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UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

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UNITED STATES OF AMERICA :

-v.- : **INDICTMENT**

: S2 05 Cr. 325 (JSR)

RICHARD P. ADELSON,

:

Defendant.

:

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COUNT ONE

(Conspiracy to Commit Securities Fraud, File False Reports with the SEC, and Falsify Books and Records)

The Grand Jury charges:

BACKGROUND

Relevant Entities And Persons

Impath, Inc.

1. At all times relevant to this Indictment, Impath Inc. ("Impath") was a corporation organized under the laws of the state of Delaware with its headquarters in New York, New York.

2. At all times relevant to this Indictment, Impath's securities were registered with the United States Securities and Exchange Commission ("SEC") pursuant to Section 12(g) of the Securities Exchange Act of 1934 (the "Exchange Act"). Impath's common stock was listed under the symbol "IMPH" and traded on the NASDAQ National Market System, which is a National Securities Exchange registered with the SEC pursuant to Section 6 of the Exchange Act.

3. At all times relevant to this Indictment, in order to maintain public trading of its securities in the United States, Impath was required to comply with the federal securities laws, including the Exchange Act and the rules and regulations promulgated thereunder, which are designed to ensure that a company's financial information is accurately recorded and accurately disclosed to the public. Specifically, at all times relevant to this Indictment, pursuant to the Exchange Act and the rules and regulations promulgated thereunder, Impath was required to: (a) file with the SEC annual financial statements (on SEC Form 10-K) that had been audited by independent certified public accountants; (b) file with the SEC quarterly financial reports (on SEC Form 10-Q); (c) make and keep books, records, and accounts that accurately and fairly reflected Impath's business transactions; and (d) devise and maintain a system of internal accounting controls sufficient to provide reasonable assurances that Impath's transactions were recorded as necessary to permit preparation of financial statements in conformity with Generally Accepted Accounting Principles ("GAAP").

4. From at least in or about 1999, the annual financial statements and quarterly reports filed by Impath with the SEC purported to truthfully disclose, among other things, Impath's sales volume, revenues and receivables. After filing, Impath's annual financial statements and quarterly reports were made

available to the investing public by the SEC. Impath also communicated certain portions of its annual statements, quarterly reports, and other periodic information to the investing public by way of press releases and other means. Members of the investing public, including Impath's stockholders and market analysts, considered and relied upon this financial data and information in making investment decisions.

5. At all times relevant to this Indictment, Impath employed an independent auditor, KPMG LLP ("KPMG"), which performed year-end audits of Impath's financial statements. In addition, KPMG completed quarterly reviews of selected Impath financial information and performed other accounting tasks as requested.

The Defendant

6. From in or about November 1999 through in or about May 2003, RICHARD P. ADELSON, the defendant, was Chief Operating Officer of Impath. From in or about January 2001 through in or about May 2003, ADELSON was also President of Impath. At various times relevant to this Indictment, ADELSON directed the preparation of and signed the Annual Reports on Form 10-K and Quarterly Reports on Form 10-Q that Impath filed with the SEC. At all times relevant to this Indictment, ADELSON owned a substantial number of shares, and options to purchase a substantial number of shares, of Impath common stock.

Certain Unindicted Co-Conspirators

7. From in or about 1993 through in or about February 2003, when she resigned from Impath, Anuradha D. Saad ("Saad"), a co-conspirator not named as a defendant herein, was Chief Executive Officer of Impath. From in or about January 2001 through in or about February 2003, Saad was also the Chairman of Impath's Board of Directors.

8. From in or about 1994 through in or about September 1998, David J. Cammarata ("Cammarata"), a co-conspirator not named as a defendant herein, was Controller of Impath. From in or about September 1998 through in or about November 1999, Cammarata was the Vice President of Finance and Information Technology at Impath, in addition to serving as Controller. From in or about November 1999 through in or about May 2002, when he was terminated from Impath, Cammarata was Impath's Chief Financial Officer.

9. From in or about December 1999 through in or about December 2001, Peter Torres ("Torres"), a co-conspirator not named as a defendant herein, was Impath's Controller. From in or about January 2002 through in or about July 2003, when he resigned from Impath, Torres was Impath's Vice President of Finance.

10. From in or about October 1998 through in or about July 2003, Kenneth Jugan ("Jugan"), a co-conspirator not named as a

defendant herein, was National Billing Director at Impath.

11. From in or about May 2000 through in or about December 2002, Karin Gardner ("Gardner"), a co-conspirator not named as a defendant herein, was Assistant Controller at Impath, and from in or about December 2002 through in or about July 2003, when she resigned from Impath, Gardner was Impath's Controller.

