

Forward Looking Statements

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Thank you Pam for presenting our forward-looking statements.

César M. García:

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

I am pleased to report that IRIS has achieved record revenues of \$11.8 million during a quarter that is traditionally our weakest, due to seasonality. We posted a 40% increase in comparison to prior year's quarter and our year-to-date performance reflects a 49% increase in comparison to prior year.

As explained before, we are in the penetration phase of the iQ200 and the most important element of our strategy is to install as many units as possible to drive recurring, high margin consumable revenue in future years. As a result of the significant change in our business model, 2004 should be considered a transition year where it is difficult for us to estimate potential sales and earnings on a quarter-by-quarter basis.

I am happy to report that our two operating units have achieved significant revenue growth in the third quarter. I'd like to start my report with our largest division, Iris Diagnostics.

IRIS Diagnostics

- Iris Diagnostics achieved a 36% revenue growth in comparison to last year's third quarter and year-to-date, they are 50% percent ahead of last year.
- As of the end of September, we have shipped 269 iQ200 Analyzers since the release of the iQ200 platform in August 2003. Our rate of placements accelerated this quarter and included shipments of 15 iQ200 analyzers to our Japanese partner and a large multiple-system order to the Administration of Veterans Affairs VISN4. The VISN4 region is the first one standardized to IRIS urinalysis products. These big orders contributed significantly to offset the seasonality effect normally experienced during the third quarter.
- Our Japanese distribution partner ARKRAY, Inc., introduced the iQ200 at the Japanese Laboratory Automation Conference in Yokohama, Japan. Thousands of potential customers attended the exhibits and hundreds participated in demonstrations of the iQ200 System. The President of the urinalysis section of the Japanese Clinical Chemistry

- Laboratory Society moderated a scientific presentation on the importance of urine microscopy and the performance of the iQ200. Approximately, 150 doctors and technologists attended this symposium, which was sponsored by Michio Naka, General Manager, Laboratory Systems Division at Arkray. Our iQ200 product is co-branded in Japan and ARKRAY has added our product to their AUTION (spelled A-U-T-I-O-N) family as the AUTION iQ 5210. I believe this exemplifies ARKRAY's full endorsement of our product and they have adopted it, as it's own product, a step that is not taken easily by a Japanese company. As mentioned before, ARKRAY has installed over 400 AutionMAX AX-4280's that are ready targets for connection with the Aution iQ 5210. In spite of this massive marketing activity in Japan, we do not expect significant orders from ARKRAY in this coming quarter, because it will take time for them to develop an order pipeline, but we are confident that Japan will become a key market for the iQ200 in 2005!
- Our plans to release for sale the new iQ200 Sprint, our new system targeting high volume labs, continues on schedule for the first quarter 2005.
 - We continue making progress with body fluids. Clinical studies are in progress at two hospitals in support of our plans to release this feature late in Q1-2005.
 - Our international business has more than doubled already and it represents now 19% of this quarter's corporate revenue.
 - As you know, our consumable revenue lags the instruments shipment by approximately 4-1/2 months. 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 \$2.0 million higher than the

- comparable period in 2003. This consumption will contribute to accelerate our revenue and earnings growth.
- Our corporate accounts initiative continues with significant activity with Premier, the Veteran Affairs VISNs, and other GPO's. In addition, we have been successful on renewing five-year agreements with the US Federal Government, those include: an instrument purchase agreement with the General Services Administration (GSA) and a reagent-rental agreement (also called a cost per reportable result) under a Federal Supply Schedule. These agreements apply to all federal entities including VA hospitals and military installations. Forty-three percent of all domestic shipments to-date involved a government account or a Premier-affiliated hospital.

StatSpin:

- I'd like to turn our attention to our StatSpin Subsidiary. StatSpin achieved a 55% revenue growth in comparison to last year's second quarter and, year-to-date, they are 48% percent ahead of last year averaging approximately \$2 million per quarter.
- Our new DNA processing workstation has been a success with over 250 units shipped since March and we now carry a backlog of 100 additional units.
- Our shipments to our veterinary partner continue at a very high pace and they represented approximately 50% of the increase in revenue reported by StatSpin this year.
- In conclusion, StatSpin has maintained a significant growth in revenue and earnings.

