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SDI.A^G20 - Q2 2003 Strategic Diagnostics Earnings Conference Call

EVENT DATE/TIME: JULY 24, 2003 / 3:00PM GMT



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PRESENTATION

Operator

Good morning ladies and gentlemen, and welcome to the Strategic Diagnostics Second Quarter 2003 Earnings Conference Call. At this time, all participants are in a listen-only mode. A brief question-and-answer session will follow the formal presentation. If anyone should require operator assistance during the conference, please press "*" "0" on your telephone keypad. As reminder, this conference is being recorded. It is now my pleasure to introduce your host, Ms. Hillary Bond (ph). Thank you. Ms. Bond you may begin.

Hillary Bond - Strategic Diagnostics Inc - Host

Thank you operator, and thank you everyone for joining us today. With us on this call are; Arthur A. Koch, Jr., company's President and Chief Executive Officer; and Stanley Musial, the company's Chief Financial Officer. The company issued a press release this morning containing financial results from the second quarter. And this news release is available at various financial websites. However, if you would like a copy of the press release or any other information about Strategic Diagnostics, you may call the company's Investor Relations Department at 302-456-6789.

There will be an audio replay of this call available until 11.59 p.m. tomorrow, July 25. The dialing instructions are included in the press release and this call will also be webcast on SDI's website www.sdix.com, as well as, at the website www.vcall.com. Replays will be available on each website for 90 days. Before we begin, let me remind all callers that this call will contain forward-looking statements. Investors should be aware that any forward-looking statements are subject to various risks and uncertainties that could cause actual results to differ materially from those discussed here today. These risk factors are explained in detail in the company's filings with the Securities and Exchange Commission. Strategic Diagnostics does not undertake any obligations to publicly update or revise any forward-looking statements whether as result of new information, future events, or otherwise. With those comments, I will turn the call over to Mr. Koch. Please go ahead, Arth.

Arthur Koch - Strategic Diagnostics Inc - President and CEO

Thank you, Hillary. And also welcome everyone to the second quarter conference call for Strategic Diagnostics Inc. As Hillary mentioned, Stan is with me this morning and we are delighted to be here to update you on the progress we have made in the quarter. Before we turn the statistics for the quarter, I thought I would update on two organizational matters of importance. First, with regard to our search for permanent CEO -- we



are very pleased with the progress we have made to-date. Our Board is interviewing candidates for this position, and we believe will be able to complete this in the September, October timeframe.

The second organization matter deals with our approach to sales and marketing. I took this position just now two months ago, we looked at our efforts to reach at marketplace and we have focused them on delivering industry and market and application expertise for our customers in prospect. Accordingly our sales and marketing, our customer and product support function are now all organized by market category -- antibody, food pathogen, agro products, and water products. In each of these categories, we maintain an outside sales force whose primary function is to direct -- is direct customer contact to generate sales leads and complete sale. This effort is supported with in-house sales support, product support, and customer service. Our customer service and product support functions are designed to be useful before joining and after the sale and in many of our sales situations benefits from this type ours support since our sales are typically technology driven.

We believe the current structure will allow us to reach our target market more effectively with industry and application expertise necessary to enhance prospects -- our prospects for success. Additionally, we have begun to expand our international sales efforts. We have added direct selling resources in our European office -- a direct selling resource in our European office, and we are looking to expand distribution relationships in Europe and Asia. We believe there are significant sales opportunities internationally, particularly, in animal feed testing, for both genetically modified trade and proteins points for the transmission of [inaudible], and we are working to effectively capture market share. These changes will require additional spending over the levels expended in the first half of the year, and we are estimating a cost of -- an additional cost in the second half of between \$200,000-\$300,000. We believe though these investments will be very useful in being -- in reaching target market. I'd like to now ask Stan to go through the statistics for the second quarter and the first half 2002.

Stanley Musial - Strategic Diagnostics Inc - CFO

Thank you Art and good morning. Although Art will be going in greater detail, I'd like to begin the discussion with our revenues. Revenues for the second quarter of 2003 were \$6.4m compared with \$5.6m for the second quarter of 2002, an increase of 14%. And for the six months end at June 30th 2003, revenues were 12.9m versus 11.3m in the same period in the prior year, also a 14% increase. Antibody revenues increased 24%, \$3m for the second quarter of 2003 compared to the prior year quarter and increased by 21%, \$6m for the 6 months ended June 30, 2003 compared to the same period in the prior year. This increase continues to reflect the benefits of the consolidation of the production facilities completed in 2002 which has attracted new customers and the expansion of existing customers.

Water Quality revenues increased 17% to \$2.1m for the second quarter of 2003 compared to the prior quarter, an increase by 12% to the \$3.8m for the six months ended June 30 compared to the same period in the prior year. The company continues to work with drinking water utilities as they assess their vulnerability to chemical contamination. Food Safety revenues increased 5% to \$1.3m for the second quarter of 2003 compared to the prior year quarter, an increase by 13% or \$3m for the six months ended June 30 compared with the same period in the prior year. Food pathogen test sales led by E Coli grew significantly during the quarter, while sales of the company's product to detect generically modified traits declined in the second quarter of 2003 compared to the second quarter of 2002 due to the continued reduction in StarLink sales.

Now turning to gross profits and operating expenses; gross profits, that is total revenues less manufacturing costs, increased \$895,000 or 34% to \$3.6m for the second quarter of 2003 compared to \$2.7m for the prior year quarter, and gross margins increased to 55% for the second quarter of 2003 from 48% in the second quarter of 2002. For the six months ended June 30th 2003, gross profits increased \$1.9m or 36% to \$7.2m compared to \$5.3m in the same period in the prior year. And gross margins increased to 56% for the six months ended June from 47% in the same period in 2002. The increase in gross profits was primarily driven by the increase in product sales for the quarter in six months and lower manufacturing expenses. Manufacturing expenses decreased \$54,000 to \$2.9m for the second quarter of 2003 compared to the prior year quarter and decreased by \$312,000 to \$5.7m for the six months ended June 30th compared to the same period in the prior year. Decreases were primarily driven by the benefits realized from the previously discussed antibody production facility consolidation and the initiatives to leverage manufacturing capacity and improved production yield. Research and development expenses decreased \$270,000 to \$618,000 sales for the second quarter of 2003 compared to the prior year quarter and decreased by \$310,000 to \$1.3m for the six months ended June 30th compared to the same period in the prior year, primarily due to higher expenses in the prior year associated with the development efforts of the company's food pathogen and animal feed test.



