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Event Transcript

**AVR - CCBN Virtual Healthcare Conference: Co-sponsored by
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CONFERENCE CALL PARTICIPANTS

Jim Flanagan

IR Strategic Advisors - President

Peter Phildius

PRESENTATION

Jim Flanagan - *IR Strategic Advisors - President*

Welcome to the CCBN Virtual Healthcare Conference cosponsored by Lippert/Heilshorn and Associates and RedChip Partners. My name is Jim Flanagan and I'm President of IR Strategic Advisors Boston Area Industrial Relations and Public Relations Communications Firm. I'm also member of CCBN's Advisory Board and I'll be serving as your moderator for this virtual healthcare conference. For our Webcast participants who are participating live today in the audience you may submit a question at any time by simply typing your query into the question field in the lower left hand side of the Webcast player you are using. I will present these questions during the Q&A at the end of company's prepared remarks. Should I have more questions than time allows please be sure that we will forward all questions to company management for them to respond to directly.

The following presentation is by Avitar Inc. The company stock symbol is AVR and Avitar develops, manufactures and markets innovative and proprietary medical devices and diagnostics. Avitar's major product growth is Oral Stream, the world's first non-invasive rapid on site oral fluid based test for drugs of abuse. The 1.5 million dollar drugs of abuse market is currently urine based and Oral Schen (ph) represents a significant change in the drugs of abuse testing paradigm. Representing Avitar today is Peter Phildius, Chairman and Chief Executive Officer of Avitar. Mr. Phildius you're free to begin your presentation at any time.

Peter Phildius

Thanks very much, Jim. This first slide says "Changing the Paradigm and Diagnostics" and although that's a much used phrase in our case it's very relevant. 75 percent of the 25 billion dollar market in diagnostic is done in the traditional laboratory service way where a sample is collected, FedEx'd to the laboratory and three or four days the results come back. We have developed an oral fluid instant diagnostic test that allows the results to be done on premises and results in 10 minutes which eliminates a lot of overhead, a lot of loss time and a lot of costs. Avitar Inc. is MX listed and we have very seasoned management.

When I was at Baxter Laboratories I ran about 60 percent of the company and as Operating Officer of National Medical Care, which is now Presentia's (ph) seven billion dollar company we had a rapid growth experience. Our Chief Operating Officer was the Production Manager for Baxter and also the QCVP for Frito Lay while he was there. Our Director of Marketing was the headman at IRON and our Vice President of Product Development was the responsibility for product development at Miller Poor (ph) and Cambridge Bio.

We do have an FDA approved plan for the development and production of medical devices in the U. S. as a matter of fact we're the only company that I know of that does. The platform technology that we have is very interesting. It's and oral fluid and collection and processing capability which lends itself to rapid diagnostics meaning we can do an instant diagnosis on the spot in about 10 minutes. The area that we're concentrating on currently is drugs of abuse. And we're currently the leaders in this business and plan to penetrate the marketplace rapidly.

That will kind of fall out as we go through the presentation. In vitro diagnostics of course means a test outside the body and that's the major portion of the business and our technology lends itself to that area as well but we consider that the second phase of our opportunity. Oral fluid provides all of the areas on this slide where you get immediate results as opposed to a three or four day period. Major costs savings because you eliminate all of that overhead and we eliminate urine, which lacks in the collection process dignity and also allows adulteration and the elimination of blood because of all its attending problems and logistical issues is a major factor so it's a huge business opportunity that faces us in fact it's a 25 billion dollar market in in vitro diagnostics and growing about five to six percent a year.

We feel in this diagnostic area of the tests that are done in this manner could be technologically done be completed using oral fluid as the medium. But the interesting thing about our opportunity is that is a 25 percent segment of the 25 billion dollar market that's growing twice the rate of the overall market and that really is the instant market and that's the area that we are in. So we happen to be in the large market but in a sector that's growing faster than the overall market and that would include home tests as well as test on incorporations as well as test on in doctors' offices.

Our first entry is into drug testing which is a very big market. It's about a billion and half dollars and growing 20 percent a year and the reason why it's growing rapidly is corporations really care to eliminate the possibility of having drug users on the payroll. U. S. Department of Labor points out that it costs

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about 10,000 dollars every time you have a user on your payroll and one of the attending problems is that often times when he secures employment the first thing he starts to do is sell drugs to other employees to finance his habit. They - drug user has about 40 days of absenteeism on as compared to about four days of the average non-user.