ADIR

Our ADIR subsidiary has been successful in securing additional grants with total funding approaching \$4.0 million to be used over the next three years.

The feasibility program of the face recognition system is progressing per plan and ADIR recently signed a technology licensing agreement that was very important to maintain our development schedule.

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. Our earnings should continue to improve as product cost improves and the usage of consumables accelerates. Our EBITDA has increased to \$1.7MM this quarter and our cash continues to grow because we have significant NOL's and taxes are reported but not paid. We are very satisfied with our financial performance in spite of the charges taken to record the devaluation of a security held by the company since 1999 and the significant expenses required to comply with the Sarbanes-Oxley Section 404 within only six months after becoming an accelerated filer. A final point, our share count increased significantly with the recent financings and exercise of warrants and, options added to the share count because as the company performance improves, more options are "above water". With this preamble, I now introduce Marty Paravato.

Martin Paravato:

Thank you very much, César. I'm pleased to report on our financial results for the third quarter.

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As announced in our earnings release today, for the third quarter ended September 30th, 2004, we reported net income of \$481,000, or three cents per fully diluted share, on record revenues of \$11.8 million, as compared to net income of \$128,000, or one cent per fully diluted share, in the comparable quarter of 2003.

For the nine months ended, net income increased to \$1,449,000, or nine cents per fully diluted share, as compared to a net loss of \$610,000, or six cents per fully diluted share, for the first nine months of 2003.

As I mentioned, consolidated revenues grew to a record level of \$11.8 million in the third quarter – a very satisfying 40 percent increase over the comparable quarter of 2003.

The increased revenue has resulted from another quarter of strong sales of our iQ200 analyzers and related systems, consumables and service, as well as increased sales at our StatSpin subsidiary.

Reviewing our business segments, our Iris Diagnostics Division continues to grow and instrument sales amounted to \$4.0MM for the quarter, a 73 per cent increase over sales of \$2.3MM for the comparable quarter of the prior year. Consumables and service revenues rose to \$5.3 million during the third quarter, up from \$4.4 million during the third quarter of 2003 – a 22 percent increase for the quarter. This was attributable to the increased number of instruments in service during the quarter.

Revenues from StatSpin – our small laboratory device division – amounted to \$2.4 million for the quarter, up from \$1.5 million for the same quarter of the prior year – a 55 percent increase. The increase is due to continued strong sales

of centrifuges and their DNA processing workstations, plus increased revenues from related supplies and service.

Revenues from royalty fees tailed off during the quarter as one of our license agreements expired in July. Royalty fees amounted to only \$17,000 during the third Quarter, as compared to \$177,000 during third quarter of 2003.

Gross profit margins for the third quarter were 49 percent as compared to 51 percent during the same quarter a year ago. Profit margins reflect an increase in international sales of instruments and consumables to distributors, which traditionally generate lower gross profit margins. Such revenues grew to 19 percent during the current quarter as compared to 10 percent last year.

Additionally, during the quarter, profit margins were impacted by lower 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 revenue and related profit margins.

Gross profit margins at StatSpin were 48 percent during the current quarter as compared to 49 percent for the prior-year quarter.

Operating expenses, which includes selling, marketing, general, and administrative, as well as research and development costs, increased during the quarter by \$531,000, or 13 percent.

Operating expenses as a percentage of sales, however, decreased to 38 percent from 47 percent in the prior-year quarter. Sales and marketing expenses increased \$271,000 during the quarter – primarily from incremental commissions

and payroll costs supporting the increased revenues and the new international sales support organization.

As a percentage of sales, however, sales and marketing expenses decreased to 15 percent from 18 percent, as compared to the prior-year quarter.

