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OSUR - Q1 2012 OraSure Technologies, Inc. Earnings Conference Call

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PRESENTATION

Operator

Good day, everyone, and welcome to the OraSure Technologies 2012 First Quarter Financial Results Conference Call and simultaneous webcast. As a reminder, today's conference is being recorded.

All lines have been placed on mute to prevent any background noise. After the speakers' remarks there will be a question and answer period. If you would like to ask a question during this time, simply press star then the number one on your telephone keypad. If you would like to withdraw your question, please press the pound key. To allow time for as many questions as possible, questioners are asked to limit themselves to only a single question with no more than one follow-up question related to the same topic. Once the follow-up is completed a questioner can rejoin the queue for further questions.

For opening remarks and introductions, I will now turn the call over to Judy Clarke at OraSure Technologies. Please go ahead.

Judy Clarke - *OraSure Technologies, Inc. - IR*

Thank you. Good afternoon, everyone, and thank you for joining us today. I would like to begin by telling you that OraSure Technologies issued a press release at approximately 4PM Eastern Time today regarding our 2012 first quarter financial results and certain other matters. The press release is available to you on our website at www.orasure.com or by calling 610 882-1820. If you go to our website the press release can be found by opening the Investor Relations page and clicking on the link for News Releases.

This call is also available real time on our website and will be archived there for seven days. Alternatively, you can listen to an archive of this call until midnight May 9th, 2012 by calling 855 859-2056 for domestic or 404 537-3406 for international. The access code is 71939275.

With us today are Doug Michels, President and Chief Executive Officer, and Mark Kuna, Senior Vice President, Finance, and Controller. Doug and Mark will begin with opening statements, which will be followed with a question and answer session.

Before I turn the call over to Doug, I must also remind you that this call may contain certain forward-looking statements including statement with respect to revenues, expenses, profitability, earnings or loss per share and other financial performance, product development performance, shipments and markets and regulatory filings and approvals.

Actual results could be significantly different. Factors that could affect results are discussed more fully in the SEC filings of OraSure Technologies, including its registration statement, its annual report on form 10-K for the year ended December 31st, 2011, its quarterly reports on form 10-Q and its other SEC filings. Although forward-looking statements help to provide complete information about future prospects, listeners should keep in mind that forward-looking statements may not be reliable. The Company undertakes no obligation to update any forward-looking statements to reflect events or circumstances after this call.

With that, I would like to turn the call over to Doug Michels.

Doug Michels - *OraSure Technologies, Inc. - President, CEO*

Thank you, Judy, and good afternoon, everyone. Thank you for joining us on our call today. Before we begin I wanted to let you know that Ron Spair, our Chief Operating Officer and Chief Financial Officer, who normally joins me on these calls, has had to attend to an urgent and unexpected personal matter involving a family member and will not be able to participate today. Instead, Mark Kuna, our Senior Vice President of Finance and Controller, will fill in for Ron and Mark will present our financial results and then he'll assist me in responding to your questions at the end of the call.

With the first quarter under our belt now, 2012 is off to a good start. We are in the final stages of the FDA review process for our OraQuick HIV over-the-counter test and we're gaining traction with sales of our OraQuick HCV test.

Consolidated revenues for the first quarter, which included revenue from our recently acquired subsidiary, DNA Genotek, were up 20% compared to the first quarter of 2011. I am pleased to report that our consolidated results came in at the top of our guidance range for revenues and we exceeded our first quarter guidance on the bottom line.

Mark will start with a detailed review of our first quarter financial performance and then I will follow with some additional comments on our business. We will close by the call today by taking your questions.

And now, I will turn the call over to Mark.

Mark Kuna - *OraSure Technologies, Inc. - SVP, Finance, Controller*

Thanks, Doug, and good afternoon, everyone. Our first quarter 2012 revenues were $20.9 million compared to $17.4 million reported in 2011. Revenues for the current quarter included $3.3 million from our molecular diagnostic collections subsidiary acquired in August 2011. Our product revenues increased 16% as a result of the molecular collection system sales and higher sales of our cryosurgical systems products. These increases were partially offset by lower sales of our infectious disease, substance abuse and insurance risk assessment products. Our first quarter 2012 licensing and product development revenues included a $1 million milestone payment received under our HCV collaboration with Merck.

