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SDI.A^G20 - Q4 2002 Strategic Diagnostics Earnings Conference Call

EVENT DATE/TIME: FEBRUARY 27, 2003 / 4:00PM GMT



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Mark Chekinow *Sidoti*

Laurie Bernstein *Oakwood Capital*

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to your Strategic Diagnostics, Inc. fourth quarter and year-end results conference call. At this time, all participants are in a listen-only mode. Later we will conduct a question and answer session and instructions will follow at that time. If anyone should require assistance during the program, please press star, then zero, on your touch-tone telephone. As a reminder, ladies and gentlemen, this conference call is being recorded

I would now like to introduce your host for today's conference call, Ms. Hillary Bond. Please go ahead.

Hillary Bond - Strategic Diagnostics

Thank you, operator, and thank you to everyone joining us this morning on the fourth quarter and year-end results conference call. With us this morning are Richard Birkmeyer, the 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 for the fourth quarter and year-end and this release is available at various financial Web sites. However, if you need a copy of the press release or any other information about the Company, you may call our investor relations department at 302-456-6789. There will be a replay of this call available starting at 2 p.m. this afternoon to 11:59 p.m. tomorrow, Friday, February 28th, Eastern Time. The dial-in instructions are included in our press release and this call is also being Web cast on our Web site, www.sdix.com, as well as at the Web site www.on24.com. Replays will be available in each of these Web sites for 30 days.

Before we begin the call, I must remind everyone that this call will contain certain 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 obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise.

With those statements, I will now turn the call over to Mr. Birkmeyer. Please go ahead, Rick.



Richard Birkmeyer - *Strategic Diagnostics - President and CEO*

Thank you, Hillary. Good morning. I would like to welcome everyone to Strategic Diagnostics fourth quarter and 2002 year-end investor conference call. For the first time with me is Stan Musial, our new Chief Financial Officer. Stan joined us on November 1st, 2002, and has made a significant contribution already to our senior management team. Art Koch is now focusing on his Chief Operating Officer's responsibilities which we believe will have a significant impact on SDI this year. Before I discuss the highlights of the Company's business highlights of the fourth quarter, I would like Stan to review the numbers for the fourth quarter. Stan, could you review the numbers?

Stan Musial - *Strategic Diagnostics - CFO*

Sure. Thank you, Rick, and good morning, everyone. I'd like to begin the review with our revenues for the year. Revenues for the year-ended December 31st, 2002, were \$23.8 million versus 29.4 million in the prior year, a 19 percent decline. As we have stated throughout the year, the decline is primarily due to the significant decline in sales of StarLink test kit sales from record sales levels in 2001. Rick will discuss further the revenue opportunities and outlook for 2003.

Now turning to operating expenses, manufacturing expenses, which include cost of goods sold, totaled \$12.3 million in 2002, down from \$14.5 million in 2001. The decrease is primarily attributable to lower StarLink related sales volume in 2002. Gross profit, that's total revenues less manufacturing costs, decreased \$3.4 million, or 23 percent, to \$11.4 million, and gross margins declined to 48 percent in 2002 from 51 percent in 2001. The decline in gross margins is primarily attributable to reduced utilization of the Company's manufacturing capacity as compared to 2001 as a result of the lower sales volume during 2002. In order to facilitate the production of our recently released products and leverage the Company's manufacturing capacity and improve its production yields, the Company instituted several initiatives late in the fourth quarter 2002 and early in the first quarter 2003. One such effort is the elimination of a separate test kit in antibody business units, resulting in a single manufacturing organization. Research and development expenses increased \$344 thousand, or 12 percent, to \$3.3 million in 2002, primarily due to continued investment in the animal feed test and the lateral flow food pathogen test. These expenses will remain about the same in 2003 as the Company continues the development and introduction of new food safety products. Selling, general and administrative expenses were approximately the same in 2002 as in 2001, at \$10.3 million. These expenses are expected to decline in 2003 as the Company has taken action to streamline its operations, including creating a single sales and marketing organization which had previously been organized in three distinct teams in the water bodies, food safety and antibody product categories. After interest in taxes, the net loss for the year was \$912 thousand, or five cents per share, compared to a year-ago net income of \$1.1 million, or six cents per diluted share, which again included record levels of StarLink.

Turning to the balance sheet, the Company had cash of - had cash at December 31st, 2002, totaling \$2.1 million, up from \$1.3 million at September 30th, 2002, as (ph) the Company turned accounts receivable into cash to a net decrease in receivables of \$747 thousand for the period. The Company's current assets total 14.4 million and its working capital, that is current assets minus current liabilities, stood at \$12.5 million at December 31st, 2002, compared with \$11.9 million at December 31st, 2001. Our current ratio, that is the ratio of current assets to current liabilities, stood at 7.6 at the end of 2002, compared to 3.8 at the end of 2001. At December 31st, 2002, the Company had stockholder's equity in excess of \$30 million. Also, with regards to our banking relationships, the Company has received a waiver of the loan covenants for 2002 and has amended the loan covenants to a minimum quick ratio of 2.25 and a minimum tangible net worth of \$22.5 million for the first three quarters of 2003.

Rick, those are the comments I wanted to highlight and I'd like to turn it back to you.

Richard Birkmeyer - *Strategic Diagnostics - President and CEO*

Thank you, Stan. 2002 was a year in which we saw significant change. We announced in late 2001 that we were acquiring the Microtox system, entering the food pathogen test arena and consolidating the San Diego, California, facility into our Windham, Maine, facility. We start 2003 with Microtox becoming an established technology in the municipal drinking water facilities, SDI's E. coli O157 pathogen test being recognized and utilized by many of the industry leaders, and the consolidation of the California facility complete. As we position the Company for further expanded growth, we encountered a year of operating losses. However, we believe that the year 2003 will demonstrate that these were wise investments.



Now switching to the individual business units, revenues for the water quality category increased in 2002, primarily due to the increasing sales of the Microtox toxicity testing system. Today, more than 50 North American Water systems, most of these - which serve greater than 100,000 households, currently utilize this system for drinking water. Several recent developments highlight our success with the Microtox technology. These include the 2002 Business Achievement Award from the "Environmental Business Journal". We received this award for our work in developing the Microtox technology into an effective Homeland Security technology. In its announcement of the award, "EBJ" stated it was awarding SDI the Homeland Security Award for "... rapidly deploying the Microtox technology it acquired from AZUR Environmental in 2001 to water quality security applications. Used predominantly for wastewater and research prior to 9-11, SDI developed additional protocols and application notes and as of the end of 2002, Microtox is being used by more than 50 major drinking water utilities across the country." We feel this is a great accomplishment. We are also very pleased that the largest private drinking water facility, American Water Company, after an extensive evaluation of the Microtox system, has elected to purchase the Microtox system for each of its facilities. Lastly, we have also made significant strides in having Microtox adopted in the food and beverage industry. We are already seeing early adopters of this technology in this industry. This, we believe, could become a significant opportunity to SDI.