General and administrative expenses increased during the quarter by \$243,000, the majority of which related to costs incurred for compliance with Section 404 of the Sarbanes-Oxley Act of 2002, which addresses internal controls on Financial Reporting.

Research and development expenditures were approximately the same during both periods and reflects IRIS' continued commitment to investing in new products and enhancement to existing products.

Net income for the quarter was impacted by the write-down or impairment of \$531,000 on shares we held in Applied Imaging Corporation acquired in 1999 plus the cost of the Sarbanes-Oxley compliance discussed above. The effect of these two items on EPS was approx. \$0.03 per share.

Our balance sheet continues to be strong, as of September 30th, we have \$13.3 million in the bank, and our working capital has improved to \$22.8 million, up from 6.6 million at December 31st, 2003.

As noted in our press release, earnings before interest, taxes and depreciation – or better known as EBITDA plus the non-cash write-down of the investment – increased to \$1.7 million for the current quarter, as compared to EBITDA of \$574,000 for the prior-year quarter. On a year-to-date basis, EBITDA

amounted to \$4.3 million, compared to negative EBITDA of \$39,000 during the first nine months of 2003.

We anticipate that sales will continue strong during the fourth quarter. We previously announced revenue growth of 25% for 2005; we are currently finalizing our budget for 2005 and will announce earnings guidance at the year-end earnings conference call, scheduled for late February 2005.

Now I'd like to turn the next portion of our conference call back to César García, our Chief Executive Officer.

César M. García:

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

Q&A

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. If you wish to withdraw your question, please press star two. Your question will be taken in the order that it is received. Once again, please press star one for questions.

We'll take our first question from Ernest Andberg, Feltl Company.

Ernest Andberg: Hello, Cesar, Marty.

Cesar Garcia: Hello, Ernie.

Ernest Andberg: I got – I'll start with three questions and then get back in line, but the consumables and services revenue seem to pick up about a quarter sooner than I thought, in the third quarter rather than the fourth quarter. Should we expect the same kind of progress sequentially in the fourth quarter, do you think, relative to the third quarter?

Cesar Garcia: I think the answer is yes, Ernie. I think that we're experiencing higher and faster utilization of the systems than we expected.

Ernest Andberg: OK.

Martin Paravato: The other thing is service revenue will start kicking in now that the units have been out there 12 to 15 months.

Ernest Andberg: And that's one of the reasons why I had put pickup in the fourth quarter, to pick up those ones you sold in the fourth quarter last year, or third quarter last year. The 15 units to Japan, knowing something about what you suggest your ASPs and a discount to selling to ARKRAY and the systems you sold the VA, was that as much as a million and a half dollars, do you think, of incremental revenues in this quarter, Cesar?

Cesar Garcia: Close.

Ernest Andberg: OK. And we should, by your comments, other things equal, not expect the same kind of bump to the equipment revenue in the fourth quarter from those types of items, ex any incremental progress you make in just selling the general?

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Martin Paravato: We don't anticipate any additional orders from Japan, but we do anticipate additional orders from the VA during the fourth quarter.

Ernest Andberg: OK. And my last question, I'll get back in line, the – was the \$200,000 of Sarbanes-Oxley in the G&A line?

Martin Paravato: Yes, it was.

Ernest Andberg: OK. Was there anything else in there that kicked expenses up there relative to the first and second quarters, or hires or unusual expenses, Marty?

Martin Paravato: On the G&A line, no.

Ernest Andberg: OK.

Martin Paravato: That was substantially it. The G&A line increased \$243,000, approximately, quarter over quarter and, you know, the Sarbanes-Oxley was approximately \$200,000 of that.

Ernest Andberg: So ex Sarbanes-Oxley we should expect a similar kind of number in the fourth quarter?

Martin Paravato: Well, I hope it's not that much. We will expect another bump in the fourth quarter when the auditors then come in and test what we did in the third quarter, so yes, there will be an additional cost in the fourth quarter. But for sure it won't be as high as \$200,000.

Ernest Andberg: Fair enough. Thank you.