Our infectious disease testing revenues were $9.8 million for the first quarter of 2012 compared to $10 million in the first quarter of 2011. The overall 2% decrease was primarily a result of lower OraQuick HIV sales in the domestic and international markets, partially offset by higher OraQuick HCV sales.

Domestic HIV revenues were down $719,000 year-over-year, or 8%, as a result of ordering patterns by one of our large public health customers who placed a large order during the first quarter of 2011, which was not repeated in the first quarter of 2012.

HCV revenues were $818,000 for the quarter and sequentially up from Q4 of 2011, largely as a result of receiving a CLIA waiver in November of 2011, which increased the number of customers to which we are able to sell the product. It is important to note that during the first quarter we saw a substantial increase in the number of customers purchasing our HCV product, which contrasts with the large bulk purchases by a small number of customers experienced in the fourth quarter of 2011.

In substance abuse testing, revenues decreased from $3.1 million in the first quarter of 2011 to $2.1 million in the first quarter of 2012, primarily as a result of lower Intercept sales. This decrease was the result of a reduction in purchases by our largest domestic laboratory distributor who began selling its own competitive oral fluid drug testing system at the end of 2011, as well as lower international sales due to a reduction in our UK distributor's target inventory levels.

First quarter 2012 cryosurgical revenues increased 28% compared to the first quarter of 2011, primarily as a result of higher OTC sales.

OTC cryosurgical sales during the quarter increased $791,000, or 77% when compared to 2011, largely as a result of higher sales to both our Latin American OTC distributor, Genomma, and our European distribution, Reckitt Benckiser.

Genomma did not purchase from us during the first quarter of 2011 as a result of advertising restraints imposed by the Mexican government as well as changes required by the Brazilian government to our package inserts. Both of these issues were resolved by the end of 2011. The increased sales to Reckitt Benckiser were the result of the timing of orders placed by them.

Professional cryosurgical sales in the U.S. increased 2% and international professional sales decreased 15% from Q1 2011. The decrease in international professional sales was primarily due to lower sales in Europe, partially offset by higher sales in Australia and Africa.

Our insurance risk assessment sales decreased from $1.3 million in 2011 to $1.1 million in 2012 as a result of the loss of one of our larger customers, who changed its underwriting methodologies in 2011. As mentioned earlier, our molecular collection systems revenues were $3.3 million for Q1 and primarily represent sales of the Oragene product line. These first quarter revenues include a large initial order from a prominent new customer.

Turning to gross margin, our overall margin for Q1 of 2012 was 66% compared to 65% reported for the first quarter of 2011. Gross margin in the current quarter benefited from the $1 million HCV milestone payment. This is partially offset by increased product support costs and a decline in the absorption of labor costs when compared to the first quarter of last year.

Our total operating expenses for first quarter increased $3.6 million, or 26%, compared to the first quarter of 2011. The first quarter of 2012 expenses include $3.1 million from our molecular diagnostic collection subsidiary.

Research and development expenses decreased from $4.4 million to $3.4 million for the quarter due to lower clinical trial costs associated with our OraQuick HIV OTC program.

Sales and marketing expenses were $7.9 million for the first quarter, an increase of $2.9 million over 2011, due to the inclusion of $1.6 million of DNA Genotek expenses and higher spending as we prepare for the commercialization of our HIV OTC product. General and administrative expenses increased by approximately $1.6 million as a result of $773,000 of DNA Genotek expenses and higher consulting and staffing costs.

From a bottom line perspective, we reported a net loss of $3.3 million, or $0.07 per share, compared to a net loss of $2.6 million, or $0.06 per share, for the same period of 2011. In the first quarter of 2012, we recorded an income tax benefit of $521,000 associated with our operations in Canada.

Turning briefly to our balance sheet and cash flow, our cash balance at March 31st, 2012 was $22.8 million compared to $23.9 million on hand at December 31st, 2011. Cash used in operating activities for the first quarter of 2012 was $1.4 million, an improvement over the $2.1 million used during the first quarter of 2011.

Turning to guidance for the second quarter of 2012, we are projecting a consolidated revenue of approximately $22 million to $22.5 million and a consolidated net loss per share of approximately $0.09 to $0.10 for the quarter.

