



Earnings Call
Fourth Quarter & Full Year 2008
02.18.09

César M. García
Chairman, President & Chief Executive Officer

Peter L. Donato
Chief Financial Officer

Thomas H. Adams, PhD
Chief Technology Officer

Tom Warekois
President, Iris Diagnostics

Safe Harbor Provision

This presentation 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 financial performance, market growth, capital requirements, regulatory developments, new product introductions and acquisitions, 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, R&D initiatives, competition and capital requirements. Other factors and uncertainties that could affect the Company's forward-looking statements include, among other things, the following: identification of feasible new product initiatives, management of R&D efforts and the resulting successful development of new products and product platforms; obtaining regulatory approvals for new and enhanced products; acceptance by customers of the Company's products; integration of acquired businesses; substantial expansion of international sales; 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; 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 competitive factors, including pricing pressures and the introduction by others of new products with similar or better functionality than our products. These and other risks are more fully described in the Company's filings with the Securities and Exchange Commission, including the Company's most recently filed Annual Report on Form 10-K and Quarterly Report on Form 10-Q, which should be read in conjunction herewith for a further discussion of important factors that could cause actual results to differ materially from those in the forward-looking statements. The Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Business Overview

Fourth Quarter & Full Year 2008

C. Garcia

02.18.09

Q4-2008 & FY2008 Accomplishments

- Record revenue fourth quarter & full year 2008
 - In spite of global economic turmoil consolidated revenue grew 22% over prior year quarter and 13% over prior year
- iChem®VELOCITY™ international launch proceeding per plan
- Record number of IVD instruments shipped in 2008 which should drive recurring revenues in 2009:

	Units Shipped			
	Q4-07	Q4-08	FY-07	FY-08
iQ Analyzers	132	153	495	503
iChem VELOCITY	0	55	0	88

- FY2008 consumables and service have grown to approximately \$47MM representing 57% of IVD revenue from 54% in 2007
- 12% growth in Iris Sample Processing business with continuing improvement in operating income
- Initiated first stage of NADiA ProsVue clinical trial under guidance of a FDA Pre-IDE application

iChem[®]VELOCITY[™] Launch Status

- Shipped 88 units in FY-08, mostly to European countries
- Over 50% of units shipped were part of an iRICELL
- Carried a small backlog into Q1-09
- Asia-Pacific and Latin American launches in process
- Expect significant pull-through of iChem test strips beginning mid 2009
- Status of FDA 510(k) Submission:
 - Received FDA comments
 - IRIS is compiling responses and expect to submit responses by end of February 2009
 - Ready to initiate shipments of iChem VELOCITY and iRICELL upon FDA clearance
- Expect a smooth transition from AUTION MAX to iChem VELOCITY analyzers in the US market in 2009
- Continuously monitoring and improving product features and performance expeditiously

R&D Pipeline Investment / Productivity

- iChem VELOCITY: \$18M investment as of 12.31.08
 - Transformed a distressed operation into a full line of urine chemistry products with state of the art technology to compete in a \$350M market
- NADiA ProsVue: \$20M investment as of 12.31.08
 - Originally proof-of-concept application
 - Improved the product performance translating into stronger clinical claims which would potentially increase the addressable market from \$60M/Yr to at least \$200M/Yr
 - Forecasting first NADiA product within three years of platform acquisition followed by NADiA HIV and NADiA HER2NU
 - Potential licensing agreements
- 3GEMS
 - Implemented two conceptual approaches to a nine-part differential using the company's proprietary technologies
 - Final design direction expected during 1H-09

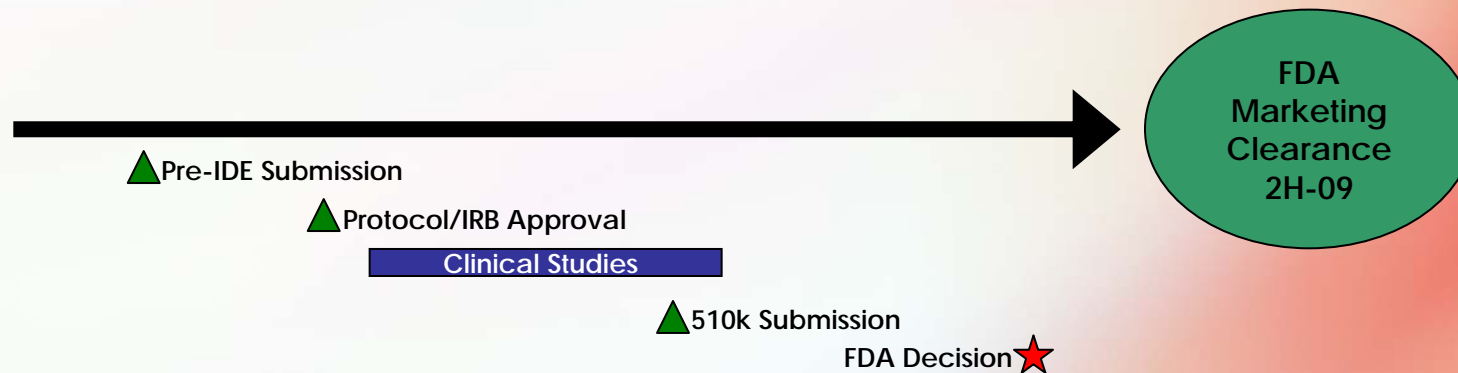
New product pipeline to begin to have a material effect in revenues and earnings in 2009.

