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Transcript of Arrayit Corporation Fiscal Year 2014 Earnings Conference Call April 22, 2015

Participants

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

Analysts

Bruce Tenuta – Private Investor

Presentation

Operator

Greetings, and welcome to the Arrayit Corporation Fiscal Year 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. (Operator instructions.) As a reminder, this conference is being recorded.

On the phone, we have Rene Schena, Chairman and Chief Executive Officer at 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 fiscal year 2014 financial results, including revenues, earnings, and other financial details, as well as some key developments in Q4. Dr. Schena will then provide some operational and logistical updates and the company's guidance for the fiscal year 2015. 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 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 are due to review Arrayit's Form 10-K and other SEC filings for a discussion of the principle 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 not turn the conference over to Dr. Schena. Please, go ahead, sir.

Dr. Mark Schena – President and Chief Science Officer

Thank you. It is a pleasure to welcome all of you to Arrayit Corporation's Fiscal Year 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.

Last week, we announced our fiscal year 2014 financial results. As you can see from the FY 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 evident in our financial statements for the 12

months ended December 31, 2014, which report record total revenues and record gross margins among other achievements. We also continue to make great strides in building a network of strategic alliances, including our spinoff partnership with Avant Diagnostics, for sustained growth over the long term.

This is our sixth 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 longtime 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 function in concert: our Life Sciences Tools business and our Molecular Diagnostics business. Our Tools and Diagnostic segments 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 comprises most of our revenues, Arrayit invents, develops, manufactures, markets, sells, and supports platforms, instruments, tool 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, amplified DNAs, proteins, antibodies, peptides, and other molecules. Our microarrays function like biological 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; scientific accomplishments that were mere science fiction two decades ago.

The Arrayit platform uses automation robots to rapidly process up to 1 million patient samples per year in our Sunnyvale laboratories. Miniaturization and automation confer competitive advantages to Arrayit, Avant, 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 public 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 value for our customers and ensures what we believe will be important drivers of diagnostic test sales. These attributes also allow us to deliver myriad practical applications, such as agricultural testing for food safety critical to growers and consumers, in a rapid and cost effective manner.

Arrayit technology is installed in more than 4,200 laboratories worldwide, building on an important and diverse customer base of pharmaceutical, biotechnology, and diagnostics companies and hospitals, government centers, and university labs 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, and UCSC, among many others, illustrate the breadth and depth of our customer base.

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, 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 human illnesses, including ovarian cancer and Parkinson's disease. Arrayit and Avant's 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 1% of the ovarian cancer monitoring market would generate \$97.5 million in annual revenues for Arrayit and Avant 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 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 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 fiscal year 2014 financial results. Rene.

Rene Schena – Chairman and Chief Executive Officer

Thank you, Mark. For the full fiscal year ended December 31, 2014, Arrayit reported \$4.37 million in total revenues, compared to \$2.9 million for the fiscal year of 2013, a 50.8% increase in year-over-year revenues and record revenues for the company. The mid-double digit revenue increase was facilitated by a \$2 million private placement at the end of 2013, and a \$600,000 convertible debt financing in the third and fourth quarters of 2014.

For the fiscal year ended December 31, 2014, Arrayit recorded \$2.58 million in gross margin compared to \$1.12 million in gross margin for the fiscal year ended December 31, 2013, a 130% increase in year-over-year gross margin, and record gross margin for the company. Record, triple-digit gross margin increase in 2014 was achieved through record revenues and through OvaDx® services work performed for our spin-off, Avant Diagnostics. Record gross margins for the fiscal year 2014 highlight the favorable impact of working capital on our company, the potential of our Life Sciences and Diagnostic segments, and our accretive relationship with Avant.

For the fiscal year 2014, Arrayit recorded \$3.3 million in negative net income, compared to \$0.38 million in negative net income for the fiscal year 2013. The increase in negative net income was primarily due to one-time expenses associated with warrant issuance and repricing of warrants.

