CardioTech International , Inc.
Investor Conference Call
Mon Aug 15, 2005 4:10 pm EST

O'Brien. Good afternoon ladies and gentlemen and welcome to CardioTech's first quarter FY 2006 conference call. My name is Tom O'Brien, from Catalyst Financial Resources.

Participating in the conference call today from Wilmington, MA is our host Dr. Michael Szycher, Chairman and CEO of CardioTech, **Tom Lovett**, our VP of Finance, and **Dr. Eric Ryan**, CEO of CorNova.

Also, joining us from California are **Les Taeger,** CFO and **Steven DiRocco**, General Manager of Gish Biomedical. Additionally from Minnesota is **Jill Knudson,** CDT's General Manager.

I would like to remind everyone that a replay of the conference call will be available approximately three hours after the call through August 31, 2005 by dialing: 888-266-2081 and entering passcode: 756336.

One final note before we begin, our remarks and responses to questions may contain some forward looking statements within the meaning of the Safe Harbor regulation. At this point, I will ask Dr. Szycher to address the participants.

Szycher. Thank you very much Tom.

Today CardioTech issued a Press Release regarding the financial performance for the first quarter of fiscal year 2006, and this morning we also filed the 10Q with the SEC. Regarding our financial performance, we will make some preliminary statements concerning our progress, and then we will open the call for questions.

I would like to provide our participants with a brief summary of CardioTech's financial results for its first quarter ended June 30, 2005. Total revenues for the quarter ended June 30, 2005 was $5,640,000 as compared to $5,531,000 for the comparable prior year period. Net loss for the quarter ended June 30, 2005 was $567,000 as compared to net income of $51,000 for the comparable prior year quarter, or $0.03 per share. The loss includes $111,000 in R&D expenses related to the graft program and $305,000 invested in production equipment and training costs associated with a new large CDT customer.

Sales of medical devices were $4.321 million, outsourcing services sales reached $978K, and lastly sales of biomaterials were $341K for the quarter.

Finally, we reported a cash balance of $6,900,000 and working capital of $13,114,000 as of June 30,2005 .

CABG. Cardiopass

Cardiotech continues to make progress with our Cardiopass artificial coronary artery bypass graft. The initial patient population for the Cardiopass is "no-option" patients, often repeat bypass patients or diabetics, who do not have sufficient native vessels to complete their necessary revascularization. Cardiotech has completed the submission of a CE Mark application for the Cardiopass for the indication of use with "no-option" patients and it is currently under review by Cardiotech's notified body. It is estimated that there are thousands of such patients worldwide who could benefit from the use of the Cardiopass.

Cardiotech is also advancing toward clinical studies to support a broader indication for the Cardiopass. Cardiotech is in discussions with Dr. Doll, Assistant Medical Director of the Herzzentrum Leipzig at Universitat Leipzip (Leipzig Heart Center, Leipzig University), in Leipzig, Germany to begin a clinical trial with the Cardiopass. This is one of the leading heart centers in Germany, performing approximately 4,000 operations per year, and is well known for its excellent work in clinical research.

Cardiotech is also in discussions with Dr. Manuel Irarrazaval, Professor of Cardiac Surgery at the Universidad Catolica de Chile (Catholic University of Chile) in Chile, to begin clinical studies with the Cardiopass. This hospital is recognized as one of the leading clinical and research facilities throughout Latin America.

The data collected during these international studies is intended to support broader indications for the Cardiopass across patient populations and clinical practices. It will also provide information that could be used to define preferred advancements in the Cardiopass.

Cardiotech remains committed to the Cardiopass and the benefits that it can provide to cardiac surgery patients. We look forward to continuing to advance this product forward.

I would now like to invite **Steven DiRocco** to tell us about developments at Gish.

DiRocco. As you all know, Gish Biomedical is focused on the cardiovascular surgery market. Drug-eluting stents have become a formidable competitor to bypass surgery and continue to affect the bypass market. At Gish we made maintained our sales levels in a declining market by focusing on expanding our international representation and by adding new products.

Gish has developed or strengthened relationships with several international distributors in the last year and expects gradual growth in international sales as these relationships continue to develop. Key to an increase in international sales will be obtaining CE mark for the GBS coating in Europe. We anticipate receiving this marketing approval in six to nine months, which will then open up the significant portion of the European market that is requesting coated products.

Last year we became the exclusive distributor for the Century Heart Lung Machine. It is known as the workhorse in the industry and is considered a reliable and cost effective Heart Lung Machine solution for perfusion professionals. As many hospitals are watching costs; the Century is a great alternative. We made our first sale in November of 2004 and since have sold an additional 5 complete systems. We see a growing interest and anticipate continued revenue contribution from Century sales this fiscal year.

Our GBS coating is being increasingly accepted. It is a heparin based covalently bonded, biocompatible coating. When this coating is used in the perfusion circuit it is less traumatic to the patient's blood. We now have been independent studies that indicate favorable results to the GBS coating. White papers or technical papers written by acknowledged experts are currently being completed and should be published in the next few months. Our GBS coating is the only coating in the market that combines heparin and a hydrophilic naturally-occurring polymer to reduce platelet consumption and control the systemic inflammatory response currently associated with heart-lung bypass operations.

Those are my prepared remarks.

Szycher. Thank you very much Steven. I would like like to invite Jill Knudson to tell us about some exciting developments at CDT.

Knudson. CDT is currently in a very exciting growth period. As part of our company strategy to focus on manufacturing business, we are on track to increase manufacturing revenues by about 50% in FY 2006.

We have added a significant catheter manufacturing business that currently accounts for $130,000 per month. Over the course of the next 2 months, CDT is ramping employment to meet this increased demand to $230,000 per month.

To meet this increase in demand, CDT has made significant investment into our business infrastructure. A new inventory management system is being implemented, equipment and tooling has been procured and qualified, additional personnel hired, and a second shift has been implemented.

CDT continues to actively pursue and obtain product development opportunities. CDT partners with a wide range of companies in developing their unique product concepts into reality. We are able to provide services to these companies that range from quick in hand prototypes all the way through the complete product development cycle and onto process development and ongoing manufacturing.

Finally, we are also redesigning our quality system to meet ISO 13485: 2003 (Our current certification is to ISO 13485:1996 which will be obsolete July 2006). These efforts will allow us to continue to service companies selling in the European Union. The dual goal of this quality system change is to focus on customer satisfaction and enhance management responsibility.

Thank you very much.