ORASURE TECHNOLOGIES INC
Form DEF 14A
April 06, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934 (Amendment No.)

Filed by the Registrant x
Filed by a Party other than the Registrant o
Check the appropriate box:

o	Preliminary Proxy Statement
o	**Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
x	Definitive Proxy Statement
o	Definitive Additional Materials
o	Soliciting Material Pursuant to §240.14a-12

OraSure Technologies, Inc.
(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

x	No fee required.		
o	Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.		
	(1)	Title of each class of securities to which transaction applies:	
	(2)	Aggregate number of securities to which transaction applies:	
	(3)	Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):	
	(4)	Proposed maximum aggregate value of transaction:	
	(5)	Total fee paid:	
o	Fee paid previously with preliminary materials.		
o	Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.		
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ORASURE TECHNOLOGIES, INC.
220 East First Street
Bethlehem, Pennsylvania 18015

April 6, 2006

Dear Stockholder:

You are cordially invited to attend the 2006 Annual Meeting of Stockholders to be held on **Tuesday, May 16, 2006**, at the Historic Hotel Bethlehem, 437 Main Street, Bethlehem, Pennsylvania 18018, at 10:00 a.m. Eastern Time. Your Board of Directors and Executive Management Team look forward to personally greeting those present. If you cannot attend in person, we are pleased to offer a live webcast of the Annual Meeting, which you can access by going to our website, www.orasure.com.

At the meeting, you will be asked to (i) elect two Class III Directors to serve on the Board of Directors until the Annual Meeting of Stockholders in 2009; (ii) approve the amendment and restatement of the OraSure Technologies, Inc. 2000 Stock Award Plan, including an amendment to increase the number of shares authorized for grant under such Award Plan; (iii) ratify the appointment of KPMG LLP as our independent registered public accounting firm for 2006; and (iv) transact such other business as may properly come before the meeting or any adjournments thereof.

Your Board of Directors has approved the nominees for Director and recommends that you vote **FOR** their election to the Board. In addition, your Board of Directors recommends that you vote **FOR** the amendment and restatement of the Company s 2000 Stock Award Plan and **FOR** the ratification of KPMG s appointment.

Your vote is very important, regardless of the number of shares you own. Whether or not you plan to attend the Annual Meeting in person, we urge you to submit your vote as soon as possible. You will have the option to vote by telephone, via the Internet, or by completing, signing, dating, and mailing the enclosed Proxy Card in the accompanying postage prepaid envelope. Additional details on these options can be found in the attached Proxy Statement and Proxy Card. You may, of course, attend the Annual Meeting and vote in person regardless of whether you have previously voted by phone, the Internet or mail.

We look forward to seeing you at the meeting.

Sincerely yours,

Douglas A. Michels
President and Chief Executive Officer

ORASURE TECHNOLOGIES, INC.
220 East First Street
Bethlehem, Pennsylvania 18015

Notice of Annual Meeting of Stockholders
to be held May 16, 2006

To the Stockholders of OraSure Technologies, Inc.:

The Annual Meeting of Stockholders of OraSure Technologies, Inc., a Delaware corporation, will be held at the Historic Hotel Bethlehem, 437 Main Street, Bethlehem, Pennsylvania 18018, on **Tuesday, May 16, 2006**, at 10:00 a.m. Eastern Time for the following purposes:

1. To elect two Class III Directors;

2. To approve the amendment and restatement of the Company s 2000 Stock Award Plan, including an amendment to increase the number of shares of Common Stock authorized for grant under the Award Plan;

3. To ratify the appointment of KPMG LLP, as our independent registered public accounting firm for 2006; and

4. To consider such other business as may properly come before the meeting or any adjournments thereof.

Additional information is included in the Proxy Statement accompanying this Notice. Only holders of Common Stock of record at the close of business on March 27, 2006, will be entitled to vote at the Annual Meeting of Stockholders and any adjournments thereof.

By Order of the Board of Directors,

Jack E. Jerrett
Secretary

April 6, 2006
Bethlehem, Pennsylvania

YOUR VOTE IS IMPORTANT. Whether or not you plan to attend the Annual Meeting, you are urged to vote your shares as promptly as possible by telephone, via the Internet, or by completing, signing, dating and returning the enclosed Proxy Card, as described in the attached Proxy Statement. Voting by phone, the Internet or mail does not deprive you of your right to attend the Meeting and to vote your shares in person.

ORASURE TECHNOLOGIES, INC.
220 East First Street
Bethlehem, Pennsylvania 18015

Proxy Statement

This Proxy Statement is being mailed on or about April 6, 2006, to stockholders of OraSure Technologies, Inc., a Delaware corporation (the Company), in connection with the Company s solicitation of proxies (each, a Proxy) for use at the Annual Meeting of Stockholders to be held on May 16, 2006, at 10:00 a.m. Eastern Time, at the Historic Hotel Bethlehem, 437 Main Street, Bethlehem, Pennsylvania 18018, and at any adjournments thereof (the Annual Meeting).

Proxies

If represented by a properly executed Proxy, whether delivered by phone, the Internet or mail, as described below, your shares will be voted in accordance with your instructions. If you do not provide a Proxy with instructions, your shares will be voted according to the recommendations of our Board of Directors (the Board) as stated on the Proxy. You may revoke the authority granted by your Proxy at any time before the Annual Meeting by notice in writing delivered to the Secretary of the Company, by delivering a subsequently dated Proxy, or by attending the Annual Meeting, withdrawing the Proxy, and voting in person.

At the Annual Meeting, action will be taken on the matters set forth in the accompanying Notice of Annual Meeting of Stockholders and described in this Proxy Statement. The Board knows of no other matters to be presented for action at the Annual Meeting. If any other matters do properly come before the Annual Meeting, the persons named in the Proxy Card will have discretionary authority to vote on those matters in accordance with their best judgment.

The cost of soliciting Proxies will be borne by us. In addition to solicitations by mail, certain of our directors, officers and regular employees may solicit Proxies personally or by telephone or other means without additional compensation.

Arrangements will also be made with brokerage firms and other custodians, nominees, and fiduciaries to forward solicitation material to the beneficial owners of stock held of record by such persons, and we will, upon request, reimburse them for their reasonable expenses in so doing.

Voting Procedures

You will have a choice of voting over the phone, via the Internet or by completing and mailing a traditional paper Proxy Card, as described below. Please check your Proxy Card or the information forwarded by your bank, broker or other holder of record to determine which options are available to you.

Voting by Mail. If you desire to vote by using the paper Proxy Card included with this Proxy Statement instead of by telephone or the Internet, you may do so by completing, signing, dating and returning the Proxy Card in the enclosed, pre-addressed envelope. Postage need not be affixed to the envelope if mailed in the United States.

Voting by Phone or Internet. Instead of voting by use of the paper Proxy Card, you may be able to vote by phone or the Internet. Whether you may do so will depend on how your shares are held.

If your shares are registered in your name with Mellon Investor Services LLC, our transfer agent, you may vote those shares by telephone by calling Mellon Investor Services LLC at 1-866-540-5760 (toll free in the United States or Canada only) or via the Internet at the following website: www.proxyvoting.com/osur. You may vote by telephone or the Internet by doing so by 11:59 pm Eastern Time (8:59 pm Pacific Time) on May 15, 2006. Additional instructions can be found on the paper Proxy Card accompanying this Proxy Statement.

If your shares are registered in the name of a broker, bank or other registered holder, you may be able to vote by phone or the Internet if the broker, bank or other record holder has procedures for telephone or Internet voting. If you desire to use either of these voting options, please follow the procedures provided to you by your broker, bank or other record holder.

The telephone and Internet voting procedures are designed to authenticate your identity, to allow you to give your voting instructions and to confirm that your instructions have been recorded properly. If you vote via the Internet, you should understand that there may be costs associated with this method of voting, such as usage charges from Internet access providers and telephone companies, that you must pay.

Submitting a Proxy by mail, the phone or the Internet will not affect your right to vote in person at the Annual Meeting.

Electronic Access to Proxy Materials and Annual Report. The Notice of Annual Meeting, the Proxy Statement and our 2005 Annual Report are available on our website at http://www.orasure.com. If you are a stockholder of record and would like to view future proxy statements and annual reports over the Internet instead of receiving copies in the mail, please follow the instructions on the paper Proxy Card if you vote by mail or follow the instructions provided when you vote by phone or over the Internet. If you hold your shares through a bank, broker or other holder, check the information provided by that entity for instructions on how to elect to view future proxy statements and annual reports over the Internet. Opting to receive your proxy materials and annual report online will save us the cost of producing these materials and mailing them to you in the future.