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Martin Paravato: Maybe about 50 percent of that.

Ernest Andberg: Thank you much.

Martin Paravato: OK. You're welcome.

Operator: Thank you. And we'll take our next question from Barry Kitt, Pinnacle Fund.

(Tom Hunse): Hi, guys. (Tom Hunse), Pinnacle Fund.

Cesar Garcia: Hi, (Tom).

Martin Paravato: Hi, (Tom).

(Tom Hunse): Say, do you have – nice work, by the way. Do you have any conferences, stock conferences you're coming up to in the near future?

Cesar Garcia: Yes. We have. We're presenting tomorrow at the Rodman & Renshaw Techvest Conference. Our presentation is at nine a.m., and it will be Webcast. I would also – we'll be participating at the AeA conference in Monterey, California, on November 9th and 10th.

(Tom Hunse): OK. On the Rodman Renshaw, how do – will you put a press release out to drive us to that Web site for Webcasting? Or how would we find out about that?

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Cesar Garcia: We will be issuing a press release clarifying that we're going to be participating via Webcast, and that will be going out today.

(Tom Hunse): OK. And what about your efforts to obtain additional research coverage?

Cesar Garcia: The effort, as you know, has been productive so far. We have announced coverage by Feltl. We are working with two other analysts and I think they're approaching the final decision points, and we should hear from them very soon.

(Tom Hunse): All right.

Cesar Garcia: During this quarter.

(Tom Hunse): Great. OK. Thanks.

Cesar Garcia: Thank you.

Operator: Thank you. And we'll take our next question from Gary Schwab, Janney Montgomery Scott.

Gary Schwab: Good quarter, guys.

Martin Paravato: Thanks, Gary.

Gary Schwab: In the second quarter you had 43 countries signed up and 30 of them, I think you said, were up and actually running. What are the statistics as they stand today?

Cesar Garcia: Well over 45. I think that we are getting to the point of diminishing returns now. As I explained before, our target was to get to 50. And of those 45 countries, about 35 of them are actually – they actually have instruments in use, which is very good. So we're seeing a lot of activity on the international side, Gary.

Gary Schwab: Yes. OK. Very good. I have some questions on the body fluids product line.

Cesar Garcia: Yes.

Gary Schwab: Your best selling legacy product was what? Was it the model 500? Or was it the 939?

Cesar Garcia: The model 500.

Gary Schwab: And that was the body fluids product?

Cesar Garcia: That's correct.

Gary Schwab: And that's – on a mix, was it like 75 percent model 500s?

Cesar Garcia: That's correct.

Gary Schwab: So have you replaced any model 500s with iQ200s? Or are they sort of waiting for the body fluids product?

Cesar Garcia: We have replaced a number of them. I cannot tell you right now the breakdown between how many 500s versus how many 939s were replaced. But if you follow the statistics, most of the systems that we have replaced are model 500s.

Gary Schwab: Because those were most of the systems that were out there?

Cesar Garcia: That's correct. And the people that have adopted the iQ200, they have done it because it's so convenient to use, and some have purchased the iQ200 with a promise to get the body fluids software upgrade, because the body fluids would only be a software update and some addition of consumables.

Gary Schwab: Yes. Have you come up with what that retrofit sale would be in the neighborhood of?

Cesar Garcia: In terms of charge to the customer?

Gary Schwab: Right.

Cesar Garcia: For the early adopters, they – we gave them away. We basically have list price of \$15,000 for the body fluids.

Gary Schwab: OK.

Cesar Garcia: I'm talking from memory here, there is between \$10,000 and \$15,000 per unit, closer to \$15,000.

Gary Schwab: But the early ones you gave away, the people that had the model 500s, was that the plan that ...

Cesar Garcia: It was the plan – in the early adoption of the iQ200, we made some concessions. I think that there are about 10 customers that received the option, the free option to upgrade to the body fluids package.

Gary Schwab: OK. But you'll be selling it now.

Cesar Garcia: Yes.