Impath's Business Operations

12. At all times relevant to this Indictment, Impath was engaged in the health care industry, providing cancer information services. Specifically, Impath offered medical specimen testing and patient-specific cancer diagnostic and prognostic information services to help its clients diagnose both the type, and the level of progression, of the cancer found in tissue or blood samples and to assist with and recommend cancer treatments. Although the core of Impath's business was the diagnostic analysis of cancer specimens and associated prognostic information, Impath also provided related information and technological resources. Impath's customers included, among others, doctors specializing in the treatment of cancer patients, as well as oncology practices and hospitals throughout the United States.

13. From at least in or about 2000 through in or about 2003, Impath operated through three divisions: Impath Physician Services ("Physician Services"), Impath Predictive Oncology

("Predictive Oncology"), and Impath Information Services ("Information Services").

14. The Physician Services division specialized in the testing and diagnosis of cancer tissues and specimens, and in providing prognostic information about those specimens. The Physician Services division was the largest of Impath's three divisions, accounting for more than approximately 80 percent of Impath's total gross revenues.

15. The Predictive Oncology division worked with pharmaceutical companies to find cancer patients for clinical studies and clinical trials, based on Impath's database of information about cancer patients. In addition, the Predictive Oncology division maintained a collection of human cancer tissues, called Genebank, which were from time to time sold to pharmaceutical companies for research purposes.

16. The Information Services division collected data about cancer patients and provided cancer-related information gathering services and databases to hospitals and other cancer-care providers for use in patient care. For example, Impath's Information Services division marketed cancer registry software and pathology information management software to hospitals and laboratories. Information Services accounted for less than approximately three percent of Impath's total revenues.

17. At all times relevant to this Indictment, Impath held

itself out as a rapidly growing small company. For example, in its Annual Report on Form 10-K for the fiscal year 1999 - which was signed by RICHARD P. ADELSON, the defendant, and filed on or about March 30, 2000 - Impath made the following statements:

a. Impath explained that it had been founded in 1988 and that it

> had become a leader in providing critical information essential for making medically optimal and cost-effective cancer management decisions for individual cancer patients. . . . The Company's revenues, which have increased an average of approximately 55% annually since 1995, have been derived from performing specialized cancer analyses. . . .

b. As to its business operations, the 1999 10-K stated that Impath:

> believes that it currently performs more specialized analyses for difficult to diagnose cancer cases than any other institution in the world. The Company also believes that it is the leader in providing comprehensive patient-specific prognostic information for cancer. For example, IMPATH provided patient-specific prognostic information on more than 28% of breast cancer cases in the U.S. in 1998. The Company's fastest growing business is the analysis of lymphomas and leukemias, with IMPATH analyzing 31,269 of such cases in 1999, representing an increase of 48% over 1998.

c. Concerning results for 1999, Impath's 10-K further explained that:

> [t]he Company's revenues were $85.4 million in 1999, representing revenue growth of 52% over 1998. In fact, the 1999 fiscal year was

IMPATH's tenth consecutive year of annual revenue growth in excess of 40%. Moreover, the fourth quarter of 1999 represented IMPATH's twenty-first consecutive quarter of record revenues and case volume.

Recordkeeping and Accounting Practices at Impath

18. As noted above and at all times relevant to this Indictment, Impath's Physician Services division offered its testing and diagnostic services to hospitals and other cancer-care providers. Typically, a cancer-care provider sent one or more specimens from a patient to Physician Services for analysis and diagnosis. Each specimen that arrived in one of Impath's laboratories for analysis came with a requisition form which listed the tests to be performed. The specimen was then assigned an individual tracking number, called an accession number. Once the requested services had been provided, invoices were typically generated by Impath's billing department.

19. Starting in or about 1999, Impath used a proprietary software system called "Impulse" (the "Impulse System") to track the receipt of specimens; to generate invoices for services rendered related to those specimens; to record payment on those invoices; and to track revenues. Among the various ways Impath used the Impulse System was to keep track of "cases received" and "cases billed," also referred to as "cases invoiced."

a. Within Impath, each specimen received at one of the laboratories, with its related accession number and requisition

form, was referred to as a "Case Received."

b. The Impulse System also tracked "Cases Billed," which were cases for which Impath issued bills to customers in connection with its analysis of or prognosis for a particular specimen.