Voting Securities

On March 27, 2006, the record date for determining stockholders entitled to vote at the Annual Meeting, we had outstanding and entitled to vote at the meeting 46,700,463 shares of common stock, par value $.000001 per share (Common Stock). Each share of Common Stock is entitled to one vote on any matter brought before the Annual Meeting. A majority of the shares of Common Stock outstanding as of the record date, represented in person or by Proxy at the Annual Meeting, will constitute a quorum for the transaction of business.

Principal Stockholders

The following table sets forth information, as of March 27, 2006, regarding the beneficial ownership of the Company s Common Stock by (a) each person who is known by us to be the beneficial owner of more than five percent of the Common Stock outstanding, (b) each Director and nominee for election as Director, (c) each of our executive officers named in the Summary Compensation Table in this Proxy Statement under Executive Compensation, and (d) all of our directors and executive officers as a group. Unless otherwise indicated, the address of each person identified below is c/o OraSure Technologies, Inc., 220 East First Street, Bethlehem, Pennsylvania 18015.

Pursuant to Rule 13d-3 under the Securities Exchange Act of 1934, as amended (the Exchange Act), shares of Common Stock which a person has a right to acquire pursuant to the exercise of stock options and warrants held by that person that are exercisable within 60 days of March 27, 2006 are deemed to be outstanding for the purpose of computing the percentage ownership of that person, but are not deemed outstanding for computing the percentage ownership of any other person.

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership (1) (2)	Percent of Class
Wells Fargo & Company(3) 420 Montgomery Street San Francisco, CA 94104	3,939,424	8.6 %
AXA Financial, Inc.(4) 1290 Avenue of the Americas New York, NY 10104	2,887,680	6.3 %
Merrill Lynch & Co., Inc.(5) World Financial Center, North Tower 250 Vesey Street New York, NY 10381	2,752,628	6.0 %
Barclay s Global Investors, NA(6) 45 Fremont Street San Francisco, CA 94105	2,718,202	5.9 %
Douglas A. Michels	663,286	1.4 %
Ronald H. Spair	466,062	1.0 %
P. Michael Formica	342,181	*
Roger L. Pringle(7)	268,843	*
Joseph E. Zack	252,734	*
Jack E. Jerrett	182,547	*
Douglas G. Watson	170,000	*
Frank G. Hausmann	156,666	*
Ronny B. Lancaster	86,666	*
Charles W. Patrick	6,666	*
All directors and executive officers as a group (12 people)	2,770,057	5.8 %

* Less than 1%

(1) Subject to community property laws where applicable, beneficial ownership consists of sole voting and investment power except as otherwise indicated.

(2) Includes shares subject to options exercisable within 60 days of March 27, 2006, as follows: Mr. Michels, 214,165 shares; Mr. Spair, 355,458 shares; Mr. Formica, 258,480 shares; Mr. Pringle, 232,218 shares; Mr. Zack, 190,207 shares; Mr. Jerrett, 145,832 shares; Mr. Watson, 170,000 shares; Mr. Hausmann, 156,666 shares; Mr. Lancaster, 86,666 shares; Mr. Patrick, 6,666 shares; and all directors and executive officers as a group, 1,905,003 shares. Also includes 351,570, 67,500, 58,750, 32,666 and 51,250 restricted shares held by Mr. Michels, Mr. Spair, Mr. Formica, Mr. Jerrett and Mr. Zack, respectively.

(3) Based on information contained in a Schedule 13G filed February 15, 2006 by Wells Fargo & Company (Wells Fargo), on behalf of its subsidiaries, Wells Capital Management Incorporated and Wells Fargo Funds Management, LLC. Wells Fargo has sole voting power with respect to 3,903,467

shares, sole dispositive power with respect to 3,936,924 shares and shared dispositive power with respect to 2,500 shares.

(4) Based on information contained on a Schedule 13G/A filed February 14, 2006 by AXA Financial, Inc. (AXF) on behalf of its subsidiaries, Alliance Capital Management L.P. (Alliance), AXA Equitable Life Insurance Company (Equitable) and AXA Rosenberg Investment Management LLC (AXA Rosenberg). The Form 13G/A was jointly filed by AXF with AXA Assurances I.A.R.D. Mutuelle, AXA Assurances Vie Mutuelle and AXA Courtage Assurance Mutuelle (collectively, Mutuelles AXA) and AXA. AXF is a wholly-owned subsidiary of AXA, a French holding company, which is controlled by the Mutuelles AXA, as a group. Alliance has sole voting power with respect to 2,411,080 shares, and sole dispositive power with respect to 2,582,480 shares. Alliance s shares are held by unaffiliated third-party client accounts and managed by Alliance, as investment advisor. Equitable has sole voting and dispositive power with respect to 304,000 shares, and AXA Rosenberg has sole voting and dispositive power with respect to 1,200 shares.

(5) Based on information contained in a Schedule 13G filed February 7, 2006 by Merrill Lynch & Co., Inc. (Merrill Lynch), on behalf of Merrill Lynch Investment Managers. Merrill Lynch has shared voting and dispositive power with respect to the indicated shares.

(6) Based on information contained in a Schedule 13G filed January 26, 2006 by Barclay s Global Investors, NA (BGI), and Barclay s Global Fund Advisors (BGFA), Barclay s Global Investors, Ltd., and Barclay s Global Investors Japan Trust and Banking Company Limited. BGI has sole voting power with respect to 2,011,681 shares and sole dispositive power with respect to 2,244,261 shares, and BGFA has sole voting and dispositive power with respect to 473,941 shares.

(7) Includes 1,500 shares owned by Mr. Pringle s spouse.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Exchange Act requires that our executive officers and Directors and persons who own more than ten percent of our Common Stock (collectively, Reporting Persons) file reports of ownership and changes in ownership with the Securities and Exchange Commission (the Commission). Reporting Persons are required by the Commission s regulations to furnish us with copies of all Section 16(a) forms they file.

As a matter of practice, our administrative staff assists each of the Reporting Persons who are employees and Directors of the Company in preparing initial reports of ownership and reports of changes in beneficial ownership and filing such reports with the Commission and the NASDAQ Stock Market. Based solely on a review of the copies of forms filed by or on behalf of the Reporting Persons and on written representations (if any) from each of the Reporting Persons, we believe that all Reporting Persons complied with all applicable filing requirements with respect to the year 2005.

Item 1. Election of Directors

At the Annual Meeting, you will be asked to vote on the election of two Class III Directors. A majority of the independent members of the Board have nominated Douglas A. Michels and Charles W. Patrick for election as Class III Directors, for terms expiring at the Annual Meeting of Stockholders in 2009. The nominees for election as Directors are presently members of our Board. Mr. Michels has served as a member of the Board and as the Company s President and Chief Executive Officer since June 2004, and Mr. Patrick has served on the Board and as a member of the Compensation Committee of the Board since January 2006.

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In the absence of instructions to the contrary, shares of Common Stock represented by properly executed Proxies will be voted for the two nominees, each of whom has consented to be named and to serve if elected. If a quorum is present, each nominee will be elected if he receives a plurality of the votes cast by shares present in person or by Proxy and entitled to vote at the Annual Meeting. Abstentions and shares as to which a broker or other nominee has indicated on a duly executed and returned Proxy or otherwise advised us that it lacks voting authority will have no effect on the required vote. **Your Board recommends that you vote FOR the election of the Director nominees.**

We do not know of anything that would preclude any nominee from serving. However, should any nominee for any reason become unable or unwilling to serve as a Director, the persons named in the enclosed Proxy Card will vote the shares represented by each Proxy for such substitute nominee as the Board may approve.

Any vacancy that occurs on the Board that results from an increase in the number of Directors may be filled by the affirmative vote of a majority of the Directors then in office, and any other vacancy on the Board may be filled by the affirmative vote of a majority of the Directors then in office, even though less than a quorum of the Board, or by a sole remaining Director.

