Clariant 2004 Annual Report

Taking cancer personally
To Our Shareholders,

2004 was a truly transformational year at ChromaVision. We embarked on an exciting journey to realize a new vision for our Company—building upon the solid foundation of a well established diagnostic technology to capitalize on the market dynamics set into motion by a new class of powerful cancer therapeutics. Armed with the additional capital resources from an equity financing in the first quarter, the Company entered two new market segments with two objectives—to create more balanced revenue streams and provide immediate growth opportunities as the future of cancer treatment and the need for image analysis continues to unfold.

Market demand for ACIS, our core image analysis technology, continued to grow during the past two years. However, it became apparent that the existing business model did not fully provide the necessary revenue growth to sustain the organization over the long term. Recognition of the need for change resulted in a progressive shift in our business strategy to expand into the service components of the cancer diagnostics market. In other words, instead of supplying only analysis equipment, we now perform the full suite of professional services involved with complex, high-value cancer diagnostics. This new approach allows the Company to take advantage of the growing need for specialized, complex testing to guide cancer therapy and has led us to a new business model, a new corporate structure and a new name—Clarient, Inc.

Upon joining the organization in late July of 2004, I was immediately struck by the opportunity before us to become an important support team for the local pathologist. Now, more than ever, pathologists are becoming a critical component in the process of uncovering the molecular definition of patient-specific cancers and deciphering this intricate diagnostic puzzle into usable information to positively impact care. Today’s pathologist must operate in a world of accelerating complexity, and our mission is to simplify that process by offering the latest diagnostic technology, expert professional support and dependable backup for his decisions.

In August, we completed the hiring of a talented group of professionals in the cancer diagnostics arena to staff our new laboratory operation. This team moved into our new facility in early September. By October, the new facility was inspected by the State of California. On November 29th, we received our state license to deliver world class cancer diagnostics to the medical community and were ready to reach for our future.

With hundreds of new targeted cancer therapeutics in clinical trials, a revolution in cancer management is upon us. The development of new diagnostic tests will be vital in this era, arming physicians with the information they need to insure patients get the right therapy and offering the greatest chance of successfully curing many types of this deadly disease. Our proprietary image analysis technology is generating revenue from partnerships with pharmaceutical manufacturers who are developing these new targeted drugs. As a result of these partnerships, our company will be in a position to reap the significant benefits of developing companion diagnostics for those drugs. This market is predicted to grow by more than $1 billion over the next ten years fueled by the discovery of these new therapeutics and new tests. With our proprietary image analysis technologies and broad testing capabilities of our new laboratory, we are positioned to benefit greatly from this market expansion.

As you review this annual report, you'll see that the Company is now organized around three business groups for maximum focus and efficient use of resources in executing our plan. While the investment required to get us this far has been intense, our ongoing cash burn continues to be a focus for the new management team. In November, we took the company through a difficult workforce reduction in some areas of the company to better size each business according to the current revenues. This action was necessary to give each of our three businesses the opportunity to reach the goal of profitability as quickly as possible. At the time of this letter, we are driving the organization to achieve the market velocity necessary to reduce our need to return to the capital markets for further funding.

Never in the history of our company have we been in a better position to grow our revenue base. Our new business strategy (outlined in my letter earlier this year) positions us to extract value in three major market segments, also leading us to re-brand the company. While this shareholder letter will be the last for ChromaVision as a company, the spirit of innovation and market leadership will carry on as Clarient. The effort put forth by our employees over the last year has been inspirational, and their enthusiastic desire to have an impact on the lives of cancer patients provides an organizational momentum that will insure our success. On behalf of our leadership team, I would like to thank you for your ongoing support, and look forward to sharing our progress throughout 2005.

Sincerely,

Ron A. Andrews
The Future of Targeted Diagnostics for Improved Cancer Therapy...Today

“Achieving the goal of personalized medicine for cancer will require a revolution in diagnostics and the dawn of a new era in tissue analysis through classic quantitative immunohistochemistry.” — Karol, Sikora, Expert Rev. Mol. Diagn. 4(2), 2004

A diagnosis of cancer was once a death sentence for a patient. Today, with the aid of new science and medicines, this news is just the beginning of a fight that, in many cases, can be won—leading to long, healthy and cancer free lives for these patients. Perhaps the most promising and ambitious weapon in the fight is a new generation of targeted drugs that work well for very specific patients with cancer tumors that exhibit certain characteristics such as an overabundance of a protein or a distinct genetic profile. Only a handful of these new drugs are currently available for treatment. However, hundreds more are in development today and will soon be available in growing numbers.

Clarient has pioneered technologies and innovative services that will facilitate the development and approval of medicines—helping to ensure they are only prescribed for patients that will most likely benefit from treatment as well as reducing the unnecessary use of expensive and potentially toxic therapy when it has little chance of making a difference.

