

Transcript of
Arrayit Corporation
Third Quarter 2014 Earnings Conference Call
November 26, 2014

Participants

Rene Schena – Chairman, Chief Executive Officer
Mark Schena - President, Chief Science Officer

Presentation

Operator

Greetings and welcome to the Arrayit Corporation Third Quarter 2014 Earnings conference call. At this time, all the participants are in a listen-only mode. A brief question and answer session will follow the formal presentation. (Operator instructions.) 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 third quarter 2014 financial results, including revenues, earnings, and other financial detail, as well as some key developments in third quarter. Dr. Schena will then provide some operational and logistical updates and the company's guidance for fourth quarter 2014.

At the conclusion of the prepared remarks, we will open up the call for questions. Let me first take a moment to read the Safe Harbor statement. We have identified forward-looking statements by using words 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 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.

Mark Schena - President, Chief Science Officer

Thank you. It is our pleasure to welcome all of you to Arrayit Corporation's Third 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 as Arrayit.

Last week, we announced our third quarter 2014 financial results and as you can see from the Q3 2014 results, we are making tremendous progress in our business and believe that we are at an inflexion point in terms of growth and valuation. The progress we are making is evident in our financial statements for the first nine months ended September 30, 2014, which report record total revenues, record gross margins, and record quarterly pipeline purchase orders among other achievements. We also continue to make great strides in building a network of strategic alliances for sustained growth over the long-term.

This is our fifth consecutive earnings call, and we understand that new shareholders are joining us on a continuous basis in our mission to build a world-class public company. For the benefit of our new and long-time shareholders, I would like to take a moment to provide a high level overview of our company and business strategy.

Arrayit has two primary business segments that are complementary and synergistic - the Life Sciences Tools business and the Molecular Diagnostics business. Our Tools and Diagnostic segments function in concert to provide a technology platform that we believe is powerful for our customers and interesting to our shareholders with respect to growth potential.

In our Tools business, which currently comprises most of our revenues, Arrayit invents, develops, manufactures, markets, sells 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 are glass substrates that contain microscopic printed spots of genes, proteins, antibodies, amplified DNA and other molecules. Our microarrays function attends to microprocessors, enabling scientists and doctors to collect and analyze genomic and proteomic information in a rapid, accurate and 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 and proteome in a matter of hours; a scientific accomplishment that was the talk of science fiction a few decades earlier.

In addition to miniaturization, our platform uses automation robots to rapidly process up to one million patient samples per year in our current Sunnyvale laboratories. Miniaturization and automation confer competitive advantages to Arrayit and to our strategic partners in the marketplace. 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 affordably than with traditional methods.

Arrayit competes with larger companies such as Illumina, Agilent and Affymetrix based on our affordability, versatility and performance. On the performance side, the Arrayit platform provides greater sensitivity and specificity than competing platforms because our unique patented 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 values for our customers and ensures what we believe will be an important driver of diagnostic test sales. These attributes allows us to deliver, for example, agricultural testing information such as food safety tests critical to growers and consumers in a rapid and cost effective manner.

Arrayit technology is installed in 4,000-plus laboratories worldwide, building on an important and diverse customer base of pharmaceutical biotechnology and diagnostics companies, and hospitals, government centers and university laboratories that you will recognize as household names. Arrayit customers Abbot, Amgen, Bayer, Caltech, the CDC, the FDA, Genentech, Harvard, Johns Hopkins, Life Technologies, MIT, Pfizer, Siemens, Stanford, Thermo Fisher, the USDA, UCSF, UCSC, among many others illustrate the breadth and depth of our business.

Arrayit's patented microarray manufacturing technology has been used to print an estimated 100 million microarrays since 1997, and given the size of this billion dollar industry and our customer base, we believe the microarray tools business offers a large revenue and earnings opportunity.

