

VBEX Inc.

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Patricia A. Milligan, R.Ph., C.H.P.
Senior Advisor for Emergency Preparedness
Office of Nuclear Security and Incident Response
6-H2, NSIR/DPR/DDEP
11555 Rockville Pike
Rockville, Maryland 20852

RE: Nuclear Regulatory Commission (NRC) contract no. NRC-03-04-027

Dear Ms. Milligan:

I am writing with respect to Nuclear Regulatory Commission (NRC) contract no. NRC-03-04-027, dated March 4, 2004. As you know, this contract is a "fixed price/requirements" contract for the periodic purchase by the NRC of IOSAT® potassium iodide tablets from Anbex, Inc.

The price at which the NRC may purchase potassium iodide tablets under the contract reflected both parties' understanding that the 130 mg. tablet product being purchased would have a shelf life of five years, and the 65 mg. tablet being purchased would have a shelf life of three years. (I note that the negotiated price represents a *substantial* discount relative to the price paid by Anbex's retail customers.)

As you are aware, Anbex has FDA approval to manufacture a tablet with an extended 7-year shelf life. FDA has also approved a 6-year shelf life for the 65 mg. tablet, which was previously manufactured and distributed with a three-year shelf life. Currently, Anbex has, in inventory, a supply of 130 mg. tablets with a seven-year shelf life, manufactured and packaged for Anbex's retail market. Anbex plans to fill the part of Delivery Order #9 that calls for 130 mg. tablets with tablets from inventory that are labeled with a seven-year shelf life. Anbex also intends to fill the part of Delivery Order #9 that calls for 65 mg. tablets with tablets from inventory that are labeled with a 6-year shelf life. These seven-year 130 mg. tablets and 6-year 65 mg. tablets represent added value to the NRC, which Anbex is providing as a courtesy.

As contemplated by the existing contract, future orders under the existing contract will be filled with the five-year and three-year products. However, if the NRC wishes, Anbex would be happy to negotiate a revised contract under which the agency may purchase potassium iodide 130 mg. tablets with a seven-year shelf life and potassium iodide 65 mg. tablets with a six-year shelf life.

The existing contract calls for Anbex to deliver potassium iodide 130 mg. tablets ordered by the NRC during the two-year period between March 4, 2004 and March 4, 2006, at a price of \$0.1975 per tablet. The contract includes three one-year option periods, in which the NRC may extend the contract and purchase potassium iodide tablets at specified prices. During the first option year, the price for 130 mg. tablets remained \$0.1975 per tablet. During the second option year, the 12-month period between March 4, 2007 and March 4, 2008, the contract calls for a five percent increase over the previous year's price, or \$0.2074. There is another five percent increase over the previous year's price for option year three, the 12-month period between March 4, 2008 and

March 4, 2009, so that the price for purchasing 130 mg. potassium iodide tablets in that year will be \$0.2177.

With respect to 65 mg. potassium iodide tablets, the contract calls for Anbex to deliver tablets ordered by the NRC during the two-year period between March 4, 2004 and March 4, 2006, at a price of \$0.2150 per tablet. During the first option year, the price for 65 mg. tablets remained \$0.2150 per tablet. During the second option year, the 12-month period between March 4, 2007 and March 4, 2008, the contract calls for a five percent increase over the previous year's price, or \$0.2258. There another five percent increase over the previous year's price for option year three, the 12-month period between March 4, 2008 and March 4, 2009, so that the price for purchasing 65 mg. potassium iodide tablets in that year will be \$0.2370.

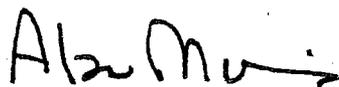
Anbex currently supplies seven-year 130 mg. IOSAT® tablets to its retail customers, at a price of approximately \$0.71 per tablet. Anbex does not supply 65 mg. tablets to the retail market, but it is Anbex's understanding that Recip AB supplies such tablets to the retail market, under the trade name Thyrosafe®, with a 6-year shelf life, at a price of approximately \$0.49 per tablet. As you may know, Anbex represents Recip and has been appointed the company's distributor for the sale of Thyrosafe® to the government.

Should the NRC be interested in pursuing a contract for the extended shelf-life product, Anbex proposes to supply the NRC with seven-year 130 mg. potassium iodide tablets at a price of \$0.2574 per tablet and six-year 65 mg. potassium iodide tablets at a price of \$0.2758 per tablet. It should be noted that this price represents an increase of about 24% for IOSAT® and about 22% for Thyrosafe®, even though the extension of the shelf life is 40% for IOSAT® and 100% for Thyrosafe®. Anbex envisions a contract similar in structure to the existing contract, with a two-year base period of performance, and three one-year option periods, with five percent price increases in the second and third option years.

We hope that this proposal meets with your approval. Anbex believes that these proposed prices are quite reasonable and represent a fair reflection of the higher value of the extended shelf-life product. As noted, these products sell on the retail market for prices that are two to three times the price we now offer to the NRC.

We look forward to hearing from you.

Sincerely,



Alan Morris
President
Anbex, Inc.