



Diagnostic Testing and Technology Report

Competitive Intelligence & Analysis for an Expanding Global Market

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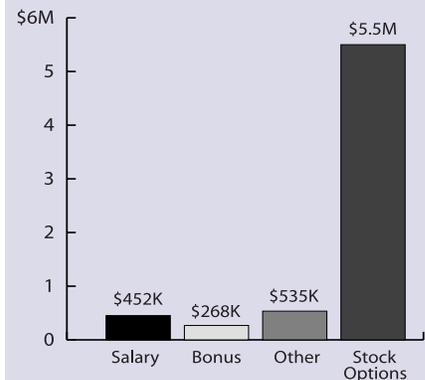
IVD Execs Got An Average Of \$7 Million Each Last Year

The top executives at 25 leading American IVD companies received total compensation (including options) of \$169.5 million last year for an average of about \$7 million per executive, according to an analysis by DTTR of proxy reports filed with the U.S. Securities & Exchange Commission.

The average salary for these executives in 2002 was \$452,013; bonuses averaged \$267,869; and "other" compensation (e.g., restricted stock awards, life insurance coverage, country club memberships, forgiven loans, etc.) was \$535,452. But the biggest component of compensation was stock options, which averaged \$5.5 million in value per executive.

While IVD execs took home sky-high pay last year, their shareholders were left holding the bag. Stock prices at the 25 companies analyzed fell an unweighted average of 13% in 2002. For details on who got paid what, see *Inside The Diagnostics Industry*, pp. 5-7. 🏠

Average IVD Executive Pay



Source: DTTR from company proxies

Medicare Examining Cost-Effectiveness Data For Coverage Decision On Immunoassay-Based FOBt

In a fundamental change, the Centers for Medicare and Medicaid Services (CMS) is now weighing cost as a factor in deciding whether to cover new diagnostic tests. The first sign of change came on March 3, when CMS announced that it had begun a formal review on whether to cover a new screening test for colorectal cancer made by Enterix Inc. (Falmouth, ME). A coverage decision is expected to be made by June 1, and CMS has stated that it will review cost-effectiveness data in its decision-making process. In the past, CMS has based its coverage decisions for new diagnostics primarily on clinical studies that demonstrated specificity, sensitivity, and patient compliance.

Craig Sands, chief executive at the privately held Enterix, says that the company has funded cost-analysis studies conducted by a scientific ➔ p. 2

▲ **Medicare Examining Cost-Effective Data**, *from page 1*

group at Johns Hopkins University that show that when priced at approximately \$25 per test, the InSure test is more cost effective than conventional guaiac-based FOBTs. The chief benefit that immunoassay-based fecal occult blood tests (FOBTs) have over conventional FOBTs is higher specificity, according to Sands.

The InSure test was cleared by the FDA for commercial sale in January 2001 and is currently covered by Medicare carriers for diagnostic purposes (not screenings) on a “gap fill” basis under CPT Codes 82274 and 82274QW.

Sands believes that, in addition to making a coverage decision on InSure as a screening test, CMS may also simultaneously set a national limitation amount (i.e., price) for the test. A reimbursement rate of \$25 per InSure test would be substantially higher than the \$4.54 that Medicare currently pays labs for conventional FOBTs. Robert Bruce, vice president of reimbursement at Enterix, notes that other immunoassay-based tests for cancer are reimbursed by Medicare in the \$20 to \$30 range, including PSA Total at \$25.70 and CA-125 at \$29.07.

Sands, who joined Enterix in September 2002, was formerly vice president of sales and marketing at Cytoc Corp. (Boxborough, MA). He says there are many similarities between what Cytoc has accomplished in the cervical cancer screening market and what Enterix is trying to do in colorectal cancer screening. “In each case, you’ve got a testing technology that has not been improved upon in decades [i.e., the Pap smear for cervical cancer and the conventional FOBT for colorectal cancer].”

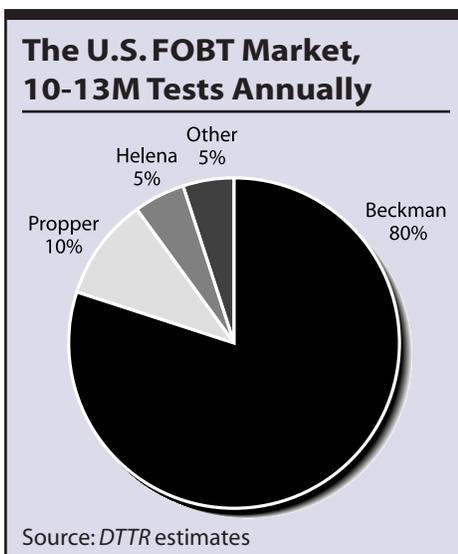
There were 148,000 cases of colorectal cancer in 2002, resulting in 56,000 deaths, according to data from the U.S. National Cancer Institute. The disease accounts for the second-highest number of deaths among all cancers in the U.S. after lung cancer. Sands believes that a more accurate test combined with higher patient compliance to recommendations for annual screenings for those over age 50 could essentially eradicate colorectal cancer in the U.S.

