

IRIS INTERNATIONAL REPORTS RECORD SALES FOR
FOURTH QUARTER AND YEAR ENDED DEC. 31, 2003 AT
CONFERENCE CALL ON WEDNESDAY, MARCH 17 AT
4:15 PM (EST)

TRANSCRIPT OF MANAGEMENT PRESENTATION

CESAR M. GARCIA - MODERATOR

Good Afternoon & Welcome Ladies and Gentlemen to the fourth quarter 2003 and year-end conference call for IRIS International, Inc.

At this time I would like to inform you that this conference is being recorded and that all participants are in a "listen only" mode.

At the request of the company we will open the conference up for Questions & Answers after the presentation.

Forward Looking Statement

This conference call may contain 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: unexpected technical and marketing difficulties inherent in major product development efforts such as the current project to improve the Company's urinalysis workstation product line; 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.

I will now turn the conference over to César García, the Company's President and Chief Executive Officer. Please go ahead Mr. García!

Cesar M Garcia:

Thank you Heather for presenting our forward-looking statements.

Good afternoon and welcome everyone to the IRIS International fourth quarter conference call. Our Chairman Richard Williams and our Chief Financial Officer, Martin Paravato, join me on this conference call. We are pleased to present a summary of the Company's operations as well as an outlook into our immediate future.

As most of you know, the year 2003 was a year of many transitions at IRIS: new products, new markets, new management and new business systems.

In the fourth quarter, we experienced a change in guard with the appointment of a new CEO and CFO. At the end of February 2004, our former Chairman and friend of many years, Dr. John O'Malley retired after 16 years of service to IRIS. I want to thank Jack on behalf of all employees and the Board of Directors of the Company for his many contributions and leadership as Chairman during the past five years. I also want to welcome our newly appointed Chairman, Mr. Richard Williams who has already made significant contributions and worked very hard with us since his joining the Board in June 2003. I have asked Dick to share with you his vision and agenda for the coming years and, now he joins this conference call from his office. Dick, please go ahead!

Richard H. Williams:

(Mr. Williams Presentation - To be provided)

Cesar M Garcia:

Thank you Dick for sharing your vision with all of us. I look forward to working with you on growing our Company and building IRIS as a formidable competitor.

The fourth quarter culminated a year of significant accomplishments for the Company. The year was both exciting and very challenging. This would not have been possible without the extraordinary contributions and hard work of ALL IRIS employees. I sincerely thank them. As well, I want to thank our Board of Directors for their support and vision.

Q4 brought record revenues with sales exceeding \$10.3MM, a thirty-nine (39%) percent increase over the same quarter last year. During the second half of the year, we returned to profitability after losing money in the first two quarters, as a consequence of the iQ200 delay and increased R&D spending to complete

the iQ200 product development. Please let me share with you our most significant achievements in 2003:

- We ended the year with revenues 11% ahead of prior year.
- We shipped over 100 iQ200 microscopy analyzers in four and a half months and a total of 119 microscopy analyzers for the year including our Legacy products. This compares with 50 systems the prior year.
- We expanded our international distribution network to 28 countries, almost a ten-fold increase over prior year. Coincidentally, the number of international placements increased by a factor of 10 to 65 units and international revenues increased by a factor of three in spite that the new systems generated little consumable revenue due to their late placement.
- Our domestic sales team successfully transitioned our customer orders from Legacy products to the new iQ200 and approximately 50% of the systems were shipped to new accounts.
- We opened sales and distributor support offices in Milan and Hong Kong.
- We more than doubled our domestic sales and application specialist workforce and began to organize our domestic corporate accounts strategy.
- Our StatSpin subsidiary recovered after a poor first half and ended four percent ahead of prior year. As well, StatSpin initiated its first significant product development efforts in the last five years.
- On a negative note, our ADIR operation was downsized due to a significant reduction in federal funding. The personnel downsizing and other cost reduction measures implemented avoided over \$300K in cost overruns.
- We raised \$1.6MM in capital and our cash from operations began to further improve our cash position by the end of the year.

- Our manufacturing team successfully managed a difficult inventory transition without significant inventory write-offs in the legacy products being phased-out and the iQ200 phased in.
- We re-trained our support personnel and trained 20 International distributors.
- We increased the throughput of the iQ200 from 45 to 60 specimens per hour and released our first major software upgrade.
- We remained profitable in the fourth quarter in spite of significant non-recurring charges related to the management restructuring.
- And finally, our stock has risen from \$2.45 in January 2003 to \$6.05 by the end of December 2003.

Now, our CFO, Martin Paravato will present the financial summary for 2003. After Marty's presentation I will return to share with you our outlook into 2004. Marty, please proceed.

MARTIN PARAVATO:

Thank you very much Cesar. I am pleased to report on the results of our fourth quarter and year-end for 2003.

