

**Transcript of  
Arrayit Corporation  
First Quarter 2014 Earnings Conference Call  
May 20, 2014**

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## Participants

Rene Schena – Chairman and Chief Executive Officer  
Dr. Mark Schena – President and Chief Science Officer

## Presentation

### Operator

Greetings, and welcome to Arrayit Corporation's First Quarter 2014 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. As a reminder, this conference is being recorded.

On the phone we have Ms. Rene Schena, Chairman and Chief Executive Officer of Arrayit Corporation; and Dr. Mark Schena, President and Chief Science Officer of Arrayit Corporation. Dr. Schena will begin by providing an introduction to Arrayit and an overview of the company's business, and Rene Schena will present the first quarter 2014 financial results including earnings, revenues, and other financial details, as well as some key developments in Q1.

Dr. Schena will then provide some operational and logistical updates and the company's guidance for Q2 2014. At the conclusion of the prepared remarks, we will open up the call for questions, but let me first take a moment to read the Safe Harbor statement.

We have identified forward-looking statements by using words such as expect, believe, and should. Although we believe our expectations are reasonable, our operations involve a number of risks and uncertainties that are beyond our control, and these statements may turn out not to be true. We urge you to review Arrayit's form 10-K and other SEC filings for a discussion of the principal risks and uncertainties that affect our performance and of the factors that could cause our actual results to differ materially from those presented today.

I will now turn the conference over to Dr. Schena.

### Dr. Mark Schena – President and Chief Science Officer

Thank you. It is our pleasure to welcome all of you to Arrayit Corporation's First Quarter 2014 Earnings Conference Call. We would like to thank all of you for joining us this morning. I will begin by presenting an overview of our company and recent developments at Arrayit.

As you know, we recently announced our first quarter 2014 financial results, and as you can tell from the Q1 2014 results we are making tremendous progress in our

business and believe that we are at an inflection point in terms of growth and valuation. The progress we are making is partly manifested in our financial statement for the first quarter which demonstrates triple-digit revenue growth compared to the fourth quarter of 2013 and net income among other achievements.

We also continue to make great strides in building the infrastructure for sustained growth over the long term. Though this is now our third consecutive earnings call, we understand that new shareholders are joining us in our mission to build a world-class public company. For the benefit of our new and longtime shareholders, I would like to take a moment to provide a brief high-level overview of our company and our business strategy.

Arrayit has two complementary and synergistic business segments: the life sciences tool business and the molecular diagnostics business. Our tools and diagnostic segments function in concert to provide a powerful technology platform and a shareholder value proposition that we believe is sustainable and compelling. In our tools business, which currently comprises most of our revenues, Arrayit invents, develops, manufactures, markets, installs, and supports platforms, instruments, tools, kits, and reagents for life sciences, biomedical, and agricultural research.

We leverage our patented and proprietary microarray platform to empower scientific and clinical research worldwide. Arrayit microarrays contain microscopic spots of genes, proteins, antibodies, amplified DNA, and many other molecules of interest printed on glass substrates. Our microarrays work in a manner similar to microprocessors, enabling scientists and doctors to collect and analyze genomic and proteomic information in a rapid, accurate, and highly automated manner.

Arrayit microarrays are highly miniaturized yet practical devices that can be held in the palm of your hand. Such devices can be used to interrogate the entire human genome in a matter of hours, a scientific accomplishment that was at best the talk of science fiction a few decades earlier. In addition to miniaturization, we heavily leveraged automation in our platform, using robots to perform the work of many and allowing up to one million patient samples to be tested in our current laboratories.

Miniaturization and automation confer competitive advantages to Arrayit in the marketplace, and in the longer term we believe these attributes offer a means of reducing healthcare costs and improving quality by allowing patients to be tested more accurately and more portably than with traditional methods. Arrayit competes in the life sciences marketplace with Illumina, Agilent, and Affymetrix by virtue of our affordability, versatility, and performance.

On the performance side, the Arrayit platform provides greater sensitivity and specificity than competing platforms because our unique *ex situ* surface contact printing technology delivers printed molecules of greater purity and integrity than our competitors. Better performance coupled with the affordability and versatility of our platform creates value for our customers and ensures what we believe will be an important driver of diagnostic tests sales.

These attributes also allow us to deliver food safety testing information critical to national agriculture in an accurate and cost-effective manner. Arrayit technology is installed in more than 4,000 laboratories worldwide, building on an important and diverse customer base that includes pharmaceutical, biotechnology, and diagnostic companies, and hospitals, government centers and university laboratories that you will recognize as household names.

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Arrayit customers include Abbot, Amgen, Bayer, Caltech, the Centers for Disease Control, Genentech, Harvard, Johns Hopkins, Life Technologies, MIT, Pfizer, Siemens, Stanford, the United States Department of Agriculture, the United States Food and Drug Administration, UCSF and UCSC among many others. We believe this representative customer list illustrates the breadth and depth of our business.