Switching to the food safety segment, in the food safety arena we have seen also many very exciting changes. Today we released our screen test for the detection of meat and bone meal in animal feed. The meat and bone meal in animal feed is linked to the transmission of BSE, more commonly known as mad cow disease. This test, which we are calling FeedCheck, was designed in a lateral flow format to be more sensitive and easier to use than any other rapid on-site method available today. We developed this test throughout 2002 to meet the regulations throughout the world. This test was supported by McDonalds and we expect this test to have broad applicability throughout the beef and dairy industry. In January we released our salmonella test. This test has several advantages over competitive methods, including a simplified preparation process that makes the test easier to perform versus any other competitive brand. The product performance standard that we have set with this product meets all of the necessary regulatory requirements. Recently, the Company has submitted the salmonella test for third-party validation by the AOAC Research Institute and have also initiated key evaluations which are underway. The initial feedback from these evaluations is very positive, much like what we were seeing with our E. coli test at this stage.

I think the most important development, though, is what we are indeed seeing with the E. coli test. In July of 2002 we launched the RapidChek lateral flow test for E. coli O157. Since that time, several feed (ph) evaluations have been performed by major independent laboratories. The results from these evaluations have prompted a globally recognized food safety laboratory corporation to begin a nationwide implementation of the SDI RapidChek E. coli O157 test. This corporation (ph) expects full implementation to be complete by the end of March of this year. We have also seen a leading global food service provider complete a full in-depth study of our test. In that test they found that our test provided them with about 65 percent fewer false positives, which is a key point in this industry. They have also started to endorse this test throughout their whole system and we also expect this to be complete by the end of March of this year. These developments have immediate impact to our revenue and profitability. And lastly in the food safety area, I want to point out that we're seeing a continued rise in all of our GMO sales, except for - and SDI still maintains its dominant position in this testing industry, having greater than 90 percent of market share.

Switching lastly then to the antibody segment, we see that the antibody segment revenues declined slightly in 2002 as we completed the consolidation of the San Diego, California, facility into a single site at Maine. But since the consolidation, we have seen several new or expanded relationships that have been established in the latter half of 2002 as our customers and new prospects have the opportunity to validate the manufacturing quality procedures that we have used at the Maine facility. We believe that these relationships will develop into increasing sales as the antibody division earns additional projects under these relationships. We also project that the Bayer clinical device Repinotan, the device that SDI is providing to them, we will see that Repinotan Phase III clinical trials will conclude this year, 2003. We believe that all the numerous changes which we have made will result in each quarter throughout 2003 exhibiting increased growth in both revenues and profitability.

At this point in time I would like to open the conference call to questions. Thank you.



QUESTIONS AND ANSWERS

Operator

Thank you. Ladies and gentlemen, if you have a question at this time, please press the 1 key on your touch-tone telephone. If your question has been answered and you wish to remove yourself from the queue, please press the pound key. And if you're on a speakerphone, please lift the handset before asking your question. One moment for our first question.

Our first question comes from Don Littlewood (ph) from Littlewood Burke (ph).

Don Littlewood - Littlewood Burke

Morning. I have a couple of questions. Number one, under the GMO, Monsanto just announced their root worm seed. Have you - I take it you have some involvement with that?

Richard Birkmeyer - Strategic Diagnostics - President and CEO

We do, Don. We have actually worked on that particular program for I believe three or four years now. We have worked with Monsanto and others in the development of this seed to get it to commercialization. As that project is launched we expect to see increased sales in the grain market.

Don Littlewood - Littlewood Burke

That would include test kits beyond just selling to Monsanto?

Richard Birkmeyer - Strategic Diagnostics - President and CEO

That is correct.

Don Littlewood - Littlewood Burke

OK.

Richard Birkmeyer - Strategic Diagnostics - President and CEO

That is correct. I believe in the Monsanto announcement they talked about the Dow and DuPont products. We have also been working with those particular programs for corn root worm also.

Don Littlewood - Littlewood Burke

Excellent. Onto the food safety. Let's talk about water quality. Beverage processors, do you have any at this point or customers?

Richard Birkmeyer - Strategic Diagnostics - President and CEO

We have several evaluations going on with different beverage processors. Many of these are very large global processors that are evaluating the technology to implement in all of their facilities.



Don Littlewood - *Littlewood Burke*

State governments, there was some talk about working - you were working with several state governments about getting statewide regulations or mandates as far as this test is concerned. Is that still in gear, is there any progress there?

Richard Birkmeyer - *Strategic Diagnostics - President and CEO*

There is significant progress. Actually I heard yesterday or the day before that one of the states has elected to implement the Microtox technology across the whole state and we have many people at SDI that are working with them in putting those units in place.

Don Littlewood - *Littlewood Burke*

Excellent. What about our local water utility here in the Philadelphia area which is now expanding nationwide, Philadelphia Suburb (ph), and that's now the second largest non-municipal water company?

Richard Birkmeyer - *Strategic Diagnostics - President and CEO*

We obviously without permission of any individual facility cannot define whether we are or are not working with them.

Don Littlewood - *Littlewood Burke*

But you did with American Water company.

Richard Birkmeyer - *Strategic Diagnostics - President and CEO*

Because we got their permission.

Don Littlewood - *Littlewood Burke*

OK.

Richard Birkmeyer - *Strategic Diagnostics - President and CEO*

Hopefully, everybody can recognize that many of the facilities are hesitant to allow their names to be used because it is advertising that basically they are using this technology.

Don Littlewood - *Littlewood Burke*

It might make their water users feel a little more comfortable if they would tell people, wouldn't it?

Richard Birkmeyer - *Strategic Diagnostics - President and CEO*

I agree with that statement.



Don Littlewood - *Littlewood Burke*

Listeria test, when would you expect that to be coming out?

Richard Birkmeyer - *Strategic Diagnostics - President and CEO*

The listeria test is expected to be introduced in the beginning to latter part of third quarter of this year.

Don Littlewood - *Littlewood Burke*

OK. And lastly, can you explain to us a little bit about the reading instrument for the salmonella test?

Richard Birkmeyer - *Strategic Diagnostics - President and CEO*

I believe somewhere around September of last year we announced that we had initiated the working with a large company in development of a reader. This reader is designed to read all of our lateral flow tests, whether it be salmonella, E. coli, listeria or GMO. The advantage of it, this particular meter, is that it takes away the subjectivity. A lot of times when a person is reading a lateral flow strip they have to - if they see a very faint line, say, is that positive or not? Now you have an instrument read and also with that instrument read, it can - that result can identify the sample and you put it into a limb (ph) system as to whether that sample was positive or negative. We see that this will be a significant advantage in the industry for the pathogen testing and for many of the other types of tests that we are introducing.

Don Littlewood - *Littlewood Burke*

And when does that - when do you expect that to be available?

Richard Birkmeyer - *Strategic Diagnostics - President and CEO*

We expect that to be available sometime in 2003.

Don Littlewood - *Littlewood Burke*

OK.

Richard Birkmeyer - *Strategic Diagnostics - President and CEO*

Instrument development, we have now shown that the instrument works, the cost of production is very reasonable. It's working out all of the software kinks in that system.

Don Littlewood - *Littlewood Burke*

Good. Thank you, Rick. You've done a very good job of explaining what the Company's up to.

Richard Birkmeyer - *Strategic Diagnostics - President and CEO*

Thank you.



Operator

Thank you. Our next question comes from Mark Chekinow (ph) from Sidoti.

Mark Chekinow - Sidoti

Morning, gentlemen.

Richard Birkmeyer - Strategic Diagnostics - President and CEO

Morning, Mark.