And now back to Doug.

Doug Michels - *OraSure Technologies, Inc. - President, CEO*

Okay thanks a lot, Mark. A major priority has been the pursuit of FDA approval of our OraQuick HIV over-the-counter test. As you will recall, we submitted the third and final module to our pre-market approval, or a PMA application to the FDA at the end of 2011. Our PMA submission is under active review by the Agency and we are preparing for a Blood Product Advisory Committee, or BPAC, review of our clinical data at a public meeting to be held on May 15th of this year.

We're very pleased to be on the schedule and we look forward to presenting our data to the Committed. Under the BPAC's rules, our presentation for the meeting, as well as presentations by the FDA and others, will be made public about two days before the meeting. Our BPAC presentation will include a summary of our clinical study results, including the most recent phase 3 unobserved user study, a risk-benefit analysis of the product, and our rationale for why an HIV over-the-counter test should be approved by the FDA.

As we have discussed previously, the CDC estimates that there are about 1.2 million people in the United States infected with HIV and approximately 240,000 of which are unaware of their status. According the CDC, individuals who do not know their status are unknowingly responsible for up to 70% of the approximate 50,000 new HIV infections that occur each year here in the U.S. Unfortunately, this is occurring despite the wide spread availability of both laboratory based and rapid point of care HIV testing options.

We believe these data clearly demonstrate that additional HIV testing options are urgently needed, and this is a major reason why we've invested so much time and resource into our over-the-counter clinical program. We believe that our rapid HIV in-home test, if approved by the FDA, would be a significant step forward for HIV testing and a powerful addition to the HIV testing options currently available.

With the BPAC meeting close at hand, we are more focused than ever on planning for commercial launch. We have been working closely with our advertising and public relations firms to develop creative materials and to finalize our marketing plans. To the extent permitted under applicable FDA regulations, we are communicating with the major retail outlets through which we intend to sell the product, and we are completing preliminary work to qualify OraSure as an approved vendor for these outlets.

We are also finalizing the logistics in order-to-cash procedures for this product. Our call center operator has begun initial staffing and personnel training so that this key consumer support service is in place when we can launch the product.

Finally, we've added some new personnel in house who are specifically assigned to the HIV over-the-counter initiative in order to support sales, marketing and call center activities. In short, we're doing all that we can to ensure that we support our over-the-counter product and the consumers that use it in a comprehensive and professional manner. Our extensive preparation should enable us to launch this product as quickly as possible if and when we receive FDA approval.

With respect to our OraQuick HCV test, our focus in Q1 was on expanding sales. As you know, late in 2011 we received a CLIA waiver for this product. As a result, our test can now be more widely used in a broad variety of settings, including health clinics, community based organizations and physician offices.

During the first quarter, we started to see some benefits from the CLIA waiver as well as a more focused sales and market effort. As Mark explained, domestic OraQuick HCV sales in Q1 increased over the fourth quarter of last year. During 2011 when most of our sales occurred without the benefit of the CLIA waiver, we sold product to 21 state and local health departments and during the first quarter of this year alone we've sold product to 14 health departments, nine of which are first-time customers. We expect the number of new HCV customers and the level of sales during the rest of the year to grow substantially.

We are particularly focusing our direct sales efforts on public health departments that already have the infrastructure in place to conduct rapid testing with our OraQuick HIV product. We have now also finalized contracts with three major med-surg distributors that will focus largely on physician offices and federally-funded community health centers. These distributors include McKesson, Henry Schein and PSS. Sales training activities and launch activities have either occurred or are well underway with each of these organizations.

With respect to our Merck collaboration, now that we have received a CLIA waiver, our detailing activities in the U.S. physician office market have begun. During the first quarter over 600 calls were made to primary care physicians and over 1,000 calls to gastroenterologists were conducted. The objective of those calls was to build awareness and begin the sales process.

The primary care physician is the individual most likely to conduct HCV testing. And out of the 600 primary care physician contacts, about 70% expressed an interest to move forward in the sales process with 13% expressing a strong interest to begin testing after the initial call. We expect these activities to also increase as the year progresses.

As you may know, May is National Hepatitis Awareness Month, and this May 19th will be the first ever National Hepatitis Testing Day. We believe these and other activities will continue to focus attention on hepatitis as a public health issue and the need for additional testing and treatment.