Certain information with respect to each person nominated for election as a Director and each person whose term of office as a Director will continue after the Annual Meeting is set forth below. Messrs. Hausmann and Pringle became Directors of the Company in connection with the merger (the Merger) of STC Technologies, Inc. (STC) and Epitope, Inc. (Epitope) into the Company on September 29, 2000, and served on the board of Epitope prior to the Merger.

Name	**Principal Occupation**	**Age**	**Director Since**
Class I (Directors Whose Terms of Office Expire in 2007):			
Douglas G. Watson	Chief Executive Officer of Pittencrieff Glen Associates	61	2002
Frank G. Hausmann	President of Capricorn Advisors	48	2000
Class II (Directors Whose Terms of Office Expire in 2008):			
Ronny B. Lancaster	Senior Vice President for Federal Government Relations of Assurant, Inc.	54	2003
Roger L. Pringle	President of The Pringle Company	65	2000
Class III (Nominees for Terms of Office Expiring in 2009):			
Douglas A. Michels	President and Chief Executive Officer of the Company	49	2004
Charles W. Patrick	Principal, Patrick Consulting	51	2006

Douglas G. Watson became a member of the Board in May 2002 and became Chairman of the Board in March 2003. Since July 1999, Mr. Watson has been Chief Executive Officer of Pittencrieff Glen Associates, a leadership and management consulting firm, which he founded. Prior to that, Mr. Watson served as President and Chief Executive Officer of Novartis Corporation, the U.S. subsidiary of Novartis A.G., President and Chief Executive Officer of Ciba-Geigy Corporation, President of the Ciba Pharmaceuticals Division and Senior Vice President of Planning and Business Development of Ciba s U.S. Pharmaceuticals Division. Mr. Watson holds an M.A. degree in pure mathematics from Churchill College, Cambridge University, and is a member of the Chartered Institute of Management Accountants. Mr. Watson also serves on the Boards of Engelhard Corporation, Dendreon Corporation, Genta Inc., InforMedix Inc., Javelin Pharmaceuticals Inc. and BioElectronics Inc.

Frank G. Hausmann had been a member of the Board of Directors of Epitope since December 1999. Since October 2003, Mr. Hausmann has been President of Capricorn Advisors, a strategic and financial consulting firm which he founded. From October 1999 until October 2003, Mr. Hausmann served as President and Chief Executive Officer and Chairman of the Board of CenterSpan Communications Corporation, an early stage developer of Internet connection, collaboration, securities and content delivery network solutions and services. Prior to that, Mr. Hausmann served as Vice President, Finance and Administration and Chief Financial Officer of ThrustMaster, Inc., a developer of PC games, Vice President, Finance and Chief Financial Officer of Atlas Telecom, Inc., a developer of enhanced facsimile and voice-mail solutions, and Vice President, Corporate Development and General Counsel of Diamond Multimedia Systems, Inc., a designer and marketer of computer video cards, modems and other peripherals. Mr. Hausmann received B.S. degrees in Economics and Political Science from Willamette University and a J.D. degree from the University of Oregon. He is a member of the Oregon State Bar.

Ronny B. Lancaster became a member of the Board in May 2003. Mr. Lancaster has served as Senior Vice President, Federal Government Relations of Assurant, Inc., a provider of specialty insurance and insurance-related products and services since September 2005. From 2003 until September 2005, Mr. Lancaster served as Chief Operating Officer of the Morehouse School of Medicine in Atlanta, Georgia, as Senior Vice President for Management Policy from 1996 to 2003 and as Vice President for Health and Social Policy from 1993 to 1996. Prior to that, Mr. Lancaster was Executive Assistant to the Secretary and Principal Deputy Assistant Secretary for Planning and Evaluation at the U.S. Department of Health and Human Services (HHS), where his responsibilities included a wide range of policy, program and management matters. Prior to serving at HHS, Mr. Lancaster was General Counsel of Hamilton Enterprises, Inc., Senior Washington Representative for Blue Cross/Blue Shield Association, Chief of the Division of Fee-For-Service Plans at the U.S. Office of Personnel Management, and Executive Assistant to the Chairman at the National Institute for Advanced Studies. Mr. Lancaster received his B.A. in Economics from the Catholic University of America, his M.B.A. from the Wharton School of the University of Pennsylvania, and his J.D. degree from The Georgetown University Law Center. He is also admitted to the Bars of Pennsylvania and the District of Columbia and serves as President for the Minority Health Professions Foundation.

Roger L. Pringle had been Chairman of the Board and a member of the Board of Directors of Epitope, and was a director of Agritope, Inc., a plant genetics subsidiary of Epitope, since 1990. Mr. Pringle is the President of The Pringle Company, a strategy and executive consulting firm in Portland, Oregon. Mr. Pringle currently serves on the boards of directors of The ODS Companies, North Pacific Group, Prolifiq Software, Inc., and the Oregon Dental Foundation. He is also an active angel investor in the Pacific Northwest.

Douglas A. Michels has been the Company s President and Chief Executive Officer since June 2004. Prior to that, Mr. Michels served as Group Vice President, Global Marketing of Ortho-Clinical Diagnostics from January 2004 to June 2004, President of Ortho-Clinical Diagnostics International from January 2002 to December 2003, President of Johnson & Johnson Healthcare Systems, Inc. from January 2000 to December 2001, and Vice President Sales & Marketing of Johnson & Johnson Healthcare Systems, Inc. from June 1997 to December 1999. Earlier in his career, Mr. Michels held various positions of increasing responsibility within the Johnson & Johnson family of companies, including Vice President, Sales & Marketing, Vice President/General Manager Immunocytometry Business, Executive Director Sales & Marketing, Director of Marketing, Director of Sales, and Regional Sales Manager for Ortho Diagnostic Systems, Inc. Prior to joining Johnson & Johnson, Mr. Michels worked for the Diagnostics Division of Abbott Laboratories in various sales and product management positions. Mr. Michels received a B.S. degree in Public Health Administration from the University of Illinois and an M.B.A. from Rutgers University.

Charles W. Patrick became a member of the Board in January 2006. Since 2000, Mr. Patrick has served as Principal of Patrick Consulting, a management consulting firm that helps diagnostic and technology companies develop sales, marketing and distribution strategies. During the period September 2000 through April 2001, he served as the acting President and Chief Executive Officer of Call Nexus, Inc., a provider of virtual call center services. From 1990 to 2000, Mr. Patrick served as Vice President of Sales and Marketing for Biosite Diagnostics, a medical diagnostics company, and had primary responsibility for developing and achieving Biosite s strategic sales and marketing objectives. Prior to his time at Biosite, Mr. Patrick served as World Wide Group Marketing Manager and held several other sales and marketing positions for the Diagnostics Division of Abbott Laboratories. Mr. Patrick received a B.A. in Communications/Journalism from the University of Central Florida.

Board of Directors

The Board of Directors is comprised of a majority of independent Directors. The Board has determined that each member of the Board, except for Mr. Michels, is independent, as that term is defined in the applicable rules of The NASDAQ Stock Market, Inc.

The Board held eight meetings and acted by written consent on three occasions during the year ended December 31, 2005. Each member of the Board attended more than 75 percent of the combined total of meetings of the Board and of the committees of the Board on which such member served during the period in the year in which he served as a Director.

The Board has approved a process for security holders to send communications to members of the Board and a policy concerning Board members attendance at our annual meetings of stockholders. All members of the Board attended our 2005 Annual Meeting of Stockholders held on May 17, 2005, except for Carter H. Eckert and Gregory B. Lawless, who retired from the Board prior to the Meeting. Descriptions of the process for security holders to send communications to the Board and the Board s policy on annual meeting attendance are provided on our website, at www.orasure.com.

Committees of the Board

The Board currently has three standing committees the Audit Committee, the Compensation Committee and the Nominating and Corporate Governance Committee. Each Committee is composed entirely of independent Directors.

Audit Committee. The Audit Committee oversees the Company s accounting and financial reporting process, internal controls and audits, and consults with management and the Company s independent registered public accounting firm on, among other items, matters related to the annual audits, the published financial statements and the accounting principles applied. As part of its duties, the Audit Committee appoints, evaluates and retains the Company s independent registered public accounting firm. It also maintains direct responsibility for the compensation, termination and oversight of the Company s independent registered public accounting firm and evaluates the independent registered public accounting firm s qualifications, performance and independence. The Audit Committee approves all services provided to the Company by the independent registered public accounting firm. The Audit Committee has established procedures for the receipt, retention and treatment, on a confidential basis, of complaints received by the Company, regarding accounting, internal accounting controls or auditing matters, and the confidential, anonymous submissions by employees of concerns regarding questionable accounting or auditing matters. The Audit Committee operates pursuant to a written Charter, a copy of which is available on our website at www.orasure.com.

