



Earnings Call
First Quarter 2009
04.29.09

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Business Overview

First Quarter 2009

C. Garcia

04.29.09

Q1-09 Overview

- Achieved approximately \$22M in revenue and \$0.08 per share, meeting expectations, even though we carried a \$1.2 Million backlog of iChem®VELOCITY™ and iRICELL
- Record Consumables and Service revenue: \$12.5M, 58% of total sales
- Achieved 54% consolidated gross margin driven by considerable improvement in Consumables and Service gross margin to 61%
- NADiA ProVue - Completed first stage of prognostic clinical study and FDA review of second Pre Investigational Device Exemption (Pre-IDE)
- Selected as one of top-two suppliers by MedAssets (Group Buy Excellence Award)
- Received 2009 Omega's NorthFace Score Board Award for superior customer service in the US

Adapting to Challenging Market Conditions

- Expanding emphasis to financial decision makers
 - Quantifying profitability improvement resulting from the deployment of IRIS's product line in the clinical laboratory:
 - Urinalysis automation pays back in less than two years, typically
 - Quantifying economic benefit of reduced turnaround time
 - Pre-screening of UTI at admission (risk management)
- Launched a co-marketing campaign with Becton-Dickinson to promote the benefits of combining IRIS-BD products to reduce costs and improved time to results

IRIS | **LEAN Possibilities** | **BD**
Driving Solutions for Total Urinalysis

Optimize the productivity, cost and quality of the total urinalysis process

These components yield improved laboratory outcomes.

- **Productivity** – Expand workload capacity and reduce turnaround times.
- **Financial Outcomes** – Lower total cost-in-use, appropriate reimbursement and avoid unnecessary expenses.
- **Clinical Outcomes** – Improve consistency of results, decrease errors and number of false positives.
- **Satisfaction** – Improve healthcare worker satisfaction.
- **Safety** – Increase healthcare worker safety.

Visit www.bd.com/vacutainer today to access the Lean Urinalysis Case Study!

BD Global Technical Services: 1.800.631.0174

iRICELL® Complete Urinalysis Workcells
iChem® VELOCITY™ iRICELL pending FDA 510(k) clearance

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Adapting to Challenging Market Conditions

- Providing multiple acquisition options for IRIS products
- Limited promotional discounts on high margin options
- Capitalizing on excellent customer service record in the domestic market
 - MD Buyline surveys
 - Omega Awards
- Selective international promotions/ concessions
- Cost improvements programs implemented

iChem[®]VELOCITY[™] Launch Status

- Approximately 100 units shipped since September 2008
- Two-third of units shipped were part of an iRICELL
- Slowed-down shipments in Q1-09 to implement iChem VELOCITY product improvements requested by international distributors based on customer feedback.
 - Most changes relate to instrument reliability and workflow issues at high volume accounts
- iChem VELOCITY product improvements that were expected to be completed by end of March 2009 extended into April 2009
- All product changes implemented with high confidence
- No problems encountered with the underlying technology
- Full-scale shipments to be initiated early May after completion of re-validation, which is in-process
- Product enhancements will be retrofitted in all field systems in Q2 & Q3 2009

iChem®VELOCITY™ Launch Status

- Carried a backlog of \$1.2 million into Q2-09. Backlog has continued to increase and we expect to meet our shipment projections for the full year.
- Status of FDA 510(k) Submission:
 - FDA reviewing our replies to their inquiries (after their initial review)
 - Ready to initiate shipments of iChem VELOCITY and iRICELL upon FDA clearance
- Expect a smooth transition from AUTION MAX AX-4280 to iChem VELOCITY analyzers in the US market in 2009
- Asia-Pacific and Latin American launch progressing per plan