Impressively, Arrayit's patented microarray manufacturing technology has been used to print an estimated 100 million microarrays since 1997. Given the size of the industry and our customer base, the microarray tools business offers a significant opportunity for both near-term and long-term growth. We continue to make substantial investments in new life sciences technology because our patented and proprietary life sciences platform drives our diagnostic products.

Over the past decade, our scientists have used Arrayit technology to develop diagnostic tests for treatable and curable human conditions including ovarian cancer and Parkinson's disease. Arrayit's OvaDx® Pre-Symptomatic Ovarian Cancer Test enables the detection of ovarian cancer long before patients detect disease symptoms, including in Stage 1A patients, allowing greatly improved treatment options and prognosis and reduced cost of care.

Upon 510(k) approval, OvaDx® will be available for ovarian cancer monitoring in a market that is both established and massive. Doctors and nurses currently use 15 million CA-125 tests per year to monitor ovarian cancer, generating approximately \$2 billion in worldwide revenue. Capturing just 1% of the ovarian cancer monitoring market would generate \$97.5 million in annual revenues for Arrayit through the sale of 150,000 OvaDx® tests at the \$650 per test price point. The laboratories in our new Sunnyvale headquarters have more than adequate capacity to process 150,000 OvaDx® tests annually upon FDA approval.

In addition to OvaDx®, Arrayit has a pipeline of high-value diagnostic tests based on genomics, messenger RNA profiling and proteomics. We believe that taken to its logical extension, Arrayit technology could be used to decipher and diagnose all 6,000 human diseases including other cancers, neurodegenerative diseases, immunological disorders, and many others. Using the Internet as an analogy, Arrayit has developed a powerful search engine for the human body that we believe can deliver healthcare information that is preventative and personalized for optimal patient treatment.

Having said that, based on our current capitalization our company is intensely focused on growing the life sciences tools business and on FDA approval of OvaDx®. I will now turn the conference over to Arrayit Chairman and Chief Executive Officer Rene Schena to present the company's first quarter 2014 financial results. Rene.

#### **Rene Schena - President and Chief Financial Officer**

Thanks, Mark. For the first quarter ended March 31, 2014 Arrayit recorded \$1.09 million in total revenues compared to \$527,000 in the fourth quarter of 2013, a 107% increase in revenue in sequential quarters. Impressively, the 107% revenue increase was achieved almost entirely in the month of March, following the completion of our new headquarters build out at 927 Thompson Place in Sunnyvale, California.

The triple-digit revenue growth in Q1-2014 compared to Q4-2013 was facilitated by working capital from a \$1.8 million equity capital raise that closed on December 18, 2013. This working capital allowed us to increase inventory to meet strong customer demand on our life sciences instrument and consumables. Our first quarter financial results underscored the favorable impact of working capital on our business and the

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scalability of our life sciences tools segment, which is capable of supporting increasingly larger revenues as we capitalize the company.

For the first quarter 2014, Arrayit recorded \$37,000 of net income compared to negative net income of \$500,000 in the first quarter of 2013, a \$554,000 improvement in net income in sequential operational quarters. The significant improvement in net income for the first quarter of this year was attributable to triple-digit revenue growth and the gain on extinguishment of liabilities.

For the first quarter of 2014, Arrayit reported \$227,000 in cash compared to \$1,000 in cash in the first quarter of 2013, a \$219,000 improvement in our cash position. Importantly, our cash position of \$220,000 at the end of the first quarter was only \$70,000 less than the \$290,000 cash at the beginning of the first quarter, which is indicative of our modest cost structure and operational efficiency.

Turning to the balance sheet, Arrayit reported a total stockholder deficit of \$5.2 million compared to \$5.6 million at the end of the fourth quarter of 2013, a \$400,000 balance sheet improvement in sequential quarters and a \$2.4 million balance sheet improvement over the past five operational quarters. The company attributes its increasingly improving balance sheet to debt reconciliation on terms that are favorable to the company.

Combining the reported \$500,000 dollar increase in revenues, the \$500,000 increase in net income, and the \$400,000 balance sheet improvement, Arrayit reported a \$1.4 million combined improvement in these key financial benchmarks in the first quarter of 2014 compared to the fourth quarter of 2013. This steady financial progress illustrates the commitment of Arrayit management to building an increasingly valuable and efficient public company.

The company had a number of key additional accomplishments during the first quarter of 2014. We showcased our proprietary and patented microarray platform at the International Plant and Animal Genome Conference in San Diego, California in January 2014 and hosted a technology workshop entitled "Breakthroughs in Microarray Technology". Also in January, we presented the company's advanced robotic products at the Laboratory Automation Conference in San Diego, which led to dozens of high-quality sales leads.

We showcased our high sensitivity and high specificity diagnostics platform at the 21<sup>st</sup> International Molecular Medicine Tri-Conference in San Francisco, California leading to additional sales leads and an important meeting with DOCRO, our oncology CRO, which is facilitating submission and approval of OvaDx® to the United States Food and Drug Administration.