And turning now to our newest business line, DNA Genotek exceeded our expectations for the first quarter. As previously explained, one of DNA Genotek's strengths is strong customer loyalty and repeat business. Of DNA Genotek's top 25 customers for the quarter, 23 were repeat customers and they accounted for over 80% of revenues for that period. The company also acquired several new customers, including one significant customer that made a substantial initial purchase during Q1 and is expected to join this list of repeat customers in the future.

During the first quarter, DNA Genotek also announced that Complete Genomics, an outsourced whole genome sequencing company, had begun accepting DNA samples collected with the Oragene collection kit for full sequencing. This is a significant development, as genome sequencing historically has been performed primarily with blood samples.

And one final area I would like to address is our upcoming Annual Meeting of Stockholders, which is scheduled for May 15th. As you may have noted, this is the same date on which we have been invited to present our OraQuick HIV over-the-counter test to the Blood Product Advisory Committee. Because we only confirmed recently that we were schedule for the May 15th BPAC meeting, we were unable to change the Annual Meeting to accommodate a different schedule.

And since Ron Spair and I will be at the BPAC meeting, we will not be able to attend our Annual Meeting, as we have in past years. Doug Watson, the Chairman of our Board, will preside and all other members of the Board will participate either in person or by phone. Because I will not be attending, we will not make the usual management presentation. However, Doug Watson will briefly comment on the business and he will answer questions for those present at the meeting with assistance as needed from the other members of the management team in attendance.

So, in conclusion, in summary, we delivered solid financial results for the first quarter and continued to advance our primary clinical program and business objectives. This is an exciting time of great opportunity for OraSure, and we look forward to continued success in both 2012 and beyond.

And so with that, I will now open the floor to your questions. Operator, please proceed.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). And please remember to limit your questions to one question and one follow-up question. And we'll take our first from Jeff Frelick from Canaccord.

Jeff Frelick - *Canaccord Genuity - Analyst*

Great thank you. Doug, could you maybe characterize the customers purchasing eh HCV tests? I know you showed the difference on the public health side. Were there some physicians in that ordering pattern as well?

Doug Michels - *OraSure Technologies, Inc. - President, CEO*

Yes absolutely and, like I mentioned, we've seen a very encouraging response from the detailing efforts from Merck and in previous calls I said I don't really believe we're going to have a good handle on this probably until sometime in the second quarter, as we have the opportunity to follow up on the initial detail, which we're doing of course right now. But we certainly saw almost a 50% increase in the number of domestic customers purchasing the HCV product from first quarter 2012 versus fourth quarter 2011 and we anticipate that's just going to continue as we progress throughout the year.

Jeff Frelick - *Canaccord Genuity - Analyst*

Okay and then just the follow-up, maybe for Mark, does the guidance assume that infectious disease a little bit more normalized? I guess HIV patterns and increasing in HCV sales plays out in 2Q.

Mark Kuna - *OraSure Technologies, Inc. - SVP, Finance, Controller*

That's correct. That is correct. There is a more normalized pattern for HIV and there is an increase in HCV sales included in Q2.

Jeff Frelick - *Canaccord Genuity - Analyst*

Okay great thanks. I'll jump back in the queue.

Operator

Charles Duncan, JMP Securities.

Roy - *JMP Securities - Analyst*

Hi, guys, this is Roy for Charles. Thanks for taking the call, sorry to hear about Ron. Hope all is well.

Doug Michels - *OraSure Technologies, Inc. - President, CEO*

Yes well, we'll continue to work through that. Thank you.

Roy - *JMP Securities - Analyst*

So just a couple quick questions; on the HCV, have you guys heard anything about an update on the potential for new screening guidelines from the CDC?

Doug Michels - *OraSure Technologies, Inc. - President, CEO*

We don't have anything specific in terms of when the CDC expects to announce those but all indications are that is still on track. There's no indication that that's not going to come out. I think it's just a matter of timing by the CDC. There continues to be tremendous support for the guidelines to be released.