Mark Chekinow - Sidoti

Back to the water business, you mentioned that the American Water, the private utility, is going to be on emergency case, so this would suggest that this is, at least in the immediate terms, just unit sales, not necessarily the recurring revenue portion. Can you talk about the ballpark number of units that American Water's going to be taking on as well as about how many units the food processor will be taking on and your expected, I guess, economics of that?

Richard Birkmeyer - Strategic Diagnostics - President and CEO

With the American Water works it's my understanding that there is somewhere between 15 and 30 units that are expected to be placed. They are over a sequential timeframe and there is a reagent stream that's associated with them. They have worked out a sampling protocol that's based on a certain formula that they have generated and will be using a reagent. Now it's not test three times a day every day, but there is a reagent stream associated with that.

With the food processor that we're working with, they have completed their evaluation, they are quite pleased. They have had several audits from people that they supply that have comments (ph), and has really given us the visibility in this industry. The expectation is from their chain that we will see somewhere in the placement of 10 units. But there are much larger chains now that we are penetrating that could be, you know, several hundred type units in the system.

Mark Chekinow - Sidoti

And your average selling price, is this still talking about around \$20 thousand per unit?

Richard Birkmeyer - Strategic Diagnostics - President and CEO

When somebody is looking at larger units, we're obviously going to discount that down.

Mark Chekinow - Sidoti

OK. In addition now, you say you are in discussion with several other food and beverage processors?



Richard Birkmeyer - *Strategic Diagnostics - President and CEO*

We are.

Mark Chekinow - *Sidoti*

Larger than the ones you have currently signed?

Richard Birkmeyer - *Strategic Diagnostics - President and CEO*

That is correct.

Mark Chekinow - *Sidoti*

OK. Switching to E. coli, so you have this - what appears to be fairly significant endorsement. Has there been any resistance in switching from a competitive product on the end of any of the suppliers? And what do you expect, I guess, competitors of this large food service provider to do in response to that - to this kind of large industry changing switch?

Richard Birkmeyer - *Strategic Diagnostics - President and CEO*

Several questions embedded in there. Do I expect push back? Yes, I expect push back. We - no facility, even with a recommendation, wants to switch overnight until they do their evaluation. We are seeing everybody doing those evaluations. Everybody to my knowledge to date, after that evaluation, when it's compared to other lateral flow type devices, have concluded that our test is indeed easier to use, demonstrates less false positives, and is more sensitive. So we're pretty pleased with those results and we are seeing people steadily switch over.

Mark Chekinow - *Sidoti*

OK. And lastly to kind of - could you do the revenue breakdown from the quarter? Between the food safety, water and antibody?

Stan Musial - *Strategic Diagnostics - CFO*

For the quarter?

Mark Chekinow - *Sidoti*

Yes, for the fourth quarter.

Stan Musial - *Strategic Diagnostics - CFO*

Let me start out with the year. The revenue breakdown for the year was about 7 million in water quality, about 6 million in food safety which is GMO, and about 10 million of antibodies, and the balance being what we call contract revenue for specific R&D projects. For the fourth quarter, we had about 1.7 million in water quality, 1.9 million in food safety, 2.7 million in antibodies, and the balance in contract revenue.

Mark Chekinow - *Sidoti*

Great. I'll hop back in the queue. Thanks.



Operator

Thank you. Our next question comes from Laurie Bernstein (ph) from Oakwood Capital.

Laurie Bernstein - Oakwood Capital

Hi, guys, how are you?

Richard Birkmeyer - Strategic Diagnostics - President and CEO

Very good. And yourself, Laurie?

Stan Musial - Strategic Diagnostics - CFO

Hi, Laurie.

Laurie Bernstein - Oakwood Capital

Good. Several of my questions were answered already, but I still have a couple. Can you - you have talked about the economics of the water testing previously. Is it - are they still occurring as you expected? Can you address what's actually happening currently now that - now that you're, you know, selling to 50 different facilities?

Richard Birkmeyer - Strategic Diagnostics - President and CEO

I understand your question. If the question was are our margins on the Microtox reagent and Microtox instrument where we expected them to be six months ago, the answer is yes. We - on the reagent we have a very high gross margin, on the instrument we have somewhere between 50 and 60 percent gross margin.

Laurie Bernstein - Oakwood Capital

And how about, you know, the number of reagents that you're selling? How many facilities are buying, you know, maybe three times a day, how many are not, how many are buying occasionally, and what is your ASP on the hardware?

Richard Birkmeyer - Strategic Diagnostics - President and CEO

What we expected in the beginning of the year 2002, was we said that if a facility bought they most probably would use between \$10 and \$15 thousand a reagent per year for that facility. For most of the facilities that has been right around where we're seeing.

Laurie Bernstein - Oakwood Capital

OK. And how about the ASP?

Stan Musial - Strategic Diagnostics - CFO

On the Microtox unit?

Laurie Bernstein - *Oakwood Capital*

Yes.

Stan Musial - *Strategic Diagnostics - CFO*

It ranges from \$15 to \$20 thousand depending on the size (ph) of the sale.

Laurie Bernstein - *Oakwood Capital*

OK. And you mentioned that increasing profitability, increasing revenues and profitability over the next several quarters, do you expect to be profitable in the first quarter?

Richard Birkmeyer - *Strategic Diagnostics - President and CEO*

Laurie, as you know, we have resigned from giving individual quarter projections. My expectation is that philosophy will change towards the middle part of this year. As we establish the E. coli and salmonella and ruminant test, as we establish the water sales, we should have a much better visibility than we've ever had because we are now in industries that we don't have to develop. Therefore my push for our organization is to be able to provide the quarterly guidance starting with third quarter this year.

Laurie Bernstein - *Oakwood Capital*

OK. The GMO area, Monsanto and their announcement about the root worm GMO, aside from that, you mentioned that you've had increasing sales. Can you flesh that out a bit and talk about where you think the industry is right now and your role in it?

Richard Birkmeyer - *Strategic Diagnostics - President and CEO*

OK. When we started talking about GMO testing, I think the Company's position always was that the - where the very large bonanza for testing would come is when we had the introduction of output traits. Output traits are where you and I benefit from them, therefore you and I would pay the premium on the output traits. The input traits, where the farmer benefits, you know, has created a certain amount of market for our test on two sides. One is in the testing of seed. As we announced in our third quarter press release, we believe we are now supplying all the significant cottonseed producers with the GMO test, we're providing it to many of the corn and soybean producers on the seed. They use the test to make sure the trait is there. We are seeing growth in GMOs and, therefore, we are seeing growth in that seed industry.

On the grain side, or where we're testing to make sure that we can differentiate GMO from non-GMO at this point in time, we have also seen an increase in that business. Part of it is because there are now more GMOs out there. You know we have the Monsanto tri-3B (ph) or corn root worm trait that's being introduced, we had the Dow tri-1F (ph) which SDI has the only test out there for at this point in time. As these are introduced into the market we are seeing continued growth in that.

But more importantly for us, what we are seeing is the acceptance of GMOs, which means that there will be the introduction of the output traits before several years go by and that's where testing will have to occur to be able to segregate that material so that it can capture the premium price. Our role is one where we are still working with every major ag biotech company. We believe we have tests in place for all of these significant GMOs that are out there today and for the ones that are in the pipeline. We still have, I believe, greater than 90 percent of the GMO testing market.