Selling, general, and administrative expenses decreased \$66,000 to \$2.6m for the second quarter of 2003 compared to the prior year quarter and decreased by \$502,000 to \$5m for the six months ended June 30th compared to the same period in the prior year, primarily due to previously announced initiatives to streamline operation and again the effect of the consolidation of the antibody production facility. Included in selling, general, and administrative expenses of \$2.6m for the second quarter of 2003 is a \$315,000 provision for severance-related expenses associated with the company's termination of its former CEO in May 2003. Pretax income totaled \$309,000 for the second quarter of 2003 compared to a pretax loss of \$928,000 for the prior year's second quarter. And pretax income totaled \$821,000 for the 6 months ended June 30th 2003 compared to a pre-tax loss of \$1.5m in the same period in the prior year. The net income for the first quarter totaled 200 -- I'm sorry for the second quarter totaled \$211,000 or 1 cent per diluted share compared to a net loss of \$547,000 or 3 cents per diluted share in the prior year quarter. The net income for the 6 months totaled \$546,000 or 3 cents per share compared to a net loss of \$920,000 or 5 cents per diluted share for the same period in the prior year.

Now turning to the balance sheet, the Company had cash at June 30th 2003 totaling \$3.3m up from \$2.1m at December 31st 2002. The Company's current assets totaled \$13.3m at June 30th 2003, and its working capital, that is current assets minus current liabilities, stood at \$13.5m at June 30, 2003 compared with \$12.5m in December 31, 2002. Also at June 30th, the Company had stockholders equity of almost \$31m and had met and exceeded the minimum financial covenants required by its bank. Arth those were the comments I wanted to highlight and I'd like to turn it back to you.

Arthur Koch - *Strategic Diagnostics Inc - President and CEO*

Thank you Stan. And clearly growth across all of our market categories is something we are very excited and pleased about, and I wanted to now turn the call to talk about some of the operational activities of the quarter. But first I'd like to begin with our relationship with Bayer. During the quarter, they informed us of their intent to terminate the agreement whereby we were manufacturing devices to support their product development efforts for Repinotan. They informed us that principally due to the short shelf life of the product, it was their judgment that it would not be a commercially viable method. They also informed us that while various approaches to these funds may be available, their evaluation was that any such approach would delay their product development for Repinotan. We are disappointed in this termination, but this decision will not have a material impact on 2003 or 2004 results. We will be evaluating alternative applications of this technology, but our first priority will be to develop market -- the market for the products we currently offer in food and water quality. The next point deals with in the past several -- past few conference calls, there has been mention of work we are doing in research and development regarding our efforts on a new project. These efforts have been for a project --- I am sorry, the work has larger been a project to detect and measure tobacco-specific nitrosamines or TSNA, which is of increasing interest to the tobacco industry.

The presently available message for the quantization (ph) of TSNA's are both complicated and costly; immunoassay based test may represent an alternative method that is rapid, inexpensive, accurate, and simple to perform. These tests could prove useful for quick and reliable estimation of TSNA levels prior to tobacco purchase and throughout the manufacturing process. Although this may prove to be large market opportunity, proof of concept of this technology has yet to be established, and it could be several quarters before we are able to estimate the commercial opportunity, if any at all. It nevertheless represents a very interesting project work or research efforts, and we will be providing additional information as it becomes available.

Next I would like to turn to our food packaging category and begin to describe our progress with E. Coli. As you may remember the product was launched mid-year last year; the product side validations continuing through the second half. Commercial traction -- sales traction began first quarter and continued in the second quarter. In fact we are, based on what we see today, we are on our path to achieve the earlier estimate of 20%-25% penetration -- a run rate at a 20%-25% penetration rate of the \$8m U.S market with E. Coli testing by the end of this year. We see meaningful -- we've accomplished this by expanding relationships with existing customers as well the attraction and addition of new customers. Also in the food pathogen category, our Salmonella program, our product for Salmonella and their evaluations by customers are continuing.

During the second quarter we were able to demonstrate significant value of this product in a variety of specific applications. Based on this feedback, our plans for the second half of this year are focused on capitalizing our market opportunities, but the sales cycles are shorter, typically small customers or selected testing needs of larger customers. We expect the sales ramp could be slower than if larger customers were to adopt our protocols immediately, but the lead times sales decisions are much longer. By establishing sales transactions quicker, we believe overall market



acceptance will begin sooner. Also, with regard to the reader, the instrument used to interpret test results; we expect to have -- we continue to expect to have instruments in the field before the end of this year. This capability will help us to eliminate subjectivity and the interpretation and will be very important in high volume applications.

The next product in our food safety category is for the detection of unapproved proteins in animal feed or mad cow test. The market for mad cow testing in North America and North American policy with regards to the animal feed is in a complete state of flux since the identification of a mad cow in Canada. Food, feed and regulatory industries here are evaluating the adequacy of current policy and considering significant change. It is unclear this time where U.S. and Canadian policies and regulations will end up ultimately and we believe the current is working, focusing a great deal of attention on these issues and we are working to show the value to be gained by testing animal feed to aid in the prevention of mad cow disease.

The food industry particularly is based with complex issues concerning their suppliers and we expect the sales of our test at commercial quantity to follow the confirmation of a unified set of policies and regulations concerning animal feed by the Food Feed & Regulatory Industry. We believe it may take the balance of this year for this situation to stabilize. The demand for testing appears to us that it will grow as a result of this experience, in the meantime we have stepped up for our efforts as I mentioned earlier in Europe where policy is more stable and we look for penetration in this category in the balance of this year. The next food packaging test message concerns an update on or [inaudible] products, we continue to expect this product to reach the market place in the fourth quarter with third party validations completed by the end of the year.

I would like to also add to comment on our antibody business the growth in our antibody business is as I mentioned directly the result of our efforts to consolidate our operations and bring a first grade manufacturing facility to the market place and we are very pleased with that work in the second quarter. On to our GMO business, we are very encouraged with launch of new products by our customers including crop protection perform [inaudible] and further resistance in [inaudible]. We continue our leadership in this category and we expect sales to continue to grow this year for tests other than installing. We've also seen the rate of decline installing sales flow. And we expect sales will continue to decline at a rate of between 5% and 8% for the balance of 2003. Sales of GMO test other than [starling] are expected to be 2-3 times the volume of starling sales for a full-year 2003.

In our water quality business we continue to see Microtox adopted in the drinking water industry. We now have over 180 Microtox or [Deltatox] units installed since December 2001. We initiated an evaluation of 4 additional major food manufactures during the quarter and we expect this evaluation to be completed during the third quarter with results available early in the quarter. We continue to believe Microtox in food has substantial opportunities and we are pleased to have an opportunity to demonstrate its capability. Similarly in the beverage industry we continue our work and products evaluation have shown a significant value for the Microtox technology, and we are working to continue to exploit this opportunity. Both in earlier calls we have mentioned our report on the environmental technology validation and navy project, and that work is continuing and we expect those results to be available in October. This data will be helpful in determining future sales trends with regard to this [substance] of our Microtox market approach. Those were the highlights of the operations. I would like to turn -- to open the question -- the conference for questions at this time. Well, operator.

