

# FINAL TRANSCRIPT

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## Event Transcript

**PRCY.OB - CCBN Virtual Healthcare Conference: Co-sponsored by  
Lippert/Heilshorn & Associates and RedChip Partners**

Event Date/Time: Dec. 10. 2002 2:05PM ET

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## CORPORATE PARTICIPANTS

### Jack Clifford

*Procyte Corporation - President and CEO*

## CONFERENCE CALL PARTICIPANTS

### Peter Hall

*CCBN - SVP*

## PRESENTATION

### Peter Hall - CCBN - SVP

Welcome to the CCBN Virtual Healthcare Conference, cosponsored by RedChip Partners and Lippert/Heilshorn and Associates.

My name is Peter Hall, and I'm a Senior Vice President here at CCBN, and I'll be serving as your moderator for this portion of our Virtual Webcast Conference.

I'd like to remind our live Webcast participants 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. I'll present these questions during the Q&A, at the end of the Company's prepared remarks. Should I have more questions than time allows, please be sure that we will forward all questions ...

### Unidentified

Oh, OK.

### Peter Hall - CCBN - SVP

... Company's management directly, for them to respond to.

Our next presentation will be made by Procyte Corporation, ticker symbol PRCY.OB.

Procyte Corporation is a medical skin-care company that markets products based on its patented copper peptide technology. The Company has its own direct-sales force, selling to dermatologists and cosmetic surgeons, and licenses its technology through strategic partners for sale in the retail markets.

Procyte Corporation has been increasing revenues in excess of 40 percent over the past four years and became cash-flow positive with profits in 2002. The Company is launching its

own infomercial in 2003 and is actively looking for company and other product acquisitions that compliment its sales force and marketing focus.

Representing Procyte Corporation is Jack Clifford, President and CEO. Mr. Clifford, you may begin your presentation now.

### Jack Clifford - Procyte Corporation - President and CEO

Thank you very much Peter.

With my - one comment I'd like to make, regarding forward-looking statements, obviously anyone should look for information, related to the Company, with 10-Qs, 10-Ks and some of our other SEC filings. Many of the statements I'll make are forward looking.

As you mentioned, Procyte is a medical skin-care company. I'm going to talk a little bit about our proven patented copper peptide technology, and talk a little bit about the results we've had in selling directly to physicians, with our own sales force, and also with our strategic partners, and I'll outline a little bit of our strategic partners in our consumer market.

Some of the Company milestones - the Company was formed in 1986, with a group of scientists investigating aging factors in the blood. They discovered copper played an important role as an activator, and started working initially in wound care. During the intervening time, of about 10 years, we developed a lot of intellectual property, with patents on a worldwide basis, and conducted quite a number of clinical studies, pharmaceutical in nature, not only in wound care, but in HIV, ulcerative colitis, hair growth, et cetera.

In 1996 I joined the Company to help with the marketing of products, and our first physician products were launched in the wound-care area. It became apparent that we were going to have to build a very, very large sales force and it made more sense to us to work in the dermatology and plastic surgery area, where we were not handicapped by the Medicare reimbursement system.

We then developed our own sales force and started working with people like Neutrogena. We also sold a manufacturing operation. And a significant item is in this year, 202, we had our first net earnings.

Now let me talk a little bit about the copper activity. We have two patented materials - GHK and AKH copper peptides. The

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copper is really an activator. It's essential to metabolism. It has very positive anti-oxidant, collagen forming and elastin-forming effects. And the Company has a very strong technology platform, with our copper peptide. As I mentioned, we have over 100 patents.

The important point is that the peptide replicates the body's natural transport system, therefore when it's in - whether it's a wound-care product, or a skin-care product, the body and the cells readily recognize the activity and accept the copper material, and we have numerous studies that talk about that.

One of the studies I'd like to mention is a study that was performed by the University Medical Center in New Jersey, and this compared the copper peptide cream to some of the other popular materials, like tretinoin (ph), vitamin C and melanin. And in this particular study the copper peptide cream increased new collagen formation by over 70 percent, or 70 percent of the individuals, and the other materials were more in the 40 and 50-percent range.

Several other recent studies were conducted and presented by Doctor Jim Laden (ph). These were presented at the American Academy of Dermatology in year 2002. And in these particular studies they were both high (ph) creams and face creams, and there were double-blinded (ph) studies that went from eight to 12 weeks in time period. And in all cases there was a significant reduction in fine lines and wrinkles, and in skin roughness, and there was an increase in skin firmness. This is fairly important, because many of the other products, such as the retinoids, caused quite a bit of irritation. Copper peptide does not cause this same irritation.