NADiA ProsVue Status as of 04.29.09

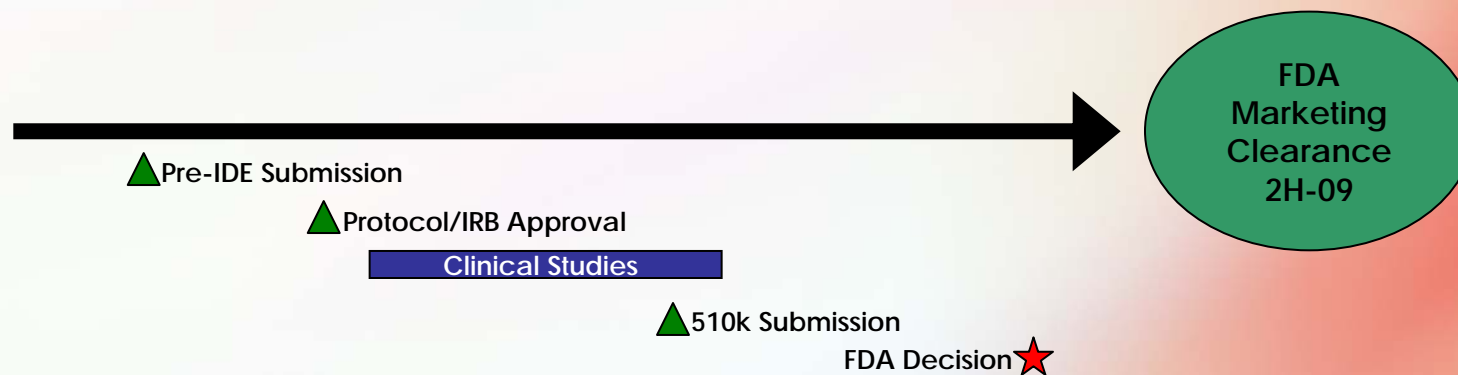
- In collaboration with Duke University, completed analysis of the first phase of a retrospective clinical study
 - Studied serially retained serum samples of 30 patients collected over 8 years for the stable group
 - As there are no FDA-cleared assays with sensitivity below 20 picograms, the prognostic claim was verified against clinical outcomes, i.e. cancer confirmed by bone imaging or death
- Submitted a second Pre-Investigational Device Exemption (Pre-IDE) of 30 patient study early March 09
- General results from 30 patient study:
 - Sensitivity and specificity exceeded IRIS' expectations
 - Confirmed NADiA sensitivity below 1 picogram with very low CV's
 - Based on our phase 1 clinical study results, the identification of patients at low risk of relapse requires NADiA-type sensitivity
 - Submitted expanded prognostic claim to FDA
 - Defined more specific indications for use

NADiA ProsVue Status as of 04.29.09

- FDA feedback focused on the randomization of patient samples, all other aspects accepted as submitted
- Implementing FDA feedback to initiate a ~300 patient retrospective clinical study in Q2-09
- Patient samples identified and committed to IRIS
- Retrospective Clinical Study Cost: \$500K - \$750K, during Q2 & Q3

"ProsVue" Regulatory Strategy

- New FDA 510(k) submission expected by mid-summer 2009
 - Reached agreement in the product claim and clinical end points
 - FDA feedback in line with company plans and expectations
- Next steps
 - Final approval of IRB's for Stage 2 Clinical Studies
 - Conduct studies at two to three sites in Q2-09



2009 Outlook

- Expect full recovery of iChem[®] VELOCITY[™] and iRICELL shipments in Q2-09
- Expect a stronger second half in revenue and earnings
 - Historical seasonality pattern: very strong fourth quarter
 - NADiA ProVue clinical study expenses: 1H-09
 - iChem VELOCITY learning curve should be over early 2H-09
 - Higher iChem VELOCITY consumable pull through in 2H-09
 - Higher R&D spending in the second half to support 3GEMS hematology, etc.