QUESTIONS AND ANSWERS

Operator

Excuse me ladies and gentlemen, at this time we will be conducting a question-and-answer session. If you would like to ask a question, please press "*"1" on your telephone keypad. A confirmation tone will indicate your line is on the question queue. To remove your question from the queue, please press "*"2". For participants using speaker equipment, it may be necessary to pick up your handset before pressing the "*" keys. Our first question comes from Ken Trbovich (ph) with Unterberg. Please proceed with your question.

Kenneth Trbovich - Unterberg - Analyst

Hello.



Arthur Koch - *Strategic Diagnostics Inc - President and CEO*

Good morning Ken, how are you? Ken?

Operator

I am sorry. Our next question comes from Mark Tenko (ph) with Sidoti. Please state your question.

Mark Tenko - *Sidoti - Analyst*

Good morning gentlemen.

Arthur Koch - *Strategic Diagnostics Inc - President and CEO*

Hi Mark, how are you?

Mark Tenko - *Sidoti - Analyst*

Good. I want to talk a little bit about McDonald's role in sponsoring the Mad Cow test and endorsing it. They seem to have the most at stake from a global perspective with their brand. They help [inaudible] develop this test. What is their overall right now and what is preventing them without regulatory requirements to insist that their suppliers be using some type of test to screen for these unapproved animal proteins. What's the obstacle there?

Arthur Koch - *Strategic Diagnostics Inc - President and CEO*

Mark, as you remember, McDonald's does sponsor our work in this area and -- but as you know, we cannot speak about specific customer policies in any case. And those -- some of those questions are best for them. But what we can talk about is the food industry generally because they are a significant component of that, and the food industry, the beef industry particularly, is you know vitally concerned with safety of the food supply and the beef products consumed by the American and the North America and world population. And to the extent that the identification of this cow in Canada has shown that some policy needs reevaluation that all three of those industries food, feed and regulation -- regulatory are reevaluating policy. And that's really the state of the -- would someone like stand up and say, we would like no Mad Cow anywhere, sure. But what we are searching for is a set of regulations and policies that will ensure that result.

Mark Tenko - *Sidoti - Analyst*

Well, a food service provider which [inaudible] has endorsed to your E. Coli test in the industry. Why wouldn't there be the similar response for them insisting on the Mad Cow -- or whoever has endorsed your test for E. Coli, I assume were the same target market as the Mad Cow test. So why haven't we seen some type of endorsement similar to that?

Arthur Koch - *Strategic Diagnostics Inc - President and CEO*

In E. Coli, the testing regulations and the requirements for analysis are very clear. And therefore, we make a test that is very complete in its analysis for -- to those requirements. In Mad Cow, the policy is changing and is in a state of flux as a result of the recent identification in Canada. So, the food service industry, the regulatory industry are not yet clear on what they would like to specify testing for. So until those -- until there is greater

clarification there, it is going to be a matter of changing requirement. We are working with those industries to show the value of testing with whatever ultimate policy is adopted, in [sure compliance]. That's where we see our role and our contribution in the development of these policies.

Mark Tenko - *Sidoti - Analyst*

Okay, and could you again go over the four international validations for Microtox? What-- are you talking about -- are these beverage companies, are these food companies? And could you give us an ideas as to the size of these as compared to perhaps your -- the Quality Sausage deal where they signed on for Microtox?

Arthur Koch - *Strategic Diagnostics Inc - President and CEO*

Each of these four large food manufacturers and they make different food products, but they are collectively food manufacturers and they operate on a very large scale. But they are not beverage but they are food.

Mark Tenko - *Sidoti - Analyst*

This is in multiples of the quality sausage type deal, if they were to sign on?

Arthur Koch - *Strategic Diagnostics Inc - President and CEO*

Yes.

Mark Tenko - *Sidoti - Analyst*

Thanks a lot. I'll hop back into queue.

Arthur Koch - *Strategic Diagnostics Inc - President and CEO*

Okay.

Operator

Our next question comes from Ken Trbovich with Unterberg. Please go ahead.

Kenneth Trbovich - *Unterberg - Analyst*

Can you guys hear me?

Arthur Koch - *Strategic Diagnostics Inc - President and CEO*

Yes we can hear you Ken.



Kenneth Trbovich - *Unterberg - Analyst*

Sorry about that last one. Congratulations on the quarter. It's good to see the things have continued to improve and to that end, I guess, I would like to find out what happened in the final four weeks of the quarter since it seemed you had warned about the potential of the shortfall and clearly from the results this morning that's not the case. What was it the change in the final few weeks of the quarter and do those trends continue now in the third quarter?

Arthur Koch - *Strategic Diagnostics Inc - President and CEO*

First, we saw an increase in activity in the final weeks, we are looking for stronger sales in the second half of the year, Ken; we saw two types of activities. One is an acceleration of demand, which we had been expecting out of the third quarter as there was some movement into the second from the third and then other was just increase in demand.

Kenneth Trbovich - *Unterberg - Analyst*

Okay. And then with regard to gross margin improvement I know I asked this on the last call, I figure I will be the dead horse and ask it again. You know, you got two quarters of very good gross margin relative to historic levels. Based on what you are saying in the press release that would suggest that you know certainly the issues of mix being known that the margin are to at least be sustainable at the current level?

Arthur Koch - *Strategic Diagnostics Inc - President and CEO*

Correct.

Kenneth Trbovich - *Unterberg - Analyst*

Okay. And then just one other question to clarify did you say that those are four foreign food processor or four foreign customers that are considering Microtox?

Arthur Koch - *Strategic Diagnostics Inc - President and CEO*

These four food manufacturers, they are actually all located here.

Kenneth Trbovich - *Unterberg - Analyst*

They are all domestic?

Arthur Koch - *Strategic Diagnostics Inc - President and CEO*

Are global business is but --

Kenneth Trbovich - *Unterberg - Analyst*

Sure



Arthur Koch - *Strategic Diagnostics Inc - President and CEO*

Yes.

Kenneth Trbovich - *Unterberg - Analyst*

Okay and then just to clarify also, in the press release you referred to the food business and the overall performance of the business. From those comments, it suggest that the pathogen test have done to a point in terms of their sales, their actual sales if they are more than offsetting the declines that are being experienced in the GMO side as a result of starving. Am I incorrectly reading between the lines on the press release?

Arthur Koch - *Strategic Diagnostics Inc - President and CEO*

That is correct. I hope it isn't in between the lines; that is correct.