Gary Schwab: Would you expect that most of the iQ200 owners domestically would be buying the body fluids package?

Cesar Garcia: I assume at about 50 percent.

Gary Schwab: And what about internationally? Do they, are they interested in this product also?

Cesar Garcia: They are. I do not have a specific percentage at this point in time because it varies from country to country.

Gary Schwab: Yes.

Cesar Garcia: And some countries will want it 100 percent. Some don't. And I don't have the statistics as to how many.

Gary Schwab: OK. And one last thing, from your experience with the model 500, could you guess as to what kind of incremental revenues would be

generated from body fluid consumables? I think you said the iQ200s generate about \$10,000 domestically and \$8,000 internationally. How much more would – is body fluids a big product?

Cesar Garcia: Body fluids, I think that it would not get us a lot of revenue incrementally to a regular user, but all over 10 percent ...

Gary Schwab: Yes.

Cesar Garcia: ... usage. I change that to probably 15 percent because we would sell the consumable at a higher price. So about 15 percent. The issue is that we are still in development so I can't give you a final answer.

Gary Schwab: Right. OK. And this is also going to be used in CRLs, too, correct?

Cesar Garcia: That's correct. For the audience that don't know what CRL stands for is Clinical Reference Laboratories.

Gary Schwab: OK. All right. Actually, just a couple more here. You said that the AACC show back in July was a very good show. I was wondering if you're seeing, if you're converting some of those leads or if you're seeing that pipeline build up now since the show.

Cesar Garcia: We have converted some. Remember that because of the budgetary cycle it takes about six months to convert from a lead into a sale.

Gary Schwab: OK.

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Cesar Garcia: So a lot of people, what they do is they put into the budget for the following year. You will see the significant effect of the AACC in July, excuse me, January of 2005.

Gary Schwab: Yes. OK. All right. Thanks very much.

Cesar Garcia: Thank you, Gary.

Martin Paravato: Thanks, Gary.

Operator: Thank you. And we'll take our next question from Walter Ramsley, Walrus Partners.

Walter Ramsley: Congratulations. Great quarter.

Cesar Garcia: Thank you, Walter.

Martin Paravato: Thank you.

Walter Ramsley: Just a couple things. The Sarbanes-Oxley expenses, I mean, do you view that as kind of a one-time expense for this year, or is that going to continue along in 2005?

Martin Paravato: Well, you know, what I think will happen, because there is ongoing monitoring and ongoing testing, it will continue into 2005. Not at the same rate that we incurred in 2004 because this was our initial year to go through the documentation process and testing process, but there will be continued, ongoing costs in connection with Sarbanes.

Walter Ramsley: Yes. OK. That's sort of what I thought. And the write-down, did you deduct a tax provision for that? Or is that just ...

Martin Paravato: Yes.

Walter Ramsley: ... that's – OK.

Martin Paravato: Yes we did. It was tax-effected.

Walter Ramsley: OK. And the Premier arrangement, have you generated any significant business through that thing yet?

Cesar Garcia: Yes. Between what we have actually shipped and what we have on-hand, almost 10 percent of the orders are for Premier-affiliated hospitals.

Walter Ramsley: Oh, that's pretty good.

Cesar Garcia: That's very good.

Walter Ramsley: See that increasing further, or what's the prognosis with that relationship?

Cesar Garcia: I think that we would like to increase it further. We are in the final stages of the budget for 2005, and obviously Premier and Government accounts are very significant. As I mentioned, over 40 percent of the shipments of the quarter were effected) through a Government account or a Premier-affiliated hospital.

Walter Ramsley: OK. And then just one last thing, the StatSpin produced really pretty exceptional results in the latest quarter. Was that kind of a one-time thing, or is that momentum going to continue?

Cesar Garcia: StatSpin has been producing at a rate of about \$2 million per quarter this year. We're very happy with that. The only caveat is that about 50 percent of the increasing revenue is coming from one customer, an OEM customer that we have.