Laurie Bernstein - *Oakwood Capital*

If you have all of the corn, I mean all of the cottonseed market and many of the corn seed growers, it seems to me that your GMO revenues should be moving up nicely, you know, while you're waiting.

Richard Birkmeyer - *Strategic Diagnostics - President and CEO*

The overlay of all of that was that, as you know - and we had the incidence of StarLink, or CRY9C. When that occurred, where CRY9C was found in the food chain, every load of material was tested that went into food; and it was tested with our test. Now as that is steadily declining, you've got that big decline overlaid with the increase in the other traits and that's where, you know, net-net, it was a negative for last year.

Laurie Bernstein - *Oakwood Capital*

OK, but aside from that CRY9C, it should be increasing nicely.

Richard Birkmeyer - *Strategic Diagnostics - President and CEO*

That is correct and that's what we're seeing.

Laurie Bernstein - *Oakwood Capital*

And could - I'll get off after one more question. Could you explain the multiple test per strip that you mentioned, how that works...

Richard Birkmeyer - *Strategic Diagnostics - President and CEO*

OK.

Laurie Bernstein - *Oakwood Capital*

... for the animal seed?

Richard Birkmeyer - *Strategic Diagnostics - President and CEO*

In the test for meat and bone meal for the feed, in Europe as an example, the regulation is all meat and bone meal is not allowed. Meaning if it comes from poultry, if it comes from fish, it's not allowed. In the U.S., the regulation is if it comes from mammals it's not allowed, but if it comes from poultry it is allowed. What we elected to do was put a test together, one line says, alright, it's not mammalian, the other line says its not - there's no presence of meat and bone meal. So we have two separate lines to tell you two different pieces of information.

Laurie Bernstein - *Oakwood Capital*

OK. Thank you very much.

Richard Birkmeyer - *Strategic Diagnostics - President and CEO*

Thank you, Laurie.



Operator

Thank you. Our next question comes from Steve Cole from Matador Capital.

Steve Cole - Matador Capital

Good morning, guys.

Richard Birkmeyer - Strategic Diagnostics - President and CEO

Morning.

Steve Cole - Matador Capital

I had a couple of quick questions. One, let me turn back to GMO for a minute and try to pin you down on a number here. If you exclude StarLink, what was the sale experience for the year and the quarter?

Richard Birkmeyer - Strategic Diagnostics - President and CEO

Now you're working for our competitors and want to give them all our knowledge?

Steve Cole - Matador Capital

Oh, we never want to do that. You know that. At least a rough idea, I mean, are we up, you know, 20 percent, 30 percent, 10 percent?

Richard Birkmeyer - Strategic Diagnostics - President and CEO

I believe we're up about 30 percent for other than StarLink.

Steve Cole - Matador Capital

Other than StarLink. OK. StarLink, if we go to '03, is StarLink - if we look at '02 - let me back up. In '02 what was StarLink's sales? I presume you still had a little bit.

Richard Birkmeyer - Strategic Diagnostics - President and CEO

We did. We did.

Steve Cole - Matador Capital

OK. So is StarLink - when we look at '03, is StarLink going to disappear altogether?



Richard Birkmeyer - *Strategic Diagnostics - President and CEO*

I don't think we'll see StarLink disappear altogether. I do believe from '03 to - from '02 to '03 we will see a more decline in StarLink. But obviously it's not going to have the same pronounced effect in our numbers that we saw in '02.

Steve Cole - *Matador Capital*

OK. Now I'll put you on the spot on something else. You've got three areas that, if I'm hearing you right, that are - you've got E. coli, salmonella and the ruminant test, three tests that should start ramping up in '03. I know we talked a little bit about this last year, but do you have current information on two things; one being the market size, or opportunity in those markets, and number two, the penetration rate that you think you can get and by what period?

Richard Birkmeyer - *Strategic Diagnostics - President and CEO*

OK. Let me do the first one which is the easy one, E. coli. With E. coli it's about an \$8 million market. We believe that we can obtain a substantial portion by year-end. What is a substantial portion? I believe I made it in my - the last conference call that if we could not get 20, 25 percent of that market by this year-end, I will be disappointed.

Steve Cole - *Matador Capital*

And you're talking on a run rate basis?

Richard Birkmeyer - *Strategic Diagnostics - President and CEO*

That's correct.

Steve Cole - *Matador Capital*

OK. So for an absolute year you're - you know, if we talk 20. So less than two - less than a couple million bucks, so it could be \$1 million, \$1.5 million?

Richard Birkmeyer - *Strategic Diagnostics - President and CEO*

Right. On the E. coli market.

Steve Cole - *Matador Capital*

Yes.

Richard Birkmeyer - *Strategic Diagnostics - President and CEO*

Now salmonella is a much larger market.

Steve Cole - *Matador Capital*

OK.



Richard Birkmeyer - *Strategic Diagnostics - President and CEO*

In - it's projected that of the \$180 million market for pathogens worldwide, salmonella is about 60 percent of that. So obviously, salmonella, there's a large opportunity there for us.

Steve Cole - *Matador Capital*

OK.

Richard Birkmeyer - *Strategic Diagnostics - President and CEO*

As you know, we have just introduced this test. We're just starting those third-party evaluations, so it's really hard to project a ramp rate.

Steve Cole - *Matador Capital*

OK. I mean, if you had to guess - well, let me phrase it - let me put it a different way. That 180 million market today, how concentrated is it from a testing perspective? I mean, how many tests are out there?

Richard Birkmeyer - *Strategic Diagnostics - President and CEO*

For salmonella there are, it's probably five or six dominant tests out there.

Steve Cole - *Matador Capital*

OK.

Richard Birkmeyer - *Strategic Diagnostics - President and CEO*

And then there's probably another ten minor ones out there.

Steve Cole - *Matador Capital*

And given what you're saying and the indicators and performance and cost and everything else, you believe that you could be comparable to one of the dominant testing companies or one of the tertiary ten testing companies?

Richard Birkmeyer - *Strategic Diagnostics - President and CEO*

You know I never want to be a tertiary company.

Steve Cole - *Matador Capital*

That's the right answer. If you had to guess - let me phrase one last question on this. The five or six dominant tests, how big - how big are they if you had to guess today? I mean, are they each, you know, \$20 million or how do you segment those two groups?



Richard Birkmeyer - *Strategic Diagnostics - President and CEO*

There is one company, BiomaryU (ph), that has an instrument-based test that I believe is, I mean, assay wise, the largest - has the largest market share. My guess would be somewhere between 20 and 30 million.

Steve Cole - *Matador Capital*

20 or 30 million?

Richard Birkmeyer - *Strategic Diagnostics - President and CEO*

Yes.

Steve Cole - *Matador Capital*

OK. And after that does it fall off dramatically? Like of those other four or five, are they - are they 15 million or how far does it fall off?

Richard Birkmeyer - *Strategic Diagnostics - President and CEO*

They keep falling off, you know. The next one down might be 15 million, et cetera.

Steve Cole - *Matador Capital*

OK. So bottom line is, you know, without getting into too specifics, you'd be disappointed if you couldn't get up, I presume, within a couple of years in the five to 10 million range.

Richard Birkmeyer - *Strategic Diagnostics - President and CEO*

I would be disappointed.

Steve Cole - *Matador Capital*

OK. And how about on the ruminant test?