NADiA ProsVue Status as of 02.18.09

- Successful FDA Pre-IDE review in October 08
- IRB and clinical trial agreement for first stage of clinical trial signed with Duke University in early January 2009
- Completed testing of 30 patient study with data analysis on schedule for completion in February 2009
- Purpose of 30 patient study:
 - Explore an expanded prognostic claim
 - Define more specific indications for use
- Larger clinical study to be initiated in Q2-09; after incorporating findings of 30 patient study into the Pre-IDE
- Patient samples identified and committed to IRIS
- Negotiating “Stage 2” IRB agreements with three highly regarded medical schools
- Retrospective Clinical Study Cost: \$500K - \$750K

"ProsVue" Regulatory Strategy

- New FDA 510(k) submission expected late Q2-09
 - Reached agreement in the product claim and clinical surrogates
 - FDA feedback in line with company plans and expectations
- Next steps
 - Final approval of clinical protocol for larger retrospective study
 - Conduct studies at two to three sites in Q2-09
 - Submit new 510K: late Q2-09



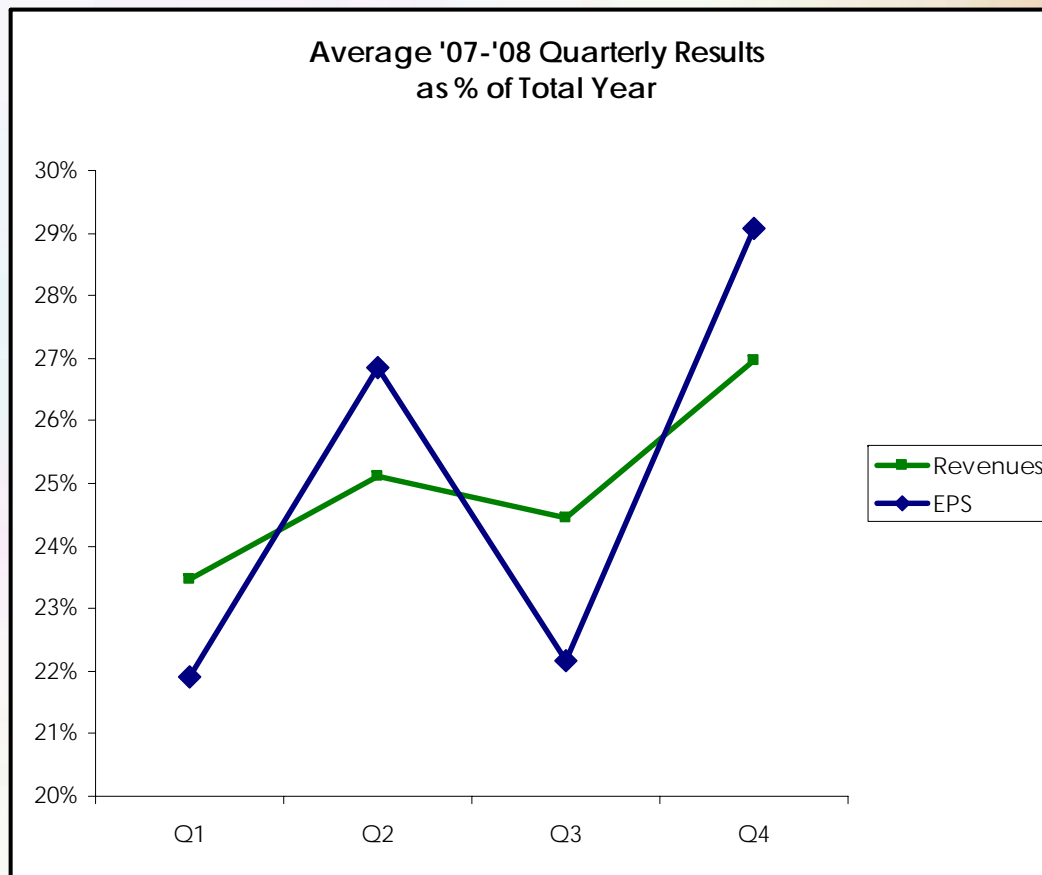
Other Important Developments

- Signed Manufacturing Transition and Licensing Agreement for Whole Blood Separators with IDEXX Labs
 - \$1.5 million cash payment in 2008
 - Royalty stream to IRIS from 2014 through 2020
 - Manufacturing exclusivity to IRIS for new drive mechanism used in IDEXX Catalyst chemistry analyzer
- Iris automated urinalysis product line has achieved highest scores among all US competitors, per MD Buyline Customer Satisfaction Survey
 - Customer loyalty and referrals are extremely important in tough economic times

2009 Guidance Considerations

- **Recurring Revenue Model**
 - High confidence in 2009 iQ Consumable growth as a result of over 500 units shipped in 2008 and over 2,100 units shipped since August 2003
 - Legacy systems under 40 units, therefore, new placements are truly incremental business
- **Although we have a strong sales funnel of qualified leads there is uncertainty regarding the acquisition patterns:**
 - Customer Options: Outright purchase or... lease or... rental
 - Leases and rentals may result in lower up-front instrument revenue, but higher recurring revenue in future periods
 - Although our capital equipment sales have not been significantly impacted so far, overall availability of cash and credit is uncertain
- **Best efforts to time expenses proportionally with revenue, except for R&D and clinical expenses necessary to protect new product development timelines**
- **Cost containment measures in place to reduce risks during 1H-09**

2009 Guidance Considerations (cont.)



Historical Seasonality Pattern

2009 Guidance Considerations (cont.)

- 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
- Guidance Strategy
 - Prudent conservative approach to full-year guidance, reflecting continued economic uncertainty, with visibility into current first quarter financial performance, a historically seasonally-slow period.

2009 Guidance

as of 02.18.09

- Revenue:
 - Full year 2009: At least \$102M, or 7% growth
 - 1Q09: \$22M
- EPS:
 - Full year 2009: \$0.48, represents 9% improvement in EPS, excluding IDEXX non-recurring payment in 2008
 - 1Q09: \$0.08
- R&D expense at 11% of revenue
- No NADiA revenue is assumed in guidance