And obviously you have a certain dependence of under-performance, so our performance may vary up or down with their performance. But otherwise the rest of the growth is organic and so increasing to the clinical business and a significant contribution for the DNA processing station.

Walter Ramsley: Yes. Looks good. OK. Great. Thanks a lot.

Cesar Garcia: Thank you, Walter.

Operator: We'll take our next question from Patrick Walker, Walker Smith Capital.

Patrick Walker: Hey, guys. Congratulations on a great quarter.

Cesar Garcia: Thank you.

Martin Paravato: Thanks, Patrick.

Patrick Walker: I just wanted to clarify a couple things. I think most of my other questions have been asked. Did you say – was that year-to-date

consumables was up 200 percent? Or I was trying to – I think I missed that, on the consumable revenue?

Martin Paravato: Yes, year-to-date consumables on a quarterly basis were up about a million dollars, or 22 percent. And on a year-to-date basis, they were up \$2 million.

Patrick Walker: So what was the gross number then, dollars of consumables?

Martin Paravato: The gross number of consumables for the quarter, consumables and service the quarter were 5.3 million.

Patrick Walker: OK. They're – OK, I see.

Martin Paravato: And for year to date it was 14.7 million.

Patrick Walker: OK. And you're not splitting it up further than that. I thought I missed something on that when you said it. And a little bit confused also on Japan, as far as the – you said you do expect that to be accelerating in the next year?

Cesar Garcia: Next year.

Patrick Walker: OK. But not so much in the fourth quarter, is that what...

Cesar Garcia: Not in the fourth quarter. They took 15 units in July, and those units are being used by ARKRAY. And they also have, what they call dealers, and their dealers are promoting the instrument. So we expect to see the order inflow to begin in Q1 2005.

Patrick Walker: OK. Well, that sounds great.

Cesar Garcia: Yes. Thank you, Patrick.

Patrick Walker: Thank you for your time.

Cesar Garcia: Thank you.

Operator: We'll go next to Brian Kowalchyk, Westpark Capital.

Brian Kowalchyk: Nice job this quarter, guys.

Male: Thanks, Brian.

Brian Kowalchyk: Just a quick question on your gross margin. If my math is right, the gross profit in the IVD segment at 34 percent was very strong here, especially looking back over the past couple of quarters. Is that a gross margin that you anticipate continuing going forward, or is there some unusual strength? I'm especially excited about it because you mentioned that your international business was a big piece of your business, which is normally a lower-margin business. But the 34 percent margin of IVD is very strong.

Martin Paravato: That's always been our target, Brian, as you well know. We've always had the target of 34 percent to 35 percent, and I think one of the reasons is that there were no unusual blips during the quarter in the manufacturing area. The manufacturing was strong. We had additional

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units that we manufactured in the quarter since the sales were up, and we expect that to continue into 2005.

Brian Kowalchuk: So it sounds like you've got the manufacturing efficiencies kind of narrowed in and dialed down, and even with a strong international business, seeing a 34 percent margin is very encouraging going forward.

Martin Paravato: Well, we hope we can continue.

Brian Kowalchuk: Thanks, guys.

Male: Hello?

Operator: Thank you. We'll take our next question from Barry Kitt, Pinnacle Funds.

(Tom Hunse): Hi, guys. (Tom Hunse) again.

Male: Hi, (Tom).

(Tom Hunse): Following on the previous callers questions about the additional body fluids, he talked about the CRLs, Clinical Reference Laboratories. Can you give us a little bit more color on the size of that market and how they differ from your traditional market?

Cesar Garcia: Well, the traditional domestic market that we have is about 2,500 sites. The Clinical Reference Lab, it's a different market segment.

It is characterized by very high volumes, obviously with volume it brings lower margins but the incremental volume should far exceed the reduction in margins. So that margin – that market we estimate to be about 1,000 sites, and those sites, they perform between 600 to 1,500 specimens per day. So it's many times more the volume that is performed in a routine ...

(Tom Hunse): Versus the hundred or so in a hospital environment.