Among other IVD manufacturers who are sure to be closely watching Enterix’s efforts to gain Medicare coverage is Beckman Coulter (Fullerton, CA), which has

an estimated 80% market share of the 10 million to 13 million conventional FOBTs performed in the U.S. each year. The company’s market-leading tests include Hemocult and the Hemocult Sensa tests that have been on the market for over 30 years.

Other makers of conventional FOBTs include Proper Manufacturing (Long Island City, NY), which has an estimated 10% market share, and Helena Laboratories Corp. (Beaumont, TX), which has an estimated 5% share. The remaining 5% is split by private-label products offered by medical supply distribution companies like Fischer Scientific and Physician Sales and Services.

In addition, Beckman launched its own FDA-cleared immunoassay-based test for colorectal cancer (aka, FlexSure OBT) in late 1997. However, Nels Struve, marketing manager for



Beckman, tells *DTTR* that the inability to get adequate reimbursement from insurers and Medicare played a role in Beckman's decision to withdraw FlexSure OBT from the market in November 2001. Struve says that Beckman could potentially bring FlexSure OBT back into the market if the reimbursement picture changes.

Another interested party is Exact Sciences (Maynard, MA), which has developed a DNA-based test for colorectal cancer screening. Barry Berger, M.D., vice president for laboratory medicine at Exact, says the company hopes to submit a coverage-decision request to CMS by the end of the year. Berger says Exact will include cost-effectiveness data with its request.

He says Exact just completed enrollment of 5,500 patients for a multicenter study of its testing technology—named PreGen-Plus. He expects the company will complete processing of all patient test samples by the end of the summer and that results will be available for the company's planned Medicare coverage request.

In the meantime, Exact is moving forward with plans to begin marketing PreGen-Plus as a "homebrew" test this summer through a partnership with LabCorp (Burlington, NC). Pricing is expected to be in a range of \$500 to \$700 per test. 🏠

Roche Aims To Have SARS Test Ready In June

Roche Holding (Basel, Switzerland) says it's set to introduce a test for severe acute respiratory syndrome (SARS) to the research community in June. Speaking at an investor's conference in Stockholm, Sweden, on May 7, Heino von Prondzynski, head of Roche Diagnostics, said that the PCR-based test will first be distributed to the research market at a price of \$10 to \$15 per test, which will help cover development costs.

However, Prondzynski cautioned that he does not see the test receiving regulatory approval for wider distribution for at least 18 months. He also said that, while SARS is clearly dangerous, it pales in comparison to the flu epidemics of 1923 or 1967 that killed 20 million people worldwide. And, he noted, the flu still kills millions each year. So if the question is whether the SARS test will become a huge business proposition, "I clearly say no," said Prondzynski.

Separately, Don Braakman, spokesman for Abbott Diagnostics, tells *DTTR* that Abbott is working to finalize a distribution agreement with an unnamed SARS test developer. Formal announcement of an agreement is expected within days.

At the same time, numerous smaller companies claim to have developed or be in the process of developing SARS tests. An official at the Centers for Disease Control and Prevention (Atlanta, GA) says there is no way of telling how many entrepreneurs are developing PCR-based SARS tests. He adds that about a dozen companies have contacted CDC for additional assistance, reagents, virus sequences, or other related information, but this may just be the tip of the iceberg.

Meanwhile, the first detailed study of the spread of the SARS virus in Hong Kong has discovered that the death rate among sufferers is much higher than previously estimated. The World Health Organization (WHO) initially estimated that the death

rate from the virus was about 5%. But a new study led by Professor Roy Anderson, an authority on infectious diseases at Imperial College (London, England), puts the death rate at one in five (20%) of those admitted to a hospital.

Furthermore, the study estimates that the death rate could be as high as 55% for people over the age of 60. In younger people—those under 60—the death rate could be as low as 6.8%, the study found.

The findings of the study, which was based on 1,425 SARS cases in Hong Kong up to April 28, were published on May 7 on the Web site of *The Lancet* medical journal.