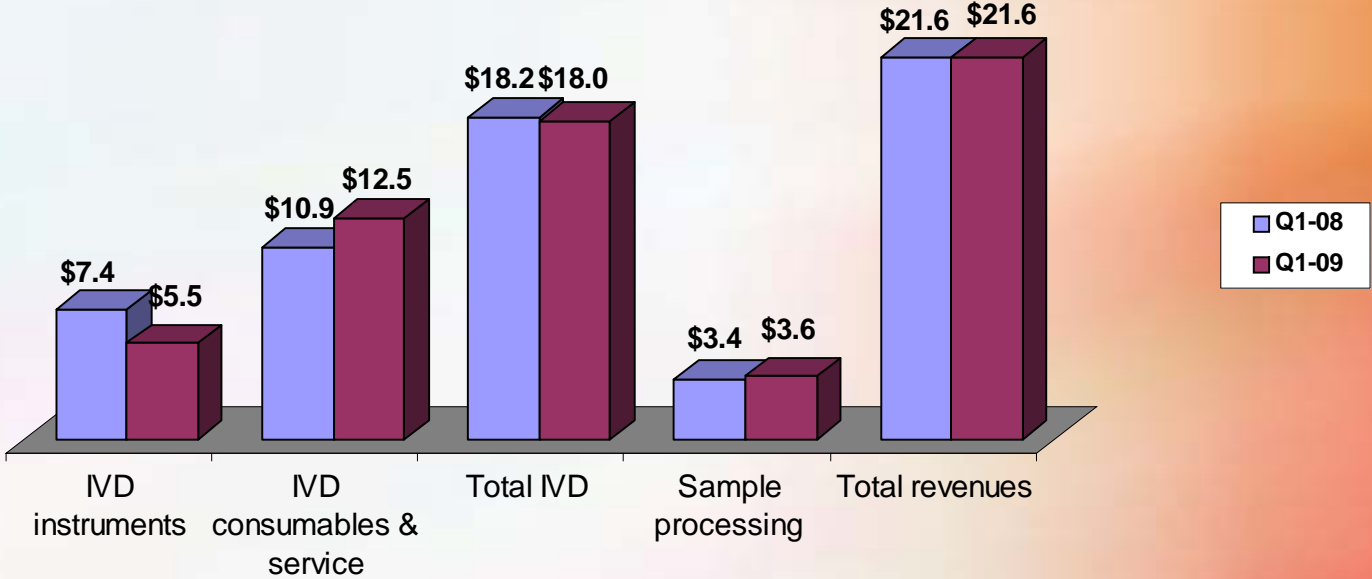
Financial Summary

Earnings Conference Call

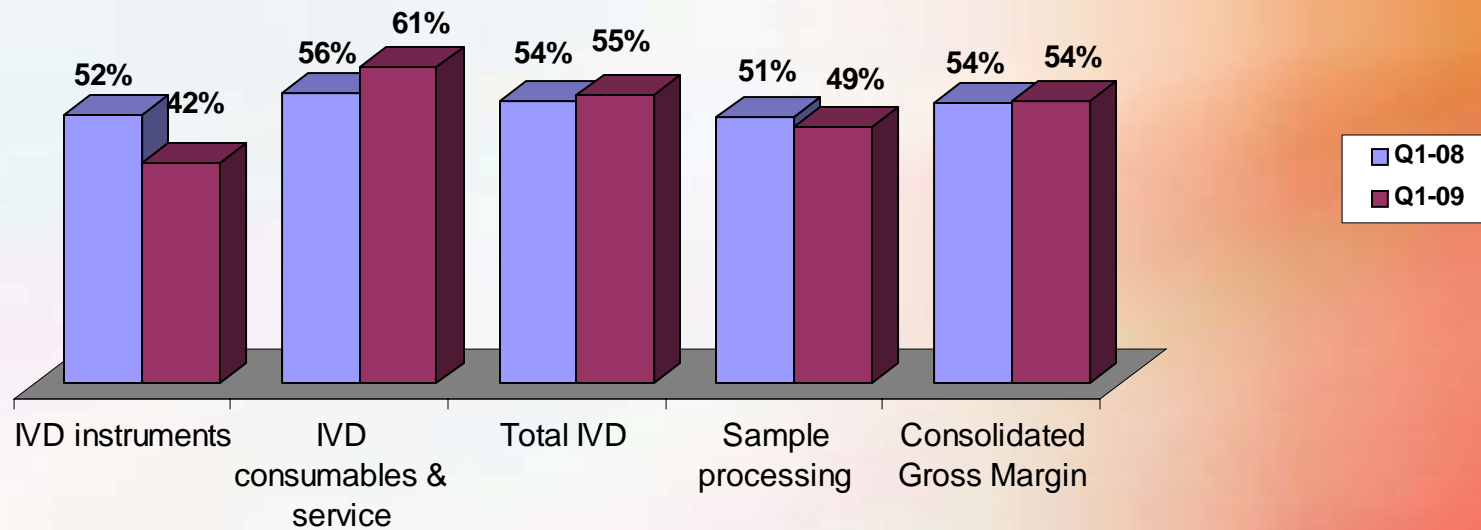
Q1-09

Revenue – Q1-08 vs. Q1-09

\$ in millions

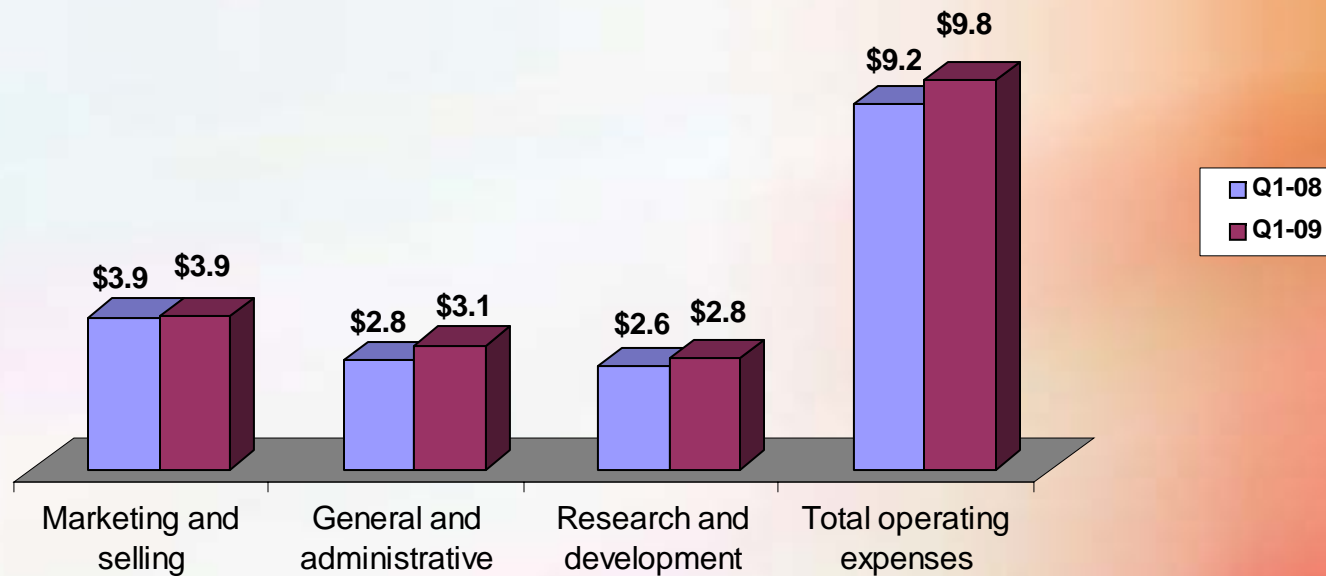


Gross Margin – Q1-08 vs. Q1-09



Operating Expenses – Q1-08 vs. Q1-09

\$ in millions



Q1-08 vs. Q1-09 P&L (GAAP)

\$ in thousands, except per share amounts

	<u>1Q08</u>	<u>1Q09</u>
Total Revenues	\$21,607	\$21,575
Gross Profit	11,604	11,695
<i>Gross Margin</i>	<i>53.7%</i>	<i>54.2%</i>
Total Operating Expenses	9,242	9,840
Operating Income	2,362	1,855
<i>Operating Margin</i>	<i>10.9%</i>	<i>8.6%</i>
Pretax Income	2,710	2,047
<i>Tax Rate</i>	<i>32.8%</i>	<i>32.0%</i>
Taxes	889	655
Net Income	<u>\$1,821</u>	<u>\$1,392</u>
Diluted Shares Outstanding	19,063	17,800
GAAP EPS	\$0.10	\$0.08

Balance Sheet

\$ in thousands

	<u>Dec-08</u>	<u>Mar-09</u>
Current Assets:		
Cash and cash equivalents	\$26,602	\$26,745
Accounts receivable - net	20,261	17,156
Inventory - net	9,957	13,138
Other current assets	2,512	860
Investment in sales-type leases	3,204	3,345
Deferred tax assets-short term	<u>3,727</u>	<u>3,757</u>
Total Current Assets	66,263	65,001
