marketing expenses dropped to 17% from 19% as compared to the prior year quarter. Research and Development expenditures decreased by \$362,000 which reflects the completion, in the prior year, of the

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iQ200 analyzer but reflects IRIS' continued commitment to investing in new products and enhancements to existing products.

During the quarter we wrote-off \$120,000 in deferred loan costs associated with the retirement of all our existing debt with a portion of the net proceeds from sale of our common stock. The repayment of debt eliminates ongoing interest expense.

Our Balance Sheet improved during the second quarter, not only by the net income reported, but was strengthened by \$11.5 of net proceeds from the private placement of 2.1 million shares of our common stock. As of June 30th, we have over \$10 million in the bank and our working capital has improved to \$19.7 million up from \$6.6 million as of December 31, 2003. In addition, we received \$1.6 million in July through the exercise by an investor of 853,000 warrants to purchase the Company's Common Stock, bringing cash on hand as of July 31, 2004 to approximately \$12.0 million.

As noted in our press release Earnings Before Interest Taxes and Depreciation or EBITDA, increased to \$1.3 million for the current quarter as compared to negative EBITDA of \$104,000 for the prior year quarter. Year-to-date EBITDA amounted to \$2.3 million compared to negative EBITDA of \$484,000 during the first half of 2003.

We also announced today that guidance for 2004 is being upgraded from a 20% revenue growth or \$.12 to \$.14 earnings per share, to revenue growth of 25% or \$.14 to \$.16 earnings per share. This improvement is very significant considering the dilution that resulted from the increased number of shares issued in our recent private placement and warrant and option exercises.

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Now I would like to turn the next portion of our Conference Call back to Cesar Garcia, our Chief Executive Officer.

Cesar M Garcia:

Thank you, Marty. We can now take your questions. Jennifer, please proceed.

Operator: Thank you, sir. The question-and-answer session will begin at this time. If you are using a speakerphone, please pick up the handset before pressing any numbers. Should you have a question, please press star one on your push-button telephone. We ask that you please limit yourself to two questions. Your question will be taken in the order that it (is) received. And if you wish to withdraw your question, please press star two. Once again, that's star one for questions. And we'll pause for just a moment to allow everyone a chance to signal.

We'll take our first question from Barry Kitt with Pinnacle Fund.

(Tom Hunse): Hi, guys. It's actually (Tom Hunse). Nice job. César, you mentioned in your comments just briefly about the event out in California and that you did generate quite a few leads from that. Can you give us a little more color on that -- what specifically was the event, and tell us how you guys fared against the competition and what you saw.

César García: Yes. The AACCC exhibition is the largest in vitro diagnostic show in America, and probably in the world. About 15,000 people attend to participate in the conferences and exhibitions. We had approximately 600 leads at that show, which is excellent. That's about 200 more than what we got last year. We had significant interest, highly trafficked. Not only did we have 600 leads, the leads were good quality. People spent a significant amount of time at our booth.

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(Tom Hunse): OK. And you also made a trip to Europe. And was there a distributor event over there that's worthwhile mentioning?

César García: Yes, I think it's worthwhile mentioning that we have had a number of very significant international presentations of the iQ[®]200. I recently went to Turkey for the introduction of the iQ[®]200. And there were approximately 150 customers that came from all over Turkey to participate in the introduction. So our distributor in Turkey plus the customers are making a significant investment.

Also, there was a major convention in Thailand, and the iQ[®]200 was presented. And there were 500 people in attendance listening to our presentation of the iQ[®]200 and participating in product demonstrations. So we're having excellent international acceptance and getting a lot of attention. And we're very happy with that.

(Tom Hunse): Terrific. OK. I'll let somebody else have a chance, and perhaps come back.

César García: (Thank you, Tom).

Operator: We'll take our next question from Dennis Kaffel with Brill Securities.

Dennis Kaffel: Gentlemen, congratulations on a great quarter.

