

# FINAL TRANSCRIPT

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## Event Transcript

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

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## CORPORATE PARTICIPANTS

### **Peter Hall**

*CCBN - Senior Vice President*

### **Emile J. Geisenheimer**

*Spectranetics - Chairman Of The Board and CEO*

## PRESENTATION

**Peter Hall** - *CCBN - Senior Vice President*

Welcome to the CCBN Virtual Healthcare conference co-sponsored by Lippert/Heilshorn and RedChip Partners. My name is Peter Hall and I'm a Senior Vice President here at CCBN and I will be serving as your moderator for this Virtual Healthcare conference presentation.

Our next presentation is from Spectranetics. Spectranetics is a medical device manufacturer that sells disposable fiberoptic catheters and excimer laser systems. The company's \$28 million in sales comes from two product lines, products for the treatment of coronary artery disease and products for the removal of pacing and defibrillator leads (ph).

Our speaker is Emile J. Geisenheimer, Chairman of the Board, Chief Executive Officer. He joined the company as a member of the Board of Directors in 1990 and became Chairman in 1996. He's been the acting Chief Executive Officer since May, 2002.

As a reminder to our audience, you may submit a question at any time by simply typing your question in the lower left-hand side of the Web cast player.

Emile, please begin your presentation.

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**Emile J. Geisenheimer** - *Spectranetics - Chairman Of The Board and CEO*

Thank you very much. I appreciate the opportunity to talk a little bit about Spectranetics with you this afternoon.

First, our obligatory safe harbor statement. We do file extensive information with the Securities and Exchange Commission and I urge everyone to -- themselves with that information paying particular attention to the risk factors outlined in our recent Form 10-K and 10-Q documents.

Today I'd like to begin with an introduction explaining a little bit about our technology and discuss the company's strategies

and then spend some time talking about the size of the market opportunity for our existing products and the opportunity for additional applications that the company is focused on.

In that latter vein, I will review two clinical trials that are under way, then following that, provide a financial overview, talk about the growth drivers for our business and then end up with some highlights on the company. We are a medical device company. We manufacture and sell disposable fiberoptics, catheters and excimer laser systems.

The company's \$28 million in sales come from two product lines, products for the treatment of coronary artery disease and products for the removal of pacing and defibrillator leads. The -- slides illustrates the application of the excimer laser technology in treating coronary artery disease.

This first image shows an occlusion of a coronary artery, which is represented in the white area, which has been crossed by a guide wire and then the blue object you see represents the actual laser catheter. The catheter is quite (ph) adjacent to the occlusion and then when activated, as shown on this slide, it ablates the tissue and clears the arteries so that blood flow can be restored.

This procedure is normally followed by balloon angioplasty and/or the placement of a stent. Now the oppression (ph) characteristics of the excimer laser technology are very important and highly different from other techniques in that the obstruction is removed, not merely compressed, against the artery wall as in the case with balloon angioplasty and stent placement.

This is important because it reduces the risk of debris going downstream from the treated area because the laser breaks down molecular bonds of the occlusion in 95 percent -- 99 percent of the articulate (ph), are smaller than a red blood cell and are treated normally by the bloodstream. Other devices cause greater embolization rates and are secondary blockages of the arteries, but the technology is effective in most blockages.

The next slide shows the application of our technology in the removal of problematic pacings by defibrillator leads. These leads are electrical leads that are placed in a vein and led through the muscle of the heart to regulate the heart muscle. Over time, some of these leads become infected and might break or become embedded in the vascular material and have to be removed.

This slide shows the laser sheet (ph) at the top of the image where -- electrode is being sent down through the vein to the site of the replacement. Traditional techniques or mechanical techniques were used before the onset of actual laser -- these

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mechanical techniques were effective in 65 percent of the cases in which there were -- with which they were used.

The procedure was a very difficult one and a very traumatic one. The --, which is our first generation product in this category, proved to be 94 percent effective. And our most recent product, the CLearRS product, is 98 percent effective in 40 (ph) studies that had been conducted in this area. Now, the company's strategy is to expand the market side -- two critical (ph) trials.

First, in the coronaries, we are intent to expand the application of our technology through clinical investigations from myocardial infarction and for -- . We are approved for -- and our studies in this area are intended to demonstrate the strength of excimer laser in -- graphs.

And myocardial infarctions, or acute myocardial infarction is caused by having more body material and occlusion and this is an area that we are more intent to investigate in covering -- and years to strike (ph) that position. We plan to submit PNA (ph) for our very important -- and -- trials which are aimed at the periphery (ph) and would hope to launch the products of these applications and -- going forward.

In the meanwhile, we continue to -- the chain of -- and to -- focus on profitability. Now, to give you an idea of the addressable (ph) market for our products, this slide shows that approximately 125,000 procedures are addressable (ph) by actual laser technologies in the coronaries. This represents a market opportunity of about \$160 million.

In the -- area, we believe that we can address about 20 percent of the market, or 37,000 cases, or a total market opportunity of about \$90 million. In the peripherance (ph), I believe it's -- is approximately \$270 million over about 184 thousand procedures. There's another small market that -- are investigating called -- of access -- for the treatment of hidden disease. And this -- AMI (ph), we believe the market is approximately 75,000 cases or approximately \$100 million.