We continue to make substantial investments in new technology because our microarray platform drives our diagnostics business. Over the past decade, Arrayit scientists have developed diagnostic tests for serious treatable and curable illnesses included ovarian cancer and Parkinson's disease. Our OvaDx® Pre-Symptomatic Ovarian Cancer Test enables the detection of ovarian cancer years 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 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 one-percent of the ovarian cancer monitoring market would generate \$97.5 million in annual revenues for Arrayit and Avant Diagnostics through the manufacture and sale of 150,000 OvaDx® tests at \$650 per test. Our Sunnyvale laboratories have more than adequate capacity to process 150,000 OvaDx® tests per year upon FDA approval.

In addition to OvaDx®, we have a pipeline of high-value diagnostic tests based on genomics, messenger RNA 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 cancers, neurodegenerative diseases such as ALS, immunological disorders and many others.

Using the Internet as an analogy, Arrayit deploys a powerful search engine for the human body that we believe can deliver preventative and personalized healthcare information. Having said that, based on our current capitalization, our company is intensely focused on growing the Life Sciences Tools business and obtaining FDA approval of OvaDx® in a close working relationship with Avant Diagnostics.

I will now turn the conference over to Arrayit Chairman and Chief Executive Officer, Rene Schena, to present the company's third quarter 2014 financial results. Rene.

Rene Schena – Chairman, Chief Executive Officer

Thanks, Mark. For the third quarter ended September 30, 2014, Arrayit reported \$0.5 million in total revenues compared to \$0.8 million in the third quarter of 2013, a 37.5% decrease in revenues in year-over-year quarters. The company achieved a record pipeline of customer purchase orders totaling \$0.7 million, which required working capital allocation for order fulfillment.

For the nine months ended September 30, 2014, Arrayit recorded \$3.5 million in total revenues compared to \$2.4 million in total revenues for the nine months ended September 30, 2013, a 46% increase in total revenues and record revenue for the company over a nine-month period.

The mid-double digit revenue growth in the first quarter through the third quarter of 2014 compared to the first quarter through third quarter of 2013 was facilitated by working capital from a \$1.8 million equity capital raise that closed at the end of last year and participation in several professional trade shows. Working capital allowed us to increase inventory to meet increasing customer demand for our life science products, and to complete work for Avant Diagnostics pursuant to the submission of OvaDx® to the FDA. Our record nine-month financial results highlight the favorable impact of working capital on our business, the scalability of our Life Sciences Tools segment, and our accretive relationship with Avant Diagnostics.

For the third quarter of 2014, Arrayit recorded \$0.2 million in gross margins compared to \$0.3 million in gross margins for the third quarter of 2013, a 33% decrease in gross margins in the third quarter of this

year compared to the same quarter a year ago. The decrease in gross margin was a direct result of lower revenues caused by record customer purchase orders that required greater working capital allocation.

For the first nine months of 2014, Arrayit reported \$2.3 million in gross margin compared to \$1.0 million dollars of gross margin for the first nine months of 2013, a 130% increase in gross margin and record gross margin for Arrayit over the three quarters. We attribute the triple digit increase and record gross margin to record total revenues and a favorable mix of microarray services.

For the third quarter of 2014, Arrayit reported \$0.4 million in negative net income compared to near neutral net income for the third quarter of 2013. The increase in negative net income was due to expenses associated with the OvaDx® FDA submission, reduced total revenues owing to a record PO pipeline, and a \$1.6 million earnings set aside, which we hope to report as earnings in the fourth quarter of this year.

Turning to the balance sheet, Arrayit reported a stockholders' deficit of \$6.1 million in the third quarter of 2014 compared to \$7.2 million of stockholders' deficit in the third quarter of 2013, a \$1.1 million balance sheet improvement in year-over-year quarters. The company attributes this balance sheet improvement to increasing total assets and reduced liabilities to related parties.