Financial Summary

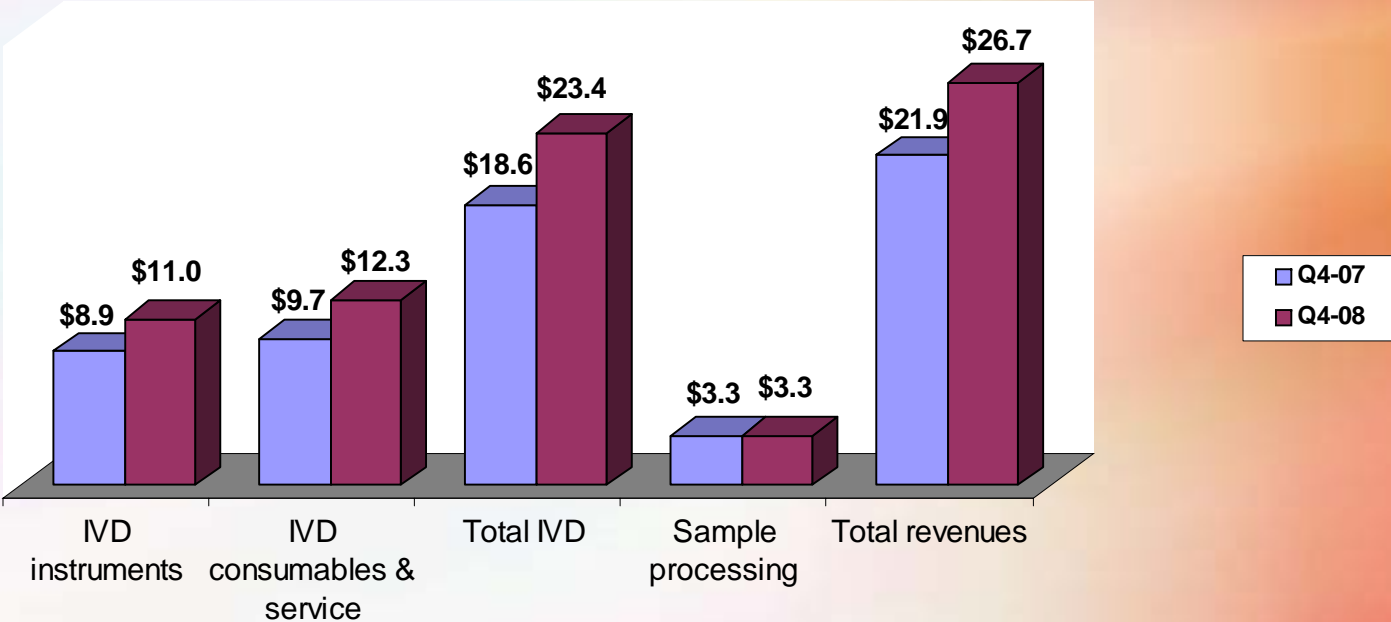
Earnings Conference Call

Q4-08

02.18.09

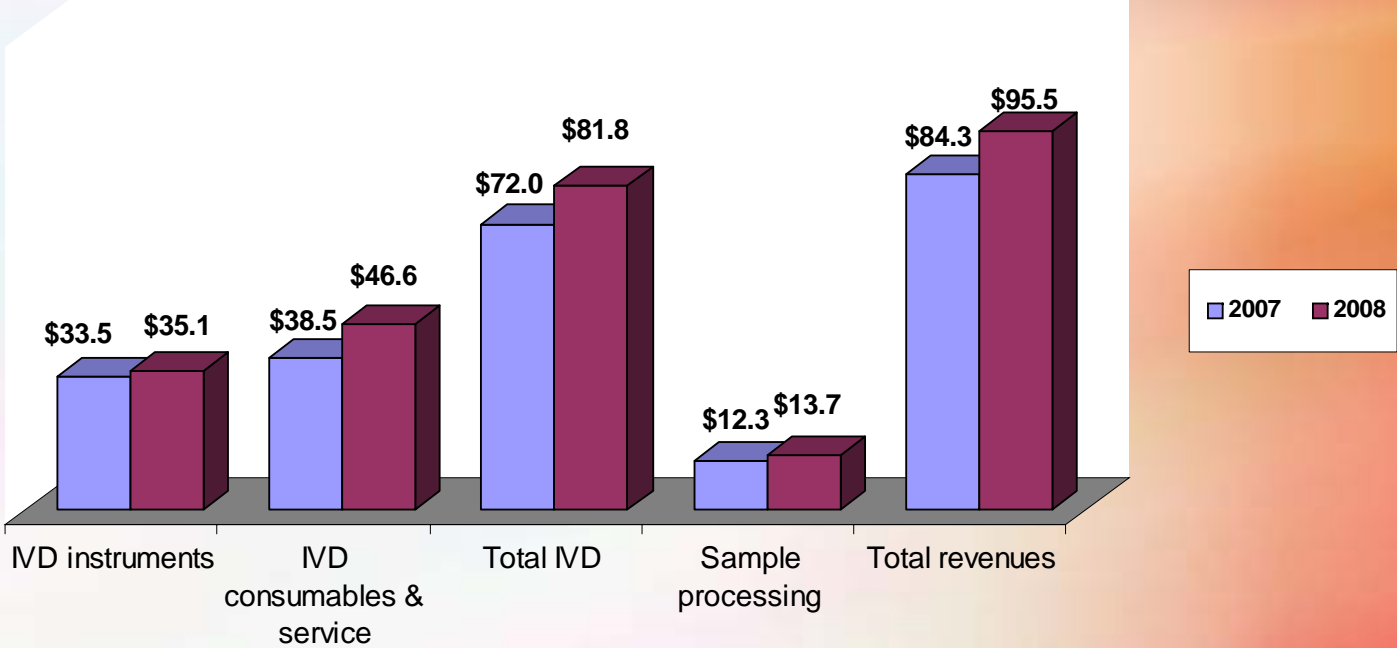
Revenue – 4Q07 vs. 4Q08

\$ in millions

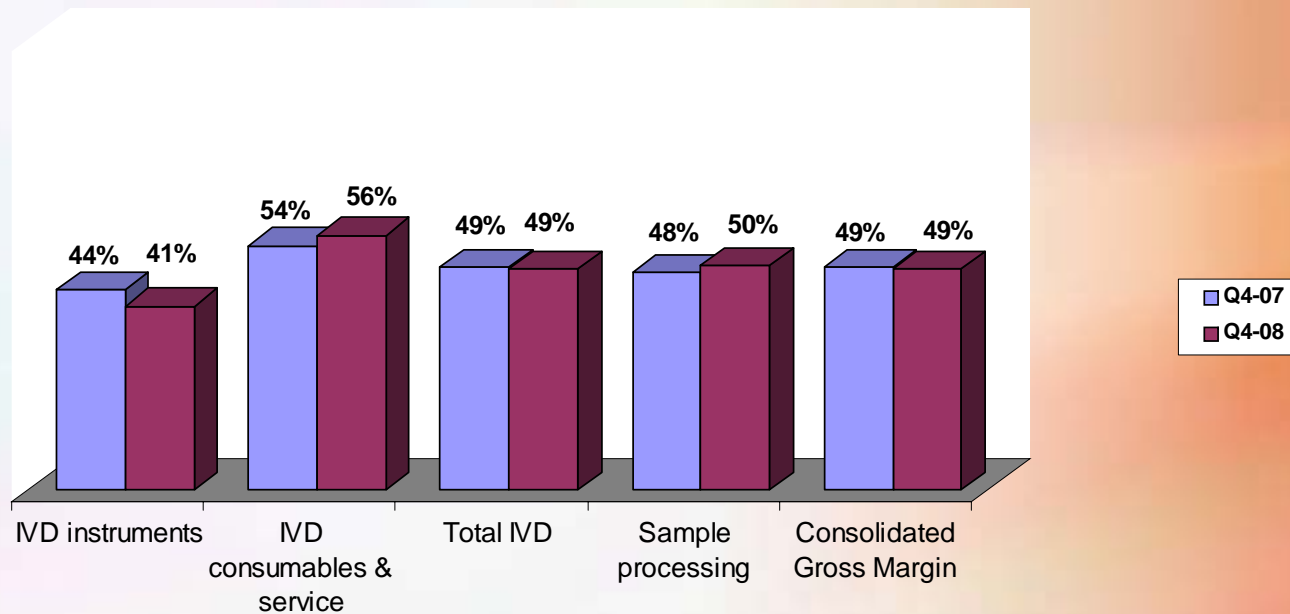