The Chronic Liver Disease Foundation I think you're probably aware in February announced, put out a statement in support of birth cohort screening for hepatitis C. There were two I think very important articles published in the February 2012 Annals of Internal Medicine that talked about -- one talked about the cost effectiveness of birth cohort screening for hepatitis C in primary care settings.

And there was another article in the same journal that highlighted the increased mortality from viral hepatitis in the United States, particularly HCV surpassing now HIV in terms of deaths per 100,000 people in 2007. And so I think there's a growing recognition and acknowledgement that age based birth cohort screening. One-timing screening can have a significant impact on public health as well as on the growing economic burden that is hepatitis C so I fully expect we're going to see these revised guidelines, hopefully some time within the next several months, certainly this year.

Roy - *JMP Securities - Analyst*

Okay thank you and a quick not related follow-up but on the BPAC can you tell us if you've received the briefing documents and potentially what you see as a tone, any positives or negatives and if you have any concerns about the Panel?

Doug Michels - *OraSure Technologies, Inc. - President, CEO*

Yes so we anticipate that the FDA is going to release all of the documents, both our presentations, which have been sent to them, as well as the information that they anticipate presenting as well as presentations that might be presented from other invited guests. They indicated that those documents will be made public no less than 48 hours in advance of the meeting and obviously we look forward to seeing everything that's intended to be presented. I believe that, as part of that, we will also see the issue summary from the FDA that will highlight what kinds of questions they intend to pose to the Advisory Committee and once all that is available, obviously we'll have an opportunity to comment on that.

Roy - *JMP Securities - Analyst*

Okay thank you, looking forward to the Panel.

Operator

Bill Bonello, RBC Capital Markets.

Bill Bonello - *RBC Capital Markets - Analyst*

So I just have a question on the HIV trends in the quarter, just wondering if you can talk a bit more about the large order that was not repeated. Is that just a timing issue or is that a customer that you lost to a competitive situation?

Doug Michels - *OraSure Technologies, Inc. - President, CEO*

No it's purely a timing issue and we see these now and again. We've got several of these large public health jurisdictions that will order anywhere between $0.5 million to a $1 million worth of product at one time and that's indeed what happened from Q1 of 2011 to Q2 2012, purely a timing issue.

Bill Bonello - *RBC Capital Markets - Analyst*

Okay and then on a loosely related follow-up, on the substance abuse side you talked about losing volume there to one of your large customers that has their own tests. Are you seeing any beyond that lab not using your test? Are you seeing any further shake out in the competitive landscape in terms of any other lost customers or price pressure or anything like that?

Doug Michels - *OraSure Technologies, Inc. - President, CEO*

No not of any significance and I should mention that the biggest impact to the change in the quarter was the impact from the international business and that was an inventory adjustment with our UK distributor there and we expect that to normalize through the back half of the year as well, so that's was a one-time event.

Bill Bonello - *RBC Capital Markets - Analyst*

Great, very helpful; I'll hop in the queue.

Operator

Caroline Corner, MLV.

Caroline Corner - *Monicoll, Lewis, & Vlak - Analyst*

Hi, Doug. Thanks for all of the detail today.

Doug Michels - *OraSure Technologies, Inc. - President, CEO*

No problem, Caroline.

Caroline Corner - *Monicoll, Lewis, & Vlak - Analyst*

So just real quick on the HIV OTC, you've talked before about perhaps doing web based sales. Are you still planning on those, doing those directly?

Doug Michels - *OraSure Technologies, Inc. - President, CEO*

We are definitely and our website is in the final stages of development and validation obviously. We're also going to be selling the product through on line through retailers websites and that would be your -- what you would expect would be the Walgreens.com, cvs.com, walmart.com and the like. So yes the -- our objective is to give the consumer as many options as we possibly can all supported consistently through our consumer support center, as well as an expanded consumer support network that we'll be developing a regional basis with our public health jurisdictions and other healthcare providers.

Caroline Corner - *Monicoll, Lewis, & Vlak - Analyst*

Okay thank you and then my other question, we were pleased to see your collaboration with Complete Genomics on the DNA Genotek side. Can you describe to us a little bit how that relationship works? Does Complete Genomics order the sampling kits from you directly in bulk or is it as they have orders come in? Can you just walk us through that process a little bit?