The latest figures from the WHO show that, as of May 7, the disease has sickened 6,903 people worldwide (more than double the number of a month ago) and killed 495 (more than triple the number of a month ago). In the U.S. there are 65 probable cases but no deaths to date. 🏠

Abbott To Market MAS West Nile Virus Test

Abbott Laboratories (Abbott Park, IL) has entered into a co-marketing agreement with Medical Analysis Systems, Inc. (MAS), a Fisher Scientific International Inc. (Hampton, NH) company, for the VecTest family of antigen-based assays, including a rapid test for detecting the West Nile virus in infected mosquitoes. The proprietary VecTest products, developed and manufactured by MAS, also include rapid tests for detecting malaria and Saint Louis encephalitis in infected mosquitoes.

Under the agreement, MAS will manufacture the tests, and Abbott will have rights to market the product worldwide.

Abbott is also developing a laboratory test to detect human antibodies to the West Nile virus in recently infected individuals. The company plans to submit a marketing application to the U.S. Food and Drug Administration in early summer. 🏠

Matritech Gets FDA Clearance For Bladder Cancer Screening Test

Matritech Inc. (Newton, MA) has received FDA clearance to market its NMP22 BladderChek urine test as a rapid screening test that physicians can use in their offices to help diagnose patients with bladder cancer. In July 2002, Matritech received FDA clearance to market the NMP22 BladderChek test for monitoring patients previously diagnosed with the disease.

Cytogen Corporation (Princeton, NJ) distributes the test to urologists in the United States. Reagents for the test are being sold for approximately \$20 per test. Medicare currently reimburses the test under CPT code 86294 (national limit is \$27.11 per test).

Bladder cancer is one of the most common cancers, with 56,500 new cases and 12,600 deaths in the U.S. last year, according to data from the American Cancer Society (ACS). If diagnosed at its early, localized stage, the five-year survival rate is 94%, according to ACS. 🏠

inside the diagnostics industry

Abbott, Dade, Cytoc, Gen-Probe Execs Richly Rewarded In 2002

Why CEOs get paid so much? For our answer, see page 12

Total compensation (including stock option awards) for 25 IVD chief executives rocketed up 40% to an average of about \$7 million per executive in 2002 from \$5 million in 2001. The compensation increases came despite the fact that 16 of the IVD companies surveyed saw their stock prices decline last year. The unweighted average stock price change for the 25 companies was -13%.

The highest paid IVD executive in 2002 was Richard Gonzalez, president and chief operating officer for Abbott's medical products group (including diagnostics), who received total compensation of \$53 million, including options to buy 502,035 shares of Abbott stock potentially worth \$43.3 million (assuming 10% annual stock appreciation).

As reported in the last issue of *DTTR*, Miles White, chairman and chief executive of Abbott Laboratories (Abbott Park, IL) received total compensation of \$72 million in 2002, including options with a potential worth of \$57.7 million. At the company's recent annual meeting, shareholders defeated a proposal requesting that Abbott's board of directors grant no bonuses, pay raises, or stock options to the company's top executives in any year in which Abbott was forced to pay any fines to the government in excess of \$15 million.

The next highest-paid IVD executive was Jim Reid-Anderson, chairman and CEO of Dade Behring (Deerfield, IL), who earned a total of \$27.6 million. Reid-Anderson's compensation included salary of \$749,260, bonus of \$1.6 million,

and other compensation of \$2.1 million, including \$1.9 million worth of stock awards granted in connection with the company's Chapter 11 bankruptcy reorganization. Anderson also received 988,240 stock options with a potential value of \$23.2 million if Dade's stock were to appreciate 10% annually until their expiration date in October 2012.

Dade's stock began trading on the over-the-counter market in October 2002 at \$14.72 per share and ended the year 6% higher at \$15.60.

IVD Execs: Largest Option Awards In 2002

Company	Executive	# Options Received	Value (\$ mil)
Abbott Labs	Richard Gonzalez	502,035	\$43.3
Dade Behring	Jim Reid-Anderson	988,240	23.2
Cytoc	P. Sullivan	850,000	23.1
Gen-Probe	Henry Nordhoff	301,747	9.2
TheraSense	W. Mark Lortz	150,000	7.2
Digene	Evan Jones	69,000	3.5
Johnson & Johnson	J.T. Lenehan	250,000	3.5*
Becton Dickinson	Edward Ludwig	300,000	3.5*
i-Stat	William Moffitt	310,000	3.2
Biosite	Kim Blickenstaff	75,000	3.0
Bio-Rad	David Schwartz	65,240	2.7
Beckman Coulter	John Wareham	150,000	2.4*

*Grant date present value; those without an asterisk are valued assuming 10% appreciation

Source: *DTTR* from company proxies

Third-highest paid was Patrick Sullivan, chief executive of Cytoc (Boxborough, MA), who earned a total of \$23.5 million. Sullivan's compensation included salary of \$449,772, zero bonus, other compensation of \$6,000, and 850,000 stock options potentially worth \$23.1 million.