Cesar Garcia: Yes.

(Tom Hunse): OK. And consumables associated with the additional body fluids will be more or less?

Cesar Garcia: It will be more consumables in terms of – for processing the body fluids.

(Tom Hunse): Yes.

Cesar Garcia: Some of the body fluids, they are like a gelatin. They have to be dissolved, and we have those consumable designed. Also the – some of the regular consumables will be used more frequently

(Tom Hunse): OK. And did you see any push-back from prospects earlier on that said, say “When you get additional body fluids capability, give us a call back and we’ll be interested at that time?”

Cesar Garcia: Yes. We have a number of accounts they have basically delayed their acquisition decision until we have body fluids. Body fluids should not

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be only seen as an incremental software and an incremental consumable.
It's that it really makes the package stronger.

And although it is difficult to quantify the incremental revenue directly related to body fluids, it strengthened the offering, the product offering, and more people will buy the instruments because it's a more complete package.

(Tom Hunse): OK. All right. Nice job.

Cesar Garcia: Thank you.

Martin Paravato: Thank you.

(Tom Hunse): Bye-bye.

Operator: And we'll go to Gary Schwab, Janney Montgomery Scott.

Gary Schwab: Yes, you said something in the release about that VISN4 recently standardized their labs to IRIS' urinalysis technology.

Cesar Garcia: Yes.

Gary Schwab: Is that just VISN4 or is that all the VA hospitals?

Cesar Garcia: It's only VISN4.

Martin Paravato: VISN4 is a certain region and...

Cesar Garcia: It's a mid-Atlantic ...

Martin Paravato: It's a mid-Atlantic region.

Gary Schwab: Right. Are the – did they standardize it because they were looking at your product line and they needed to standardize to buy your product? Or is this something that's happening throughout the VA hospital, through the other – I guess there's 21 regions all together, and can you sell them a product before they standardize – do they have to standardize it before they buy your product? Or how does this work?

Cesar Garcia: No, they don't have to standardize. What is happening with the VISN regions throughout the nation, (there are 21 different regions) is that they're beginning to behave more like GPOs, and they're trying to benefit from the purchasing power of aggregate purchases.

And obviously you have to present your proposal. You have to perform typically a side-by-side evaluation between our products and the competing products.

Gary Schwab: OK. And the standardization part that you're talking about?

Cesar Garcia: Standardization part, I think that it will continue to take a stronger role in the decision-making because they do not want to have multiple technology systems in the same hospital because it imposes on them a bureaucracy to maintain correlations between technologies. And if you can sell them IRIS, our technology throughout, both on the chemistry and microscopy, it really simplifies their lives substantially.

Gary Schwab: I understand now. So you're saying once you started selling some of the equipment, they standardized all their different hospitals so that they could all, they would all run on your equipment.

Cesar Garcia: They run on our equipment. They can go to their accreditation commissions and they can make things easier for them...

Gary Schwab: Right.

Cesar Garcia: ... to maintain the protocols on the correlations.

Gary Schwab: They can transfer information back and forth.

Cesar Garcia: Correct.

Gary Schwab: OK. And one other thing, you were talking about the GSA, and I missed what you said about that, some kind of GSA agreement.

Cesar Garcia: GSA, you have two different agreements that you need for the Federal Government. They are typically five-year agreements, and you have to negotiate with them. The GSA agreement is for acquisition of equipment of purchases of instruments.

The current federal supply schedule is more for reagent rental. They call it cost per reportable result. They want to pay based on the results that are reportable. And you also have to negotiate with them an effective price schedule. And the hospitals and the military institutions cannot purchase from a supplier unless they are . . . , they have this agreement with the

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Federal Government. So it was very important to renew them, and we did that in this past quarter.

Gary Schwab: OK. All right. Very good. Oh, one last thing, on ADIR.

Cesar Garcia: Yes?

Gary Schwab: How were they coming along? I think they were expected to have their first prototype available in the facial biometrics by like next June, June of 2005. Are they still on target for that?