Kenneth Trbovich - *Unterberg - Analyst*

Okay. And as it relates to the business from the standpoint of feed-testing and I know you had already commented on E. Coli, but terms of feed-testing, do you have a specific organization that's working the lobby organization or attorneys that are lobbying due to the industry associations or regulatory authorities, so that you get constant feedback about where these folks are in their discussions because I know there is a major meeting, I guess, taking place in October -- well excuse me, in August of some feed testing, and I didn't know to what extent and this is an annual meeting. I didn't know to what extent are you able to move those sorts of things quickly on to an agenda considering the relatively short timeframe that's had since the Mad Cow identification in Canada?

Arthur Koch - *Strategic Diagnostics Inc - President and CEO*

The first part of the question was do we have our lobbying efforts, we have a direct selling and consultative selling effort underway and the primary movers and influencers of policy are the food and feed industry themselves and the regulatory kind of take the directive from that after a scientific evaluation, and we are working with all three constituencies to facilitate their analysis and scientific evaluation and we judge that to be a very useful role.

Kenneth Trbovich - *Unterberg - Analyst*

Okay. And then just one final question, I will go back into the queue. Could you explain what TSNA and why that's important to the tobacco industry? It's not obvious to those who of us not in the industry. I am just trying to figure out what is it first and then secondly is that a project that you are doing internally or one that's being paid for in terms of development by an outside source?

Arthur Koch - *Strategic Diagnostics Inc - President and CEO*

The first part is what is the TSNA? They are the cancer causing or cancer-related proteins present along with nicotine in tobacco and there is a body of science dedicated at evaluating and understanding the concentrations of TSNA and cancer causing effects of tobacco, and they believe this by growing tobacco with fewer TSNA as we may have safer tobacco, less carcinogenic tobacco. The work we have done is sponsored research and we are under confidentiality provisions with regards to the identity of that sponsor, but this is a very early stage research work.

Kenneth Trbovich - *Unterberg - Analyst*

Okay. Thank you.

Arthur Koch - *Strategic Diagnostics Inc - President and CEO*

You're welcome.

Operator

Our next question comes from Sam Berger (ph) with Ludwick Burk (ph). Please proceed with your question.

Sam Berger - *Ludwick Burk - Analyst*

Good morning. Thank you for taking my question.

Arthur Koch - *Strategic Diagnostics Inc - President and CEO*

Good morning.

Sam Berger - *Ludwick Burk - Analyst*

Would you be good enough to comment on the second quarter percentage increase on both you microtoxin and pathogen test sales?

Arthur Koch - *Strategic Diagnostics Inc - President and CEO*

With regard to microtoxin that is the grain test. The grain test sales are still small. We are continuing our efforts to bring our products to market and -- but they are still small at this time and we look for those to build over the coming quarter.

Sam Berger - *Ludwick Burk - Analyst*

And that pathogen?

Arthur Koch - *Strategic Diagnostics Inc - President and CEO*

From the--.

Sam Berger - *Ludwick Burk - Analyst*

Is the pathogen test sales on the microtoxin?

Arthur Koch - *Strategic Diagnostics Inc - President and CEO*

Microtox, what I just referred to. From a pathogen test sales, we were basically starting from a base zero. And the way we've described it previously is that we expect it to be at a 20%-25%.

Sam Berger - *Ludwick Burk - Analyst*

Right, I got that.

Arthur Koch - *Strategic Diagnostics Inc - President and CEO*

Penetration and we are on that ramp to gain that penetration before the end of the year.

Sam Berger - *Ludwick Burk - Analyst*

Okay. Thank you very much.

Operator

Our next question comes from Steve Spinger (ph) with Tiger Capital Management (ph). Please proceed with your question.

Steve Spinger - *Tiger Capital Management - Analyst*

Yeah. I have several questions, and first of all regarding the mad cow tests. I understand that McDonalds has sponsored the research into this product. And I understand that the various governments are in the process of formulating policy. What I don't understand is the notion that corporations around the world are waiting for bureaucrats to establish policy in an industry that has already suffered billions of dollars of damage. I am referring to the incidence that caused the drop of 40%-45% in the consumption of beef in the late nineties in Europe, and now the hundreds of millions of dollars suffered by the Canadian industry currently. I don't understand how it is that companies not exclusively McDonalds but others all of the companies [other] then the production of beef and kind of in the retailing of the beef, I am not concerned enough to be able to initiate tests regardless of what the government says, and I wonder if you could tell be about that?

Arthur Koch - *Strategic Diagnostics Inc - President and CEO*

I can't. I can tell you what I know, of course, and that is it goes to the science and the transmission of mad cow disease. There is not a uniform accepted definitive conclusion as to what is the single or many agents responsible for the transmission of mad cow disease. It's obviously linked to a few things, and -- but those few things are not universally accepted throughout the world. We have a test that tests for many of those things. We offer that test and the testing that technology as a firewall as we describe it to assist in the prevention of the contamination of [inaudible] these materials. This food industry though looks at that and says, well I better start it before I start testing or before I consider testing I'd better be sure what I'm testing for is what solves my problem of being sure that this is not spread and not contaminated.

And before we start testing, we should decide what it is we're going to test for. And I think that's what we're seeing in terms of policy evaluations and it's not -- I wouldn't interpret it as a bureaucratic effort at all, it is a scientific undertaking to evaluate what gets us the highest level of assurance and confidence in our beef and beef products, and I think that's what we're seeing and we're able to participate and facilitate by offering the benefits of testing once we identify those -- and that's how I would response.

Steve Spinger - *Tiger Capital Management - Analyst*

Well, if that's the case then what you are saying is that that it is not established, it is not established science; that the presence of animal proteins in animals -- in animal feed is a causative agent for mad cow disease, are you saying that?

Arthur Koch - *Strategic Diagnostics Inc - President and CEO*

I am saying that the definition of those statements are the subject of continuing research; what is an animal, which animal, what part of an animal, which protein, and it's not the concept, Steve, the concept is accepted, it's the detail that are under scientific evaluation.

Steve Spinger - *Tiger Capital Management - Analyst*

Well, in any event the test that you announced had been approved in Europe or that had met -- I guess it had been approved in Europe by whatever organization was that you decided. Was a test that was far more rigorous than the requirements -- existing requirements in the United States by fact of [inaudible], I recall. The tolerance level varies one-tenth of 1%, the tolerance level here is 1%. In Europe the -- your test is approved for all animal protein, I believe not only mammalian protein as is the requirement in the United States. Therefore, the test that you have -- that it's been approved is one that would go across the spectrum.