Cytoc's net income rose to \$47.9 million in 2002 from \$12.6 million in 2001, but Cytoc's stock price dropped 61% last year to \$10.20 per share.

Henry Nordhoff, chairman of Gen-Probe (San Diego, CA), earned \$10.1 million, including salary of \$443,077, bonus of \$420,000, and other compensation of \$15,908. Nordhoff also got 301,747 stock options with a potential value of \$9.2 million.

Gen-Probe, which was spun off from Chugai Pharmaceuticals (Tokyo, Japan) in September 2002, posted net income of \$13 million last year, up from \$4.6 million in 2001. Gen-Probe's stock began trading on the Nasdaq on Sept. 15, 2002 at \$13.80 per share and ended the year 72% higher at \$23.79.

European Execs Playing Catch Up

Historically, compensation for the top executives at European companies has been fairly restrained when compared to their counterparts in the United States. For the most part, European executive compensation has been geared toward paying reasonable salaries and bonuses, with little in the way of the lavish stock options and restricted stock awards that most American executives receive.

But that's changing. Roche Group, for example, has recently instituted a special performance share plan under which Roche's eight-member executive committee stands to gain 98,312 Roche shares if the company's stock outperforms a peer group of companies over the next three years. And, a new pension plan has been established for Roche's executive committee to provide retirement pay commensurate with their salary levels.

Heino von Prondzynski, head of the diagnostics division at Roche, tells *DTTR* that European executives have traditionally received modest compensation relative to American execs partly because there was greater job security in Europe. However, he says that European executives are increasingly becoming exposed to losing their jobs because of short-term failure in performance. As a result, European executive compensation is starting to look more like that in the U.S., according to Prondzynski.

At the very top, Franz Humer, chairman and CEO of Roche, earned total compensation of approximately \$6.6 million last year, including salary of \$4.5 million, bonus of \$1.1 million, and 45,428 stock options valued at about \$1 million. Humer also stands to gain 50,886 Roche shares under the performance plan outlined above, and the initial contribution to his new pension plan amounted to \$1.4 million.

Other well-compensated IVD executives included Mark Lortz, chairman and CEO of TheraSense (Alameda, CA), who received total compensation of \$7.6 million, while the company reported a net loss of \$29.2 million and the stock fell 66%; James Lenehan, worldwide chairman of the medical devices & diagnostics group at Johnson & Johnson (New Brunswick, NJ), received a total of \$6.2 million as J&J reported net income of \$6.6 billion and its stock fell 9%; and Edward Ludwig, chairman and CEO of Becton Dickinson (Franklin Lake, NJ), received \$5.2 million as the company reported net income of \$480 million and its stock fell 7%.

The lowest paid executive in our survey was Michael Gausling, president of OraSure Technologies (Bethlehem, PA), who earned salary and other compensation of \$261,612 with no bonus or stock options. OraSure reported a net loss of \$3.3 million in 2002 vs. a net loss of \$3.7 million. OraSure's stock price fell by 56% last year to \$5.45 per share. 🏠