Richard Birkmeyer - *Strategic Diagnostics - President and CEO*

The ruminant test is one that is where we were with GMOs two years ago or three years ago. If you do the math one way, it can be a very large market opportunity. You do the math the other way and it can be a lower market opportunity. Until I'm out there for three months, I don't want to target one or the other. We believe we have by far the right test, we're working just like we did with the GMOs, we're working with all the European and U.S. regulatory bodies, we're working with the market leaders, the opinion leaders, to get ourselves established as technically above everybody else and any other test that's out there, so we're putting all the same things in place that we did with the GMOs.

Steve Cole - *Matador Capital*

OK.



Richard Birkmeyer - *Strategic Diagnostics - President and CEO*

I will feel much more comfortable on the June conference call saying where I see this market going.

Steve Cole - *Matador Capital*

So the issue, Rick, you know, when we look at Biorad (ph), I know we talked about the different types of tests, I mean the dead carcass effort, you know, they call it the - I always think of it as the dead carcass test, but things like Biorad (ph) where they're testing after the fact, is this - I take it you see this market really being bifurcated, where there's going to be two parts of it with the test - that test will still exist I take it, this will not serve as a replacement?

Richard Birkmeyer - *Strategic Diagnostics - President and CEO*

Right. What that - what Biorad (ph) has is a test that actually looks for the prion (ph), the causative agent...

Steve Cole - *Matador Capital*

Yes.

Richard Birkmeyer - *Strategic Diagnostics - President and CEO*

... for BSE.

Steve Cole - *Matador Capital*

Yes.

Richard Birkmeyer - *Strategic Diagnostics - President and CEO*

It is only - they only can test after the animal has been slaughtered; they take brain tissue. There is - that is a test that can be used to prevent it into the food supply, but it really doesn't work for the prevention of spreading. All of the world's regulatory bodies have put in place a rule that says you basically can't take rendered material and put it in feed. That's how this disease spreads.

Steve Cole - *Matador Capital*

Yes.

Richard Birkmeyer - *Strategic Diagnostics - President and CEO*

What we're doing is have that test to help put that firewall up to prevent the spread of BSE.

Steve Cole - *Matador Capital*

OK. And last question, I understand Neogen (ph) I think had a test that was similar, but the preparation time - the preparation process was worse. How do you see - have you seen any acceptance of that test out in the market and how do you see yours comparing to the alternative?

Richard Birkmeyer - *Strategic Diagnostics - President and CEO*

Again I hate to talk negatively about people's tests, but it's my understanding that in the U.S. the regulation is for mammalian meat and bone material.

Steve Cole - *Matador Capital*

Yes.

Richard Birkmeyer - *Strategic Diagnostics - President and CEO*

Included in that is things like deer, elk, other species that have scrapies (ph) or are known to transmit BSE. It's my understanding and I personally have not done the testing, their test does not pick those particular items up and, therefore, really doesn't match the regulation.

Steve Cole - *Matador Capital*

OK. Let me flip over to water for one quick sec. Can you break down the split between hardware and reagent roughly for the year or quarter and how do we see - or how do you expect that mix to alter as we go into '03?

Richard Birkmeyer - *Strategic Diagnostics - President and CEO*

If you could ask the question one more time?

Steve Cole - *Matador Capital*

Yes, I'm sorry. What I'm trying to get at is if we look at Microtox and water applications, what is the - what has your experience been between hardware sales and reagent sales and how do we expect that mix to change, if at all, looking to '03?

Richard Birkmeyer - *Strategic Diagnostics - President and CEO*

I believe that the reagent sales has outpaced the hardware sales because we have many on the established base. As the established base continues to grow, the expectation is reagent sales will continue to be a higher percentage of that. Now, there could be aberrations to that. If, you know, some large multinational company decides that it wants to establish 100 units across all of its facilities worldwide, that equipment sales could be very large that quarter.

Steve Cole - *Matador Capital*

Yes. OK. And last question, on Microtox you mentioned a state recently is going to purchase these. Large state, small state, have they made any public disclosure on purchasing them and what applications are they using them for?

Richard Birkmeyer - *Strategic Diagnostics - President and CEO*

They have not made a public disclosure. Obviously, we're going to try to get a public disclosure, but again, you know, for security reasons, a lot of people are resistant to that. They are a relatively large state as far as land mass.



Steve Cole - *Matador Capital*

OK. And last - how many units do you - are they used for water supply testing or what are they planning on using them for?

Richard Birkmeyer - *Strategic Diagnostics - President and CEO*

They're being used for supply testing as well as for - they're using a combination of the field unit and the laboratory unit.

Steve Cole - *Matador Capital*

OK. And how many units do you think - have they given you any indication on number of units or what's been provided for in their funding?

Richard Birkmeyer - *Strategic Diagnostics - President and CEO*

It's my understanding that it'll be plus-10.

Steve Cole - *Matador Capital*

Plus-10 units?

Richard Birkmeyer - *Strategic Diagnostics - President and CEO*

Yes.

Steve Cole - *Matador Capital*

OK. Very good. Thank you very much.

Richard Birkmeyer - *Strategic Diagnostics - President and CEO*

Thank you.

Operator

Thank you. Our next question comes from Steve Springer from Target Capital Management.

Steve Springer - *Target Capital Management*

Yes, good morning. I'd like to ask first for what you're budgeting for '03 for gross margins and SG&A levels.

Stan Musial - *Strategic Diagnostics - CFO*

Steve, without giving specific numbers, as we had talked about in my discussion earlier as well as indications from Rick, there's a few factors I want to point out. Number one, we consolidated our manufacturing capability into one single unit to capitalize on the talents that we had in those two



units as well as to increase our attrition season (ph) in producing those products, so you can - so we can drive margin to a higher level from where it has been in the past in operating two separate units. Secondly, with the introduction of newer products, there's the expectation that they're going to drive higher margins because they are newer and that will have an impact on the margin improvement over 2003 as well. On the SG&A side I had indicated that we believe it's going to decline year-over-year in terms of absolute dollars because of some of the initiatives we've taken, including the consolidation and reorganization of our sales and marketing effort.

Steve Springer - *Target Capital Management*

OK. Could you - could you give us a sort of a rundown of - by product line of what your experience is in penetrating international markets? You have a new initiative in Europe, I believe, and if you could go through Europe, Asia and South America, what's going on in these various product lines?

Richard Birkmeyer - *Strategic Diagnostics - President and CEO*

With each of the product lines there is a different distribution system that we have set up. As you mentioned, Steve, we do have the - a European office. Heading up that European office now is one of the original founders of SDI. With our water, Microtox, the outside U.S. market has been very strong. Europe has indeed placed many units and has a lot of recurring sales on the Microtox unit. The E. coli test has - we have not put a major push in Europe for that particular test because they have a different problem type of bacteria. They have E. coli O123, which is different than the O157 that we have. So we didn't think it was appropriate to really put a lot of marketing effort into that particular E. coli test. However, with the salmonella, we see Europe as a big opportunity; we are putting in a major push. In Asia, in Japan, we have significant sales on the products like the seed products for GMO testing as well as the E. coli testing. So each country, each product, has had different pushes. We do believe, with GMOs as an example, that we have worldwide push. Some of the - we have developed some products for outside U.S. almost exclusively. Toasted meal is the concern in Europe; they love (ph) to test toasted meal for GMOs and we have developed a product that is specific for that market for them. We believe international is very important for us.