César García: Thank you, Dennis.

Dennis Kaffel: As we've discussed before, you have a substantial tax loss carry-forward. Correct?

César García: That's correct.

Martin Paravato: That's correct.

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Dennis Kaffel: And how much is that now?

Martin Paravato: About \$19 million.

Dennis Kaffel: OK. So you don't pay taxes currently.

Martin Paravato: No, we don't.

Dennis Kaffel: OK. Now, I realize you have to report GAAP earnings. But what are your cash earnings -- really in effect your actual earnings for the quarter?

Martin Paravato: Well, I think we tried to do that with the presentation on EBITDA. So if you look at the EBITDA presentation, I think that tracks cash earnings pretty much.

Dennis Kaffel: OK. So we're talking about 2004 net income for the three months of 439,000 according to the release, with an income tax expense -- in this case, a benefit -- of 292,000.

Martin Paravato: That's correct. Plus you should add back depreciation and also the interest expense for EBITDA.

Dennis Kaffel: Right. Right.

Martin Paravato: Although the debt -- the interest expense is a cash expense. If you want to do a pure cash -- it's approximately 1.2 million for the quarter.

Dennis Kaffel: OK. So what is that per share for the quarter, then?

Martin Paravato: I'd have to do the computation for you. I don't have that on a per share basis.

Dennis Kaffel: OK. So it's 1.2 million is what you earned on a pre-tax basis, basically.

Martin Paravato: That's correct.

Dennis Kaffel: OK, great. Great. OK. Thank you.

Martin Paravato: You're welcome.

Dennis Kaffel: And keep up the good work.

Martin Paravato: Thanks.

César García: Thank you, Dennis.

Operator: We'll go next to Gary Schwab with Janney Montgomery Scott.

Gary Schwab: Yes, hi, César and Marty. Good quarter. A question for you. Could you go over consumables again? You said that you're now seeing that the iQ[®]200 consumable revenues are progressing at the projected pace.

César García: Yes.

Gary Schwab: Go into that a little more deeply.

César García: Well, as I mentioned before, the consumable lags the instrument placement by approximately four-and-a-half months. Early in the introduction, it was taking longer than that. Now, we're achieving the four-and-a-half months.

Also, we have reviewed the consumable consumption and the instruments already in service. And we have been reviewing that in terms of the chemistry consumption and the microscopy consumption. And both of them are in line with our projection.

With our second software release in June, we expect even further increases because the system is easier to use and that's something that

the customers were awaiting. But those customers that have been using the instrument -- which are many -- are confirming our consumption.

Gary Schwab: OK. I think you said at one time -- maybe it was last quarter or the quarter before -- correct me if I'm incorrect on this, but -- that the consumption was going to be somewhere between \$20,000 and \$30,000 a year for an iQ[®]200 system.

César García: That's correct.

Gary Schwab: That was for a mid-size hospital?

César García: Let me review the numbers. The numbers are for the high-end laboratory. We expect to realize about \$30,000 per instrument per year. That includes both chemistry and microscopy consumables. For the mid-range laboratory, we expect to realize about 24,000 per instrument per year.

If you use only the iQ[®]200 microscopic analyzer, you'll be realizing about 10,000 per year domestically and about 8,000 per year internationally. It is also worth mentioning that we're not realizing any service revenue for these iQ[®]200s. The iQ[®]200s, once they come off of the warranty period, they will realize about 30,000 per instrument per year domestically, and internationally, we'll be selling parts. So . . .

Gary Schwab: OK.

César García: ... when I talk about a transition year, we talk about a transition year in many ways -- in terms of the market penetration, but also in terms of the delay or the lag between the instrument placements and generation of this kind of revenue in consumables and service.

Gary Schwab: OK. Now when you say consumables lag by about four months, are you saying that at the end of four months, they're running at the paces

that you just mentioned, or they're only starting at that time to start using consumables?