2002 IVD Executive Cash Compensation

Company/Executive	Salary	Bonus	Other Comp	2002 Total Cash Comp	2002 Company Net Income	2002 Stock Price % Chg
Abaxis¹						
Clinton Severson, Chmn	\$265,000	\$82,500	\$0	\$347,500	\$271,000	-31%
Abbott Labs						
Richard Gonzalez, Pres, medical products	802,508	505,000	8,395,227	9,702,735	2,793,700,000	-28%
Beckman Coulter						
John Wareham, Chmn	752,097	118,800	126,887	997,784	135,500,000	-33%
Becton Dickinson²						
Edward Ludwig, Chmn	850,000	750,000	87,456	1,687,456	479,982,000	-7%
Bio-Rad						
David Schwartz, Chmn	531,495	317,526	931,014	1,780,035	67,863,000	22%
Biosite						
Kim Blickenstaff	320,670	513,421	5,433	839,524	13,394,000	85%
Cholestech³						
Warren Pinckert, Pres	293,750	90,155	8,422	392,327	5,550,000	-65%
Cytec						
Patrick Sullivan, Chmn	449,712	0	6,000	455,712	47,894,000	-61%
Dade Behring						
Jim Reid-Anderson, Chmn	749,260	1,567,559	2,117,527	4,434,346	-82,800,000	6%
Diagnostic Products						
Michael Ziering, Chmn	510,000	0	30,700	540,700	47,313,000	-12%
Digene⁴						
Evan Jones, Chmn	296,250	122,000	0	418,250	-9,397,000	-61%
Exact Sciences						
Don Hardison, Pres	300,000	145,000	0	445,000	-29,883,000	6%
Gen Probe						
Henry Nordhoff, Chmn	443,077	420,000	15,908	878,985	13,007,000	72%
Igen International⁵						
Samuel Wohlstadter, Chmn	392,167	250,000	0	642,167	-43,928,000	7%
Immucor⁶						
Edward Gallup, Chmn	237,066	40,391	46,363	370,183	8,795,000	156%
Inverness Medical						
Ron Zwanziger, Chmn	323,750	550,000	0	873,750	-43,083,458	-27%
i Stat Corp.						
William Moffitt, Pres	403,000	80,197	569,185	1,074,053	-64,594,000	-49%
Johnson & Johnson						
James Lenehan, Chmn, med devices/diagnostics	930,769	897,750	883,619	2,712,138	6,597,000,000	-9%
Meridian⁷						
William Motto, Chmn	387,700	0	41,779	429,479	5,031,000	14%
Myriad Genetics⁸						
Peter Meldrum, Pres	385,518	131,015	1,354	517,887	-13,989,370	-72%
OraSure Technologies						
Michael Gausling, Pres	243,000	0	18,612	261,612	-3,342,473	-56%
Quidel						
S. Wayne Kay, Pres	395,681	0	84,810	480,491	1,291,000	-55%
TheraSense						
Mark Lortz, Chmn	353,173	43,700	16,000	412,873	-29,162,000	-66%
TriPath Imaging						
Paul Sohmer, MD, Chmn	382,500	71,719	0	454,219	-18,064,000	-64%
Ventana						
Christopher Gleeson, Pres	255,808	0	0	255,808	4,073,000	2%
Average, 25 execs	\$452,013	\$267,869	\$535,452	\$1,255,334		-13%

*Other compensation includes the value of restricted stock awards, plus company contributions to retirement plans and life insurance policies, forgiven loans and company cars, but excludes stock options

1) Abaxis executive compensation and net income data are for the fiscal year ended March 31, 2002.

2) Becton Dickinson executive compensation and net income data are for the fiscal year ended Sept. 30, 2002.

3) Cholestech executive compensation and net income data are for the fiscal year ended April 30, 2002.

4) Digene executive compensation and net income data are for fiscal year ended June 30, 2002.

5) Igen International executive compensation and net income data are for the fiscal year ended March 31, 2002.

6) Immucor executive compensation and net income data are for the fiscal year ended May 31, 2002.

7) Meridian executive compensation and net income data is for the fiscal year ended Sept. 30, 2002.

8) Myriad's executive compensation and net income data is for the fiscal year ended June 30, 2002.

Source: DTTR from company proxies

Quest And Thermo Electron Launch Cystic Fibrosis DNA Chip

DNA chips are finally making their way into clinical diagnostic use. In addition to the Quest-Thermo Electron cystic fibrosis test, Roche and Affymetrix have developed a chip for CYP450 that will soon be introduced to clinical labs (see DTTR, March 2003, p. 1)

Quest Diagnostics (Teterboro, NJ) and Thermo Electron Corp. (Waltham, MA) have announced development of an automated DNA chip for the detection of cystic fibrosis (CF) gene mutations during prenatal screening. The new DNA chip, called the CF Portrait, is being used at Quest's Nichols Institute (San Juan Capistrano, CA) as a homebrew test for cystic fibrosis carrier screening, which identifies parents who are at risk of having children with the disease. The CF Portrait test is expected to be used for all such screening at Nichols Institute by July 1, 2003, according to Gary Samuels, spokesman for Quest.

The CF Portrait DNA chip is designed and manufactured by Thermo Electron's Thermo BioStar unit, part of the company's clinical diagnostics division, and uses proprietary thin-film technology to place assay probes on a coated silicon chip. After patients' genetic material is injected into the chip, Thermo Electron's NucleoSight imaging system identifies and analyzes mutant probes. Samuels says CF Portrait currently tests for the 25 mutations currently recommended for screening by both the American College of Obstetricians & Gynecologists (ACOG—Washington, DC) and the American College of Medical Genetics (ACMG—Bethesda, MD).