During the first quarter of 2014, we completed the build out and expansion of our new corporate headquarters located at 927 Thompson Place in Sunnyvale, California. We hosted a two-day on-site training session with our Lithuanian distributor from UAB Grida to further expand Arrayit sales in the important Baltic region of Eastern Europe. We installed a \$100,000 Arrayit TissueMax Automated Tissue Microarrayer at the University of Miami.

I introduced Arrayit to the National Investment Banking Association at their quarterly conference in Fort Lauderdale, Florida resulting in five funding opportunities that the company is currently evaluating. During the first quarter of this year, Arrayit President Dr. Mark Schena purchased \$461,000 of ARYC common restricted stock at \$1 per share to reconcile accrued commissions, allowing the company to book a \$391,000

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gained on the extinguishment of liabilities because of the market premium paid by Dr. Schena for the Arrayit shares.

During the first quarter of 2014, we began manufacturing our OvaDx® Pre-Symptomatic Ovarian Cancer Test for the pre-IDE portion of the FDA submission. We currently have OvaDx® proteomic capture agent sufficient to manufacture 156,250 OvaDx® tests, which at the suggested \$650 per test retail price have a market value of more than \$100 million dollars. The market value of our current OvaDx® assets is important because it emphasizes our potential to manufacture high-value diagnostic tests.

Also during the first quarter of 2014, we hosted DOCRO President and CEO Thomas Soriano at our new Sunnyvale headquarters to conduct the initial site visit required for certifying the Arrayit laboratories for CLIA, ISO 9001, and ISO 13485, three of the world's most widely used quality management systems. In summary, the first quarter of 2014 was a busy and productive quarter for the company.

I would now like to turn the conference back to Dr. Schena who will update us on some of the company's recent operational and logistic accomplishments since the completion of the first quarter. Mark.

**Dr. Mark Schena – President and Chief Science Officer**

Thanks, Rene. Since the successful completion of the first quarter of 2014, Arrayit has made great strides with respect to both the life sciences tools and the diagnostics segments of our business. Indeed, the first half of the second quarter 2014 has been an exceptionally busy and productive quarter for the company. In April, Arrayit won a \$125,000 contract from the United States government for a NanoPrint™ LM60 Protein Edition Microarrayer.

The company also reported cumulative NanoPrint™ quotes for the year in excess of \$1.1 million dollars, indicating strong customer demand for our enterprise level microarray printers. In April, we shipped a SpotBot® Extreme Protein Edition Microarrayer to a top distributor in Asia. During the second quarter, the company sold a SpotBot® 3 Personal Microarrayer with Vision System to an exciting new diagnostics company in the Midwestern United States.

So far in Q2, we have shipped ten SpotWare™ Colorimetric Scanners to a top diagnostics laboratory in the United Kingdom. During the second fiscal quarter, the company continued to report class I clean room performance from both its manufacturing and diagnostic testing clean rooms, placing the market value of these new facilities as high as \$5.2 million dollars. The company also upgraded its million-dollar bronze, silver, gold, and platinum clean room platforms to the class I specification to improve their performance.

Arrayit founder Todd Martinsky installed a \$229,000 NanoPrint™ LM210 Protein Edition Microarrayer at Harvard University and established an Arrayit center of excellence at Harvard's Brigham and Women's Hospital. Also during the first half of Q2 2014, the company executed Exhibit D with DOCRO for the independent validation specimens required for the company's OvaDx® pre-IDE submission to the FDA.

The OvaDx® validation specimens include a diverse set of patient samples including sera from healthy males and females, women with benign gynecologic and non-gynecologic diseases, men and women with breast, colorectal, pancreatic, prostate, and liver cancer, women diagnosed with ovarian cancer who have yet to be treated for

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the disease, women diagnosed with stage I, II, III, or IV ovarian cancer and have been treated and are being monitored for the illness, and late stage ovarian cancer patients who have been treated for serous, mucinous, or ovarian adenocarcinoma.

Arrayit is anticipating completing OvaDx® testing of the DOCRO samples in June of this year. The company expects to submit the OvaDx pre-IDE application to the FDA by the end of the second quarter of 2014.

Turning now to our financial projections for the second quarter of 2014, we expect to report total revenues in the range of \$0.5 million to \$1.5 million dollars. The wider than normal range is based on several large pending orders that may or may not close and ship by the end of the second quarter. In terms of net income, we expect Q2 of 2014 to be approximately cash neutral for the company. We wish to thank our long time and new employees for their creativity, hard work, and dedication and our shareholders for the continued support throughout this exciting growth period.

Thank you for joining us today, and we look forward to speaking with you again next quarter. We will now open the floor to questions. Operator, we are ready to answer your first question.

**Operator**

Thank you. (Instructions given) one moment please will we poll for questions. Thank you ladies and gentlemen. I'd like to turn the floor back to Dr. Schena for any closing final remarks.

**Dr. Schena - Chief Science Officer**

Thank you again for calling in, and we look forward to speaking with everyone after the release of our second quarter 2014 results.

**Operator**

Thank you. This concludes today's teleconference. Thank you for your participation. You may disconnect your lines and have a wonderful day.

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