César García: It's almost a step function. Once they begin using it, they transition completely and they begin consuming at that -- at that pace. They may have some -- a little bit of a ramp, but not drastically. They -- basically they transition to full automation.

Gary Schwab: So the fact that you had 100 systems sold by December 31st of last year -- basically all of those systems -- well, only the ones that are the U.S. sales would be running at -- they should all be running at the rate that you just mentioned.

César García: That's correct.

Gary Schwab: And they are.

César García: They are.

Gary Schwab: OK.

César García: Wait. Let me make another point. I mentioned already that if you compare the consumable revenue as of June of 2003 versus the consumable revenue as of June 2004, we see a \$1 million increase in the consumable and service category. So the service is down because we have many systems under warranty. So the consumables are producing over -- at least a million, but we know that would prove much more than a million.

Gary Schwab: And that's all coming from the U.S.

César García: No, it's coming from both sides. It's coming domestically, internationally. The units internationally are always in use.

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Gary Schwab: OK. I thought you didn't sell the consumables internationally.

César García: Oh, we do.

Martin Paravato: It's just for the iQ[®]200 analyzer, not for the system ...

Gary Schwab: Got you. OK.

Martin Paravato: ... because we don't sell the complete system internationally.

Gary Schwab: Right. Right. Of course. OK. Thanks very much.

César García: Thank you.

Martin Paravato: You're welcome.

Operator: We'll take our next question from Brian Kowalchyk with Westpark Capital.

Brian Kowalchyk: Good afternoon, gentlemen. Nice quarter.

César García: Thank you.

Brian Kowalchyk: A question for you, Marty. Could you perhaps give us what the gross margin would have been during the quarter excluding those what I'll call one-time items that you delineated in the press release?

Martin Paravato: I think the gross profit would have been approximately 67 percent.

Brian Kowalchyk: Six-seven?

Martin Paravato: Sixty-seven percent. That would be for instruments, wouldn't it?

César García: Gross margin for instruments only.

Martin Paravato: Yes. That would be for instruments only. You're talking about in total?

Brian Kowalchyk: For instruments is fine. We can work it out from there. I assume that all those items impacted the instrument side only?

César García: OK.

Martin Paravato: Pretty much, yes.

Brian Kowalchyk: And with the 67 percent for this quarter, would that be consistent with your expectations going forward?

Martin Paravato: Let me back up. The 67 percent was the cost.

Brian Kowalchyk: Yes. I was wondering. That sounded a little high.

Martin Paravato: That was the gross profit and expectation going forward -- yes, I think that's reasonable. That's a reasonable expectation.

Brian Kowalchyk: OK. Very good. And also, the \$120,000 write-off on the deferred financing cost -- where in the P&L is that reflected?

Martin Paravato: That's down in interest expense after operating income.

Brian Kowalchyk: OK. So going forward, we should expect a more normalized instrument gross profit margin in the 33 percent range, and we should not have any interest expense going forward.

César García: That's correct.

Martin Paravato: That's right. We should also have some interest income from our invested funds.

Brian Kowalchuk: Understand. OK. Very helpful, thank you, guys, very much.

César García: Thank you.

Martin Paravato: You're welcome.

Operator: Once again, everyone, if you do have a question, please press star one on your telephone at this time. We'll take our next question from Patrick Walker with Walker Smith Capital.

Patrick Walker: Hi, guys. Great quarter.

César García: Thank you, Patrick.

Patrick Walker: I just want to follow up. You may have -- I got on the call a few minutes late, so you may have already detailed this -- but can you give any additional color as to the Premier relationship and how many different people you've got, or -- I don't know, the status of the -- of the sales.

César García: The Premier relationship is going very good. It took some time to get it going. We placed already seven systems this last quarter to Premier accounts. That's a significant increase with what we were doing before. We were probably doing two per quarter before. And this is only the beginning, because as you know, the contract ...

Patrick Walker: So -- I'm sorry ...