What I don't understand is we keep having this discussion about McDonalds, you can talk about even so on, but McDonalds is not the only company in the world involved in the food business. And since there has been -- there is an open question as to the marketing efforts of this company such that the Board of Directors saw it necessary to fire the former CEO and founder of the company. It is almost inevitable that we as shareholders would question the marketing efforts of the company given the recent turmoil that has been ascribed to the failure to sale -- for sales and marketing.

And so, what I would like to see as I would like to see greater clarity coming from the company about what the efforts are across the spectrum instead of cryptic comments about the industry, I mean there are -- you say that you are going to expand in Europe because they are the bureaucratic where the government regulations are more settled. I don't understand exactly what that means? I don't understand what -- why -- what are the other companies that you are working with? And how many other companies are you working within United States to market this product, this test?

Arthur Koch - *Strategic Diagnostics Inc - President and CEO*

I would describe it, Steve, as the way I have described it, and we are reaching out and approaching the food, beef, and regulatory industry and any components thereof, so it's not any one company it's many companies. I would like to explain that the total volume of testing for these proteins, for these products and the industry today is very small and what we are advocating is a change in that policy to begin to test for these things that they are not testing for now. And we are explaining the merits of that, but it's not such that we are not calling on the right people. They are evaluating the merit of testing in relative to the scientific findings and support for the particulars and the items that we have defined as the subject for our tests.

Steve Spinger - *Tiger Capital Management - Analyst*

How many companies are evaluating your product currently?

Arthur Koch - *Strategic Diagnostics Inc - President and CEO*

I don't know the number but it's many.

Steve Spinger - *Tiger Capital Management - Analyst*

I mean many 10 or 100 or 1000?



Arthur Koch - *Strategic Diagnostics Inc - President and CEO*

Ten, many ten-- tens of Company, but they are a large, very large global operations.

Steve Spinger - *Tiger Capital Management - Analyst*

But I hope that, Arth, that you will be a little bit more forthcoming about these developments. I mean when we see what's going on in Canada and the turmoil that is causing and we have a test which validated, and there is nothing that comes out from the company in anyway explaining this that I would accept on these calls once a quarter. It's discouraging and it certainly raises the question about the Company's ability to sell their own products. Their own products if they have this potential, so more timely information would be appreciated.

Moving to the water quality, there was no mention in the press release of the beverage manufacturers that had previously been sighted -- the beverage producers that had previously been sighted as undergoing validation tests. On this call you will simply refer to significant value that's being created. I would like to know how many large beverage companies are testing the products, who are they? And if not by name I would like you to characterize them, and I would like you to explain how it is that they would use the test, how they see the test as being something that would create significant value for them? Would it be used in the production process, would it be used in the retail process? I will give you a simple example. Carbon dioxide is delivered to McDonald's stores where they blend the carbon dioxide with the Coca-Cola syrup and water. If these companies are not testing the water is that a market that you see as -- for your products that is to say testing the water at the local level for these retail establishments like McDonalds, Burger King etc; do you have any products currently being tested by companies in this kind of the situation, that is, at the retail level?

Arthur Koch - *Strategic Diagnostics Inc - President and CEO*

You've asked many question Steve I'm going to try -- I am going to begin with the last one you asked. Do we have customers using at it at the retail point, yes they are; and we don't have any one currently using it at the retail point of sale, but some of the customers who service and provide to that retail point of sale are evaluating our product for use there, although they aren't currently evaluating it today.

The first part -- another question in your list was how many beverage companies and what nature are they? There are fewer than a hundred, but a large number of beverage companies will operate on a global scale, who are looking at our technology -- first as a way to have greater confidence in the ingredients that go into their product, that is testing the water that comes into their manufacture of their operation. In the course of our discussions with them, we explore other uses, but what we were trying to establish is the value at that first point in the chain and then go on from there. Those evaluations are going on now and we have great -- we are very excited about that; we think it's a great potential. And when we have a news item that we can disclose, we will be very anxious to do that. Unfortunately, this concerns the integral operation of our customers and there is not a great deal of interest in describing in detail these procedures of their manufacturing process, but we can work together to see what kind of information we can come up with. This is not the first time we have brought that subject to you and I know it's not what we would all like, but it is a fact of our business in testing in analytical tests. Now those are the key questions I took from your list, Steve, did I miss any that we should come back to?

Steve Spinger - *Tiger Capital Management - Analyst*

Well, what I would like to know is that, if you could tell me about the retail part of that, I mean, since you do have a relationship with McDonalds and since, you know, you can insert another name for McDonalds -- I mean, you have said Burger King. The question about water testing is it's becoming a greater and greater focus in this country. And what I am wondering is, since you are testing or you have evaluation programs with the beverage producers at the production level, that is, to say presumably in a bottling plant, for example, or canning plant where they are producing the product with their own water input. Could you tell me about the discussions that you've had with any or all of these people to regarding testing at the local level -- McDonalds has 30,000 retail stores, Burger King has x, so that's obviously a large market -- I am interested in what the attitude is there, a? And b, you said that you have companies that supplies these companies, would that be for example of the carbon dioxide supplier type person -- you are having discussions with them about possibly using a test at the local level?



Arthur Koch - *Strategic Diagnostics Inc - President and CEO*

We are talking with suppliers to food service and food distribution, food [inaudible] yeah, and that could include, if we don't have a particular relationship at a carbon dioxide company, Steve, but certainly we're describing the utility of this technology and technique at many, many levels of operation within these very large operations. So when we speak of suppliers, we are thinking of the component, the manufacturing process into finished food products, as an initial contact. Then we go on to point of delivery retail and retail application, and it goes very rapidly throughout the entire network because water is used everywhere. So, yes, we are discussing and describing the value here at various points in the customer's chain and we are -- there is an awful lot of interest.

Steve Spinger - *Tiger Capital Management - Analyst*

So, are you having discussions about initiating point of sale testing?

Arthur Koch - *Strategic Diagnostics Inc - President and CEO*

Not initiating, we are talking about point of sale testing. But we haven't -- we are still at the earlier stage of let's talk about our internal manufacture -- our raw materials, our supplies, our foods.

Steve Spinger - *Tiger Capital Management - Analyst*

But the companies themselves are exhibiting an interest in moving to that point, is that correct?

Arthur Koch - *Strategic Diagnostics Inc - President and CEO*

Well, they respond to a suggestion, yes. They are interested, water is a very key ingredient and it is everywhere.

Steve Spinger - *Tiger Capital Management - Analyst*

All right. How many utilities currently are using your Microtox test?

Arthur Koch - *Strategic Diagnostics Inc - President and CEO*

There are 180 Microtox or [Deltatox] in drinking water applications now.

Steve Spinger - *Tiger Capital Management - Analyst*

But in the previous call, I think that there was number -- I believe it was something like 55 utilities that had -- that were using Microtox testing. And you had stated that there was one state that had it was using -- had implemented the test state wide, is that correct?

