

**IRIS Q4 Conference Call Script:  
Tuesday, March 1, 2005, 11:00 AM Eastern Time**

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**Forward Looking Statements**

This conference call 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.

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**César M. García:**

**Thank you Rochelle for presenting our forward-looking statements.**

**Good morning and welcome everyone to the IRIS International fourth quarter conference call. Our Chief Financial Officer, Martin Paravato, joins me on this call. I would like to remind you that you can simultaneously access the slides of this presentation on Vcall.**

I am pleased to report that in 2004, IRIS has achieved record revenues of \$43.6 million, an increase of 39% over prior year, and increased operating income by approximately \$5 million. This is a result of the global success of the iQ200 platform and the execution of a comprehensive turnaround plan that has dramatically improved our Company's financial performance. The business restructuring initiative was initiated late in 2001 and has begun to produce significant returns for our shareholders in 2004, a trend that we expect to accelerate in 2005. First and foremost, I want to express our gratitude to each employee of the Company for their efforts and dedication to transform our vision into a reality.

**Slide 3: Key Financial Indicators**

We have made significant improvements in practically every financial indicator, from earnings to debt. But more importantly, we are well positioned and have built solid foundations for the acceleration of earnings.

Our shareholders equity has grown and our balance sheet will continue to get stronger as we generate significant cash in future years and use our NOLs to offset taxes.

I'd like to start my report with our largest division, Iris Diagnostics.

**IRIS Diagnostics**

Our Diagnostics Division executed very well in 2004, a transitional year for the company:

- Iris Diagnostics achieved a 20% revenue growth in comparison to last year's fourth quarter and at year-end it ended 40% ahead of 2003.

- **As of the end of the fiscal year, we have shipped 240 iQ<sup>®</sup>200 Analyzers in 2004 and 340 iQ200 Analyzers since the release of the iQ200 platform in August 2003.**
- **Although we now have over 700 IRIS analyzers in the field, our total number of instruments in clinical use increased to approximately 600, including our legacy workstations Model 500's & 939's. Please note that these 600 units are net of replacements (mostly domestic) and shipped instruments pending installation.**
- **Our Japanese distribution partner, ARKRAY, Inc., initiated its product demonstration process during Q4-04. Their first customer installations are in process as we speak and, we expect Japanese placements to accelerate during 2005.**
- **A significant objective of our iQ200 launch program was to demonstrate the superior clinical utility of the iQ200. Four peer-review papers have been accepted for presentation at the upcoming EUROMEDLAB / IFCC Conference in Glasgow, UK.**

#### **SLIDE 4: New Diagnostics Products**

- **Shipments of the iQ200 Sprint were initiated on February 25, 2005. The iQ200 Sprint Microscopy Analyzer is priced \$15,000 higher domestically than the original iQ200, and we estimate on average a 100% increase in recurring revenue from consumables.**
- **The body fluids "510K" pre-market notification was submitted to the FDA at the end of January 2005. The "510K" review & clearance cycle typically takes between 60 and 120 days for an in vitro diagnostics application. We plan to initiate shipments within 10 days of clearance. The iQ200 body fluid software is an option with a domestic list price of \$10,000. As a direct result of the iQ200 body fluids application, we**

expect to increase our recurring microscopy consumable revenue by at least 20-25% or on average, \$2500 per instrument per year in the US. We expect 50% of the accounts to perform body fluids testing.

**SLIDE 5: A Recurring Theme: Increasing Consumables**

- Our iQ200 Sprint and body fluids applications build on a recurring theme: increasing high margin, recurring consumable revenue.
- As you know, our consumable revenue significantly lags the instruments shipment. I am happy to report that we have reduced the domestic instrument commissioning cycle (time to consumption) from 4.5 months to 3.2 months. Our international instrument commissioning cycle will remain at 4.5 months due to additional handling by our distribution partners. Consumable & service revenue increased 16% to \$20 million despite the lag time mentioned above, and that most iQ200 Analyzers shipped in 2003 and 2004 were covered by a 15-month warranty period. The continuing acceleration in consumables should significantly increase our earnings in 2005.

**SLIDE 6: The Power of the Combined System**

- Our consolidated international business has almost doubled and it now represents 18% of 2004 corporate revenue. We are very satisfied with the acceptance of the iQ200 in China and Europe. For example, our Chinese distributor has purchased 19 units in seven months. Placements in major European countries like Italy, Spain & the UK have begun to accelerate. Forty-five percent of all international iQ200 Analyzers have been connected to the AUTION-MAX AX-4280 despite that only about 50% of our international distributors can sell the Arkray

chemistry product line. Ninety-five percent of all domestic iQ200 sales are for combined systems.