César García: ... started in April and it took at least 30 to 45 days to get things going. We have a major campaign in terms of creating awareness on the agreement, and we expect this to continue. This is a good lead to also talk about from our campaign in corporate accounts.

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We recently won another award -- the Veterans Administration VISN 6. The Veterans Administration has several purchasing groups -- about 16 in the U.S. We won the first one. And that's a hospital-wide sell. That means we're selling the central laboratory. We're selling into the satellite laboratories, nursing stations. So everything that will be consumed in those hospitals will be under the IRIS technology platform.

Patrick Walker: Right.

César García: So that's a good thing. That's what we want. We want to standardize the hospitals to our technology.

Patrick Walker: OK. And just to clarify -- so you got 76 different Premier reps, or you've already been on 76 different sales calls? I'm not sure I understood your answer on that.

César García: We have been working with about -- we've placed seven units and we have been contacted by a high number -- between 50 and 100 people in Premier that we have contacted directly. And we're developing those leads. As you know, Premier has about 500 hospitals that qualify for automation.

Patrick Walker: Great. OK. Well, think all my other questions have been answered, so I appreciate it.

César García: Thank you, Patrick.

Operator: We'll take another question from Barry Kitt with Pinnacle Fund.

(Tom Hunse): Hey, guys. (Tom), again. Clarification on the warranty period and when it commences. Does it commence at the time you deliver the system, or does it commence at the four-and-a-half-month period basically when the consumables begin?

César García: The warranty typically commences at installation.

(Tom Hunse): And installation occurs ...

César García: Typically, installation domestically happens about two weeks after the shipment, and internationally, what we do is that we give them 15 months warranty from shipment. So that provides enough time for the distributor to receive and to install the system.

(Tom Hunse): OK, great. Thanks. Again, nice job.

César García: Thank you, (Tom).

Operator: Once again, everyone, if you would like to ask a question, please press star one at this time. We'll take another question from Gary Schwab with Janney Montgomery Scott.

Gary Schwab: Yes, César. You know, you have two things going on here -- you're increasing your domestic side by picking up these GPOs, and you're also picking up the international side by adding countries -- you're up to 43 countries now. Do you still expect sales to be on a 50-50 basis pretty much, or is the foreign side going to start growing faster than the U.S. side?

Martin Paravato: Internationally, we only have 18 percent of revenue, you know. We expect that 18 percent to continue to improve or increase as time goes on. But we don't -- I don't think we expect it to be 50 percent of the revenue ultimately.

Gary Schwab: Well, you have 18 percent of revenue, but don't you have over -- of the iQ[®]200s sold -- 50 percent of them are going to the foreign?

César García: Yes, Gary, but it's more complicated than that, because you have to consider that internationally, we only sell the iQ[®]200 microscopy analyzer. We don't sell the complete system internationally.

Gary Schwab: Right.

César García: So you do not generate revenue for the strips -- for the chemical strips that are used on the (AX4280).

Gary Schwab: OK.

César García: And that's at least 50 percent of the consumables revenue, comes from strips.

Gary Schwab: Right. That's on the consumable side.

César García: Yes.

Gary Schwab: OK. OK. But on the actual -- when you talk about system -- when you talk about (IVD) system sales ...

César García: If you're talking about ...

Gary Schwab: ... for system sales ...

César García: ... the number of units ...

Gary Schwab: Yes.

César García: ... the number of units would be higher internationally than domestically but not in dollars, it's because you have to consider other factors.

Gary Schwab: Exactly.

César García: Because your transfer at this division at transfer pricing instead of direct. So it's a little bit more difficult than what we would like it to be, but that's the way it is.

Gary Schwab: Right.

Martin Paravato: And the other aspect is that, you know, on an ongoing basis, our consumables are still significantly impacted -- favorably, of course -- by the legacy products that we have in the field. And most of the legacy products are domestic.

Gary Schwab: Yes. OK. All right. Very good. I think I got that. Thanks.