Members of the Audit Committee are Frank G. Hausmann, Chairman, Ronny B. Lancaster and Roger L. Pringle. Each member of the Audit Committee is independent, as defined in the Exchange Act and applicable rules of The NASDAQ Stock Market, Inc. The Board has determined that Mr. Hausmann is an audit committee financial expert, as that term is defined by applicable rules of the Commission. The Audit Committee met seven times during the year ended December 31, 2005.

Compensation Committee. The Compensation Committee of the Board determines and, in the case of the Chief Executive Officer recommends for Board approval, the compensation and benefits for our executive officers, and administers our stock award plan. The Compensation Committee operates pursuant to a written charter, a copy of which is available on our website at www.orasure.com. Members of the Compensation Committee are Roger L. Pringle, Chairman, Charles W. Patrick and Douglas G. Watson. Each member of the Compensation Committee is independent, as defined in the applicable rules of The NASDAQ Stock Market, Inc. The Compensation Committee met three times and acted by written consent on two occasions during the year ended December 31, 2005.

Nominating and Corporate Governance Committee. The Nominating and Corporate Governance Committee of the Board identifies, evaluates and recommends to the Board candidates for election or re-election to the Board. In addition, this Committee is responsible for developing, recommending for Board approval and administering a set of corporate governance guidelines. The Nominating and Corporate Governance Committee operates pursuant to a written charter. Copies of the Committee s charter and the Company s corporate governance guidelines are available on our website at www.orasure.com. Members of the Nominating and Corporate Governance Committee are Ronny B. Lancaster, Chairman, Roger L. Pringle and Douglas G. Watson. Each member of the Nominating and Corporate Governance Committee is independent, as defined in the Exchange Act and applicable rules of The NASDAQ Stock Market, Inc. The Nominating and Corporate Governance Committee meet three times during the year ended December 31, 2005.

In evaluating and recommending candidates for the Board, the Nominating and Corporate Governance Committee will consider candidates recommended by members of the Committee or the Board of Directors, officers or employees of the Company, the Company s security holders and other business contacts. Candidates recommended by security holders will be considered by the Nominating and Corporate Governance Committee in the same manner as candidates recommended by other sources, but only if the security holder makes its recommendation in accordance with the advance notification provisions set forth in the Company s By-laws. For a description of these provisions, see the Section entitled, Nomination of Directors.

In evaluating new candidates for Board nomination, the Nominating and Corporate Governance Committee shall consider one or more of the following factors, as well as any other factors determined by the Committee: independence, integrity, knowledge, judgment, character, leadership skills, education, experience, financial literacy, technical background, and standing in the community. In evaluating incumbent directors for re-election, the Nominating and Corporate Governance Committee shall consider that director s overall service to the Company, including the number of meetings attended, level of participation, quality of performance and other factors deemed relevant by the Committee.

The following report of the Audit Committee of the Board shall not be deemed to be soliciting material or to be incorporated by reference by any general statement incorporating by reference this Proxy Statement into any filing by the Company under either the Securities Act of 1933, as amended (the Securities Act), or the Exchange Act, except to the extent that the Company specifically incorporates this information by reference. The following report shall not otherwise be deemed filed under such Acts.

Report of the Audit Committee

The role of the Audit Committee is to assist the Board of Directors in fulfilling its responsibilities to oversee management s conduct of the Company s financial reporting process, including monitoring (1) the participation of management and the outside independent registered public accounting firm in the financial reporting process, (2) the Company s systems of internal accounting and financial controls,

(3) the annual independent audit of the Company s financial statements and (4) the qualifications, independence and performance of the outside independent registered public accounting firm. The Committee selects the Company s outside independent registered public accounting firm, and once selected, the outside independent registered public accounting firm reports directly to the Committee. The Committee is responsible for approving both audit and non-audit services to be provided by the outside independent registered public accounting firm. The Committee operates pursuant to a Charter that was last amended and restated by the Board on May 18, 2004.

Management of the Company is responsible for the preparation, presentation and integrity of the Company s financial statements, the Company s accounting and financial reporting principles and internal controls and procedures designed to assure compliance with accounting standards and applicable laws and regulations. The independent registered public accounting firm is responsible for auditing the Company s financial statements and expressing an opinion as to their conformity with U.S. generally accepted accounting principles. The Committee s responsibility is to monitor and review these processes. It is not the Committee s duty or responsibility to conduct auditing or accounting reviews.

In the performance of its oversight function, the Committee has considered and discussed the audited financial statements with management, which included a discussion of the quality, and not just the acceptability, of the accounting principles, the reasonableness of significant judgments and the clarity of disclosures in the financial statements. The Committee met with the independent registered public accounting firm, with and without management, to discuss the results of their examination and their judgments regarding the Company s accounting policies. The Committee has also discussed with the independent registered public accounting firm the matters required to be discussed by Statement on Auditing Standards No. 61, Communication with Audit Committees, as currently in effect. Finally, the Committee has received the written disclosures and the letter from the independent registered public accounting firm required by Independence Standards Board Standard No. 1, Independence Discussions with Audit Committees, as currently in effect, has considered whether the provision of non-audit services by the independent registered public accounting firm to the Company is compatible with maintaining the firm s independence and has discussed with the independent registered public accounting firm the firm s independence.

Based upon the reports and discussions described in this report, and subject to the limitations on the role and responsibilities of the Committee referred to above and in the Committee s Charter, the Committee recommended to the Board that the audited financial statements be included in the Company s Annual Report on Form 10-K for the year ended December 31, 2005 for filing with the Securities and Exchange Commission and selected KPMG LLP as the independent registered public accounting firm for fiscal year 2006. The Board is recommending that stockholders ratify that selection at the Annual Meeting.

SUBMITTED BY THE AUDIT COMMITTEE
OF THE COMPANY S BOARD OF DIRECTORS

Frank G. Hausmann, Chairman
Ronny B. Lancaster
Roger L. Pringle

March 1, 2006

Nomination of Directors

Our Bylaws provide that nominations for election to the Board may be made by the Board or by any stockholder entitled to vote for the election of Directors at the Annual Meeting. A stockholder s notice of nomination must be made in writing to the Company s Secretary and must be delivered to or received at our principal executive offices not less than ninety (90) days nor more than one hundred twenty (120) days prior to the meeting. However, in the event that less than one hundred (100) days notice or prior public disclosure of the date of the meeting is given or made to stockholders, notice by the stockholder to be timely must be received no later than the close of business on the tenth (10th) day following the day on which such notice of the date of the meeting was mailed or such public disclosure was made, whichever first occurs. The notice to the Secretary must set forth, with respect to the nominee, the name, age, business address, residence address, and principal occupation or employment of the person, the class and number of shares of capital stock of the Company which are beneficially owned by the person, and any other information relating to the person that is required to be disclosed in solicitations for proxies for election of Directors pursuant to Regulation 14A under the Exchange Act. The notice must also include the name and record address of the stockholder making the nomination and the class and number of shares of capital stock of the Company that are beneficially owned by the stockholder. We may require any proposed nominee to furnish such other information as we may reasonably require to determine the eligibility of the proposed nominee to serve as a Director of the Company.

Executive Officers

The table below provides information about the executive officers of the Company as of March 27, 2006. Officers of the Company hold office at the discretion of the Board.

Name	Age	Position
Douglas A. Michels	49	President and Chief Executive Officer
Ronald H. Spair	50	Executive Vice President and Chief Financial Officer
Stephen R. Lee, Ph.D.	46	Executive Vice President and Chief Science Officer
P. Michael Formica	55	Executive Vice President, Operations
Joseph E. Zack	54	Executive Vice President, Marketing and Sales
Jack E. Jerrett	47	Senior Vice President, General Counsel and Secretary
Mark L. Kuna	42	Vice President, Controller and Assistant Secretary

For biographical information on Mr. Michels, see the Section entitled, Election of Directors, in this Proxy Statement.