In ischemic stroke, a market that we're just beginning to investigate, we believe there are a half a million patients, about 20 percent of which could be addressed potentially by the laser in a market of about \$150 million in -. To summarize, the -- market if we were successful in each of these areas would be approximately \$810 million. As you see from the slide, we're currently addressing the markets -- at 250 million in products (ph). In clinical trials that are -- our nearest term (ph) opportunity for growth, we're showing in red in the peripheral

areas of \$275 million, which is in fact somewhat larger than the current markets that we chose.

Now I want to talk a little bit about the clinical trials that are underway for peripheral (ph) vascular disease -. The first one, our -- trial, which stands for laser angioplasty from critical limb ischemia, now critical limb ischemia is a problem suffered by many people and leads to -- it's a very debilitating disease that leads to amputation in some 80,000 cases a year.

Patients with this malady have resting (ph) leg pains, non -- ulcers and brain grain (ph). -- 167 patients with critical limb ischemia are enrolled (ph) in -- and harbor -- studies and -- in -. They expect to submit that data in January of '03, next month, and we anticipate approval in late '03. Now I'm going to show you an example of the treatment of critical limb ischemia with the excimer laser on one patient. I warn you, these pictures that I'm going to show you are pretty graphic.

This patient is a 61 year-old lady who has suffered from diabetes for more than 20 years, which is not atypical of patients in this category. She had -- ulcers on both feet. She was treated in bilaterally both legs in August of '01, at the Arizona Park Hospital (ph). Now this slide which is -- to look at but really illustrates the importance of this treatment.

On the far left, you see the lady's foot before -. You see that there is -- there is no healing going on. There's no blood in this field at all. The blood for this field is critical to healing of an ulceration like this. Premadactor (ph) treatment of the center slide, you can see a bloody field and there's also at the top, there's been a small skin graft which is showing light (ph) healing. And then six months later, this lady's foot has largely healed.

There's still a small area with -- healing is going on, -- smaller toes. The sixth slide shows the left foot. As you can see, this lady suffered from gangrenous areas in several locations before treatment. Then after three months post-treat, we have active healing going on in the blood rich fields. This lady is making progress and at the end of six months, you can see this foot has -- a lesion.

Now the -- and the -- trials in the lower legs, while the -- off the legs and it's peripheral excimer laser angioplasty. This is the study of -- problems in the upper leg. The end point here is critical -- disease. That means there's blood flow after one year. We studied 250 patients. The last one was treated a little over a year ago and we anticipate -- that -- in the second quarter of '04. Now let me turn from these trials, which we believe are a very important -- driver for the company, -- the FDA approval

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to our position of the company today to exploit the -- industry growth. Today we enjoy a strong balance sheet, we're debt free, and we have added the cash reserves. We are also cash flow positive.

Very importantly, we enjoy very high gross margins and strong operating leverage in our business model. We have improved in profitability and we have a growing -- base of lasers. Our cash on September 30 was surging (ph) from \$9 million. We generated about a million (ph) dollars in positive cash flow in the first nine months of '02 and we have no debt. We believe we have adequate cash to fund our business plan going forward.

This chart illustrates the cash flow in recent years and year to date for 2002. I mentioned that we have strong operating leverages. That's -- very strong margin. Disposable margins are near 80 percent and average margins for all of the products and services is near 70 percent. This next slide illustrates our history in sales growth.

You can see between '97 and 2000, we grew fairly rapidly based on the introduction of our laser -- product and the company's coronary success against -- and other competitive products. -- since 2001, our sales have stalled and in terms of growth and we are exemplifying our sales growth through the clinical trials that I've just described. Importantly, our sales -, our -- mix, is largely driven by recurring revenue.

As you can see, the green area shows that the majority of our sales comes from this multiple (ph) product, the yellow area in this chart shows other recurrent revenue from service, contracts on rentals of lasers and our equipment sales is showing red as a minor part of our revenue. We were profitable for the full year of 2001 and profitable last quarter and we expect improving profitability going forward.

We've also been successful in -- of lasers. In our business, in order to reach patients, we must have lasers installed in hospitals where these patients are treated. We've more than doubled our -- in the United States in the last number of years. Our growth internationally has been somewhat slower, but today we have over 350 lasers installed and are installing new lasers each and every month.

So the drivers for our business, now our -- laser are the pending approval by the FDA of our -- across the United States. We also are working very hard to achieve reimbursement in Japan and -- partner in Japan and expect our reimbursement in Japan and -. We're working on harvesting potential growth opportunities in coronary angioplasty for that core business and

we have a pipeline of other applications including the potential for treatment of ischemic stroke.

But to summarize, we have established technology with a growing -- base. We have increased the visibility of strong -- drivers. Our business model has strong operating leverage of physicians -- the company from stable (ph) profitable growth in the future. We have no need to -- to raise capital and we believe at today's price, the company is often an attractive valuation. That completes my prepared remarks and I'd be happy to address questions.