Arthur Koch - *Strategic Diagnostics Inc - President and CEO*

Yeah.



Steve Spinger - *Tiger Capital Management - Analyst*

What I would like to know is what is the value? What is your estimate of the value in testing revenues from that one state?

Arthur Koch - *Strategic Diagnostics Inc - President and CEO*

In orders of magnitude, it is less than \$1m. The question becomes how does that state implement across all other places as water is a regulatory concern. And therefore, we've not been able to calculate -- you know, we can calculate the number of water connections within the state and so on. But you know, that is a very same analysis we've done with -- you [inaudible], Steve, with regard number of utilities that service more than 10,000 household.

Stanley Musial - *Strategic Diagnostics Inc - CFO*

Yeah but what we have seen is an adoption by -- more by the drinking water utilities rather than a state. We don't see a -- we have seen one state and interest among other states, but typically the interest is passed on to the operating units within those states as that is the more typical approach to this analysis.

Steve Spinger - *Tiger Capital Management - Analyst*

So how many states have adopted state -- "state wide testing?"

Arthur Koch - *Strategic Diagnostics Inc - President and CEO*

Well "state wide testing" is what is stumbling, Steve. One state has adopted Microtox as their method for testing water. But that state is using it in their water treatment and water production facility.

Steve Spinger - *Tiger Capital Management - Analyst*

Have any other states adopted it on that scale?

Arthur Koch - *Strategic Diagnostics Inc - President and CEO*

No. And we are in discussions but none others have.

Steve Spinger - *Tiger Capital Management - Analyst*

So in terms of the previous guidance of 55 utilities, can you tell me how many utilities are using the product now?

Arthur Koch - *Strategic Diagnostics Inc - President and CEO*

Yeah, I believe we've added 11 during the second quarter, so that will bring us to 66.



Steve Spinger - *Tiger Capital Management - Analyst*

Okay. I have one more question, and then I will get back into the queue. During the quarter, you announced that -- sorry on this conference call, you announced that the Bayer relationship had ended. On previous calls, there had been reference to Bayer notifying the company that to be prepared to produce 1m tests, is that correct?

Arthur Koch - *Strategic Diagnostics Inc - President and CEO*

We received that now. There is no formal notification to be prepared to make 1m tests.

Steve Spinger - *Tiger Capital Management - Analyst*

No, I know there was no formal notification, but there was some -- if not formal then some other form of communication to you that you reported to the shareholders that to be prepared to produce 1m tests whenever they would be going to production?

Arthur Koch - *Strategic Diagnostics Inc - President and CEO*

Yes. We've asked for an indication of SARS and they explained that they expect [inaudible] more than a million doses per year.

Steve Spinger - *Tiger Capital Management - Analyst*

Right and that would have been [inaudible] at some where around ten bucks a test, is that right?

Arthur Koch - *Strategic Diagnostics Inc - President and CEO*

Yes.

Steve Spinger - *Tiger Capital Management - Analyst*

Okay so in other words that's a \$10m roughly a \$10m opportunity.

Arthur Koch - *Strategic Diagnostics Inc - President and CEO*

Yes.

Steve Spinger - *Tiger Capital Management - Analyst*

Now is this news I -- the information that relationship had ended came on this conference call; however, there was a rumor around a month ago that this had happened. And my question is, if something that has a theoretical value of \$10m to the company occurred back in June, which is when I would guess that you receive notice about this, why did you not issue a press release about it, and where I am going with this is, is that you've added 11 utilities, for example, to the total of 55, there's no press release. There is an absence of communication and what I would deposit is this. If the -- if Birkmeyer was terminated for failures in sales and marketing and that's all that was ever discussed in the press release, there were three laudatory sentences I think by the Chairman of the Board is about Birkmeyer and after it was announced that he was terminated. During that period of time the stock has been very volatile. There have been all kinds of rumors about things. There have been no press releases. The press effort, the effort to communicate to shareholders is deficient in my opinion. If Birkmeyer's deficiencies in sales and marketing were true, I do not



believe they were limited there and I think the guy was a terrific new product guy, but I don't think that the effort on the part of the company to communicate what is going on in this company is adequate. I'll leave it there and get back in the queue.

Arthur Koch - *Strategic Diagnostics Inc - President and CEO*

Operator.

Operator

Our next question comes from John Fitzgerald (ph) with Bishop Rosen & Company (ph). Please proceed with your question.

John Fitzgerald - *Bishop Rosen and Company - Analyst*

Good morning gentlemen.

Arthur Koch - *Strategic Diagnostics Inc - President and CEO*

Good morning John.

John Fitzgerald - *Bishop Rosen and Company - Analyst*

Couple of things here. You know I think the product lines. I think everybody is in agreement. You certainly, you know, have sent things that have a great deal of promise. Let me address the marketing side at this thing, which continues I think the first grade people is you like a penetration, okay. Can you elaborate exactly the makeup of your marketing department? Who specifically is in charge of it? How is he or she answer to? Is it on a daily basis or weekly basis? What is the modus operandi used by the marketing department? I mean are they on a phone campaign? Do they go out and hit the bricks and go prospect to prospect on this? How larger marketing department do you have number one if you might answer that.

Arthur Koch - *Strategic Diagnostics Inc - President and CEO*

John we have today in our market and sales effort 35 -- sorry 29 people today. And we are organized as I mentioned along the industry line. The head of each industry group is what we refer to as a Business Unit Manager, who reports directly to me. And we for the next part of your question, was how do we go about the prospects of creating sales and we used a combination of direct selling technique to reach out and identify sales leads and follow those leads to completion.

John Fitzgerald - *Bishop Rosen and Company - Analyst*

Okay. If you could elaborate a little bit further when you say direct sales approach, what kind of specific direct sales approach do you use?

Arthur Koch - *Strategic Diagnostics Inc - President and CEO*

Telephone contact, advertising, trade show representation, mail solicitation, every available method of generating [inaudible].



John Fitzgerald - *Bishop Rosen and Company - Analyst*

I know what you are saying, but I mean there are a numerous potential contacts and the previous call [Steve Springer's] remarks about the market for these various products is endless. These guys -- people could be on the phones [24/7] and still not reach him everyday. Especially in the Microtox, the water product, okay, and the utility areas [inaudible]. It's just how aggressive a sales force do you have I think that's the questions being asked here?

Arthur Koch - *Strategic Diagnostics Inc - President and CEO*

That's -- and I am going to respond. We believe we have the most aggressive sales force that is required. I mean we believe we'll meet the challenge.