Now, when you look at where we get our revenue, our own direct sales force and our distributor network, on an international basis, usually will generate somewhere between 55 and 70 percent of our revenue. In addition, we sell the copper peptide, under license-and-supply agreements, through some of our strategic partners. That can generate somewhere between 20 and 35 percent. And, in addition, those partners then will pay us royalties, and this can generate anywhere between 10 and 20-percent revenue.

When you look at gross margins, our physician products will generate anywhere from 65 to 90-percent gross profit, very meaningful numbers. Our distributors will generate up to 70 percent, private-label sales 50 to 70 percent and on down.

When you look at some of the products that we have in the physician marketplace, we are a premium-priced brand-name

product line. We have Noeva Anti-Aging, Ti-Silc sunscreen products, and then we have procedure-oriented products - a GraftCyte, for use after hair transplant procedures, and complex Cu3, which are post-procedure products, for either following laser resurfacing or micro dermabrasion. These are all sold to physicians, who then either use them in the procedure, or dispense or sell them from their offices.

As we look at our strategic partners, one of our cornerstone partners is Neutrogena - Johnson and Johnson Company. And they have released products under the brand name of "Visibly Firm," with active copper. They're selling in the mass retail markets - your Targets, your Bartels (ph), your Longs Drug Store, your CVS. This year they have launched internationally, so they've been on the market a little over a year, and they are generating some fairly significant sales for us.

In addition, we've signed with a company called American Crew, to sell our products in salons and spas for thinning hair. It can be used by both women and men. They have a brand name - "Revitalize."

We also have a license with a company called "Creative Nail Design." They sell skin-care products in salons and spas, and they recently won an award in New York, for one of the most creative new product designs.

And the other company is Atelier (ph) Esthetique (ph). There we private label the products for this Company. The Company is selling skin-care products to the spa market. We are actively looking for additional opportunities to raise revenues.

If you look in the consumer market, we are presently working on an infomercial ourselves. We hope to have this infomercial available around March and April of 2003. This is a program that is being funded by Procyte. In addition to that, we are in active discussions with other companies for the prestige market, companies such as Est e Lauder and L'Oréal, Shiseido. In addition, there are consumer directs, specialty retail, health store, that all are in discussions at various levels with companies, and these will all enhance our revenue opportunities.

In addition, we are also looking at other physician revenue opportunities, whether they be procedure-based products, like high (ph) neuronal (ph) acid, collagen-based products, OTC or Rx products that we may license, or require from other dermatology companies, or a copper peptide combination product, where we are combining copper peptide with materials like monoxonol (ph) and the retinoids, and other materials where we can enhance the performance of both the monoxonol (ph)

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and the copper peptide. So, we are actively looking at all of those areas, as we look to 2003 and beyond.

In looking at our profit and loss, we've really made some excellent progress over the last several years and we're seeing some of the fruits of that in this year. Our nine-month's results show that we're up about 30 percent in revenue, and more importantly we have net earnings, for the first time, of \$1.3 million, compared to the nine months last year, where we had a loss of about \$878,000.

In looking at the revenue growth from 1998 to 2002, you can see that we've been averaging above 40 percent. We have, as a corporate objective, to have revenue growth in the 30, to 40 to 50-percent range. So, we're on target for that. We think it could be even higher than that in 2003 with the infomercial.

As we look at the net earnings, obviously we were in a loss position from '98, up through '01. The Company actually had lost money since it went public in 1989. We're looking at fairly significant numbers, as we move beyond 2002. In 2002 it looks like we'll have earnings per share in the 10 cent, 11-cent range.

Then when you look at the balance sheet, I think it's a very strong balance sheet. We ended 2001 with \$3 million in cash. At September we had 3.8, and we expect to end the year with an excess of \$4 million in cash. We have no long-term debt. Our current liabilities are very small. We actually have a small-deferred gain on the books, from the sale of our manufacturing facility that we made in July of 2001.

In terms of our stock, of course we're on the bulletin board, having been on the NASDAQ for over 10 years. Our stock price fell below a dollar and we were moved to the bulletin board. We have maintained all the corporate covenant's objects (ph), and we're continuing to work with both AMEX and NASDAQ to try to get ourselves listed. Our recent price has been in the \$1.40 range, although we've been as high as \$2.00.