## QUESTIONS AND ANSWERS

**Peter Hall** - CCBN - Senior Vice President

Thank you Emile for that presentation. We do have some questions. The first question to ask you to comment on the stock price performance, how it's done this year, the outlook, et cetera, so could you comment on your stock activity?

**Emile J. Geisenheimer** - Spectranetics - Chairman Of The Board and CEO

Well, first off, first off, I'll say that we're not happy with our stock price. We certainly believe that we're undervalued -- to comparable companies. On the other hand, we've actually outperformed the Dow, the S&P and the NASDAQ since we hit our bottom in July. The stock was battered by the uncertainty created by a proxy contest and the management changes and business interruption that's reflected (ph) in our second quarter.

Since then, we've posted a solid third quarter. We're profitable and you can draw your own conclusions about the value of the stock. We're trading at five (ph) times our cash balance and we think relatively low multiples of our sales relative to comparable companies.

**Peter Hall** - CCBN - Senior Vice President

The next question that I have comes and asks you to comment on your search for a CEO. You are now currently acting CEO and the question is, can you provide us an update on the CEO search?

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**Emile J. Geisenheimer** - *Spectranetics - Chairman Of The Board and CEO*

Sure. I'd be happy to. First, let me talk a little bit about the overall situation with respect to the company's management. I'm very pleased to report that we have a very strong operating management team in place. Our top executives have been with the company from five to 11 years.

They each have a commitment to the company, a strong investment in the company on a personal level and in terms of their -- equity and are committed to building the company. Secondly, we have an established strategy and operating plan that reflect a consensus among the management team and the -- management team and the board of directors for the company's --.

So as a result of those two things, we're seeking continuity, a very strong emphasis on continuity and stability in our search. The search is ongoing. I can't predict the exact timing of its conclusion, but we're not looking for a change (ph) agent in our search, we're looking for continuity.

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**Peter Hall** - *CCBN - Senior Vice President*

OK. Thank you for that. The next question is a rather specific question asking you about the Lacy (ph) clinical trials and asking if you can provide some of the -- a little bit more detail why you think you will be successful in that application.

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**Emile J. Geisenheimer** - *Spectranetics - Chairman Of The Board and CEO*

OK. Well, obviously Lacy (ph) is extremely important to the company and Lacy (ph) is, as I said in my presentation, represents an extremely large market. And the malady of that we're treating is a very, very important medical problem. There are very few alternative treatments for Lacy (ph).

The consequences of failing to treat this malady are very, very severe to the patient. Our preliminary data on the other hand is extremely strong. We believe that the -- that when we have a final data which we should have in a matter of weeks, that we'll show safety in efficacy in this product that is extremely compelling.

As a result of that, we expect to have more reception from the FDA and we believe that we'll be -- the market will be strong for this product.

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**Peter Hall** - *CCBN - Senior Vice President*

OK. Another question asked about general industry trends and your competition. What are you seeing on both of those -- in terms of the overall market industry that you're in and any specific competitors that we should be aware of?

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**Emile J. Geisenheimer** - *Spectranetics - Chairman Of The Board and CEO*

Well, first we have different competitors in different segments. And cardiology is an extremely competitive marketplace. We compete with very large well-financed companies with very large sales and marketing organizations and very large R&D budgets. We are also an expensive product on the coronary side.

At the same time, there are applications on the coronaries where we produce clearly superior results and it is those applications that I've highlighted in this presentation and that when focused on, are providing an ever increasing quantity of data to our physicians that use our products to justify their use in patients because of patient benefits.

And in the lead -- market, today we feel in those cases where leads are removed, we pretty much dominate the market and have a very large share. So our growth in that marketplace is limited to the extent to which we can encourage the increased removal of leads in patients where there's a potential for difficulty with those leads in the future.

And we -- data -- which supports that proposition. For our sales growth there, we'll grow as a function of increasing removal of troublesome leads.

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**Peter Hall** - *CCBN - Senior Vice President*

OK. We have another question that comes in and states that -- asking a little bit more on your key priorities for 2003, the year ahead. You obviously have a lot of growth drivers that you've listed, but this person particularly wants to know what you feel in your mind is the key to a successful 2003?

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**Emile J. Geisenheimer** - *Spectranetics - Chairman Of The Board and CEO*

Well, first off, severe -- in time in January is a very important milestone for us. That's -- for the FDA in which we expect to think January is very important. We expect to begin clinical

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studies in -- and -- and we expect to begin ventricle surgeon (ph) in those studies in a stroke (ph) application.

We're also going to be very busy preparing for the launch of Lacy (ph) commercializing for FDA approval and we need our focus -- in remaining profitable throughout this period where we have to make these investments, so those are our top priorities for '03.

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**Peter Hall** - CCBN - Senior Vice President

OK. Fine. Well, I see no other questions Emile and I want to thank you for your presentation today.

I'd like to remind our Web cast listeners to listen to the next presentation, to close your Media player and return to either [www.ccbn.com](http://www.ccbn.com), [www.redchip.com](http://www.redchip.com), or click on the agenda URL and thank you for your participation today.

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