Revenue – 2007 vs. 2008

\$ in millions

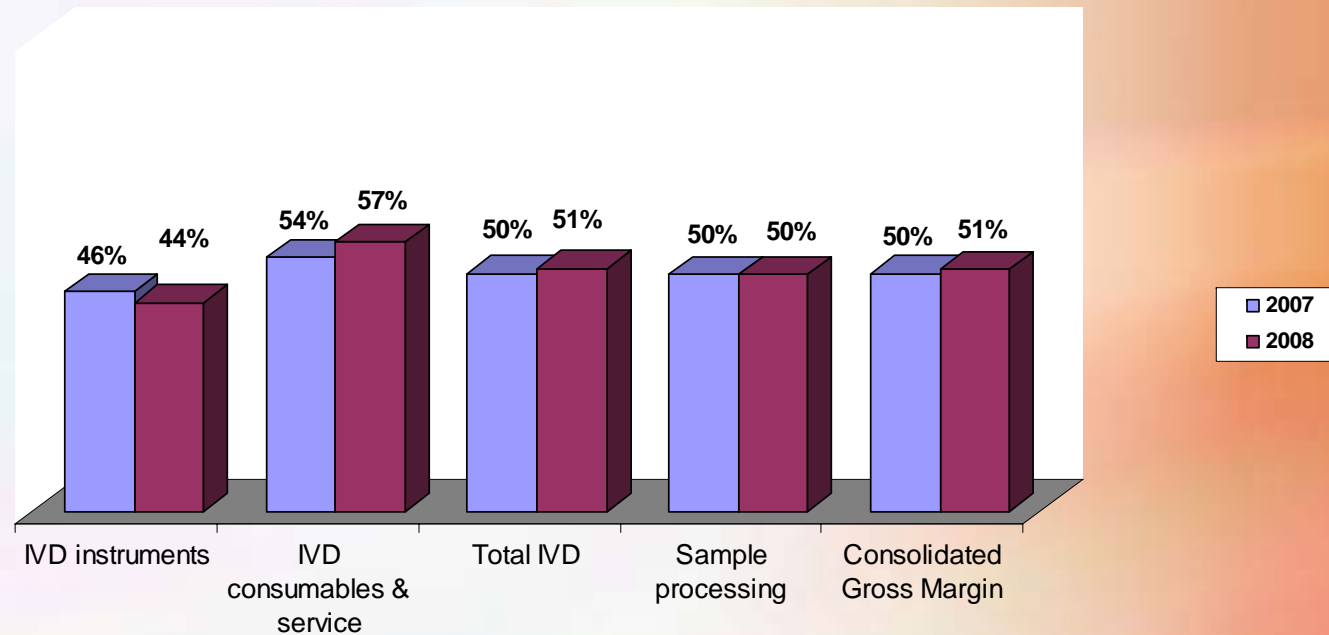


Gross Margin – 4Q07 vs. 4Q08



- Items affecting instrument gross margin:
 - Net inventory reserves: \$80k
 - Foreign currency: \$50k