The big factor employee care also because a lot of the accidents 65 percent or greater according to the National Institute of Drug - on drugs of abuse and OSHA feel that those accidents are caused by substance abuse. Oftentimes people will tell us that one of the reasons why they have a quality problem is that they have a drug problem on the production line and it needs to be handled and this a good way to do it because it can be done right on the premises as opposed to sending a collection sample of urine away to a laboratory.

Now the market for avoidance is really, really striking. It's about meaning adulterance. When an individual goes to a collection site technically they're supposed to be observed urinating so they can do a proper chain of custody meaning that they know that that sample relates to the individual being tested. But what happens technically is not technically but practically is that they're assigned a bathroom to deliver a urine sample and while they're in there they can negate the product by using a commercially available adulterant or somebody else's urine.

This is a \$40 million market and it's growing pretty rapidly and unfortunately adulterants can be sold over the Internet without recourse. In fact an individual in South Carolina recently was on television because he was arrogant enough to feel that he could help promote his business by being on television claiming that he sells only his own urine. Incidentally he had a \$200,000 annual revenue business. Our product because it's done face-to-face open in public and it is used by collecting an oral sample from the mouth eliminates the possibility of adulteration, which is a major factor.

Now the benefits of point of care testing and oral fluid drug testing really are no urine, no collection site, no laboratory, no FedEx planes flying around, no adulteration, immediate results and all of that translates into a very large net costs savings for corporations. A test is very simple. It's one of the things that we attempted to do was to make a simple low cost no hassle test that the market could use for screening. The way it works is you put a collection device in your mouth, take it out, pour drops on an icon where is a little well to collect the oral fluid and five minutes we would have results if it was negative, if it's positive we would wait 15 minutes. Let me show you on next slide how a product would work when it was positive.

In this case because the animation doesn't show the test in progress let me explain it. There are four lines for cocaine, heroin, marijuana and methamphetamine including ecstasy and they're green. If those tests are all negative the lines would turn from green to red. But if it was positive the line would simply go away. And that would be termed a non-negative and we would take another sample, we'd send it in to the laboratory where a mass spec analysis was done which is the gold standard. If it was still a non negative we'd turn it over to a medical review officer who would make certain that there were no extenuating circumstances like a conflicting medication and at that point the corporation would work with the employee to help rehab him.

Now when we say we're changing the rules what we mean is we're eliminating collection site and laboratories and all of the other costs involved in using a commercial laboratory service company by doing it right on the spot. On this slide we show a very simple costs analysis of our test as opposed to a traditional urine test. The employee lost time is calculated by if we take somebody off the production line and spend 15 minutes with them to do the tests and he's making \$40.00 it's a \$10.00 lost opportunity. Urine testing you need to send him away to a physician's office or a commercial lab to provide a sample and then return. Minimum hour and a half that's \$60.00 also there's a fee for the collection charge and then the test costs are kind of comparable and if you think about the loss of time and the collection fee we really have a net savings to the corporation of \$70.000 or \$71.00 easy per test that's done. Large corporations do a hundred thousand tests per year. So th! ere's a considerable savings by using an instant test.

Now our product strategy is quite straightforward right now. We on this slid you can see a collection device and a icon that has the parallel flow of amino acid test. The next slide is very exciting from my perspective because it's a low cost instrument that we sell for about 1,500 dollars retail and it has the advantage of reading the test objectively. You know the other test - the first test that I showed you can be read manually. And that's good because you don't need the cost of an instrument. But we developed an instrument because we wanted to provide an instrument that would read the test objectively, produce hard data and also be able to communicate the information real time to a central location.

For instance Wal-Mart who is a largest testing company in the world doing a million tests a year does testing in all of their 4,000 locations but they centralize the information. And by doing a reading in this manner it's easy to collect a hundred samples or a hundred tests and dump the information at the end of the day into the HR database in Bentonville, Arkansas. No

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only it does this real time, saves a lot of time because it does the software provides all of the administration in there's no need to do a lot of manual collation.