Combining the \$1.1 million increase in revenues, the \$1.3 million increase in gross margin, and the \$1.1 million balance sheet improvement over the nine months ended September 30, 2014 compared to the same period in 2013, Arrayit reported a \$3.5 million combined increase in these key financial benchmarks in the first three quarters of 2014 compared to the first three quarters of 2013. This steady financial progress illustrates the commitment of Arrayit management to building an increasingly valuable and efficient company.

The company had a number of key additional accomplishments during the third quarter of 2014. We closed our first round of institutional financing in the form of an 8% convertible redeemable note. We installed our food safety testing platform and trained scientists at a major government agency. We installed a NanoPrint enterprise level microarray printer at a top research laboratory in Tel Aviv University in Israel. We completed an across-the-board price increase on Arrayit products and services to cover the increasing cost of goods. We added a new distributor in Nigeria, Africa's largest economy as an important emerging growth market. We added a new distributor in India, the world's second most populous country and the largest emerging growth market. We provided documentation for a \$0.6 million platform installation in Eastern Europe.

We recorded \$0.18 million in chemical sales to top government agencies. We recorded \$48 million in all-time sales in our Arrayit online store. We inked a distribution deal with VigeneTech. We received \$0.6 million in microarray instruments purchase orders.

And most importantly, we announced a blockbuster deal with our subsidiary, Avant Diagnostics, to manufacture, market and sell OvaDx® upon 510(k) approval.

In summary, the third quarter of 2014 was an exceptional 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 logistical accomplishments since the completion of the third quarter.

Mark.

Mark Schena - President, Chief Science Officer

Thanks, Rene.

Since the successful completion of the third quarter of 2014, Arrayit has made important progress in both our Life Science Tools and Diagnostic segments. Indeed, the first half of the fourth quarter of 2014 has been a particularly dynamic period of the company.

We reported a record customer purchase order pipeline of \$1.2 million on surging sales of the company's microarray instruments, consumables and services. Sales in our online Arrayit store exceeded \$49 million all-time on more than 167,000 products sold since 2001. We submitted final documentation for a government tender on a \$0.6 million diagnostics platform.

We released a new microarray platform for comparative genomic hybridization, or CGH, to serve the research and IBF markets. We partnered with CDI Laboratories to provide the market's most comprehensive human proteome microarray.

We reported increasing RFQs from the Middle East and Japan, suggesting future sales growth in these important markets. We received official compliance certification from the new OTCQB exchange for a period of one year. We hosted a Microsoft-sponsored film crew for a microarray tutorial and photo session to advance B2B in their \$8.5 billion Skype division. We raised an additional \$0.4 million in institutional financing in the form of a series of small convertible redeemable notes.

And most importantly, since the third quarter of 2014, we continued to strengthen and broaden our relationship with Avant Diagnostics, our OvaDx® sales and marketing subsidiary. First, Arrayit and Avant were featured in a Kalorama Research Report on proteomics that listed OvaDx® as proteomic pioneer that will contribute to determining the future of testing and drug development. Second, we provided an updated PowerPoint presentation and additional OvaDx® pre-clinical data to Avant to facilitate pre-IDE funding. And finally, Avant Diagnostics reiterated its plan to go public at ticker symbol OREO, a development that we believe will increase OvaDx® funding and increase ARYC shareholder value.

Turning now to our financial projections for the fourth quarter of 2014, we expect to report total revenues in the range of \$0.5 million to \$3 million. The wider the normal range is based on several large pending orders that may or may not close and ship by the end of the fourth quarter.

In terms of net income, we expect Q4 2014 to be approximately cash neutral to slightly profitable for the company. We wish to thank our long-time and new employees for their creativity and hard work and decision, and our shareholders for their 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 also anticipate meeting many of you in person at our first shareholders' dinner to be held after the busy holiday season. We will now open the floor to questions. Operator, we are ready to answer the first question.

Operator

Thank you. (Operator instructions.) One moment, please, while we poll for questions. We have no questions at this time. Would you like to make some additional comments?

Mark Schena - President, Chief Science Officer

Thank you, again, for calling in and we look forward to keeping everyone updated on important company developments.