 - Velocity transition cost: \$190k
- Items affecting consumables & service gross margin
 - Inventory reserves: \$100k
 - Foreign currency: \$210k

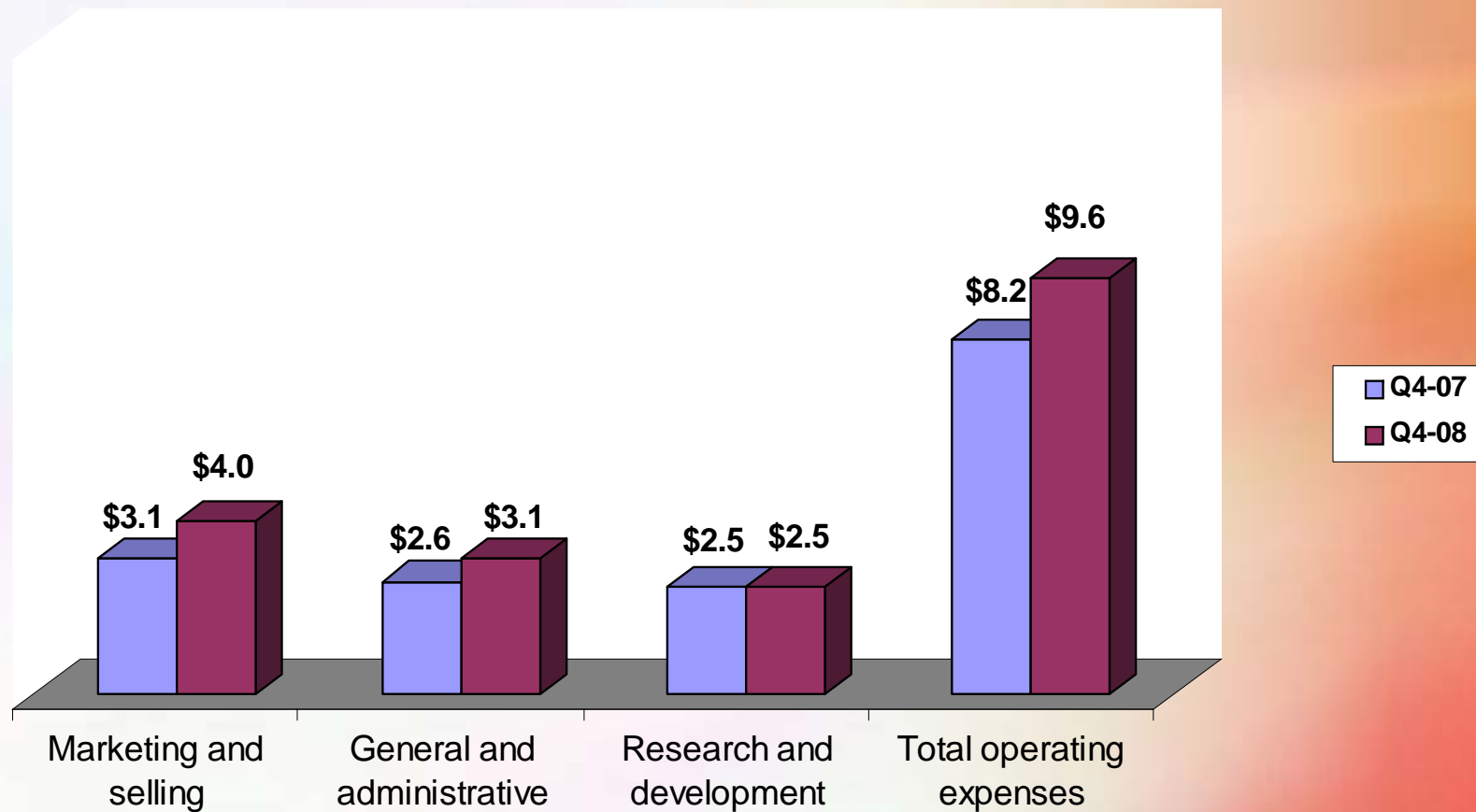
Gross Margin – 2007 vs. 2008



- Items affecting instrument gross margin:
 - Net inventory reserves: \$220k
 - Foreign currency: \$400k
 - Velocity transition cost: \$315k
- Items affecting consumables & service gross margin
 - Inventory reserves: \$100k
 - Foreign currency: \$700k