Now on this slide we have in prototype a product that we call the drug altimeter because we want people to think about it as a thermometer. The old type thermometer mercury where you put it in your mouth, take it out and get a reading. That's the same way this test works. You would collect the oral fluid and the sample end of the product; slide the diagnostic test, the myriad (ph) too and in the same amount of results, same amount of time you would get the result. Five to 15 minutes. What we're trying to do is to continue to make it easier and easier for the market to use because it's a broad high volume test that needs to be done inside and outside corporation and the easy property is something that we focus on and we have nine patent applications four have been approved and it includes methodology, design, chemical process and material.

Well the next slide is kind of interesting because this compares us to our competition and I'd like to really concentrate on the top two lines. In Avitar today as a manual rapid test Orasure (ph) which is a public company on NASDAQ to the best of my knowledge has no plans for a manual rapid test. My point the next company is a company that is has no plans either to provide a manual rapid test that I know of and on the right hand side Anasis (ph) which was a private company doing OEN diagnostics for larger companies was recently acquired by a large instrument company called Variance (ph) . They have a manual rapid test but it to the best of my knowledge nothing else to go along with it. Now the second line is where we - we have comparable product offerings where we have an instrument read test selling for \$1,500 and is on the market now. Orasure (ph) has a plan to have an instrument read test that would also include a disposable like ours. But it's not available currently! .

They also plan, I think, to sell that product for about \$5,000. The next company, Life Point has a very intricate instrument that also has a disposable connected with it and their instrument I believe but I don't know for sure will sell somewhere around \$10,000. So what we have in comparison is good competition coming but primarily instrument based where we have a manual test disposable, an instrument read test and we also incidentally have heritas (ph) which is more or less a test that's a laboratory test but can go back in 90 days and terms of detection and is much more conclusive. So those are the current competition that we're facing we expect to have more competition as we continue to penetrate the market and prove (ph) to a point of principle.

Now the next area that we're - I'd like to get into is our marketing and sales plan. I'd like to kind of feature just on the corporate market although all of these markets in time will be opportunities for us but 85 percent of the drug testing is done in the corporate market. That's where the biggest need is and that's the area that we're focusing right now. On the marketing strategy we do sell three ways. Strategic partnerships which I'd like to focus on we have a direct sales force of 10 territories with very senior people coming out of the laboratory service business and we also have online service sales opportunities as well as an interactive training program which you can view on our Web site.

Now the first strategic partner that I'd like to talk about is Choice Point. They're the largest providers of drug testing administration in background checks in the country by a factor of five. They do five million tests annually. And they're anxious to be our partners, to sell our product because it gives them a higher profit component per test than selling a laboratory service product. And we have a very good relationship with them and I'd like to go to the next slide to point out another strategic partner which is Quest Diagnostics the world's largest provider of laboratory services and for sure the largest provider of drug testing.

Quest Laboratories sells eight million tests a year. And they also are very enthusiastic about selling our product even though it competes with their own laboratory service diagnostic product because it's a product offering that's very good for their clients because it saves their clients money and they have a very high margin on our product. Now if you combine the sale the test that both do and take out little overlap where Quest sells about three million through Choice Point that's a combination of ten million tests, which is approximately 20 percent of the drug testing market in the forensic area, which is a corporate market. So we're well positioned with strong strategic partners.

The Value Net on the next slide. I don't want to spend a lot of time on it but through our affiliation with Choice Point and Quest we have the ability to provide all of the services and products that a corporation needs to do drug testing of any kind. Next slide is kind of interesting the red bar graphs represent the revenue total revenue and drug testing for the market and what we're saying on this slide is that we being the current leaders and the thought that we will continue to expand our leadership position that in year 2005 if we were only able to do five or 10 percent of this market be in (ph) revenue and profit.

But going back in summary I'd say the benefits of point of care although there're a lot of benefits the underlying value

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proposition is net savings – net costs savings to the corporation. There's not a situation that I know of where large corporation is doing a lot of tests that we can't save the client a million to two million dollars. The business opportunity is there and it's complete non-urine product line and we have at this point limited competition in oral fluids but we expect to have tough aggressive competition in the future.