When we look at some of the strategic milestones, and things people should be looking at, I think there's several. One, the launch of the infomercial will have a very big and positive impact - could more than double our revenue, and the same with our net earnings. We are looking to sign some additional partners in the consumer-products area, which you'll probably see sometime in 2003. As I mentioned, enhancing liquidity through some type of national exchange, either AMEX or NASDAQ and, finally, just growing the overall operating profit. We're looking to be somewhere in the 15 to 17-cent range in 2003,

which would be a fairly sizeable increase, over our 10 cents per share in 2002.

So, with that I'm ready to take any questions, Peter, that your callers may have.

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## QUESTIONS AND ANSWERS

**Peter Hall** - CCBN - SVP

Thank you, Jack. I want to remind our Webcast listeners again, to submit a question simply go to the lower-left section of your Webcast player and submit it in the query field.

First question is the following - ask (ph) you to comment if there is any competition to the copper peptide technology.

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**Jack Clifford** - Procyte Corporation - President and CEO

OK, Peter. Well, actually there's competition, but not really other copper peptides. We have all the patents on that, and actually our patents cover all metallic peptides, so if we wanted to move into the zinc, and some of the other areas that are starting to gain acceptance, we have patents also covering those delivery mechanisms.

We really compete against the older technologies - the alpha hydroxides (ph), and some of those materials, and I think from that sense we really have a leg up on everyone.

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**Peter Hall** - CCBN - SVP

OK. Next question asks about your scheduled infomercial. Do you expect some revenues from that - if so, when? And conversely, obviously, what would the expenses be and how do you think that will impact ...

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**Jack Clifford** - Procyte Corporation - President and CEO

OK.

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**Peter Hall** - CCBN - SVP

... for (ph) overall balance sheet?

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**Jack Clifford** - *Procyte Corporation - President and CEO*

Well, it's sort of interesting the way infomercials are run through your P&L. We do not expect any revenues in 2002, but we are incurring expenses. Those expenses are really accrued and saved until the first revenues are generated, which will be, we believe, the first quarter of 2003. So that's when we expect all those expenses to start flowing through the P&L.

**Peter Hall** - *CCBN - SVP*

OK. Next question asks you to comment a little bit more about the makeup of your sales force. So, do you have your own sales force? If so, how large is it, et cetera? Any comments on that?

**Jack Clifford** - *Procyte Corporation - President and CEO*

Yes, we have our own direct-sales force that's about 20 people, and they're located in the major metropolitan areas that perform the majority of the cosmetic surgeries, so California, Texas, Florida, New York, and we also have reps in Chicago, and those types of cities. We have been adding sales reps at the rate of about one or two every six months. We will start doing that again in 2003, as our sales and revenues keep increasing.

**Peter Hall** - *CCBN - SVP*

OK. One more question asks you really to analyze the physician market and the consumer market. Which seems to be growing faster and revenues associated with it? So, can you talk a little bit about both of those markets?

**Jack Clifford** - *Procyte Corporation - President and CEO*

Sure. The worldwide consumer market is in excess of \$35 billion and it has various growth rates. You know, the mass-retail consumer-growth rate is probably four to five percent. The prestige and spa markets are growing in excess of 10 to 15 percent, and there's a real major trend to have something called a "medical spa." So, some fairly nice growth rates, up above 10 percent, in those skin-care markets.

In terms of the physician offices, I'd say the growth rates there are between 10 and 20 percent, and maybe even more. The approval of Botox recently brought a lot of attention to the skin-care area. The aging population, of course, is well involved in wellness and looking good and feeling good, and I think a lot of the stigma that was associated with cosmetic surgery has gone away. I think, you know, the only cautionary note is to

make sure that it's a well-known dermatologist, or plastic surgeon, but I think it's a real nice market segment.

**Peter Hall** - *CCBN - SVP*

OK. Jack, I see no more questions at this time, and if you have any concluding or summary comments you can feel free to give them at this time.

**Jack Clifford** - *Procyte Corporation - President and CEO*

OK, Peter. Thank you.

I think one of the things is just to look at the milestones, the fact that a company has been in business for 10 or 12 years. We broke into profitability with net earnings this year, and we see continued revenue growth in the 30 to 50-percent range, and I think earnings per share are going to follow along, at some fairly significant rates. So, I think it's an undervalued stock, as many people say, but one worth watching.

**Peter Hall** - *CCBN - SVP*

Thank you very much. Thanks for (ph) your presentation, Jack, and thanks for (ph) our listeners.

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