Steve Springer - *Target Capital Management*

Yes. What percentage of your sales in the last quarter were where it came from international?

Stan Musial - *Strategic Diagnostics - CFO*

About 35 percent, Steve.

Steve Springer - *Target Capital Management*

Yes. And do you expect that to stay about the same in - for '03?

Richard Birkmeyer - *Strategic Diagnostics - President and CEO*

We do.

Steve Springer - *Target Capital Management*

OK. You had mentioned, I believe, on the last call, Rick, that you had indications of significant indications of interest in the BSE test from overseas. Is that continuing?

Richard Birkmeyer - *Strategic Diagnostics - President and CEO*

For the what test?

Steve Springer - *Target Capital Management*

The BSE test, the mad cow test.

Richard Birkmeyer - *Strategic Diagnostics - President and CEO*

There is a lot of interest that has been expressed. As to how much that is going to translate in actual sales, until we're out there pushing, you know, I don't want to say, hey, it's going to be \$100 million today.

Steve Springer - *Target Capital Management*

Well, that happens to coincide with the number that McDonalds mentioned to you, doesn't it?

Richard Birkmeyer - *Strategic Diagnostics - President and CEO*

We have never quoted McDonalds as mentioning a number.

Steve Springer - *Target Capital Management*

I'd like to get back to asking about Repinotan and I understand that superstock investor, Charlie Logia (ph), reported that he had had a conversation with management in which management indicated that Bayer had suggested that the Company, SDI, should be prepared to produce a million tests. Is that correct?

Richard Birkmeyer - *Strategic Diagnostics - President and CEO*

The expectation, to my understanding of where they see Repinotan doses per year to be, is in the million neighborhood within the first couple of years. Every unit dose requires a - one of SDI's tests.

Steve Springer - *Target Capital Management*

And these tests would sell for about ten bucks each, is that right?

Richard Birkmeyer - *Strategic Diagnostics - President and CEO*

That is where we are today.

Steve Springer - *Target Capital Management*

So what we're talking about there is if this product gets approval and if these numbers were to materialize, we're talking about sometime in the first couple of years of annual sales on the order of 10 million bucks, which as a percentage of the existing business today is a significant percentage, which is one of the reasons why I continue to pursue this subject. It's my understanding that having gotten to the - close to the end of a Phase III



trial that's been going on for years, my question here is, is it the Company's view that the technology contained in this test, that is to say in the point of treatment diagnostic test, is proven; our technology, not theirs, ours.

Richard Birkmeyer - *Strategic Diagnostics - President and CEO*

Absolutely. We believe that we have proven this technology already. That one can take a drop of blood and get a very precise, is my concentration of a particular -- above or below a certain threshold. And as you know Steve, we are pushing this technology to many different pharmaceutical and diagnostic companies. And as you also know, there are many patents that have been applied for with this particular technology.

Steve Springer - *Target Capital Management*

How many patents?

Richard Birkmeyer - *Strategic Diagnostics - President and CEO*

I believe there are two or three that are intertwined (ph) for this technology.

Steve Springer - *Target Capital Management*

Now how many other products are actually in test, that are testing right now in the pharmaceutical business using this point of treatment diagnostic test?

Richard Birkmeyer - *Strategic Diagnostics - President and CEO*

We are working with a couple other pharmaceutical companies at this point in time. Some things have come and gone where they've elected that, "Gee, it doesn't make sense to continue with this particular drug." Or "Gee, it doesn't make sense to continue with this particular program." The diagnostic device is the easy part in the system. As you know, we're talking hundreds of millions of dollars from beginning to end with a therapeutic drug and very few make it from beginning to end. So if you start with a hundred, one might make it.

Steve Springer - *Target Capital Management*

Well, doesn't it - do you still regard a substantial market opportunity for this Company - in offering this product to pharmaceutical companies whose products have been - had to be withdrawn from FDA trials because the level of toxicity for some recipients of their drugs is too high, let's say between five and ten percent. For the other 95 to - 90 to 95 percent the drug would work or the treatment would work, but there's a disqualifying level of toxicity. And so they have to withdraw those products from FDA trials after having spent perhaps as much as \$100 million just to get to Phase I trials. Do you still view that as your prime market?

Richard Birkmeyer - *Strategic Diagnostics - President and CEO*

We always held that to be a significant opportunity for SDI. What is differentiating from this particular market and something like salmonella or E. coli, we control how we penetrate and how fast we get to those markets with our efforts. When we're coupling our tests with a therapeutic drug, unfortunately we have no control of that process. Therefore, we do not like to build expectations around something that we have zero control over.

Steve Springer - *Target Capital Management*

Well, I understand. But what I'm trying to establish here is that our product - we know that our product works. You've applied for patents.

Richard Birkmeyer - *Strategic Diagnostics - President and CEO*

Absolutely.

Steve Springer - *Target Capital Management*

And so now I'd like to ask, you said that your work - that you've - that there are a number of other pharmaceutical companies, you're working with a couple now. How many other people, how many other companies are you talking to about this product? How aggressive - in other words, how aggressively are you pursuing this product line?

Richard Birkmeyer - *Strategic Diagnostics - President and CEO*

We pursue it extremely aggressive. As you know, the antibody business, which we have - really serves every single diagnostic and pharmaceutical company out there, therefore, we have sales reps that are in these people's facilities all the time. We continue to bring up this opportunity. Many people have heard it, have discussed it, but again, what they're looking at is making a \$400 million decision, "Do we pull this off the shelf and start down this process again?" We have been in a lot of different presentations and we continue to push this technology. I am a very strong believer in this technology.

Steve Springer - *Target Capital Management*

Are you seeing a gain traction, do you think that you're getting a better reaction? Are you - what is your - what is your level of optimism about getting into more products?

Richard Birkmeyer - *Strategic Diagnostics - President and CEO*

I believe over time we will get into several other products. I think the market is going to wait to see how Bayer does with Repinotan. Because it is a different thought process that you need a test to help you dictate what the therapeutic concentration is going to be.

Steve Springer - *Target Capital Management*

But nobody is questioning the validity of the test?

Richard Birkmeyer - *Strategic Diagnostics - President and CEO*

Nobody has tested the validity of the test.

Steve Springer - *Target Capital Management*

OK. Last question is, you've mentioned that you're in about 50 utilities currently. Is that correct? On the Microtox test?

Richard Birkmeyer - *Strategic Diagnostics - President and CEO*

At year-end we were in greater than 50 utilities.

Steve Springer - *Target Capital Management*

OK. What percentage of these utilities - I mean, you referenced American Water which is using it on a specific threat basis, I guess, or on an emergency basis. What percentage of these utilities are using the Microtox test on a daily basis?

Richard Birkmeyer - *Strategic Diagnostics - President and CEO*

I believe the 50 that were in that at year-end were all using it on a daily basis.

Steve Springer - *Target Capital Management*

And what would be a typical profile of the usage? In other words, how many times would they be testing, what would that entail in terms of recurring revenues?

Richard Birkmeyer - *Strategic Diagnostics - President and CEO*

I believe we're seeing the \$10 to \$15 thousand a reagent per facility.

Steve Springer - *Target Capital Management*

Per facility?

Richard Birkmeyer - *Strategic Diagnostics - President and CEO*

Per facility.