Next step is in vitro diagnostics and this is the second phase of our business. It's interesting to us because it's the bigger portion of the market as you recall the in vitro diagnostic market is about \$25 million in revenue and 25 billion I mean and we feel that 85 percent of that market technically could be adopted to an instant test. The – it's a situation where everybody in the audience I'm sure has had the experience where you go to a doctor's office he has a question let's say lyons (ph) disease about you, he sends you to a collection site either in the basement of the hospital or another location, you provide a blood sample which then gets Fed Ex'd or some other courier to a laboratory, they do the work ups, send the results back to the physician and maybe four or five days later you get contacted and you get the results of the test where a test like we're suggesting could be done on the spot in the doctor's office which also or and the patient's home which puts the ! revenue back into the physician's hands which he is very interested in so we think that's a huge opportunity going forward.

This chart is sort an interesting example. We've selected two areas that we're very interested in influenza diagnostic instant test and also hemoglobin A1C which is done in a doctor's office typically to stabilize the diabetic patient. Both of these products are opportunities combined would be about a 700 million dollar revenue opportunity. We've already developed a lyons (ph) disease in laboratory to prove the point of principle we're still debating whether or not that's a good opportunity for us but currently we're focusing on the drugs of abuse testing market. We want to become profitable in that area and at that point in time we'll grow into the diagnostic in vitro area.

In summary we think we have a huge market opportunity and I see say no competition that's not true we have good competition and I think that will increase we have a very strong proprietary position and we'll continue to exploit other opportunities and our summary evaluation proposition is major economic advantage. Our net costs savings to the client and our channel partners is what I think drives opportunities today. The investment considerations are I think we're extremely undervalued, we're the first mover in oral fluid space primarily in drug testing, we have a very strong patent position,

experienced management and huge market potential. Thank you very much. That's the end of my presentation.

QUESTIONS AND ANSWERS

Jim Flanagan - *IR Strategic Advisors - President*

Thank you Mr. Phildius. For our Webcast participants in the audience participating live we remind you that you may submit a question at any time by simply typing your query into the question field in the lower left hand side of the Webcast player.

We begin with our first question Mr. Phildius you have an interesting slide of the future of the industry where do you think that the major competition will be coming from? Likewise where do you think the major opportunity is going to be for your company in the future?

Peter Phildius

That's interesting I – first of all I think we have good competition now and it's still to be formed however frankly I think we would like to have good competition I think it's instrumental in us converting the acceleration of the conversion of the market because currently the way I look at our competition is the installed base using urine. Because in any new technology there's a certain amount of inertia that you have to come over because the forces in the market are gee I don't like change even though this is a better product and the competition doesn't – the current technology doesn't like to give up their installed base. So we're excited to have competition to help us accelerate the conversion from oral fluid laboratory traditional urine to instant oral fluid because I think we'll be the benefactor.

The opportunity for us is because profits and capital we can develop more effective cost effective products that will be easier to use for the marketplace to expand the business because one of the things that's really would be helpful is if we had a which we do a good oral fluid instrument test then more tests could be done on the premises doing random testing. Because oftentimes drug users are aware of how to beat a drug test so the positive rates of pre employment is like four and a half to five percent, for random testing it's typically seven to eight percent so makes a lot of logic as you have a product that's no hassle and doesn't lack dignity and can be done easily in the corporation to do more random testing, post accident and even reasonable suspicion.

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Jim Flanagan - *IR Strategic Advisors - President*

Phildius, our next question is relative to the traditional urine drug testing. It was noted that Quest (ph) diagnostics elected to sell UR (ph) products even though they are a large supplier of urine drug testing. This would almost seem to be like sleeping with the competition, as they say. Can you comment on this relationship and what this means for you going forward?

Peter Phildius

Yes. That's a very interesting issue and one of the reasons for that is that Quest (ph) Diagnostics has great vision, and they can see the value of a low cost instant test even though it's competing with their own laboratory service business.

So, their feeling is that they should provide both tests. We have an interesting economic situation because, you know, we're a new technology that eliminates a lot of cost, we have attractive margins that we can share with Quest (ph), and frankly, there are some situation I would believe that we have - they have more attractive margins selling our products than some of their own laboratory service products at a very highly competitive geographical area.

So, they feel that - I wouldn't, I don't want to quote - I don't want to state this for them, but they must have some feeling that the future could be in instant care oral fluid.

Jim Flanagan - *IR Strategic Advisors - President*

Interesting. Relative to working with competitors such as Quest (ph), how do you employ, and maintain proprietary nature of your products?