As announced earlier today, our consolidated revenues for the fourth quarter grew at a very satisfying rate of 39% over the comparable period of a year ago to \$10.3 million, our revenues for the year increased as well, to \$31.3 million an 11% increase over the previous year. These increases were primarily due to the launch, in August, of our new iQ[®]200 product platform.

For the fourth quarter we reported net income of \$81,000 or 1 cent per fully diluted share, as compared to 1 cent per fully diluted share in the comparable quarter of 2002. Net income during the fourth quarter was impacted

by approximately \$800,000 relating to severance cost in connection with the management restructuring.

Reviewing the results of operations for our business segments, the urinalysis products segment which we refer to as Iris Diagnostics reported net revenues of \$8.3 million during the fourth quarter of 2003 up from \$5.9 million during the fourth quarter of 2002, a 42% increase. Sales to our international customers also show significant improvement over the prior year. Sales to these customers increased to \$4.1 million during 2003, an increase of 193% from \$1.4 million during 2002. We expect that this trend will continue into 2004.

Revenues from StatSpin, our laboratory device division amounted to \$1.8 million for the quarter, up from \$1.5 million for the prior year quarter a 25% increase. For the year, revenues were up 4% to \$6.1 million. The increase is due to strong sales of centrifuges and increased revenues from supplies and service.

Contributing to our revenues and income were royalty fees received from licensing certain technology abroad. Such fees amounted to \$547,000 during 2003 as compared to \$508,000 during 2002. We expect that these fees will dramatically decrease during 2004 as the related licenses are scheduled to expire.

Higher cost of our Diagnostics instruments' produced during the year was impacted by a number of factors, product delay of four months and our low pre-launch production levels provided a smaller volume over which overhead could be absorbed plus costs relating to the start up of production of a major new product including learning curve expenses, small quantity buys and other manufacturing variances. Future international sales will result in lower average gross margin for the Diagnostics division since such sales are made through distributors abroad.

As a result, gross profit margins were 50% for the year 2003 down from 55% for 2002.

Our operating expense were up during the quarter and for the year, primarily as a result of management restructuring costs which amounted to \$800,000 for the fourth quarter and \$1.2 million for the year including retirement costs. In addition sales and marketing costs increased by approximately \$600,000 for the fourth quarter and \$1.4 million for the year and relates primarily to marketing for the introduction of the iQ200 analyzer and increases in our domestic and international sales force and distributor support group. As a percentage of revenues, operating expenses were 52% during 2003 as compared to 49% for 2002. We expect this rate to decrease during 2004 with a stronger revenue base that we will discuss shortly.

We are pleased with the improvement on our Balance Sheet during the fourth quarter, with the sale of 500,000 shares of our common stock in a private placement, which resulted in net proceeds to IRIS of \$1.6 million. Our total cash position at December 31 amounted to \$2.4MM.

With increased revenues during the third and fourth quarters, bank borrowings under our line of credit increased to \$2.9 million as of December 31, 2003. Our borrowing capability has improved due to the sales of the iQ200. Accounts receivable increased to \$7.2 million as of December 31, 2003 which allows us a higher borrowing level on our bank line.

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

Cesar M Garcia:

Thank you Marty for the excellent update.

Now, let's talk about the future.

The iQ200 continues to be accepted very well. For example, 50% of all international orders are repeat orders to fulfill end customer demand. As of March 1, 2004 fifty of the one hundred units shipped by December 2003 were reporting patient results in hospitals worldwide. This is encouraging news because we planned for a four to six months lag time between shipment and consumable demand. Therefore, we are confirming our planning assumptions.

Our business model assumes that each iQ200 System, that is, our automated urine microscopy analyzer plus the Arkray AX-4280, will generate approximately \$24,000 per year in recurring consumable revenue in the US mid-range market segment and \$30,000 per year in our traditional high-end market segment. Internationally, we expect to generate about \$8,000 per unit per year for the iQ200 microscopy analyzer only. In addition, after the one-year warranty period we expect to realize \$13,000 per instrument per year in service contract revenue domestically. Historically, about 50% of the domestic customers buy service contracts and an additional 35% maintain their instruments on a fee-per service basis. We will begin to enjoy this additional revenue stream at the end of 2004, after the warranty expiration.

As with any new product we have received significant feedback from our installed base of iQ200's and many future enhancements are in process in reaction to the early customer feedback. The system debugging has progressed smoothly and a quality problem with the bar code reader has been resolved. Almost all customer units have been retrofitted with a bar code reader that works flawlessly. In conclusion, the product quality is very good.

Our iQ200 order activity continues well but I need to remind you of the seasonality of the invitro diagnostics business, that is, the 4th quarter is traditionally very strong and the first and third quarters are weak.