Steve Springer - *Target Capital Management*

So year-end 50 utilities, how many facilities is that?

Richard Birkmeyer - *Strategic Diagnostics - President and CEO*

That's 50 facilities.

Steve Springer - *Target Capital Management*

Oh, so it's not - is it 50 different utilities - 50 different companies or 50 different facilities?

Stan Musial - *Strategic Diagnostics - CFO*

50 water systems, which would be facilities.



Steve Springer - *Target Capital Management*

OK. How many different companies are you in?

Richard Birkmeyer - *Strategic Diagnostics - President and CEO*

I have no clue to that answer. Most of these are individual city municipalities, so I would venture to guess it's very similar to that number.

Stan Musial - *Strategic Diagnostics - CFO*

Some of them have some multiple units, but many of them have single units.

Steve Springer - *Target Capital Management*

And do you - these utilities have to respond by the end of the year to the fed about what they're doing to address the threat of water contamination. Is that correct?

Richard Birkmeyer - *Strategic Diagnostics - President and CEO*

That is correct.

Steve Springer - *Target Capital Management*

And are you seeing - are they - are they responding now or do you think that they're going to be waiting until closer to the end of the - is it September or the end of the year?

Stan Musial - *Strategic Diagnostics - CFO*

End of the year.

Steve Springer - *Target Capital Management*

End of the year. Do you think it's going to be - there's going to be a rush at the end or how do you see that playing out?

Richard Birkmeyer - *Strategic Diagnostics - President and CEO*

I imagine it's identical to tax filings. There are those that are early birds, there are those that push it right to the end, and there will be those that will - won't comply and will be late.

Steve Springer - *Target Capital Management*

But do you think that it's going to mean that when they do - when they do respond that there's going to have to be some sort of plan to protect the water by testing?



Richard Birkmeyer - *Strategic Diagnostics - President and CEO*

I do.

Steve Springer - *Target Capital Management*

OK. Thank you.

Richard Birkmeyer - *Strategic Diagnostics - President and CEO*

Yes.

Operator

Thank you. Our next question comes from John Fitzgerald from Bishop Rosen & Company.

John Fitzgerald - *Bishop Rosen & Company*

Gentlemen, good morning.

Richard Birkmeyer - *Strategic Diagnostics - President and CEO*

Morning, John.

John Fitzgerald - *Bishop Rosen & Company*

Maybe a little more of a pragmatic question. You had indicated that you had consolidated your marketing department, OK? And I assume it's broken down into the food and the water sector. As you start to walk out more and more product lines, OK, what accompanying increase in the size of your marketing department are you planning, how much has it increased, let's say in the last six months, 12 months, to basically, you know, increase your penetration factor into the various new product markets?

Richard Birkmeyer - *Strategic Diagnostics - President and CEO*

The changes in the sales and marketing organization have really been a shift a little bit in focus. As you know, four years ago we were primarily in the pesticide remediation business. Back then we said, gee, we see for the Company to continue to grow we need to shift away from that a little bit because of the fact that it's what I call the once and done testing. And on a remediation site you test and test on that site and once that site is remediated, it goes away. That's why we said alright, we're going to switch into some of these other markets and we, you know, discussed then the water toxicity and the food pathogen.

John Fitzgerald - *Bishop Rosen & Company*

Rick, what methodology of marketing are you basically utilizing? Are guys going - you know, guys and girls going out there and hitting the bricks, are you doing mass mailing, telephone campaigns to reach municipalities and various food companies? Elaborate a little bit on that.



Richard Birkmeyer - *Strategic Diagnostics - President and CEO*

OK. We use a combination of the technical ads in technical journals, mass mailings. As an example, yesterday we sent out a mass mailing to all the food and beverage companies about Microtox, I believe there was somewhere around 16,000 of those sent out. We have the outside sales reps that follow up, we have the inside folks that are pushing the trade shows and working with the decision makers and the opinion leaders, all of the trade groups, the consortiums, that type of thing. We have a very, very active tradeshow participation. I think this week we're at three different tradeshow.

John Fitzgerald - *Bishop Rosen & Company*

Do you plan an incremental increase in your marketing department? Now you got two new products, you got salmonella coming, you got this ruminant, you know, where do you stand on the size of this department and, you know, what your budgetary plans are for increasing the size of the marketing department?

Richard Birkmeyer - *Strategic Diagnostics - President and CEO*

We have...

John Fitzgerald - *Bishop Rosen & Company*

If any.

Richard Birkmeyer - *Strategic Diagnostics - President and CEO*

We have continued to change it, not as much increase it because we have found efficiency. One of the things that was part of this most recent change is we felt that we needed to staff it with a lot more of inside technical support people; we needed E. coli experts and we needed salmonella experts. And we brought them on board and we found that we didn't need as many people out in the field and we pulled back a little bit on that. So we're changing the combination; it doesn't necessarily mean that we're growing the size of it, but we believe we are far more effective.

John Fitzgerald - *Bishop Rosen & Company*

Thanks. One follow up question on what Steve Springer said about the European - Miss Cavanaugh's (ph) been put in charge there; how has that progressed since she's been put in charge over there, what inroads are being made, what expansion penetration is being made in the European market?

Richard Birkmeyer - *Strategic Diagnostics - President and CEO*

She has identified in several countries very high quality distributors that we are working with now. We believe that that will increase some of the penetration. She has identified - the toasted meal product, products that fit better for the European market. She knows how to work with the folks here because she is intricately familiar with the operations here and getting those products out and over there to fit the market better.

John Fitzgerald - *Bishop Rosen & Company*

OK, you've answered my questions. Thank you.

Operator

Thank you. Our next question comes from Brian Clinton (ph) from CE Unterberg.

Brian Clinton - CE Unterberg

Hi, guys. I'll try and - I'll try and keep this short. First, I know you had said you were going to be giving some more guidance for '03. Any revenue guidance at this point?

Richard Birkmeyer - Strategic Diagnostics - President and CEO

We don't want to get into specific numbers for the first couple of quarters. As I said, I believe very strongly that as we enter the established markets, that by mid-year we should be able to get some good idea of run rates and help out with those projections.

Brian Clinton - CE Unterberg

OK. The second - the second question is on FeedCheck. Is there a validation process that these - that the users would need to go through that might be similar to the ones they were doing with E. coli or salmonella?

Richard Birkmeyer - Strategic Diagnostics - President and CEO

It's more difficult to do the third-party evaluations by the individual companies with FeedCheck because right now they aren't really using anything. So that's why I likened it to the GMO market where what we started with the GMO was working with folks like Defra (ph), JRC, different government regulators to say "Yes, this test works, this test meets what they are saying it does", and then go work with the companies in implementing it.

Brian Clinton - CE Unterberg

OK, so that's something that we - that's still going to be - it's still going to be awhile before we see some - see some meaningful revenues for FeedCheck?

Richard Birkmeyer - Strategic Diagnostics - President and CEO

That is my assumption.

Brian Clinton - CE Unterberg

OK.

Richard Birkmeyer - Strategic Diagnostics - President and CEO

Now we have worked with and sent this product off to many of the different regulators and the feedback that we're getting is tremendous. We had one group that had a whole series of blind samples, everybody else who has sent samples to them have performed miserably on those samples and we got every one of them right and they were shocked.

Brian Clinton - *CE Unterberg*

OK, so that's something that could speed up the time to adoption for some of these companies.