Turning to the balance sheet, Arrayit reported a total stockholders' deficit of \$7.4 million for fiscal year 2014, compared to \$7.1 million in fiscal year 2013. The company attributes the slight increase in stockholders' deficit to an increase in derivative liability and notes payable.

Combining the \$1.47 million increase in revenue and the \$1.46 million increase in gross margin during the fiscal year 2014 compared to fiscal year 2013, Arrayit reported a \$2.9 million combined increase in these key financial benchmarks. This steady financial progress illustrates the commitment of Arrayit management to building an increasingly valuable and efficient public company.

Arrayit had a number of key additional accomplishments during the fourth quarter of 2014. We closed \$500,000 in convertible note financing from a series of institutional investors. We announced a partnership with CDI Laboratories to commercialize HuProt™ 19K Whole Human Proteome Microarrays. We sold a \$29,000 SpotBot® Extreme to a leading life sciences distributor in Europe. We installed a \$166,000 NanoPrint™ LM60 Protein Microarray Platform at a top research university in Canada. We sold a \$34,000 microarray instruments and reagents package to a leading life sciences supplier in Asia. We sold \$107,000 NanoPrint™ LM60 instrument to a leading life sciences company in Latin America. Arrayit Internet store sales topped \$49 million all-time on 167,214 products sold. We sold a \$46,000 InnoScan® Microarray Scanner to a major life sciences conglomerate in the United States. We sold a \$95,000 TissueMax™ Microarray to a leading hospital on the East Coast of the United States.

We hosted a Microsoft sponsored camera crew to showcase Arrayit's technology for their \$8.5 billion Skype division. We recorded record purchase orders and back orders in excess of \$1.2 million. We received official compliance and a one-year membership on the upgraded OTCQB exchange. Arrayit was featured as a top microarray technology company by the industry's leading magazine, *Genetics Engineering News*. We were featured in an exclusive food safety testing interview by *Food Quality News*. We signed a Cooperative Research and Development Agreement (CRADA) with the United States Department of Agriculture entitled "Rapid and Cost Effective Detection Technologies for Noroviruses and Other Foodborne Pathogens," to commercialize the USDA food safety test.

OvaDx® was featured as a proteomic pioneer in a Kalorama report on proteomics tests. Avant Diagnostics, our OvaDx® sales and marketing partner, identified a public vehicle and became publicly traded through a strategic business combination.

In summary, the fourth quarter and fiscal year 2014 were exceptionally busy and productive 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 2014 fiscal year. Mark.

Dr. Mark Schena – President and Chief Science Officer

Thanks, Rene. Since the successful completion of the full fiscal year 2014, Arrayit has made important progress in both our Life Sciences Tools and Diagnostic segments. Indeed, the first quarter of 2015 has been a particularly dynamic period for the company. We completed a large agricultural genotyping project for an important account in Eastern Europe. We launched our new HighSeq™ DNA Labeling Kits to facilitate human genome analysis in the torrid \$11.1 billion global genomics market. We reported record requests for quotes (RFQs) totalling more than \$3 million on strong demand for our Life Sciences instruments and consumables. We sold a \$93,000 glass consumables package to a \$60 billion life sciences conglomerate. We installed a SpotBot® Extreme Microarray Printer at the world's most valuable life sciences company.

We completed our 2015-2016 Digital Products and Services Catalog and reported more than 25,000 catalog downloads in the first quarter. We visited a major molecular diagnostics company in Taiwan to discuss a \$1 billion testing opportunity in Asia. We recorded a \$58,000 microarray services sale to a leading research center in southeastern United States. We shipped a new version of our food safety test to

the USDA and reported excellent results on 99,840 pathogens tested. We made steps to establish a food safety testing site at California Polytechnic State University (CalPoly) in San Luis Obispo, California. We sold a \$29,000 SpotWare® Microarray Scanner package to a leading molecular diagnostics company in the UK and recorded \$1 million in all-time SpotWare® sales.