Ronald H. Spair joined the Company as Executive Vice President and Chief Financial Officer in November 2001. Prior to that time, Mr. Spair was Vice President, Chief Financial Officer and Secretary of Delsys Pharmaceutical Corporation, a pharmaceutical manufacturing system development company, from January 2001 to September 2001. Prior to joining Delsys, he was Senior Vice President, Chief Financial Officer and Secretary of SuperGen, Inc., a pharmaceutical company, from August 1999 to January 2001. Prior to joining SuperGen, Mr. Spair was Senior Vice President, Chief Financial Officer and Secretary of Sparta Pharmaceuticals, Inc., a development stage pharmaceutical company. Mr. Spair received his B.S. in Accounting and M.B.A. from Rider College. He is also a licensed Certified Public Accountant and is a member of the New Jersey Society of Certified Public Accountants and the American Institute of Certified Public Accountants.

Stephen R. Lee, Ph.D. joined the Company as Executive Vice President and Chief Science Officer in September 2005. Prior to that time, Dr. Lee worked at Ortho-Clinical Diagnostics, a Johnson & Johnson company since 1990, serving as Vice President, Assay Research & Development from 2002 to 2005, Executive Director, Worldwide Immunodiagnostic Product Development from 2000 to 2002, and Director, Infectious Disease Assay Development from 1996 to 2000. Dr. Lee has had responsibility for or direct involvement in the development of over 40 major diagnostic assays, in such areas as infectious disease, cardiology, oncology and other conditions. In 1997, Dr. Lee was awarded the Johnson Medal, Johnson & Johnson s highest award for Research and Development. Prior to joining Ortho, Dr. Lee worked as a scientist for both Wampole Labs and Immunicon Corporation. Dr. Lee received a Ph.D. degree in Biochemistry from Cardiff University (U.K.) in 1985 and a BSc. in Biochemistry from Sheffield University (U.K.) in 1981.

P. Michael Formica has served as Executive Vice President, Operations for the Company since November 2002 and as Senior Vice President, Operations for the Company and STC since May 2000. Prior to that time, Mr. Formica was Division Manager, Mobil Measurement Technologies for Dräger Sicherheitstechnik GmbH (now called Dräger Safety AG & Co. KGaA), in Lüebeck, Germany, for eight years with worldwide responsibility, and Director Sales and Marketing, National Draeger, Inc. (USA) for two years. Dräger is a world leader in chemical detection systems for the industrial safety market, and breath alcohol detection instrumentation. Mr. Formica received his B.S. in Electrical Engineering from West Virginia University and his M.B.A. from the Graduate School of Industrial Administration, Carnegie Mellon University.

Joseph E. Zack has served as the Company s Executive Vice President, Marketing and Sales since September 2002. Prior to that time, Mr. Zack served as Vice President, Marketing and Sales for OraPharma, Inc., a specialty pharmaceutical company focused on oral healthcare, since 1998. Prior to joining OraPharma, Mr. Zack held executive level marketing and sales positions with Advanced Tissue Sciences, Inc. and the CIBA-GEIGY Pharmaceutical Division. Mr. Zack received his B.A. in Biology from Colgate University and his M.B.A. from St. John s University.

Jack E. Jerrett has served as the Company s Senior Vice President and General Counsel since February 2003 and as Vice President and General Counsel since November 2000. He has also served as the Company s Secretary since February 2001. Prior to joining the Company, Mr. Jerrett served in the positions of Associate General Counsel and Senior Counsel at PPL Electric Utilities Corporation, and acted as general counsel to PPL Gas Utilities Corporation, since July 1998. Prior to that, Mr. Jerrett was Senior Corporate Attorney of Union Pacific Corporation and an Associate with Morgan, Lewis & Bockius. Mr. Jerrett received his B.S. in Accounting from Villanova University and his J.D. from the Villanova University School of Law. He is a member of the Pennsylvania Bar and the American and Pennsylvania Bar Associations.

Mark L. Kuna has served as the Company s Vice President and Controller since February 2003 and as Controller since February 2001. Mr. Kuna has also served as the Company s Assistant Secretary since May 2002 and provided accounting and financial analysis support since joining the Company in October 2000. Prior to that time, Mr. Kuna served as Director of Financial Planning and Analysis for the greater Philadelphia region of XO Communications, Inc., and Vice President and Principal Accounting Officer of Wedco Technology, Inc. Prior to joining Wedco Technology, he was an accountant with Deloitte and Touche. Mr. Kuna received his B.S. in Accounting from the University of Scranton, is a licensed Certified Public Accountant, and is a member of the Pennsylvania and American Institutes of Certified Public Accountants.

Certain Relationships and Related Transactions

Information regarding employment and severance agreements between the named executive officers and the Company is set forth in the Section entitled, Employment Agreements, in this Proxy Statement.

Executive Compensation

Summary Compensation Table

The following table summarizes the compensation of our Chief Executive Officer and the four other most highly compensated executive officers of the Company (collectively, including the Chief Executive Officer, the Named Executive Officers), for the year ended December 31, 2005:

		Annual Compensation			Long-Term Compensation Awards		
Name and Principal Position	**Year**	**Salary**	**Bonus**	**Other Annual Compen-sation**	**Restricted Stock Awards**	**Securities Underlying Options (1)**	**All Other Compen-sation (2)**
Douglas A. Michels	2005	$ 409,808	$ 359,000		$ 744,975 (3)	67,500	$ 4,000
President and	2004	206,154	200,000		3,144,225 (4)(6)	467,500	4,000
Chief Executive Officer	2003						
Ronald H. Spair	2005	295,000	207,000		297,990 (3)	27,000	4,000
Executive Vice President and	2004	281,758	157,336	$ 5,250 (8)	395,490 (5)(6)	27,000	4,000
Chief Financial Officer	2003	224,264	60,000	9,000 (8)	267,000 (7)	100,000	4,000
P. Michael Formica	2005	249,546	150,000		248,325 (3)	22,500	4,000
Executive Vice President,	2004	245,242	125,404	5,250 (8)	220,975 (5)(6)	22,500	4,000
Operations	2003	210,264	50,000	9,000 (8)	267,000 (7)	100,000	4,000
Joseph E. Zack	2005	229,593	138,000		248,325 (3)	22,500	4,000
Executive Vice President,	2004	224,735	114,831	5,250 (8)	148,575 (6)	22,500	4,000
Marketing and Sales	2003	202,187	50,000	9,000 (8)	133,500 (7)	75,000	4,000
Jack E. Jerrett	2005	213,591	113,000		198,660 (3)	18,000	4,000
Senior Vice President,	2004	194,555	74,761	5,250 (8)	99,050 (6)	15,000	4,000
General Counsel and Secretary	2003	176,132	31,750	9,000 (8)		40,000	4,000

(1) Except as noted below, the amounts represent the number of shares of Common Stock underlying options granted for performance rendered during each specified year, although the award occurred early in the subsequent year. The number of shares indicated for Mr. Michels for 2004 also includes an option for 400,000 shares granted to Mr. Michels when he joined the Company in June 2004.

(2) The amounts represent cash contributed to a 401(k) profit sharing plan as employer matching contributions. Employee contributions are included in the Salary column.

(3) On January 23, 2006, the Named Executive Officers received the following grants of restricted shares based on their performance during 2005: 78,750 shares for Mr. Michels; 31,500 shares for Mr. Spair; 26,250 shares for Mr. Formica; 26,250 shares for Mr. Zack and 21,000 shares for Mr. Jerrett. The value of these shares was calculated by multiplying the number of shares in each grant by $9.46, the closing price for the Company s Common Stock as reported in The NASDAQ Stock Market on the date of grant. One-third of each such grant vests on the first, second and third anniversaries, respectively, of the date of grant. The aggregate number of restricted shares held as of December 30, 2005, and the value of these shares at the $8.82 closing price of the Company s Common Stock as reported on The NASDAQ Stock Market as of that date, for each of the Named Executive Officers, were as follows: 299,070 shares valued at $2,637,797 for Mr. Michels; 61,500 shares valued at $542,430 for Mr. Spair; 46,250 shares valued at $407,925 for Mr. Formica; 33,750 shares valued at $297,675 for Mr. Zack; and 17,500 shares valued at $154,350 for Mr. Jerrett. The foregoing amounts exclude the restricted shares granted on January 23, 2006. If the Company were to declare a dividend on its Common Stock, such a dividend would be payable to the holders of any restricted shares.