Peter Phildius

The - the products that we have are controlled by our current IP or patent, and the future development of products, although we talked to our Quest (ph) partners and Choice Point (ph) in general, we really don't divulge our confidential area of development, which we have a lot of current plans that will help us continue to develop products that will obsolete our own products.

Jim Flanagan - *IR Strategic Advisors - President*

I remind our live participants today that you may submit a question at any time by simply typing your question field in the lower left and side of the Webcast player.

Mr. Phildius next question is relative to the drugs of abuse testing market, how is the oral fluid testing area changing the whole dynamics in this industry?

Peter Phildius

Well, the dynamics really aren't very obvious, because first of all, if you give a - I'm going to have to be a little graphic here. If one was to divide an oral fluid - I mean a urine sample traditionally, you have to go to a selection site where one technically should be observed giving a urine sample, and the urine sample is then taken there, transported to a laboratory by Fed Ex, comes back, and four or five days later, the results are known.

Number one, we eliminate all of that downtime which could be used to hire (ph) the employee. We also all of the lack of dignity. We also eliminate all of the possibilities of the corporation (ph) which negates the value of the test in the first place. So, it changes the paradigm completely because it eliminates all of the bad with urine and doesn't lose any of the good. Our test is really very, very comparable in most drugs that are tested for and give similar results.

Jim Flanagan - *IR Strategic Advisors - President*

The next question is relative to the government side of the market. Is there any developments going on by the government in regulatory matters that would cause an increase or provide an additional opportunity for your company.

Peter Phildius

Yes. The correct pernel (ph) and the Department of Transportation and government bodies, the SAFSA (ph) requires a laboratory service urine test only to be used, which is maybe 15 to 18 percent of the market, and they are currently undergoing development of regulations that would allow both instant urine and instant oral, which would change the market dramatically, because it would open a major segment, but also would be, in effect, something comparable to a Good Housekeeping seal of approval.

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I think that could take place in 12 months, maybe less, maybe a little longer, but certainly not much longer than 18 months.

Jim Flanagan - IR Strategic Advisors - President

Thank you. Our next question is relative to what is the major points of resistance for the corporate markets or the corporations from adopting more frequent or ongoing drug testing?

Peter Phildius

Well, anybody - a student of marketing know that there - in any industry when you have a new dramatically different technology, no matter how benefit it is to the user, or the consumer, there is a certain amount of inertia, and you have to go up a learning curve that uses a normal bell curve just like the high tech industry, where first you have to find through small volume of innovators, buyers, who will try anything that looks like a good idea and is new, and then you have to cross over the chasm (ph) from innovator to early adopters, and we think we're going into that phase now which is the steep part of the bell curve.

In addition to that, one of the issues is that traditionally urine drug testing has been sold on a service price basis, and it's been sold to the administrator of the drug program. And this is really a change in the way things are done because the administrator that used to send everything out to an outsource route, like Choice Point (ph), now in order to take advantage of the huge net costs savings that can obtain (ph) by using our advertised product they have to do the test internally although it's simple and very civilized and innocuous and can be done by an HR administrator or personnel it's still is a change that needs to be placed so the value proposition needs to be presented to a corporate officer or somebody who is sensitive to the P and L because the next costs savings as it is understood allows them to dictate to the program manager to look at this opportunity seriously and that's what's happening. Currently we have a lot of major corporations that are using our product like - and Costco and Arthur Daniels (ph), Madeline (ph) and so forth that allows us to have value references that help us accelerate the adoption curve.

Jim Flanagan - IR Strategic Advisors - President

Our next question is what are the milestones that you would identify for an investor in looking forward over the next year

or so as important milestones to maintain more entering firm (ph) in investment point of view?

Peter Phildius

I think it's revenue growth, which relates to market penetration and profitability and some of the products that we plan to introduce into the marketplace this year or this coming year.

Jim Flanagan - IR Strategic Advisors - President

Thank you Mr. Phildius we're speaking today with Avitar Inc which develops, manufactures and markets innovative and proprietary medical devices and diagnostics. We thank you for your time Mr. Phildius and we thank our audience for participating today. For those listeners who want to continue with the next portion of this Webcast please close your media player and return to www.ccbn.com, www.resch.com (ph), or www.lhai.com. Thank you.

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