Cesar Garcia: They're still on target. As I mentioned, we signed an important licensing agreement for certain software that was needed for the face recognition program. They're implementing the prototype. They're working both on the hardware and the software. They're making significant progress at this point in time.

Gary Schwab: OK. Great. Thanks, Cesar.

Cesar Garcia: Thank you.

Operator: Thank you. We'll take our next question, (Tom Hunse), Pinnacle Fund.

(Tom Hunse): Hi, guys, again. Say, on the last conference call on the earnings release you issued guidance for 2004 with 25 percent revenue growth and EPS of 14 to 16 cents given the fact that we're at 12 cents here year to date. Any – did you find any need to upgrade the guidance that's out there?

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Martin Paravato: well, I think, like I said, sales are going to continue strong during the fourth quarter, and you know, we feel very confident that we're going to meet our numbers and, you know, especially on the sales side. But we weren't comfortable trying to redo our earnings projection or updating our earnings projection at this time.

(Tom Hunse): Well, with the Feltl Alliance, here a nickel, that would be 17 cents above your current guidance.

Cesar Garcia: That's correct.

(Tom Hunse): OK.

Cesar Garcia: That's correct. If you look at what Marty presented before, Marty presented our EPS, as reported was three cents.

(Tom Hunse): Yes.

Cesar Garcia: So you have an addition of three cents between Sarbanes-Oxley and the devaluation. So...

Martin Paravato: Sarbanes-Oxley will continue in the fourth quarter...

Cesar Garcia: ... yes, Sarbanes ...

Martin Paravato: ... to some extent.

Cesar Garcia: So if you look into this just with the devaluation, five cents.

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(Tom Hunse): OK. All right. Thank you, guys.

Cesar Garcia: Thank you.

Operator: And once again if you would like to ask a question, please press star one on your telephone keypad at this time. And we'll go next to Ernest Andberg, Feltl Company.

Ernest Andberg: Marty or Cesar, you discussed that there is one significant customer in the StatSpin subsidiary. Are you – and that could introduce some volatility in results. Are you able to track what they're doing, inventory stocking as opposed to sell through? Or are you blinded to that?

Cesar Garcia: No, we have a very good relationship with them. We receive quarterly updates on the forecast. So we have at least our six months of visibility going forward. But the only reason that I mentioned it is because it's a significant part of the business, of the StatSpin business.

Ernest Andberg: So in the short-run, you expect StatSpin to continue in this \$2 million-plus range that you've been doing?

Cesar Garcia: That is correct. We have no reason to believe that. We don't know of any adverse effect, either in the relationship with the OEM customer or on their business and they are willing to place that many units.

Ernest Andberg: Thank you.

Operator: We'll go next to Steven Hart, Siar Capital.

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Steven Hart: Hi, guys.

Cesar Garcia: Hi, Steve.

Martin Paravato: Hi, Steve.

Steven Hart: Cesar, in your prepared remarks, or Marty, maybe you might have said it, did you allude to '05 guidance at all of revenue growth?

Martin Paravato: Yes. We had previously announced that we expect revenue to grow at least 25 percent in '05. That was done at the last conference attended and the last conference call we had. Yes, we issued a press release, as a matter of fact, on that.

Steven Hart: OK. Great. Thanks.

Martin Paravato: But we haven't issued earnings release, earnings guidance for '05.

Steven Hart: Right. That you said you'll update on the next call, right?

Martin Paravato: Correct.

Steven Hart: OK. Thanks.

Operator: Thank you. And if there are no further questions, I will now turn the conference back over to Mr. Garcia.

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César M. García:

In closing, I want to thank you for participating in this conference call and we look forward to seeing you at one of the upcoming investor conferences. Have a good day!

Operator: Ladies and gentlemen, if you wish to access the replay for this call, you may do so by dialing 1-888-203-1112 or 719-457-0820. The password ID number is 832479.

This concludes our conference for today. Thank you all for participating, and have a nice day. All parties may now disconnect.

END