Doug Michels - *OraSure Technologies, Inc. - President, CEO*

Yes at this stage of the game you know, they've announced their willingness to accept oral samples for analysis and, as demand comes in, if they choose to make those available to their customers or potential customers they'll do so.

Caroline Corner - *Monicoll, Lewis, & Vlak - Analyst*

Okay and have they already started ordering from you yet?

Doug Michels - *OraSure Technologies, Inc. - President, CEO*

I believe they have.

Caroline Corner - *Monicoll, Lewis, & Vlak - Analyst*

Okay thank you very much. That's all I have today.

Operator

(Operator Instructions). Spencer Nam, Think Equity.

Spencer Nam - *Think Equity - Analyst*

Just a couple of quick questions, one on HIV OTC and then one on HCV. On the HIV OTC HIV test side, we have heard in the past that with May Panel the approval from the FDA could come as early as summertime, if you will. Is that a fair expectation that we could think about or is it -- could it take a little longer and maybe slip into the fourth quarter time frame?

Doug Michels - *OraSure Technologies, Inc. - President, CEO*

Spencer, it's very difficult for us to speculate on the time line that the FDA might use to ultimately grant us approval. Our objective obviously is to be prepared to not only launch the product but to have all the support resources in place as soon as possible after the Advisory Review based on the assumption that we could have a positive recommendation. But all that's speculation but we had to put a stake in the ground to make sure we were prepared and that's what we're preparing for. And I can assure you that if we receive a positive recommendation and the FDA chooses to move quickly, we will be prepared to make the product available some time this summer.

There are some other variables that come with any reviews like this. There may be requests to alter labeling or change instructions for use or modify those kinds of things and depending on the lead time to have materials printed or things like that, that can always impact timing and we won't know any of those until we've gone to the Advisory Meeting. I can tell you this. We've worked so hard on this project over the last seven years. We've executed our studies as effectively as we can.

We, the team, did a super job of executing this final study. I think we've got a real solid data package that's gone to the FDA and we're going to go there and we're going to present it as effectively as we possibly can, answer the Panel's questions and our hope is that they're going to give us a positive recommendation but we're going to know in a couple weeks. We're excited about it.

Spencer Nam - *Think Equity - Analyst*

Doug, thanks much. That's very helpful. So the second question I have is on the HCV side. You know that you've completed -- you've now completed the detailing training with the work team. I was curious if there was a specific sort of a launch plan, if you will, or the launch or the sales and marketing plan from the Merck team on how to integrate the OraQuick HCV with their sales effort. It clearly they have -- Merck is clearly making headways with their sales increase of VICTRELIS but as we think about HCV tests OraQuick HCV being part of that package going forward, I was wondering if there is any sort of specific plans that Merck guys have laid out that you guys could maybe share with us a little bit, if there is any.

Doug Michels - *OraSure Technologies, Inc. - President, CEO*

Right so remember we're detailing the product into the physician office market through two different organizations within Merck. One is their infectious disease specialists that primarily is calling on gastroenterologists, ID docs and hepitologists.

The other group is the new business group. That's a tela-sales group that's calling primarily on primary care physicians and internal medicine docs. And I tried to give you some color in the opening remarks about the first quarter statistics in terms of number of calls directed to each of those and what kind of interest we've received from them. In particular, the people calling on the new business out of the new business group, the tela-sales group that are calling on primary care. Remember it's primary care that are doing most of the initial testing and referring to the specialists.

And, as I mentioned in the first quarter, there were about 600 calls made, 70% of which resulted in some expression of interest. I think that's a very encouraging number, 13% of which expressed a high level of interest to begin to use the product. Now you know, obviously remember Merck is not selling the product. They're detailing the product and then we've got to follow back up with our manufacturer's reps and with the distributor reps to actually sell the product in.

Merck's organization is following a very disciplined five-step selling model, which includes raising awareness, educating to the risk factors, and then encouraging screening and testing and going through that whole process so early on and that's what I said in the last call. Early on we're encouraged by the results. We've got to look and see how many of these expressions of interest and leads now translate into actual set up and sale and how the numbers continue to progress into the second quarter and the rest of the year and well continue to report on that as we go forward with Merck.

Spencer Nam - *Think Equity - Analyst*

Great. Thanks for the details.

Operator

Bill Bonello, RBC Capital Markets.