Plant and equipment	9,678	9,620
Goodwill	3,994	3,972
Software development	2,291	2,366
Other assets	644	666
Investment in sales-type leases	5,957	5,719
Deferred tax assets-long term	<u>1,811</u>	<u>1,781</u>
Total Assets	<u>\$90,638</u>	<u>\$89,125</u>
Liabilities and Shareholder's Equity:		
Accounts payable	\$6,299	\$6,658
Accrued expenses	6,475	5,137
Deferred service income	<u>1,954</u>	<u>1,993</u>
Total Liabilities	14,728	13,788
Shareholder's Equity	75,910	75,337
Total Liabilities & Shareholder's Equity	<u>\$90,638</u>	<u>\$89,125</u>

Balance Sheet Commentary

- Cash continues to be strong in the \$27M range, including share repurchases of \$2.5M and the collection of IDEXX cash of \$1.5M, both in Q1
- Versus 2008
 - A/P increased \$360,000; days payable of 61
 - A/R decreased \$3.1M; days sales outstanding of 72
 - Inventory increased \$3.2M due to the delay in Velocity shipments in the second half of the quarter

2009: Re-affirming Guidance

as of 04.29.09

- Revenue:
 - Full year 2009: At least \$102M, or 7% growth
 - Q2-09: \$24.5M
- EPS:
 - Full year 2009: \$0.48
 - Q2-09: \$0.11
- R&D expense at 12% of revenue
- No NADiA revenue is assumed in guidance



Q & A