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(4) On June 21, 2004, Mr. Michels received a grant of 350,000 restricted shares pursuant to the terms of his Employment Agreement with the Company. The value of these shares was calculated by multiplying the number of shares in the grant by $7.71, the closing price for the Company s Common Stock as reported on The NASDAQ Stock Market on the date of grant. The first 116,720 shares of Mr. Michels grant vested on the first anniversary of the grant and the remaining 233,280 restricted shares vest on a quarterly basis thereafter in equal amounts of 6,480 shares on each September 30, December 31, March 31 and June 30, commencing September 30, 2005 and ending June 30, 2014.

(5) On March 15, 2004, Messrs. Spair and Formica received grants of 30,000 and 10,000 restricted shares, respectively. The value of these shares was calculated by multiplying the number of shares in each grant by $7.24, the closing price for the Company s Common Stock as reported on The NASDAQ Stock Market on the date of grant. One-half of the shares in each grant vested on the first anniversary of the grant, and the remaining half vests on the second anniversary.

(6) On January 26, 2005, the Named Executive Officers received the following grants of restricted shares based on their performance during 2004: 78,750 shares for Mr. Michels; 31,500 shares for Mr. Spair; 26,250 shares for Mr. Formica; 26,250 shares for Mr. Zack; and 17,500 shares for Mr. Jerrett. The value of these shares was calculated by multiplying the number of shares in each grant by $5.66, the closing price for the Company s Common Stock as reported on The NASDAQ Stock Market on the date of grant. One-third of each such grant vests on the first, second and third anniversaries, respectively, of the grant.

(7) On November 5, 2003, Messrs. Spair and Formica each received grants of 30,000 restricted shares, and Mr. Zack received a grant of 15,000 restricted shares. The indicated amounts were calculated by multiplying the number of shares in each grant by $8.90, the closing price for the Company s Common Stock as reported on the NASDAQ Stock Market on the date of grant. One-half of the shares in each grant vested on the second anniversary of the grant and the remaining half vests on the third anniversary.

(8) The indicated amounts represent automobile allowances for Messrs. Spair, Formica, Zack and Jerrett in 2004 and 2003.

Option Grants in the Last Fiscal Year(1)

The following table summarizes the number of stock options awarded to the Named Executive Officers during the year ended December 31, 2005:

Name	Number of Securities Underlying Options Granted (2)	Percent of Total Options Granted to Employees in Fiscal Year	Exercise Price Per Share	Expiration Date	Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term(3) 5%	10%
Douglas A. Michels	67,500	10.4 %	$ 5.598	1/26/2015	$ 237,637	$ 602,219
Ronald H. Spair	27,000	4.2	5.598	1/26/2015	95,055	240,888
P. Michael Formica	22,500	3.5	5.598	1/26/2015	79,212	200,740
Joseph E. Zack	22,500	3.5	5.598	1/26/2015	79,212	200,740
Jack E. Jerrett	15,000	2.3	5.598	1/26/2015	52,808	133,827

(1) Except as required by law, options are qualified as incentive stock options and vest as to one-fourth one year after the date of grant, with the remaining three-fourths vesting in equal monthly installments over the following 36 months. Vesting ceases 90 days following termination of employment and is generally accelerated in case of a change in control of the Company. The holder s right to exercise the options will terminate immediately upon termination of employment for cause,

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will expire five years after retirement, and will expire one year after death, disability, or ceasing to be an active employee of the Company for any other reason. Subject to certain conditions, the exercise price of the options may be paid by delivery of previously acquired shares of Common Stock. No stock appreciation rights were granted during the year ended December 31, 2005.

(2) The indicated options were granted on January 26, 2005 in respect of performance rendered during the year ended December 31, 2004.

(3) The amounts shown are hypothetical gains based on the indicated assumed rates of appreciation of Common Stock compounded annually for the period running from the date of grant through the expiration date. There can be no assurance that the Common Stock will appreciate in value at any particular rate or at all in future years.

Fiscal Year-End Option Values

The following table shows 2005 year-end amounts and value of shares of the Common Stock underlying outstanding options for the Named Executive Officers:

Name (1)	Shares Acquired on Exercise	Value Realized	Number of Securities Underlying Unexercised Options at Fiscal Year-End: Exercisable	Unexercisable	Value of Unexercised In-the-Money Options at Fiscal Year-End(2): Exercisable	Unexercisable
Douglas A. Michels			150,000	317,500	$ 156,000	$ 476,473
Ronald H. Spair			327,188	104,812	337,515	167,174
P. Michael Formica			233,378	95,832	317,454	144,000
Joseph E. Zack			159,376	93,124	544,128	222,030
Jack E. Jerrett			132,709	47,291	222,591	82,588

(1) The Named Executive Officers exercised no stock options during 2005 and held no stock appreciation rights at December 31, 2005.

(2) In-the-money stock options are options for which the exercise price is less than the fair market value of the underlying stock on a particular date. The values shown in the table are based on the difference between $8.805, which was the average of the high and low sales prices of the Common Stock as quoted on The NASDAQ Stock Market on December 30, 2005, and the applicable exercise price.

Employment Agreements

In June 2004, when Mr. Michels joined the Company as President and Chief Executive Officer, he and the Company entered into an employment agreement that has an initial term of three years (i.e., through June 22, 2007) and is subject to automatic renewal for successive three-year periods unless the Company gives Mr. Michels at least 90 days written notice that the agreement would not be renewed or Mr. Michels employment was otherwise terminated pursuant to the agreement. Under his agreement, Mr. Michels is entitled to a base salary of at least $400,000 per year, is eligible to participate in the bonus plan established by the Company (with a target bonus at least equal to 50% of his annual salary) and is eligible to receive or participate in any long-term incentive plan or any other additional benefits that may be made available by the Company from time to time. For the calendar year 2004, the agreement provided that Mr. Michels cash bonus would not be less than $160,000. Mr. Michels is also entitled to reimbursement for job-related expenses. The Company reimbursed Mr. Michels for $15,336 of legal expenses he incurred in connection with the negotiation of the terms of his employment agreement.

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Mr. Michels employment agreement provides that he is entitled to participate in the Company s stock award plan and shall have a target amount of stock options that is at least equal to the target amount for the Company s Chief Executive Officer as set forth in the Company s stock option guidelines for senior managers as in effect on the date Mr. Michels employment agreement was executed. All stock awards granted to Mr. Michels are required to immediately vest (i) in the event of a change of control (as defined below) or (ii) if Mr. Michels employment is terminated for good reason (as defined below) by Mr. Michels or without cause (as defined below) by the Company or its successor during the period which begins three months prior to the occurrence of a change of control and ends 18 months after the occurrence of a change of control (a change of control period), and 50% of such stock awards shall vest in the event Mr. Michels employment is terminated for good reason or without cause during any period other than a change of control period.

Under the agreement, Mr. Michels received an option to purchase 400,000 shares of the Company s Common Stock, with the option for the first 100,000 shares vesting one year from the date of grant and the option for the remaining 300,000 shares vesting incrementally in equal monthly installments over the next three succeeding years. The agreement also provided for the grant to Mr. Michels of 350,000 restricted shares, with the first 116,720 of such restricted shares vesting one year from the date of grant and the remaining 233,280 shares vesting in equal amounts of 6,480 shares on each subsequent September 30, December 31, March 31 and June 30, commencing September 30, 2005 and ending June 30, 2014.

Mr. Michels employment agreement will terminate upon his death or disability, or Mr. Michels may terminate the agreement at any time upon 90 days written notice to the Company, by providing written notice within 90 days of an event constituting good reason, or upon 90 days written notice delivered to the Company within 180 days following a change of control. Mr. Michels employment agreement can also be terminated by the Company for cause or without cause. As used in the agreement, the term good reason means (i) a material breach of the agreement by the Company that is not cured within 30 days of written notice, (ii) any diminution in Mr. Michels position, duties or responsibilities or requirement that Mr. Michels report to any person other than the Board of Directors, (iii) any relocation of Mr. Michels primary place of work to a location that is more than 25 miles from the Company s Bethlehem, Pennsylvania facilities, or (iv) a reduction in Mr. Michels salary. The agreement further provides that any of the following events shall constitute cause: (a) the willful and continued failure by Mr. Michels to substantially perform his duties, (b) the engaging by Mr. Michels in gross misconduct or gross negligence materially injurious to the Company, (c) the commission of an act by Mr. Michels in direct competition with or materially detrimental to the Company s best interests, or (d) Mr. Michels commission of a felony.