Clarient is at the center of a revolution in cancer medicine—enabling pathologists in large institutions and small community hospitals to accurately assess the complex molecular puzzle presented by each cancer patient; allowing them to extract usable information; and empowering them to confidently assist their local physician partners in offering the new therapies on the cutting edge of cancer treatment.

“The FDA is creating a pathway to personalized medicine that will bring the right drug to the right person at the right time.”  — Robert Goldberg, USA Today, p. A14, February 28, 2005

We are much more than just another laboratory services provider. While Clarient has developed the most effective imaging tool to determine protein expression in tumors, we are not limited to any specific technology. As cancer diagnostic testing becomes increasingly complex, the pathologists’ need for access to all of the advanced technologies is growing. And, it is important to have access to all of those technologies and medical expertise in one place. That place is Clarient.

We are here to meet that need as a comprehensive cancer diagnostics company—capitalizing on the proprietary technologies that are the foundation of the ChromaVision legacy through a world-class service organization.

Three Business Groups Connecting to Market Opportunity

Organizing around three focused business groups allows for significant participation across the continuum of cancer diagnostics from drug discovery to new diagnostic tests and technologies—a market that is anticipated to grow by more than $1 billion in the next ten years.

Market growth for cancer diagnostics will likely be driven by two primary factors:

◆ The growing elderly population and high incidence of cancer in people over 65 will result in an estimated 46% increase in the number of new cancer cases in the next 20 years.
◆ Many of the approximately 1,700 targeted cancer drugs in development will require specialized testing, often in combinations, to determine the most appropriate patients for treatment.

Realizing the synergies between the three business groups will drive near-term and long-term revenues from both equipment and services. In addition, it will enhance our brand and our position as a leading service provider to the biopharmaceutical industry:

◆ The Clarient BioAnalytical Services group connects to market access by working with researchers on discovery and appropriate diagnostic test development.
◆ The Clarient ChromaVision Systems group connects to market access through a nationally established image analysis platform.
◆ The Clarient Diagnostics Services group will connect to market access from the adoption of new tests by driving standard of care.
BioAnalytical Services...Connecting to BioPharma

Today, Clarient is working with leading pharmaceutical and biopharmaceutical companies early in the development of targeted therapies to develop companion diagnostic tests—from drug development through FDA approval. The development of a targeted cancer medicine is a long and very expensive process and there are significant financial and patient benefits that can result from accelerating the clinical process and shortening the time to market.

Our technologies can be applied to the process in several ways—appropriate patient selection for early trials to better determine the prospects of a potential drug, better and more rapid analysis of trial specimens to accelerate the trial process, and, most importantly, the development of a "companion diagnostic test" to be used to select the appropriate patient for a targeted drug when it is approved.

Our proprietary imaging tools and professional expertise are currently in use at a large number of biopharmaceutical companies and universities worldwide and we anticipate several additional formal agreements with firms that have the largest pipelines for targeted therapeutics.

ChromaVision Systems...Delivering Exquisite Diagnostic Tools

Today, the ChromaVision ACIS is being used by clinicians and researchers for cellular image analysis in cancer testing. This high level of reproducibility, standardization and quantification is essential for cost-effective application of targeted therapies. Our current patent position is strong and vital to the value we can deliver to the marketplace, distinguishing Clarient as a partner of choice for licensing or partnership agreements.

Diagnostic Services...Creating a New Level of Service Beyond the Data

Today, Clarient is working side-by-side with pathologists as a colleague with our medical, scientific and technology core competencies. Our highest priority is to provide an extraordinary customer experience—not just providing lab data but putting information into a package so THEY are at the center of the diagnostic process with their local clinicians.

Every day, we assist pathologists by providing the right technologies to characterize cancer tumors and make the appropriate clinical evaluations, prognoses and therapeutic recommendations. Our medical staff provides guidance, education and support to these customers on demand. Our report templates provide test results in a format that facilitates communication and is consistent with the highest regulatory requirements.

Our PATHSiTE suite of Web-based services pushes information into our customers hands through a virtual setting—providing faster results to the patients and convenient access to the pathologist.

People Making It Happen

Our people are making it happen. The dedicated staff at Clarient has the expertise to help realize the promise of individualized treatment, guiding physicians to the right combination of drugs needed for a particular patient with a specific cancer. We've all been touched by this disease, and that's why our employees are here. At Clarient, we're all about people that take cancer personally.
**Quarterly Revenue Growth**

Market Information
The Common Stock of Clarient, Inc. (formerly ChromaVision Medical Systems, Inc.) is traded on the Nasdaq Small Cap Market under the symbol CLRT. As of April 13, 2005 the Company had outstanding 51,571,556 shares of common stock held by approximately 433 shareholders including beneficial owners of the common stock whose shares are held in the names of various dealers, clearing agencies, banks, brokers, and other fiduciaries. The last price reported for the Company’s common stock on April 13, 2005 was $1.30 per share. The Company has not paid cash dividends and does not anticipate paying cash dividends in the foreseeable future. The Company expects to utilize future earnings to finance future growth.

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