John Fitzgerald - *Bishop Rosen and Company - Analyst*

Okay. And Ms. Calvino (ph) was put in charge to Europe back I guess 9 months ago. We've heard almost nothing out of that seg way over there. Can you give some comments on exactly what she is doing some accountability of where they stand in terms of their marketing efforts in Europe?

Arthur Koch - *Strategic Diagnostics Inc - President and CEO*

The -- what [antop] responsibility for was largely a European office located outside of London, and the distribution relationships that were managed from there, and she continues in all of that capacity, what her assignment was -- was to figure out the best way to expand our presence abroad and that's what her task has been since she's taken that spot.

John Fitzgerald - *Bishop Rosen and Company - Analyst*

Okay. While she has been there nine months, what has she accomplished?

Arthur Koch - *Strategic Diagnostics Inc - President and CEO*

Her recommendation in what we've implemented is we will continue to manage [both] distribution relationships augment, them in specific industries, food and [inaudible], add distributors in those areas but also add a direct selling effort where we can make a specific outreach campaign from our office there.

John Fitzgerald - *Bishop Rosen and Company - Analyst*

How large a marketing, sales force do you have in Europe?

Arthur Koch - *Strategic Diagnostics Inc - President and CEO*

It is 4 people for the entire European--.

Arthur Koch - *Strategic Diagnostics Inc - President and CEO*

What we have [John] that's not there because we have a network of over 60 distributors, and if we included all of their resources, it would be quite substantial.

John Fitzgerald - *Bishop Rosen and Company - Analyst*

Okay, finally I had to pretty reiterate what Steve Springer said, it is very frustrating the vacuum of news, you know, certainly for the last quarter again the only news that we ever saw was they had fired the Chairman, and he is selling the stock. Okay, and there were some very good things that could have been highlighted a bit, and I do think you are coming up short on the press releases in keeping shareholders informed. The vacuum in news and the volatility of the stock gets everybody very nervous because the rumors as Steve just said have been flying hot and heavy and it's a disservice to us right now. We are flying blind and we really would -- and using this public form we really would request of you guys if you could be much more forthcoming.

In your press releases, we are not saying its fucked here always but you know, really you have had some things that you have not highlighted that, you know, could well have been highlighted, that were ups and significance, one is a negative, [inaudible] but the 11 utilities and so on as Steve mentioned I think also could have been included, so we would really ask you -- we went through the same conversation from the October to January period, we sort of repeated it again and the frustration level is very high because of it and we would just ask you guys to you know be more forthcoming on the way you stand on things, okay as we move along, okay and we wish you good luck.

Arthur Koch - *Strategic Diagnostics Inc - President and CEO*

Thanks.

Operator

Our next question from Brian Fanety (ph) with [inaudible], please proceed with your question. [Mr. Fanety].

Brian Fanety - *Analyst*

Yes, can you hear me?

Arthur Koch - *Strategic Diagnostics Inc - President and CEO*

Yeah, Brian. How are you?

Brian Fanety - *Analyst*

Yeah, how are you, how are you Stan and Arth. Good quarter, I'm just a little [inaudible] negative on the conference; I think you guys are doing a great job. I have a question and I don't know if it has been hit on just yet. The -- [inaudible] lot of questions just come up about the cost involved with his departure and the share overhang we've been discussed and back and forth. The one question I am getting from some of my clients who invest with me is, there going to be any technological or innovational or new product setback with the departure of Birkmeyer? And a follow-up, if any key people left or do you people think -- are thinking of leaving to go with him if in fact he leaves and starts something on those lines?

Arthur Koch - *Strategic Diagnostics Inc - President and CEO*

We have a very capable research and development group headed by James Stave, and you know, we don't anticipate any significant product development setbacks as a result of this change. Employment here is stable and we expect it to remain stable.

Brian Fanety - *Analyst*

And Jim Stave is definitely staying on?

Arthur Koch - *Strategic Diagnostics Inc - President and CEO*

Jim's very interested in helping grow our business.

Brian Fanety - *Analyst*

That's great. Okay just getting back to the separation costs involved with Birkmeyer, have you guys been able to put a handle on that yet still a ongoing negotiation?

Arthur Koch - *Strategic Diagnostics Inc - President and CEO*

We have made a estimation on accruals of total of 315,000; the second quarter numbers on a pretax rate and that's behind us now.

Brian Fanety - *Analyst*

Okay, got you. Thanks, Arth.

Arthur Koch - *Strategic Diagnostics Inc - President and CEO*

Okay.

Operator

Our next question comes from Alex Rodinich (ph.), please proceed with your questions and he is with Gilfred Securities (ph.).

Alex Rodinich - *Gilfred Securities - Analyst*

Good afternoon, gentlemen.

Arthur Koch - *Strategic Diagnostics Inc - President and CEO*

Hi, Alex.

Alex Rodinich - *Gilfred Securities - Analyst*

How are you?

Arthur Koch - *Strategic Diagnostics Inc - President and CEO*

Good.

Alex Rodinich - *Gilfred Securities - Analyst*

Good numbers, basically all the questions that I had planned have been answered, but I just want to express truly the frustration of not receiving any news in the quarter and this is the same thing we've been going through in the cycle for the last 3 years, and I think 90% of people that have been on this conference call are positive on your company see the same thing that we see here in value-added product that you have. And basically, you said your marketing endeavors are there; you have a vast amount of people employed trying to get this market and get this product out there and sell it. Primarily, your company has just gotten free publicity from Canada for mad cow disease, we've had the terrorist attacks that I think have spurned every company to worry about water supply, the systems -- the question is why are we not getting there quicker, sooner; and why we are not getting shared information because a Company that is public usually, from my experience, shares positive results as well as negative results -- otherwise it should be a private company? And I am sorry I am not here to badger you but it is just sheer frustration on my end and I think everyone else on the phone can express the same sentiment?

Arthur Koch - *Strategic Diagnostics Inc - President and CEO*

Alex I'd like to respond and--

Alex Rodinich - *Gilfred Securities - Analyst*

I mean of course it seems we've been in a quite period for the last year; everything was a quite period. I understand you can't discuss certain companies, certain issues because of confidentiality agreements, but announcing 11 utilities -- saying we have 11 signed utilities in the last quarter without mentioning the names is also positive, you don't have to mention the names if they don't want to disclose it. But we are sitting here in the dark, all I know is that the stock of the Company -- stock has been volatile, that's not the biggest concern for me is the volatility of the stock -- it's whether you guys can deliver; and if that deliverance is there we can be patient enough. But I think you have gotten enough free advertising and the Company, I feel, hasn't utilized it to the fullest extent, and if you are we are no aware of it.