It is also very important to mention that year 2004 will still reflect some of the transitional factors related to the iQ200 introduction into the global market. The most salient factors are:

- There is a four to six month lag between system placement and consumable generation. This lag results from the time required to install and connect the instrument to the laboratory information system, train lab technicians, correlate the system against a reference standard and, finally, have the system formally approved by the laboratory management.

- In addition, we do not realize service contract revenue or spare parts revenue until after the expiration of our one-year warranty.

- Units are shipped throughout the year and the in-year effect will be equal to approximately 50% of the units shipped.

- Lastly, the manufacturing learning curve costs and small quantity procurement variances will phase out by the beginning of the second quarter 2004.

In 2004, revenue growth will be driven by instrument placements and not by consumables. Therefore, during this transition period, earnings will not grow in line with revenue growth until we begin to see significant consumable usage. We anticipate significant growth in revenues and earnings early in 2005 and beyond, because the usage of consumables should increase very rapidly and, they also carry the highest margin of all products. Therefore, our advice to the

investment community is to measure our success on a revenue growth basis in 2004 and, revenue and earnings growth basis in 2005.

We continue to expand our international network and we anticipate distribution in 35 countries by the end of March 2004. In this regard, I want to inform you that the iQ200 registration in Japan is in process and that the first iQ200 is being installed this week at the world-renowned Keio University in Tokyo, Japan which has agreed to become ARKRAY's reference site. There are no negotiations pending and following ARKRAY's tradition, signing of our distribution agreement will occur after the customer evaluation process is completed in approximately 30-45 days.

Domestically, we have hired Mr. John Neuhauser as Director of Corporate Accounts. John and Al Nemeth, VP of US Sales, have initiated conversations with some of the most important group purchasing organizations and independent healthcare networks. We believe this would be a more efficient approach to accelerate our domestic penetration.

Our R&D initiatives for 2004 include work in process for body fluids, product improvements based on customer feedback thus far, and feasibility work to explore new applications and expanded markets.

Now, let's talk about our other subsidiaries, StatSpin and ADIR.

StatSpin will be launching its first new product in five years, a small DNA denaturation and hybridization station used to process one of the most important steps of a number of FISH assays. Fish assays are becoming routine molecular pathology procedures and this market segment is growing at a rate of approximately 20% per year. We have signed a three-year supply and development agreement for this private-labeled product with Dako-Cytomation A/S, a leading in vitro diagnostic company specializing in the identification of

cancer markers (i.e. HPV, HER2NEU), on samples obtained from tissue and body fluids. Under the terms of the agreement, we will also be pursuing distribution of a similar product under our own brand. Although this is not expected to materially affect our corporate results in 2004, it is a first step on our strategy to diversify our product line focusing on higher value-add applications.

Due to cash limitations and the concentrated emphasis on the iQ200, we have not invested significant funds in research and development on StatSpin in recent years. We have now authorized a program to modernize and improve our core products in StatSpin. We expect to release our first major product line extension during the first half of 2005.

Although ADIR has a significant list of potential grants with excellent scores from the National Institute of Health and the National Institute of Science and Technology, no new grants have materialized at this point in time. ADIR continues to make significant contribution to Iris Diagnostics, our urinalysis business but this subsidiary will continue on a re-trenched mode until further notice.

Now we would like to address Guidance for 2004. In the past IRIS has not given guidance regarding expected future revenues and earnings, however, we would like to provide our stockholders with our view for 2004.

Based on the above factors and our preliminary estimates we expect that our revenue will increase during 2004 by approximately 20%. Accordingly, we also anticipate an improvement in earnings per share to approximately \$0.12 to \$0.14 per share on a fully diluted basis. As the year progresses and we gain more understanding on the market acceptance of our new products, we will update our guidance as needed.

Management believes that EBITDA is an important indicator of the Company's performance because net income does not reflect the non-cash effect of our substantial tax NOL's and annual depreciation and other non-cash items. EBITDA will be provided on a quarterly basis.

Now, we will welcome questions from our audience. Heather would you take the calls please?

Thank you Mr. García. 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 *1 on your push button telephone. If you wish to withdraw your question, please press *2.

Your question will be taken in the order that it is received. Please stand by for your first question. Our first question comes from [participants name]. Please state your name and affiliation.

Q & A

(To be provided)

If there are no further questions, I will now turn the conference back to Mr. García.

Cesar M Garcia:

In closing, we want to thank you again for joining us today. We appreciate your support and look forward to a successful 2004. -----

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Ladies & Gentleman if you wish to access the replay for this call, you may do so by dialing 1-800-428-6051 or 973-709-2089 with an ID# of **343467**. This concludes our conference for today. Thank you all for participating and have a nice day. All parties may now disconnect.