**SLIDE 7: US Corporate Accounts Initiatives**

- The corporate accounts initiative has been very successful with significant activity with Premier and the US government accounts. Fifteen percent of the domestic iQ200 System placements were to a Premier-affiliated institution. Earlier this year, 2005, our GPO initiatives proved successful when we added Consorta and Broadlane to our list of contracted GPO's. Forty percent of all domestic shipments to-date involved a government account or a Premier-affiliated hospital.

**SLIDE 8: Our Future Pursue of High Value Applications**

- On the technology side, we have continued to invest in Research & Development with four technology programs running parallel in 2004: Body fluids, iQ200 Sprint, a major revision of the automated particle recognition software and a research program to expand our business into high value urinalysis applications.
- During the fourth quarter, we authorized a technology feasibility program to explore the possibility of diagnosing bacteria, cancer and rare cell detection, in urine, using our flow microscope technology. We have begun research on a first possible application; automated bacteria identification within a urine sample to replace urine cultures. Given the estimated addressable market of approximately \$300 million and few applications, if any, available for rapid identification of bacteria in urine, the success of our research could have a significant impact on the future addressable market for an expanded iQ200 platform. We are pleased with the progress to date and hope to have a conclusion as to

feasibility of development by the end of the calendar year. Our 2005 spending incorporates this research program.

**SLIDE 9: Growth Plan**

- We are also investigating into companies with technologies that can help us implement this vision, or with related product lines that can move through our distribution channels.

Let's focus now on our StatSpin subsidiary:

**SLIDE 10: StatSpin Business**

- StatSpin achieved a 13% revenue growth in comparison to last year's fourth quarter and they closed 2004 37% percent ahead of last year, averaging \$2.1 million per quarter. Their performance was excellent, but this rate of growth cannot be expected year after year in a mature business. We expect modest growth within StatSpin in 2005. Despite that, it is also important to mention that StatSpin makes a significant contribution to earnings with operating margins of 23 percent in 2004.
- We plan to release our new centrifuge, the Express 3, during the second quarter 2005. This new product is expected to expand our participation in rapid processing of whole blood for cardiac marker testing.

**ADIR**

**SLIDE 11: 3D Face Recognition Research Program**

Our ADIR subsidiary was successful in securing grants totaling \$4.3MM in 2004, to be used over the next three years. Approximately \$3.2 million in funding

remains for 2005 and beyond. The feasibility program of a 3D face recognition system is progressing, for example:

- A technology licensing agreement was signed for the three-dimensional face capture and reconstruction software.
- An engineering model consisting of the image capture and illumination systems, and proprietary image capture and face reconstruction software has been implemented.
- ADIR and a group of scientific collaborators have initiated their research efforts toward the discovery of an effective face-matching algorithm. We expect to complete the first prototype of the access control only product by June 2005. Development of the 3D face recognition system for airports and other ports of entry depends on the success of this first application.

In conclusion, progress in all operating groups of the Company has been significant in 2004. We are very pleased with our turnaround and the Company is on target to achieve the comprehensive growth planned for the next three years.

Now, our Chief Financial Officer, Martin Paravato, will discuss the financial results for the quarter ending December 31, 2004.

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Thank you very much, César. I'm pleased to report on our financial results for the fourth quarter and year-end for 2004.

**SLIDE 13: 2004 RECORD YEAR**

***2004 WAS A BANNER YEAR  
RECORD REVENUES AND RECORD EARNINGS***

As announced earlier today, we achieved record revenues of \$12.2 million for the fourth quarter ended December 31st, a 19% increase over the fourth quarter of 2003. For the quarter, we reported net income of \$830,000, or five cents per fully diluted share, as compared to net income of \$80,000, or one cent per fully diluted share, in the fourth quarter of 2003.

In August 2004 we announced revised guidance of revenue growth of 25% (later increased to 30 to 35%) and revised earnings guidance of \$0.14 to \$0.16 per share. We are pleased to report that we have achieved both our revenue and earnings targets for 2004.

#### **SLIDE 14: CONSOLIDATED REVENUES**

Consolidated revenues for the year grew 39% to \$43.6 million as compared to \$31.3 million for 2003 with net income of \$2.3 million, or \$0.14 per fully diluted share as compared to a net loss of \$530,000 or five cents per fully diluted share, for 2003.

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

#### **SLIDE 15: REVENUE BREAKDOWN**

During the year 2004, revenues to international customers increased to \$7.9 million or 18% of consolidated revenues as compared to revenues of \$4.1 million or 13% of consolidated revenues during 2003. The increase is directly attributable to our continued effort to expand the international distribution base that now covers 45 countries outside the United States.