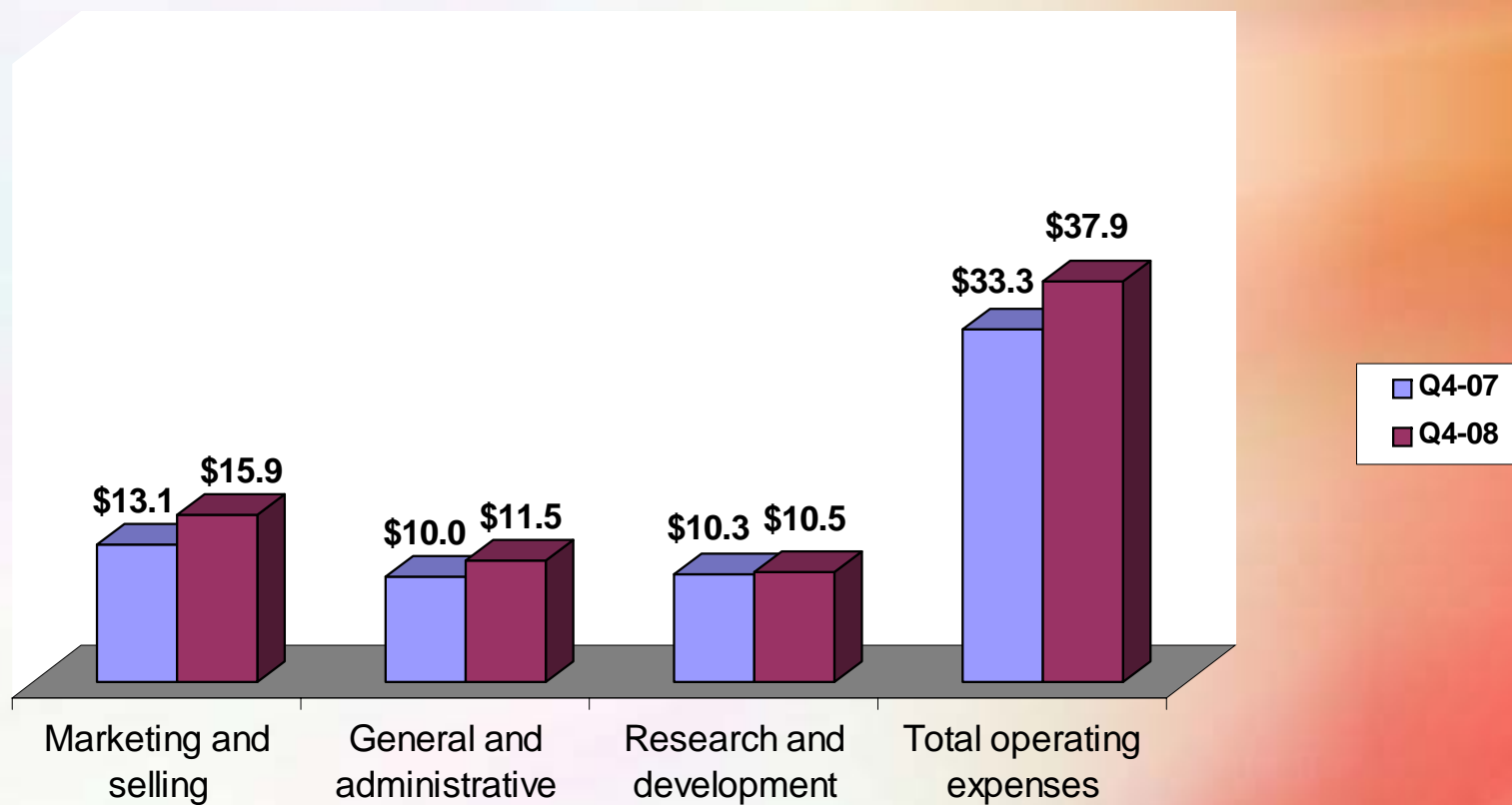
Operating Expenses - 4Q07 vs. 4Q08

\$ in millions



Operating Expenses – 2007 vs. 2008

\$ in millions



4Q07 vs. 4Q08 P&L (GAAP)