Richard Birkmeyer - *Strategic Diagnostics - President and CEO*

That is correct.

Brian Clinton - *CE Unterberg*

OK. As far as salmonella goes, that test was launched in January. When do you expect companies to complete evaluation of that and initiate use?

Richard Birkmeyer - *Strategic Diagnostics - President and CEO*

My original expectations were somewhere in the neighborhood of the June timeframe. However, what we're seeing is because so many people have evaluated our E. coli test and have been so pleased with the results and so astonished by how good they are, that many people are testing the salmonella test and their evaluations at a much more rapid rate than what we saw with the E. coli conversion. So we might start seeing as soon as the March, April timeframe some people starting to convert over.

Brian Clinton - *CE Unterberg*

OK. And so with the listeria now expecting to be launched sometime in the third quarter, would you expect that timeframe to be the timeframe where the companies are going to evaluate and then decide to use it? Is that something we may see revenues then in the first quarter of '04?

Richard Birkmeyer - *Strategic Diagnostics - President and CEO*

Yes.

Brian Clinton - *CE Unterberg*

Or maybe closer to the...

Richard Birkmeyer - *Strategic Diagnostics - President and CEO*

First...

Brian Clinton - *CE Unterberg*

... second quarter?

Richard Birkmeyer - *Strategic Diagnostics - President and CEO*

... '04, right. I was thinking fourth quarter. We, you know, with listeria it's a little bit different market than the salmonella, E. coli market, so some of this might be different customers and therefore might take, you know, the same three or four month timeframe. So will we have meaningful listeria sales in this year? Probably not.



Brian Clinton - *CE Unterberg*

OK.

Richard Birkmeyer - *Strategic Diagnostics - President and CEO*

I will say again though, the - you know, last year at this time we were an unknown in this market. In June, we were - when we introduced the E. coli, we were an unknown. It took awhile for people to know who we were, but right now the word out there is pretty favorable and a lot of people are looking at our tests as high quality.

Brian Clinton - *CE Unterberg*

OK. And my final question has to do with McDonalds. Do you expect them to issue any mandates or policies concerning the use of any of your tests?

Richard Birkmeyer - *Strategic Diagnostics - President and CEO*

You know I do not like to speak for third-parties.

Brian Clinton - *CE Unterberg*

Yes.

Richard Birkmeyer - *Strategic Diagnostics - President and CEO*

That'll get me in a lot of trouble, so I will decline making any comment on that.

Brian Clinton - *CE Unterberg*

Alright. Thank you.

Operator

Thank you. Our next question is a follow-up from Mark Chekinow (ph) from Sidoti.

Mark Chekinow - *Sidoti*

Just wanted to talk real briefly how you did mention that the bank covenants have been waived. One, are you currently in compliance with these covenants. First, are you in - compliance?

Stan Musial - *Strategic Diagnostics - CFO*

Yes.

Mark Chekinow - *Sidoti*

And what would you say your confidence level is now that you are more on a balance sheet driven covenant as opposed to earnings covenants?

Stan Musial - *Strategic Diagnostics - CFO*

We are confident that we will be in compliance with those covenants at the end of the first quarter.

Mark Chekinow - *Sidoti*

OK. And again, we have - we are definitely not giving any type of ballpark ranges for - I know you're not going to do quarterly, but on an annual revenue basis yet? Or is there some type of guidelines you feel comfortable giving?

Richard Birkmeyer - *Strategic Diagnostics - President and CEO*

Not at this point. As I've mentioned earlier, we do expect to see increase in profitability and revenues each and every subsequent quarter.

Mark Chekinow - *Sidoti*

Starting from you were not profitable this quarter and you expect first quarter, second quarter, third quarter to be sequentially better as we go along?

Richard Birkmeyer - *Strategic Diagnostics - President and CEO*

That is correct.

Mark Chekinow - *Sidoti*

OK, thank you very much.

Richard Birkmeyer - *Strategic Diagnostics - President and CEO*

Thank you.

Operator

Thank you. Our next question is a follow-up from Steve Cole from Matador Capital.

Steve Cole - *Matador Capital*

Yes, two quick questions, guys. The 10 to 15 thousand reagent number that you're using, is that per year per facility?

Richard Birkmeyer - *Strategic Diagnostics - President and CEO*

Yes.



Steve Cole - *Matador Capital*

Oh, OK. And the other question is with Art now focusing in on the task of - on the operating role, can you maybe speak to a moment on what types of things he's working on? We know about the facility consolidation, but in terms of expenses, has he identified things that he can take out or what type of magnitude are we talking about?

Richard Birkmeyer - *Strategic Diagnostics - President and CEO*

With many of our programs, we feel that there is significant opportunity in consolidating the use of single raw materials instead of multiple raw materials to lowering and leveraging our suppliers to increasing the efficiency of our processes and to automating those processes. You know, I told Art I wanted ten percent increase - or ten point increase on the gross margins; he laughed at me. We're - we expect big things out of Art, like we've always.

Steve Cole - *Matador Capital*

OK, very good. If ten points - does he laugh at five points? Thank you very much.

Richard Birkmeyer - *Strategic Diagnostics - President and CEO*

Thank you.

Operator

Thank you. Our next question is a follow-up from Steve Springer from Target Capital Management.

Steve Springer - *Target Capital Management*

Yes, I'd like to say that I appreciate the greatly increased level of detail, both in the press release and on this call. I think it's very helpful.

Stan Musial - *Strategic Diagnostics - CFO*

Thank you.

Richard Birkmeyer - *Strategic Diagnostics - President and CEO*

Thank you, Steve.

Steve Springer - *Target Capital Management*

Rick, on the last call, last quarter, I asked you about other new technologies or other new products that you might have in development and you replied that there was something that you were working on that had "potentially explosive" implications. You declined to give much - any real further information about that, but you said that in future calls you would. And so I'm wondering if you can give us any more color about in general what you're working on there?



Richard Birkmeyer - *Strategic Diagnostics - President and CEO*

We are working on that same program, Steve. We have continued to work with this particular company; it's a multinational company, many billions of dollars in revenue. It is along the - it would closely match into our agricultural type tests. We have - they're looking for both the development of a field test, that they feel is where this blockbuster would be, and in a laboratory test that they would use across all of their facilities. We have continued and made significant technological advances in developing this product. They believe this will give them significant market advantage and therefore do not want any disclosure as to the particular project until they are ready and we are ready to release with them this particular product.

Steve Springer - *Target Capital Management*

And what sort of timeframe are we talking about?

Richard Birkmeyer - *Strategic Diagnostics - President and CEO*

We are hoping that we will have completed and demonstrated the effectiveness of this by the September, October of this year timeframe.

Steve Springer - *Target Capital Management*

Wow, that's great. OK, thanks very much.

Operator

Thank you. Once again, ladies and gentlemen, if you have a question at this time, please press the 1 key on your touch-tone telephone.

There are no further questions in the queue at this time. I'd like to turn the program back to you.

Richard Birkmeyer - *Strategic Diagnostics - President and CEO*

We thank you everyone for joining us in our fourth quarter conference call. We look forward to this year where we will have many exciting developments as our new products are introduced into this market. Thank you.

Operator

Thank you, ladies and gentlemen, for your participation in today's conference. This does conclude the program. You may now disconnect. Good day.



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