Screening for CF gene mutations has exploded since September 2001, when ACOG and ACMG each issued guidelines recommending that doctors offer the testing to every Caucasian—or partner of a Caucasian—who is pregnant or considering having a baby. For example, Samuels says that Quest's CF test volume quadrupled in 2002, and as of early 2003 it was performing hundreds of thousands of CF tests on an annualized basis.

Samuels notes that Quest has exclusive rights to incorporate the CF Portrait DNA chip into its laboratories and is currently working with Thermo Electron to develop other DNA-chip-based tests. He adds that DNA chips will allow for faster test turnaround, greater consistency and quality control, and less manual work. 🏠

DNA Sciences Turns \$110M Into \$1.3M; Files For Bankruptcy Protection

After raising and spending \$110 million in the past five years, DNA Sciences (Fremont, CA) has filed for Chapter 11 bankruptcy protection and agreed to sell most of its assets to Genaissance Pharmaceuticals (New Haven, CT) for \$1.3 million in stock and cash. The transaction, subject to bankruptcy court approval, is expected to close within 60 days. DNA Sciences is one of a number of "genomics" companies formed in the late 1990s with the goal of analyzing human genetics in order to find new drugs and tests for treating and diagnosing disease. But a slow-down in pharmaceutical research spending and an inability to tap the financial markets to fund continuing losses is forcing many genomics companies to restructure or shut down operations altogether.

DNA Sciences had sought to create a bank of genetic material, dubbed "Gene Trust," from DNA samples and medical records collected from thousands of volunteers.

DNA Sciences had hoped to raise as much as \$125 million in 2001 from an initial public offering (see DTTR, February 2001, p. 10), but the bear market put the kibosh on those plans

The company had hoped to analyze the data in order to identify the inherited traits that contribute to common diseases and then create genetic tests and new drugs based on discoveries.

DNA Sciences also owns a CLIA-certified laboratory in Research Triangle Park, North Carolina that mainly provides genetic testing services to pharmaceutical companies, with a focus on gene variants that influence drug metabolism. Genaissance says it will maintain the North Carolina laboratory and shut down the Fremont research operations.

The Gene Trust databank is not part of the deal with Genaissance. Instead, DNA Sciences has put the Gene Trust specimens and data on the auction block, to be sold to the highest bidder. After Gene Trust has been sold, DNA Sciences says that depositors will be notified and given the right to withdraw their specimens and medical records.

At its height, DNA Sciences had 170 employees, but trimmed the number to 55 in a restructuring two years ago. The company had hoped to raise as much as \$125 million in 2001 from an initial public offering (see DTTR, February 2001, p. 10), but the bear market put the kibosh on those plans.

Venture capital investors in DNA Sciences had included James Clark, PhD (founder of Netscape and WebMD) and international financier George Soros, who owned a stake through his Quantum Partners funds.

Genaissance, which is also trying to develop new drugs and diagnostic tests based on genomics research, is not a pillar of financial strength either. Last year, Genaissance posted a net loss of \$33.1 million vs. a net loss of \$47.6 million in 2001; revenue was \$8.1 million vs. \$5.3 million; cash holdings as of Dec. 31, 2002 totaled \$34 million.

Meanwhile, a review of the financials at 10 other genomics companies shows that DNA Sciences is not likely to be the last one to go out of business. The firms listed below posted a combined net loss of \$1.3 billion in 2002 on revenue of \$669.5 million; accumulated net losses total a staggering \$3.6 billion. 🏠

The Genomics Money Pit (\$ millions)

Company	2002 Revenue	2002 Net Loss	Cash Holdings ¹	Accumulated Losses
CuraGen	\$18.2	-\$90.4	\$414.8	-\$159.4
Decode Genetics	41.1	-131.9	87.2	-131.9
Exact Sciences	0.1	-29.9	43.8	-76.5
Genaissance Pharmaceuticals	8.1	-33.1	34.0	-193.6
Gene Logic	54.8	-24.1	167.1	-159.4
Human Genome Sciences	3.6	-219.7	1,491.7	-701.5
Incyte Genomics	101.6	-136.9	429.0	-405.0
Lexicon Genetics	35.2	-59.7	123.1	-149.7
Millennium Pharmaceuticals	353.0	-590.2	1,759.1	-1,532.8
Myriad Genetics ²	53.8	-14.0	124.2	-73.8
Totals	669.5	-1,329.9	4,674.0	-3,583.6

¹Includes cash plus marketable securities ²Data for Myriad Genetics is for fiscal year ended June 30, 2002
Source: DTTR from company financial reports

Sysmex To Take Back Distribution Of Hematology Systems In U.S.