We shipped a \$50,000 Arrayit InnoScan® 710 Microarray Scanner to a life sciences conglomerate in southern California. We shipped a \$31,000 SpotBot® Personal Microarray Platform to an advanced technology company in the Pacific Northwest. We shipped a \$45,000 SpotBot® Extreme “HotBot” to a leading research center in southeastern United States. We sold a \$25,000 SpotBot® Personal Microarray Platform to a leading research institution in Alabama, as all-time SpotBot sales exceeded \$8 million. We shipped a \$95,000 TissueMax® Tissue Microarrayer to a major account in the northeastern United States.

We reported a life sciences consumable sale to the United States Air Force. We hosted a site visit with life sciences leader Oxford Gene Technology (OGT). We captured Arrayit microarray test data using an Apple iPhone 5S, demonstrating proof of principle data for our exciting Excalibur project. We submitted a \$5 million strategic proposal to fund the 510(k) submission of our Parkinson’s PDx™ diagnostic test. Arrayit Store all-time sales exceeded \$50 million. We sold HuProt™ Whole Proteome Microarrays to a leading research hospital in northern California. We presented Arrayit at the National Investment Banking Association (NIBA) conference in Manhattan and discussed a \$10 million investment with several top institutional investors.

Our OvaDx® spin-off, Avant Diagnostics, is now publicly trading under the ticker symbol AVDX, a development that we believe will increase OvaDx® funding and increase ARYC shareholder value. We received an equity distribution from Avant Diagnostics for 39,350,000 shares of AVDX with a present market value of approximately \$20 million.

We reported a technical advance that may increase the sensitivity of OvaDx®. Arrayit and Avant completed DOCRO payments for 205 clinical serum specimens required for the OvaDx® pre-IDE submission. We submitted documentation to DOCRO to assist in obtaining permission from the Institutional Review Board for the OvaDx® pre-IDE submission. Finally, our spin-off, Avant Diagnostics, will be presenting at the 2015 Marcum Microcap Conference on May 27th and 28th in New York City.

Turning now to our financial projections for fiscal year 2015, we expect to report total revenues in the range of \$4.5 million to \$8.5 million. In terms of net income, we expect to report earnings in the range of \$0.5 million to \$2.5 million or approximately \$0.01 to \$0.05 per share.

We wish to thank our long time and new employees for their creativity, hard work, and dedication, 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 will now open the floor to questions. Operator, we are ready to answer the first question.

Operator

Thank you. At this time, we’ll be conducting a question and answer session. (Operator instructions.) One moment, please, while we hold for questions.

Our first question comes from the line of Bruce Tenuta, who is a private investor.

Bruce Tenuta – Private Investor

Hi, Rene and Mark. As you know, I've been on several of these conference calls in the past. I believe in your products, okay, and that's why I'm here, today, but when we talk about being on the cusp of growth and I see the total revenues that we've had this year, but I see the net income from continuing operations as negative tenfold from year to year, it doesn't bode well for the stock investor. What's our plan for next year to reduce our operating income loss? How are you guys going to work on reducing your operating income loss for next year?

Rene Schena – Chairman and Chief Executive Officer

We actually have an operating income loss from the business operations of the company, and the reason that we showed a loss last year was because of Black-Scholes. So it's purely an accounting thing to stay in GAAP and SEC compliance. But the actual operations of the company are profitable.

Bruce Tenuta – Private Investor

So you're telling me that next year we won't see this \$3.6 million loss? You've still got to carry that over—

Rene Schena – Chairman and Chief Executive Officer

If the people who own the warrants don't exercise them, it will still have Black-Scholes calculation. But if they do exercise their warrants, then it will go away.

Dr. Mark Schena – President and Chief Science Officer

Right, but Bruce, further to Rene's comments, in terms of the guidance, we're projecting, and obviously these things are projections, but we're projecting between a \$0.5 million and \$2.5 million of earnings for 2015. So I think you alluded to the fact that you are optimistic about the top line and concerned about the bottom line from last year, I think the bottom line will improve significantly in 2015.

Bruce Tenuta – Private Investor

Okay.

Operator

It appears we have no further questions. I will turn the call back over to our speakers for closing comments.

Dr. Mark Schena – President and Chief Science Officer

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