Operator: We'll go next to Doyle Hattaway with Raymond James.

Doyle Hattaway: Well, great job, gentlemen.

Let me ask you -- very quickly -- how many units can you all produce, let's say, per month right now of these iQ[®]200s?

César García: The manufacturing facility has significant capacity. We could produce -- with the same infrastructure that we have, you know, over four to 500 machines with no significant investment, basically adding more people and making minor capital improvements.

Doyle Hattaway: And basically adding another shift.

César García: Maybe adding another shift, or maybe adding in a little more personnel to the facility.

Doyle Hattaway: Yes.

César García: We designed it so we can produce about 500 systems in the present facility.

Doyle Hattaway: That ...

César García: In one shift. If you add a second shift, you could double that.

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Doyle Hattaway: Do you -- you've spoken to this before, and I apologize for not remembering, but what would you say your total potential market is in terms of number of units worldwide?

César García: The total available market is about 6,500 sites.

Doyle Hattaway: Yes.

César García: Of the 6,500 sites, 2,500 sites which are domestic, and about 4,000 sites internationally.

Doyle Hattaway: Internationally.

César García: The total -- the total urinalysis market is now about \$600 million, and the market segment that is growing is the microscopy market. The market on the chemistry side is more of a generic nature, and that segment is only growing about four to five percent.

Doyle Hattaway: Very good. Thank you very much.

César García: You're welcome.

Operator: Next, we'll go back to (Tom) at Pinnacle Fund.

(Tom Hunse): Hi, guys. Speak to us about analyst coverage. Are you talking with firms? Are you seeking analyst coverage?

César García: Yes, we're seeking analyst coverage. And we're talking to a number of people. Actually, we're talking to four different groups. And many of them are hopefully listening to this conference call. Some of them are more advanced in terms of their financial analysis and due diligence. We have -- right now, we have no confirmation for anyone in terms of providing coverage ...

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(Tom Hunse): OK.

César García: ... of the company.

(Tom Hunse): And upcoming financial conferences -- what have you got planned?

César García: We have three conferences that we will be participating. We're going to be at the Roth Capital conference in September. We have another conference, Rodman, in October. And we have the AEA conference in November in Monterrey. We're also talking to Piper Jaffray to participate in the Piper Jaffray medical device conference in January 2005.

(Tom Hunse): Terrific.

César García: So we're going to be very, very busy creating awareness of the company and the technology.

(Tom Hunse): Great. You keep putting up the numbers, and people will show up.

César García: Thank you.

(Tom Hunse): OK.

Operator: Another reminder, everyone, if you do have a question, please press star one on your telephone. We'll take our next question from Dennis Kaffel with Brill Securities.

Dennis Kaffel: Gentlemen, what sort of progress are you making in terms of analyzing other bodily fluids with the iQ[®]200 or your other products?

César García: OK. That's a very good question. The program is progressing well. As I told you in the previous conference, the issue is collecting the specimen. The specimen collection has been initiated -- actually it has been in process for about 60 days now.

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And what we're doing is we're coordinating now the release of body fluids with the release of a new product. Obviously, we want the body fluids to be backward compatible. We want the body fluids on all iQ[®]200s -- not only the new products, but the old products. So we believe that body fluids will be available in the first quarter of 2005, as well as the new high-volume products.

Dennis Kaffel: (OK). Thank you.

César García: Thank you.

Operator: A final reminder, everyone. If you do have a question, please press star one at this time. There are no further questions. I will turn the conference back over to Mr. García.

César García: Thank you, Jennifer. In closing, I want to thank you all for participating in this conference call, (and we) look forward to very exciting times in this company. Have a good day. Bye now.

Operator: Ladies and gentlemen, if you wish to access the replay for this call, you may do so by dialing 888-203-1112 or 719-457-0820, and enter the password ID number of 1-0-7-1-6-1. This concludes today's conference. We thank you for your participation. You may disconnect at this time.