Upon the termination of Mr. Michels employment upon his death or disability, by Mr. Michels for any reason other than good reason or by the Company for cause, Mr. Michels will be entitled to receive his salary through the date of termination and any bonus approved by the Board or the Compensation Committee prior to the date of termination but not yet paid and, in the case of a termination upon his death or disability, a cash bonus for the calendar year in which termination occurs that Mr. Michels would have received but for his death or disability, prorated through the date of death or commencement of disability. Upon termination of the agreement by Mr. Michels with good reason or after a change of control or by the Company without cause (which includes the Company s failure to renew the agreement), Mr. Michels would be entitled to receive his salary through the date of termination and any bonus that has been approved by the Board or the Compensation Committee prior to the date of termination but not yet paid, a cash bonus for the calendar year in which termination occurs equal to Mr. Michels target bonus for such year, and for a period of one year after the date of termination, benefits for Mr. Michels and/or his family at levels substantially equal to those that would have been provided to them by the Company if Mr. Michels employment had not been terminated. If termination is for good reason or without cause (which includes the Company s failure to renew the agreement) and does not occur during a change of control period, Mr. Michels would also continue to receive his salary for 12 months after termination or, if greater and termination occurs during the initial three-year term of the agreement, the remainder of such initial term. If, however, termination is for good reason or without cause (which includes the Company s failure to renew the agreement) and occurs during a change of control period, or if termination is by Mr. Michels after a change of control, Mr. Michels will be required to enter into a transitional services agreement with the Company pursuant to which he would provide transitional services for a six-month period following the termination date in exchange for payment of his salary over such period, and Mr. Michels would then continue to receive his salary for 30 additional months after completion of the six-month transition service period.

A change in control generally is defined to take place when disclosure of such a change would be required by the proxy rules promulgated by the Commission or when:

- a person (other than the Company, any of its subsidiaries, any employee benefit plan of the Company, or any person with voting power arising from a revocable proxy) acquires beneficial ownership (as defined in Rule 13d-3 under the Exchange Act) of 30% or more of the combined voting power of the Company s voting securities;

- less than a majority of the directors are persons who were either nominated or selected by the Board;

- the consummation of any consolidation or merger in which the Company is not the surviving corporation or the sale, lease, exchange or other transfer of all or substantially all of the assets of the Company; or

- the approval by the stockholders of the Company of any plan or proposal for the liquidation or dissolution of the Company.

Mr. Michels agreement also provides that the Company will pay an amount equal to the first $1 million of excise tax incurred under Section 280G of the Internal Revenue Code on compensation paid to Mr. Michels upon a change of control. In addition, if Mr. Michels is made a party to any action, suit or proceeding by reason of his service as an officer, director, employee, agent or the like of the Company, or by reason of his serving at the Company s request in a similar capacity with another entity, including, without limitation, as a fiduciary of an employee benefit plan sponsored or established by the Company, then Mr. Michels shall be indemnified and held harmless by the Company to the fullest extent authorized by applicable law (including for all reasonable attorneys fees and costs incurred by Mr. Michels) and such indemnification shall continue even if Mr. Michels has ceased to be a director, officer, employee, agent or the like of the Company for any reason.

As further consideration for the severance payable under Mr. Michels employment agreement, during the term of the agreement and for one year thereafter, Mr. Michels is not permitted to:

- recruit, solicit or hire any executive or employee of the Company;

- induce or solicit any current or prospective customer, client or supplier of the Company to cease becoming a customer, client or supplier or divert Company business away from any customer, client or supplier of the Company; or

- own, manage, control, work for or provide services to any entity that competes with the Company in the market for oral fluid or rapid point-of-care diagnostic testing in the United States.

All other employment agreements are substantially similar to Mr. Michels employment agreement, with the following exceptions.

Mr. Spair serves as Executive Vice President and Chief Financial Officer of the Company, and his employment agreement provides for a base salary of at least $284,000 per year. The initial term of Mr. Spair s agreement is two years, rather than three years, from July 1, 2004, with automatic two-year renewal periods. Mr. Spair s target bonus percentage is at least 40% of his base salary, and his agreement does not provide for a specific bonus payment for 2004 or the grant of any restricted shares or options other than Mr. Spair s right to participate in the Company s stock award plan with a target amount at least equal to the target for Mr. Spair under the Company s stock option guidelines for senior managers as in effect on the date of his agreement. The notice periods for termination of Mr. Spair s agreement are 60 days, rather than 90 days, and the Company is obligated to pay an amount up to the first $500,000, rather than $1 million, of excise tax imposed under Section 280G of the Internal Revenue Code on compensation to Mr. Spair as a result of a change in control.

Dr. Lee serves as Executive Vice President and Chief Science Officer of the Company, and his employment agreement provides for a base salary of at least $250,000 per year. The initial term of Dr. Lee s agreement is two years, rather than three years, from September 23, 2005, with automatic two-year renewal periods. Dr. Lee s target bonus percentage is at least 40% of his base salary, and his agreement provided for a cash bonus payment of not less than $75,000 for the calendar year 2005 and the reimbursement of up to $10,000 in legal expenses incurred in connection with his decision to join the Company. His agreement also provided for the grant of an option to purchase 125,000 shares of the Company s Common Stock and 40,000 shares of restricted stock effective as of the date of the agreement and provided that he would receive at least 21,000 restricted shares as part of his equity grant for performance during 2005. The agreement further provides that Dr. Lee has the right to participate in the Company s stock award plan with a target amount at least equal to the target for Dr. Lee under the Company s stock award guidelines for senior managers as in effect on the date of his agreement. Dr. Lee s unvested stock awards will vest to the same extent and under the same conditions set forth in Mr. Michels agreement, except that all of Dr. Lee s unvested stock awards will also immediately vest if his employment is terminated by the Company without cause within 30 months after September 23, 2005, the date of his agreement. The notice periods for termination of Dr. Lee s agreement are 60 days, rather than 90 days, and the Company is obligated to pay an amount up to the first $500,000, rather than $1 million, of excise tax imposed under Section 280G of the Internal Revenue Code on compensation to Dr. Lee as a result of a change in control. Dr. Lee is entitled to receive (i) 18 months, rather than 12 months, of continued salary in the event his agreement is terminated without cause during a period that is not a change of control period but within 30 months after September 23, 2005, the date of his agreement, and (ii) 18 months, rather than 30 months, of continued salary after completion of the six-month transition service period, in the event of a termination of the agreement for good reason or without cause during a change of control period or after a change of control.

Mr. Formica serves as Executive Vice President, Operations of the Company, and his employment agreement provides for a base salary of at least $242,550 per year. The initial term of Mr. Formica s agreement is two years, rather than three years, from July 1, 2004, with automatic two-year renewal periods. Mr. Formica s target bonus percentage is at least 40% of his base salary, and his agreement does not provide for a specific bonus payment for 2004 or the grant of any restricted shares or options other than Mr. Formica s right to participate in the Company s stock award plan with a target amount at least equal to the target for Mr. Formica under the Company s stock option guidelines for senior managers as in effect on the date of his agreement. The notice periods for termination of Mr. Formica s agreement are 60 days, rather than 90 days, and the Company is obligated to pay an amount up to the first $500,000, rather than $1 million, of excise tax imposed under Section 280G of the Internal Revenue Code on compensation to Mr. Formica as a result of a change in control. Mr. Formica shall be entitled to receive 18 months, rather than 30 months, of continued salary after completion of the six-month transition services period, in the event of a termination of his agreement for good reason or without cause during a change of control period or after a change of control.

Mr. Zack serves as Executive Vice President, Marketing and Sales of the Company, and his employment agreement provides for a base salary of at least $222,111 per year. The initial term of Mr. Zack s agreement is two years, rather than three years, from July 1, 2004, with automatic two-year renewal periods. Mr. Zack s target bonus percentage is at least 40% of his base salary, and his agreement does not provide for a specific bonus payment for 2004 or the grant of any restricted shares or options other than Mr. Zack s right to participate in the Company s stock award plan with a target amount at least equal to the target for Mr. Zack under the Company s stock option guidelines for senior managers as in effect on the date of his agreement. The notice periods for termination of Mr. Zack s agreement are 60 days, rather than 90 days, and the Company is obligated to pay an amount up to the first $500,000, rather than $1 million, of excise tax imposed under Section 280G of the Internal Revenue Code on compensation to Mr. Zack as a result of a change in control. Mr. Zack shall be entitled to receive 18 months, rather than 30 months, of continued salary after completion of the six-month transition services period, in the event of a termination of his agreement for good reason or without cause during a change of control period or after a change of control.