Bill Bonello - *RBC Capital Markets - Analyst*

Thanks a lot for taking the follow-up, so just another question on the HCV customer growth and physician interest. Do you have a sense of whether the public health customers that are purchasing the test are initiating new or expanded testing initiatives or are these customers that are just simply transitioning from sending out the test to a reference lab to doing them on site?

And then a similar question on the interest on the physician side, especially the 13% that indicated the strong interest, are those the docs that are already ordering a lot of HCV testing and again, they're just transitioning to doing it in their office or are these docs that expect to do more screening?

Doug Michels - *OraSure Technologies, Inc. - President, CEO*

So let me start with the public health piece first. I think it's a combination of both, both people who are currently using laboratory based methods or perhaps sending out that can now use the test in house. But it's also public health jurisdictions that are interested in setting up new programs and we've had a significant expression of interest from jurisdictions that want to include hepatitis testing with HIV and I expect we're going to see more integration of those activities as we go out through the remainder of 2012.

On the physicians office side I don't have quite the granularity yet until we see how the conversions take place but my belief is that most of the expressions of interest are coming from those docs that are currently sending out that can now perform the testing in house.

Bill Bonello - *RBC Capital Markets - Analyst*

Thanks very much.

Operator

Jeff Frelick, Canaccord.

Jeff Frelick - *Canaccord Genuity - Analyst*

Yes thanks, Doug, for the follow-up so maybe just kind of following on to the last question, if a lot of the docs that you're getting some traction with are already comfortable ordering some level of HIV -- or excuse me, HCV testing -- curious your sense on if we get a change in guidelines in the near term, how does that message get conveyed and what do you think the response is in with the Merck reps? I assume they'll be helping to deliver that message into the primary care setting.

Doug Michels - *OraSure Technologies, Inc. - President, CEO*

No question, so obviously Merck's detailing efforts will be an effective vehicle to deliver that message but so will the medical societies, medical organizations, Chronic Liver Disease Foundation. The CDC will be highly effective in that. Our work with the AMA, with the NMA that we're currently in contact with about this possibility, it will be I believe a high effective communication plan. We'll obviously be marketing it very extensively.

Jeff Frelick - *Canaccord Genuity - Analyst*

Thanks a lot.

Operator

Thank you and I am showing the final question at this time from Spencer Nam from Think Equity.

Spencer Nam - *Think Equity - Analyst*

Thanks for taking my follow-up question as well. Just one follow-up question on the HCV Merck partnership, as the partnership will need to be revisited later in the part of the year, I was curious how -- what sort of a lead time you guys will have in terms of having the discussion with Merck about continuing on or coming up with some new set ups if that's necessary. Have you guys begun that conversation yet or is it going to be a little more close to the exploration time, if you will?

Doug Michels - *OraSure Technologies, Inc. - President, CEO*

No they're certainly some lead times associated with the need to, by each party, to express their intention to renew, their desire to renew the agreement, or to modify or terminate. And we've begun those discussions. I've said all along that we've been quite pleased with the Merck relationship. Both parties have honored our respective commitments and the communication channels are pretty wide open. We meet regularly with them, have weekly conversations with them, meet in person with them no less than monthly and so my hope is that we will continue to work with Merck and obviously is as the marketplace develops we'll look at other opportunities to see how we can enhance our presence in the marketplace possibly through other arrangements.

But we'll have more to say about that as those discussions continue and we make progress. I just want to be clear and I hope you've seen from the data that I shared with your today we're making some progress now or apparent progress with the detailing efforts. We've got to see that translate into meaningful revenue, which we expect it will and we'll just continue to update you on both the progress of the business as well as our relation, continue relationship with Merck.

Spencer Nam - *Think Equity - Analyst*

Great, thanks much.

Operator

Okay, ladies and gentlemen, due to available time that brings an end to the Q and A session of today's call. I will now turn the call over to Doug Michels for closing remarks.

Doug Michels - *OraSure Technologies, Inc. - President, CEO*

I just want to thank everybody for participating on today's call and obviously for your continued interest in OraSure and I wish you all a good afternoon and a good evening. Thanks again. Bye, bye.

Operator

Okay, ladies and gentlemen, this does conclude your conference. You may now disconnect and have a great day.