**SLIDE 16: CONSOLIDATED GROSS PROFIT**

Consolidated gross profit amounted to \$6.1 million for the quarter or 50% of revenue and \$21.4 million for the year 2004 or 49% of revenue compared to \$15.6 million or 50% of revenue during 2003. Margins for the quarter and for the year were impacted by higher volume of instruments and consumables as well as lower manufacturing costs which were to some extent partially offset by increased sales through international distributors, traditionally at lower margins and lower service revenue resulting from new product sales that include up to a 15-month warranty period. During the warranty period, service and repair costs are incurred without corresponding service revenue. However, now that it has been well over a year since the launch of the iQ200, we should start seeing an increase in service revenue.

**SLIDE 17: DIAGNOSTIC DIVISION**

**DIAGNOSTIC DIVISION**

Reviewing our business segments, the Iris Diagnostics Division continues to grow with instrument sales during the fourth quarter of \$4.8 MILLION, a 27% increase over sales of \$3.7 MILLION for the fourth quarter of 2003. Consumables and service revenues rose to \$5.4 million for the fourth quarter, up from \$4.6 MILLION during the fourth quarter of 2003 – an 18% increase for the quarter. This revenue improvement was directly attributable to the increased number of instruments in use.

Diagnostics' gross profit margins for the quarter were 49 percent as compared to 45 percent during the same quarter a year ago. The improved margins were a result of the higher volume of instruments and consumables as

well as lower manufacturing costs during the quarter. For the year, gross profit margins for the division were 49%, a small decrease over the prior year of 50%, resulting from increased instrument sales and related consumables through international distributors at lower margins. Additionally, during the quarter and year, profit margins were negatively affected by lower service revenue as previously discussed.

**SLIDE 18: STATSPIN SUBSIDIARY**

**STATSPIN**

Revenues from our small laboratory device division amounted to \$2.0 million for the quarter, up from \$1.8 million for the fourth quarter of 2003, a 13% increase. For the year, Statspin's revenue grew to \$8.3 million, a 36% increase over \$6.1 million for 2003. The increase in revenues is due to continued strong sales of centrifuges and DNA processing workstations. Gross profits for this division were also up during the quarter and year over the prior year as a result of increased revenues. As a percentage of revenues, gross profit margins were approximately the same in both years.

**CONSOLIDATED EXPENSES**

On the expense side, sales and marketing expenses increased by \$508,000 during the fourth quarter and \$1.8 million for the year 2004 over the prior year – the increases were primarily from incremental commissions and payroll costs supporting the 39% increase in revenues and the cost of the expanded international sales support organization. As a percentage of sales, such costs decrease by 1% to 16% during the year.

General and administrative expenses decreased \$200,000 during the quarter and \$600,000 for the year. The prior year numbers were impacted by \$1.2

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million in costs relating to management severance packages, whereas during the current year periods, general and administrative expenses were impacted by the cost incurred for compliance with Section 404 of the Sarbanes-Oxley Act of 2002, which addresses internal controls over financial reporting and amounted to a total of \$400,000 for the year. As a percentage of revenues, G&A expenses decreased to 13% for the year as compared to 21% for the previous year.

Research and Development expenditures were approximately the same during the current quarter and the prior year quarter. For the year however, R&D expenses were approximately \$500,000 lower in 2004 and reflects a reduction in product development activities relating to the iQ200 Analyzer. As César mentioned earlier, IRIS continues with its commitment to invest not only in new products and technologies, but to enhance existing products as well.

Net income for the year was impacted by the \$531,000 write-down in the third quarter of an investment made in 1999, which we determined suffered a permanent impairment based on its stock price decline during 2004. The write-down together with the cost of SOX compliance mentioned above had an effect of \$0.3 per share.

We continue to provide income tax provisions, although our tax loss carry forwards eliminates the need for paying income taxes during 2004 and will continue to eliminate income tax payments in the near future.

Our balance sheet continues to get stronger, as of December 31, 2004, we have approximately \$13 million in the bank, and our working capital has improved to \$25.2 million, up from \$6.6 million at the end of 2003. Stockholders equity grew to \$37.2 million during 2004 as compared to \$19.5 million at the end of 2003. Equity grew due to a number of factors, net income for the year, placement of 2.1

million shares of stock in April 2004 and exercises of warrants and options during the year.

**SLIDE 19: EBITDA**

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 \$1.8 million for the current quarter, as compared to \$618,000 for the prior-year quarter. On a year-to-date basis, EBITDA grew to \$6.1 million or \$0.39 per diluted share compared to \$580,000 during 2003.

For the year, revenue growth of at least 25% will generate more than \$54 million in revenues and we anticipate a doubling of earnings to at least \$0.30 per fully diluted share. As in the past, we will revisit and update guidance in future quarterly earnings conference calls.

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

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**César M. García:**

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

**Q&A**

**César M. García:**

Thank you, Rochelle. Finally, We thank our shareholders for their support during 2004. We thank you all for participating in this conference call and we look forward to a very successful 2005. Have a good day!

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**Operator:** ...

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

**END**