\$ in thousands, except per share amounts

	<u>4Q07</u>	<u>4Q08</u>
Total Revenues	\$21,883	\$26,689
Gross Profit	10,757	13,083
Gross Margin	49.2%	49.0%
Total Operating Expenses	8,199	9,575
Operating Income	2,558	3,508
<i>Operating Margin</i>	<i>11.7%</i>	<i>13.1%</i>
Pretax Income	2,913	5,070
<i>Tax Rate</i>	<i>8.0%</i>	<i>33.5%</i>
Taxes	234	1,700
Net Income	<u>\$2,679</u>	<u>\$3,370</u>
Diluted Shares Outstanding	19,001	18,480
GAAP EPS	\$0.14	\$0.18

2007 vs. 2008 P&L (GAAP)

\$ in thousands, except per share amounts

	<u>2007</u>	<u>2008</u>
Total Revenues	\$84,306	\$95,502
Gross Profit	42,298	48,828
<i>Gross Margin</i>	50.2%	51.1%
Total Operating Expenses	33,345	37,861
Operating Income	8,953	10,967
<i>Operating margin</i>	<i>10.6%</i>	<i>11.5%</i>
Pretax Income	10,393	13,376
<i>Tax Rate</i>	<i>27.4%</i>	<i>32.6%</i>
Taxes	2,844	4,363
Net Income	<u>\$7,549</u>	<u>\$9,013</u>
Diluted Shares Outstanding	18,748	18,728
GAAP EPS	\$0.40	\$0.48

2007 vs. 2008 P&L (GAAP to Pro Forma)

	<u>4Q07</u>	<u>4Q08</u>	<u>% Growth</u>
GAAP EPS	\$0.14	\$0.18	
Favorable tax adj (at 33%)	(\$0.04)		
IDEXX (net amount of \$1.2M)		(\$0.04)	
Pro Forma EPS	\$0.10	\$0.14	40%

	<u>2007</u>	<u>2008</u>	<u>% Growth</u>
GAAP EPS	\$0.40	\$0.48	
Favorable tax adj (at 33%)	(\$0.04)		
IDEXX (net amount of \$1.2M)		(\$0.04)	
Pro Forma EPS	\$0.36	\$0.44	20%

Balance Sheet

\$ in thousands

	<u>Dec-07</u>	<u>Dec-08</u>
Current Assets:		
Cash and short-term investments	\$28,445	\$26,602
Accounts receivable - net	16,075	20,261
Inventory - net	9,886	9,957
Other current assets	707	2,512
Investment in sales-type leases	2,660	3,204
Deferred tax assets-short term	3,368	3,368
Total Current Assets	<u>61,141</u>	<u>65,904</u>
Plant and equipment	8,661	9,678
Goodwill	4,084	3,994
Software development	1,764	2,291
Other assets	559	644
Investment in sales-type leases	6,613	5,957
Deferred tax assets-long term	3,568	4,329
Total Assets	<u>\$86,390</u>	<u>\$92,797</u>
Liabilities and Shareholder's Equity:		
Accounts payable	\$4,289	\$6,299
Accrued expenses	5,713	8,634
Deferred service income	1,454	1,954
Total Liabilities	<u>11,456</u>	<u>16,887</u>
Shareholder's Equity	74,934	75,910
Total Liabilities & Shareholder's Equity	<u>\$86,390</u>	<u>\$92,797</u>

Balance Sheet Commentary

- Cash continues to be strong in the \$27M range, including share repurchases of \$6.2M in Q4; guidance was >\$33M
- For the full year 2008, IRIS repurchased 984k shares for \$11.9M
 - In 2009, IRIS has purchased an additional 250k shares for \$2.5M
- Versus 2007
 - A/P increased \$2M; days payable of 38
 - A/R increased \$4.2M; days sales outstanding of 69 (backloaded plus some special extended terms)
 - Inventory remained flat due primarily to the launch of Velocity in 2H08

2009 Guidance

as of 02.18.09

- Revenue:
 - Full year 2009: At least \$102M, or 7% growth
 - 1Q09: \$22M
- EPS:
 - Full year 2009: \$0.48, represents 9% improvement in EPS, excluding IDEXX non-recurring payment in 2008
 - 1Q09: \$0.08
- R&D expense at 11% of revenue
- No NADiA revenue is assumed in guidance



Q & A