Arthur Koch - *Strategic Diagnostics Inc - President and CEO*

Okay the 11 utilities we have routinely updated in this form -- the form of our conference call and you know that's perhaps a mistake and we will look at that. With regard to Canada and the opportunity there, if the Canadian opportunity is driving the size of the testing market, it is a very important development with regard to future of our company. But it is not driving near term right now sale. It is causing the constituencies affected by that discovery to reevaluate their current policies; once that evaluation is complete it is our belief that tempting will begin and earn. And the question could become the Canadian news is driving the size of the market potential and that's very important long run requirement. It does create confusion in the short run; we are working through that. I take the collective comments from the conference call and we will endeavor to be more forthcoming in our news releases as we go forward.

Alex Rodinich - *Gilfred Securities - Analyst*

Thank you.

Arthur Koch - *Strategic Diagnostics Inc - President and CEO*

You are welcome.

Operator

We have a follow-up question coming from Mark Tenko (ph). Please proceed with your question.



Mark Tenko - *Sidoti - Analyst*

Could you answer two quick ones. One, has any evaluation of --whether it be E. Coli, Salmonella, Mad Cow, or Microtox over the past year been concluded where the customer evaluating the product said -- basically he just took a pass and said it was an unsuccessful evaluation?

Arthur Koch - *Strategic Diagnostics Inc - President and CEO*

No.

Mark Tenko - *Sidoti - Analyst*

That has not happened on any front. Would you say and you put out some time lines with regards to when you expect a lot of these evaluations to conclude some time in the third to the fourth quarter of this year. Would it -- that would suggest that if we do not have positive results by year end with these evaluations some new customers [inaudible], could we infer that those evaluations were unsuccessful if we haven't heard anything by year end?

Arthur Koch - *Strategic Diagnostics Inc - President and CEO*

Mark let's go back to how you are asking this question. For example the evaluation is aimed at does the test perform the function that we say it will, and that never -- we haven't had a situation where it hasn't performed the way we say it will. Now in the case of Mad Cow, for example, some have said we preferred the European standard and we like that feature of your test and, you know, the U.S. standard is in a state of change. And until the U.S. party is stable, we are not prepared to proceed with the protocols for test. I answered that question as no we've never had someone who took a pass because our test didn't meet its evaluation criteria.

Mark Tenko - *Sidoti - Analyst*

Okay I would rephrase it and -- has anyone concluded an evaluation and basically made the decision not to purchase the test -- the test may have worked but they have concluded the evaluation and have decided not to purchase the test?

Arthur Koch - *Strategic Diagnostics Inc - President and CEO*

They have decided in many cases to continue evaluating their policies and testing in general.

Mark Tenko - *Sidoti - Analyst*

Is there ever a point that -- which you look at a customer evaluation and right off and say this -- they are not going to take the product or is -- or [either] you continue testing indefinitely as still a potential.

Arthur Koch - *Strategic Diagnostics Inc - President and CEO*

Well, an evaluation may reach a point where further effort at this time while talking is evaluated or protocols are decided doesn't make any sense, and testing could take -- you know could stop, but we are interested in brining this technology and this value to every customer.

Mark Tenko - *Sidoti - Analyst*

Well, I think the point that we are trying to get at is at some point when does it look like things potentially would be materializing? If you have a test and you -- someone is evaluating it for six months to a year and we are still not seeing sales, at what point do we need to look at that and say maybe it didn't work out, and maybe something needs to be reproached? It would appear that by fourth quarter this year, evaluations on the Microtox and Salmonella should be concluded. That's how we think we would have sales you know at the end of this year and pretty strong 2004. And at what point would you look their evaluation and say maybe we are not going to have the sales we thought we could?

Arthur Koch - *Strategic Diagnostics Inc - President and CEO*

You know I think when we get to third and fourth quarter or the first quarter of next year, we will be able to tell you the results of those evaluations and what we learnt from it. But during -- at this point in time, we don't anticipate that to be an outcome.

Mark Tenko - *Sidoti - Analyst*

Okay, thank you.

Operator

We have another follow-up question coming from Ken Trbovich. Please proceed with your question.

Kenneth Trbovich - *Unterberg - Analyst*

Hey Art. I just wanted to ask about the EPA evaluation. Will that evaluation hold with other government agencies like the Department of Homeland Defense or the FDA?

Arthur Koch - *Strategic Diagnostics Inc - President and CEO*

We certainly believe that we will have an influence factor if not a straight referral factor.

Kenneth Trbovich - *Unterberg - Analyst*

Okay. And then help me out when we talk about food processors using Microtox, are they using the Microtox to check the water that's used in their process? So for example, if they make [beef stew], they're checking the water that goes in the ingredient or are they checking in some way, shape or form the actual food by diluting it in a liquid?

Arthur Koch - *Strategic Diagnostics Inc - President and CEO*

Our efforts so far have been to test the ingredient, the water going into the manufacturing or the food product.

Kenneth Trbovich - *Unterberg - Analyst*

Okay. And is there any opportunity I guess -- or do you see any reason to trying to develop a broader test because I know today, Dow Jones is reporting that there is a -- the government is doubling the number of food inspectors and specifically in an effort to try to prevent intentional contamination. Do you see that as a market opportunity through a modified version of Microtox or is that really outside of the ability, the technology?

Arthur Koch - *Strategic Diagnostics Inc - President and CEO*

It's definitely an area we are evaluating. But there are great complexities to be worked out before we know that there is a suitable opportunity for every possible food category.

Kenneth Trbovich - *Unterberg - Analyst*

Okay.

Arthur Koch - *Strategic Diagnostics Inc - President and CEO*

As you know, there is over 30,000 SKUs in the food -- and each of them is a little bit different and would like to have -- we will have to be able to analyze that very large number of sample type, the matrix. When the sample is water, you know, that we know how to prepare that sample and evaluate it.

Kenneth Trbovich - *Unterberg - Analyst*

Okay. And then just one final question and I apologize, very, very basic, could you explain the differences between Microtox and Deltatox?

Arthur Koch - *Strategic Diagnostics Inc - President and CEO*

Yes, Microtox is a like an office-based method, laboratory-based method. It goes into the production facility in their laboratory. Deltatox does field applications where you are able to take it out into the field and make an evaluation at the point of where the water is.

Kenneth Trbovich - *Unterberg - Analyst*

Okay. Thank you. I appreciate it. Bye.

Operator

Mr. Koch, there are no further questions at this time.

Arthur Koch - *Strategic Diagnostics Inc - President and CEO*

Thank you very much for joining us on today's conference call, and we look forward to the update on our third quarter numbers in October. Thank you all.

Stanley Musial - *Strategic Diagnostics Inc - CFO*

Thank you.

Operator

This concludes today's teleconference. Thank you for your participation. You may disconnect your lines at this time.

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