Mr. Jerrett serves as Senior Vice President, General Counsel and Secretary of the Company, and his employment agreement provides for a base salary of at least $192,825 per year. The initial term of Mr. Jerrett s agreement is two years, rather than three years, from July 1, 2004, with automatic two-year renewal periods. Mr. Jerrett s target bonus percentage is at least 30% of his base salary, and his agreement does not provide for a specific bonus payment for 2004 or the grant of any restricted shares or options other than Mr. Jerrett s right to participate in the Company s stock award plan with a target amount at least equal to the target for Mr. Jerrett under the Company s stock option guidelines for senior managers as in effect on the date of his agreement. The notice periods for termination of Mr. Jerrett s agreement are 60 days, rather than 90 days, and the Company is obligated to pay an amount up to the first $500,000, rather than $1 million, of excise tax imposed under Section 280G of the Internal Revenue Code on compensation to Mr. Jerrett as a result of a change in control. Mr. Jerrett shall be entitled to receive 18 months, rather than 30 months, of continued salary after completion of the six-month transition services period, in the event of a termination of his agreement for good reason or without cause during a change of control period or after a change of control.

Compensation of Directors

All nonemployee Directors receive an annual fee of $25,000. In addition, the Chairman of the Board receives an additional annual fee of $20,000, the Chairmen of the Audit Committee and Compensation Committee receive an additional annual fee of $10,000 each, and the Chairman of the Nominating and Corporate Governance Committee receives an additional annual fee of $5,000. Thus, the Chairman of the Board, and the Chairmen of the Audit Committee, Compensation Committee, and Nominating and Corporate Governance Committee receive aggregate annual fees of $45,000, $35,000, $35,000 and $30,000, respectively. Annual fees are payable quarterly in advance.

Each nonemployee Director receives a $2,000 fee for each Board meeting attended, and each member of a Board Committee receives an additional $1,000 fee for each Committee meeting attended. A meeting fee will only be paid with respect to a meeting for which minutes are prepared. Nonemployee Directors also receive reimbursement for their reasonable out-of-pocket costs of attending Board and Committee meetings.

Nonemployee Directors receive an initial grant of 40,000 stock options upon joining the Board (the Initial Grant). An additional grant of 40,000 stock options is also made to any nonemployee Director who becomes Chairman of the Board (the Chairman Grant). Each nonemployee Director receives an annual grant of 20,000 stock options (the Annual Grant) on the annual option grant date for officers and employees of the Company, except for the Chairman of the Board, who receives an Annual Grant of 30,000 stock options. Beginning with the grants for 2006, which are expected to be awarded in early 2007, the Annual Grant for the Chairman of the Board will be reduced to 25,000 stock options and the Annual Grant for all other nonemployee Directors will be reduced to 15,000 stock options.

The options granted to nonemployee Directors are nonqualified stock options and have an exercise price equal to the mean between the high and low sales prices of the Company s Common Stock as quoted on The NASDAQ Stock Market on the grant date. Each Initial Grant and Chairman Grant generally vests on a monthly basis over the 24 months immediately following the grant date, and each Annual Grant generally vests on a monthly basis over the 12 months immediately following the grant date. All vesting of the options will cease 90 days after the nonemployee Director ceases to serve on the Board. Options become exercisable in full immediately upon the occurrence of a change in control of the Company. A change in control of the Company would occur on the happening of such events as the acquisition of beneficial ownership by a person or group of 30 percent or more of the outstanding Common Stock of the Company, certain changes in Board membership affecting a majority of positions, certain mergers or consolidations, a sale or other transfer of all or substantially all the Company s assets, or approval by the stockholders of a plan of liquidation or dissolution of the Company, as well as any change in control required to be reported under the Commission s proxy disclosure rules. Payment of the exercise price may be made in cash or by delivery of previously acquired shares of Common Stock having a fair market value equal to the aggregate exercise price.

Compensation Committee Interlocks and Insider Participation

Roger L. Pringle and Douglas G. Watson served as members of the Compensation Committee of the Board during 2005. In January 2006, Charles W. Patrick joined the Board and became a member of the Compensation Committee. None of Mr. Pringle, Mr. Watson or Mr. Patrick currently serves as an officer of the Company. There are no compensation committee interlocks between the Company and any other entity involving the Company s or such entity s executive officers or board members.

The following report of the Compensation Committee of the Board (the Committee) and the Stock Price Performance Graph shall not be deemed to be incorporated by reference by any general statement incorporating by reference this Proxy Statement into any filing by the Company under either the Securities Act or the Exchange Act, except to the extent that the Company specifically incorporates this information by reference. The following report and the Stock Price Performance Graph shall not otherwise be deemed filed under such Acts.

Report on Executive Compensation

General. The Committee, which is composed solely of independent, nonemployee Directors, is responsible for establishing and administering the Company s policies that govern executive compensation and benefit practices. The roles and responsibilities of the Committee are set forth in a written Charter.

Compensation Philosophy. The Company s executive compensation programs are designed to (i) reflect the financial performance of the Company and achievement by management of financial and other performance objectives, (ii) align the interests of management with the interests of the Company s stockholders, and (iii) provide long-term incentives for management. The Company seeks to set compensation at levels sufficiently competitive to attract and retain high quality executives, and to motivate them to contribute to the Company s successes. Specifically, the Company tries to set compensation levels near the median or 50^{th} percentile of amounts paid by comparable medical device and healthcare companies with an opportunity to achieve up to the 75^{th} percentile based on performance.

In establishing compensation for executive officers, the Committee considers the total value of compensation provided to each officer as well as the Company s and each officer s performance against previously-established objectives, the Company s industry position, general industry data and recommendations of third party consultants. In furtherance of these goals, the components of executive compensation include base salary, incentive cash bonuses, stock awards and other benefits, and are linked to both Company and individual performance.

For 2005, the Committee evaluated the performance of Douglas A. Michels, the Company s President and Chief Executive Officer, and reviewed the performance evaluations of the other executive officers. The Committee also retained an independent compensation consultant to provide a competitive analysis of compensation levels paid to the Company s officers. Based on these evaluations and a review of the consultant s analysis, which included compensation data for other medical device and healthcare companies, the Committee determined and approved salaries, incentive cash bonuses and stock awards for Mr. Michels and the other executive officers. Compensation approved by the Committee for Mr. Michels was then recommended for approval and approved by the Company s Board of Directors.

Base Salary. At least annually, the Committee sets the salary for all executive officers. The Committee reviewed the performance of the Chief Executive Officer and other executive officers, and received and considered management recommendations concerning salary adjustments for the other executive officers. The Committee also considered recommendations of the compensation consultant and data regarding other medical device and healthcare companies.

The Committee s compensation decisions for 2005 were influenced by the Company s strong financial performance and the fact that it met most of its financial objectives for that year. The Company s revenues were more than $69 million in 2005, representing a 28% increase over 2004. Net income for 2005 was $27.4 million, or $9.7 million before income taxes, and represented a substantial improvement over the $0.6 million net loss recorded for 2004. The Company s gross margin was 60% for 2005, an improvement over the gross margin of 59% for 2004, and the Company generated $10.6 million in cash flow from operations during 2005, which substantially exceeded the $3.4 million generated in 2004.

In addition to the Company s record financial performance, the Company made substantial progress towards achieving its strategic objectives under Mr. Michels leadership. These objectives included expansion of the Company s base business consisting of its existing product lines and technologies, development or acquisition of additional point-of-care tests for infectious diseases and the potential development and offering of new over-the-counter (OTC) products. The Company expanded its base business significantly in 2005, as evidenced by substantial revenue increases in the infectious disease testing, substance abuse testing and cryosurgical systems markets compared to 2004. This growth was achieved in part through the addition of several new distributor relationships during 2005, the most significant of which was an agreement with SSL International to distribute the Scholl Freeze cryosurgical wart removal product in the OTC footcare market in Europe, Australia and New Zealand. The Company also took important steps towards expanding its point-of-care testing business with the