Sysmex Corp. of America (Long Grove, IL), a unit of Sysmex Corp. (Kobe, Japan), and Roche Diagnostics Corp. (Indianapolis, IN) have signed an asset purchase agreement that will transfer Roche's U.S. hematology business unit back to Sysmex.

Roche has been distributing Sysmex's hematology systems in the U.S. since February 1999 and now has a 15% share of the market. The distribution agreement was due to expire in 2004, but has been accelerated to June of this year. Roche says it wants to focus its attention on growth opportunities in glucose monitoring, molecular diagnostics, immunochemistry, and chemistry.

Sysmex says the move will allow for a greater focus on the U.S. hematology business. In conjunction with the take over of the U.S. hematology business, Sysmex will expand its number of U.S. employees from approximately 100 to 250 over the next year and move into a larger headquarters in Mundelein, IL, says spokesman Ron Walczak.

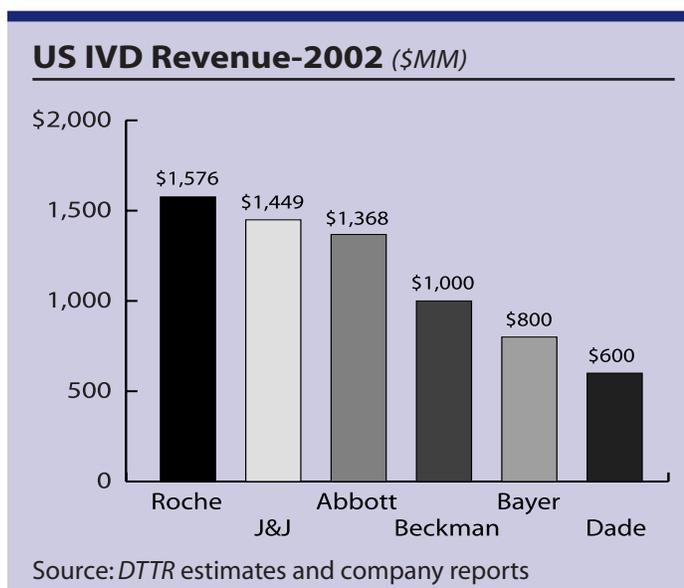
Walczak notes that existing agreements for Roche to distribute Sysmex's hematology systems outside of the U.S. will remain in place. 🏠

Roche To Expand In Indianapolis

Roche Diagnostics Corp. (RDC—Indianapolis, IN), the U.S. diagnostics unit for Roche Group (Basel, Switzerland), says it will invest more than \$135 million and add approximately 600 new employees in Indianapolis over the next 10 years. In return for this commitment, RDC says it will receive up to \$22 million worth of state tax credits, training grants, property tax abatement savings, and public infrastructure improvements from the City of Indianapolis and State of Indiana.

RDC currently employs more than 2,150 people in Indianapolis and a total of 3,600 throughout the U.S. The company generated \$1.576 billion of revenue from U.S. diagnostic operations in 2002, up from \$1.4 billion in 2001.

Note: A graph titled *US IVD Revenue-2002* shown on page 8 of the May 2003 issue of *DTTR* was incorrect. A corrected version is presented to the right. 🏠



IVD Stocks Up 17% In Latest 5 Weeks; Quidel Leaps 58%

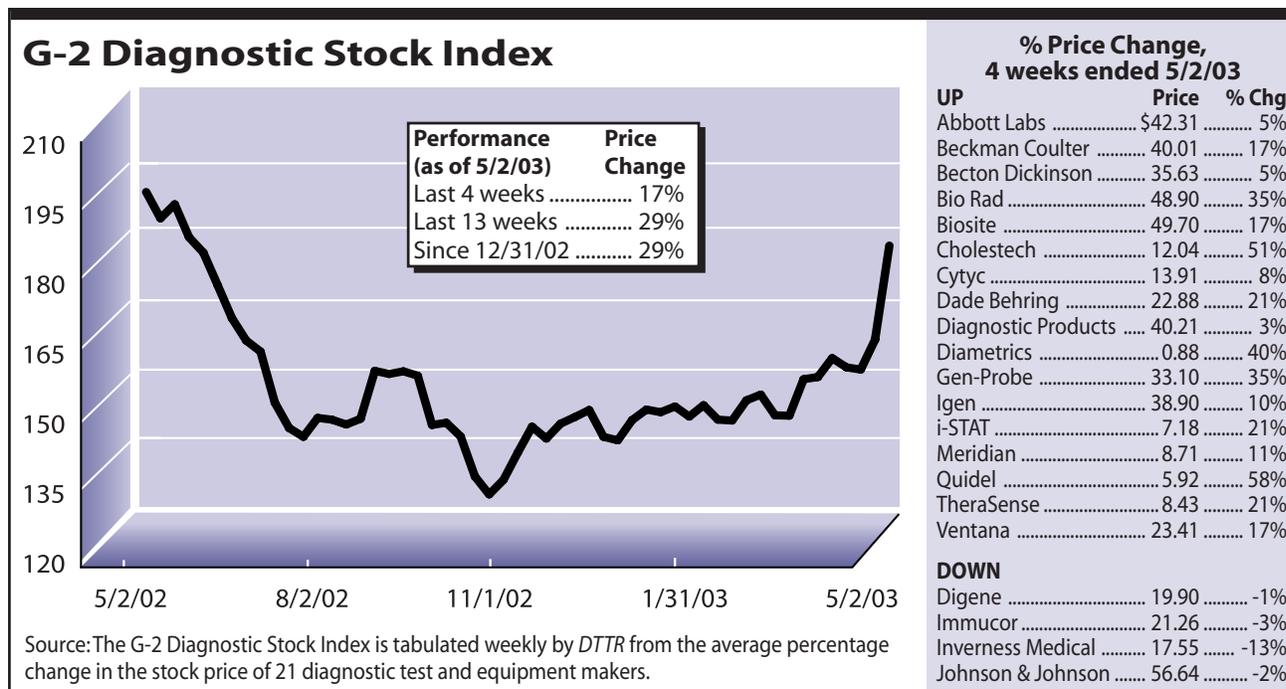
Roche non-voting equity shares, which trade on the Zurich stock exchange, have fallen 11% to 86 Swiss francs so far this year. Shares of **Bayer**, which trade on the German stock exchanges, are down 21% at 16.21 euros

The 21 stocks in the G-2 Diagnostic Stock Index jumped an unweighted average of 17% in the four weeks ended May 2, 2003, with 17 stocks up in price and four down. Year to date, the G-2 Index is up 29%, while the S&P 500 Index is up 6% and the Nasdaq is up 13%.

Shares of **Quidel Corp.** (San Diego, CA), which specializes in rapid point-of-care tests, jumped 58% to \$5.92 per share for a market cap of \$171 million. The company recently announced a restructuring initiative that is projected to reduce operating costs by approximately \$5.3 million per year. Approximately 77 positions, or 22% of Quidel's global workforce, will be eliminated. In Germany and Italy approximately 19 positions will be eliminated, as distribution in these countries is outsourced to independent distributors.

Cholestech (Hayward, CA), which makes a cholesterol testing system for physician offices, was up 51% to \$12.04 per share for a market cap of \$166 million. The company recently announced net income of \$6 million for the three months ended March 28, 2003, up from \$1.5 million in the same period last year; revenue was up 21% to \$13.5 million.

Biosite (San Diego, CA) was up 17% to \$49.70 per share for a market cap of \$801 million. The company recently reported that sales of its Triage BNP Test, a point-of-care test that helps doctors determine whether a patient short of breath is suffering from congestive heart failure, exploded up 438% to \$22.2 million in the first quarter from \$4.1 million a year earlier. In addition, the product's customer base grew to approximately 1,675 from 1,350 on Dec. 31, 2002. Kim Blickenstaff, chief executive of Biosite, said the company continues to grow its Triage BNP business despite new competition from Roche. 🏠



G-2 Insider

Why do CEOs earn so much? I think it's because there's a basic conflict of interest between board members and the CEOs they are supposed to be watching on behalf of shareholders. In many cases board members earn a substantial income that can affect their judgment.

For example, Abbott board members get \$80,000 per year plus another \$65,000 per year in stock; J&J board members get \$65,000 plus stock options; Becton Dickinson board members get \$55,500 plus stock options; and Beckman Coulter board members get \$48,000 plus stock options. This represents a nice income in exchange for a cushy job—the average board member attends about 5 to 10 meetings that in total probably take up no more than 40 hours per year of their time.

By voting against compensation plans that CEOs propose for themselves (no matter how outrageous), board members risk losing their seats on the board and the related pay. However, a board member who remains passive and simply goes along with what the CEO wants, loses nothing. The tens of millions of dollars that some CEOs earn does not come out of the pockets of the board members, rather it's the faceless mass of shareholders that loses.

As a result, no real negotiation takes place between most boards and the CEOs they are supposed to be overseeing.

So where will corporate reform in America come from? It's got to come from institutional shareholders. That's the 800-pound gorilla that CEOs and boards will listen to.

Think I'm nuts? You can write me at labreporter@aol.com,
 Jondavid Klipp, managing editor

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