20. At all times relevant to this Indictment, as RICHARD P. ADELSON, the defendant, well knew, Impath had no method or system other than the Impulse System to accurately track the case volume, accounts receivable balances or revenues generated by its Physician Services division. Moreover, because the Impulse System was not electronically linked to Impath's general ledger, accounts receivable and revenue figures from the Impulse System had to be manually entered into Impath's general ledger, with no system to ensure the accuracy or validity of these manual entries.

21. As RICHARD P. ADELSON, the defendant, well knew, not all Cases Received that were reported in the Impulse System were sources of revenue for Impath. For example, proficiency tests were conducted for free and Impath did not issue bills for analysis for internal quality assurance purposes. Additionally, some Cases Received were cancelled by the customers before Impath undertook any analysis of the received specimen.

22. With respect to Cases Billed, as RICHARD P. ADELSON, the defendant, also well knew, Impath sometimes provided free

services or significant price discounts to customers for analyzing certain specimens. As an example, Impath offered discounts and free testing services to certain non-contractual customers who provided care in the areas of lymphoma and leukemia, as part of a promotional program to increase market share in that area. Accordingly, not all transactions recorded as Cases Billed in the Impulse System resulted in actual or expected revenue for Impath.

23. Impath typically billed third-party payors, such as private insurance plans, managed care plans, Medicare, and hospitals, for its services. These payors generally paid Impath a "reimbursement rate" that was a percentage of the invoiced amount.

24. As RICHARD P. ADELSON, the defendant, well knew, at all times relevant to this Indictment, Impath represented to the SEC and the public through its filings that Impath generally recognized revenue for services rendered upon completion of its testing and analysis services. Specifically, Impath represented in its 1999 10-K that it recognized revenues "on an accrual basis as earned at such time as the Company has completed performance of its diagnostic or prognostic services. Revenue is reported at the estimated net realizable amounts from patients, third-party and government payors, and others for services rendered, including estimated retroactive adjustments under reimbursement

agreements with certain payors." Prior to the period of the scheme set forth below, Impath generally recognized revenue based on data for Cases Billed (as opposed to Cases Received) maintained through the Impulse System.

25. Starting in or about at least January 2000 through at least in or about February 2003, Impath's finance department reported Impath's financial results by division to RICHARD P. ADELSON, the defendant, among others. At all times relevant to this Indictment, Impath's finance department aggregated the results of each division and compared such results to budgeted expectations and projections, including expected case volume, revenue and earnings per share ("EPS") levels for Impath.

Executive Compensation At Impath

26. At all times relevant to this Indictment, Impath management prepared a budget for a given fiscal year, and updated that budget throughout the year for review by Impath's board of directors. RICHARD P. ADELSON, the defendant, as well as Cammarata and other Impath executives were primarily responsible for presenting the budget and projections for revenue growth to Impath's board. Impath's budgets typically set forth, in various levels of detail, actual and projected earnings and actual and projected revenues and case volume. In addition, the budgets contained forecasts about Impath's "days sales outstanding" figure ("DSOs") - a financial indicator that shows both the age,

in terms of days outstanding, of a company's accounts receivable and the average time it takes to turn the receivables into cash.

27. Starting at least as early as 1999, Impath budgeted aggressive annual earnings goals that were presented to Impath's Board of Directors. Compensation for Impath executives, including RICHARD P. ADELSON, the defendant, was based, among other things, on Impath's ability to meet or exceed budgeted earnings targets. In or about 2001 and 2002, ADELSON received significant bonuses because Impath purportedly satisfied earnings goals for fiscal years 2000 and 2001. In or about 2001 and 2002, ADELSON was also awarded options on shares of Impath common stock because Impath purportedly satisfied earnings goals for fiscal years 2000 and 2001.

THE SCHEME TO DEFRAUD

Introduction

28. As more fully set forth below, from in or about December 1999 through in or about July 2003, RICHARD P. ADELSON, the defendant, together with others known and unknown, engaged in an illegal scheme to manipulate Impath's publicly reported earnings and other financial results and to artificially inflate the market price of Impath's common stock.

29. ADELSON and his co-conspirators carried out and perpetuated this scheme by, among other things: (a) recording and causing to be recorded in Impath's books and records false and

fraudulently inflated revenues and improperly reduced expenses; (b) making false and misleading representations to independent auditors, and failing to disclose to auditors material facts and information; and (c) making false and misleading misrepresentations to shareholders and other market participants. Among other false and fraudulent means used to manipulate Impath's revenues and other financial results, ADELSON and others: (a) inflated case volume figures; (b) reported sales revenue in the lymphoma/leukemia area that was known to be uncollectible; (c) booked revenue on end-of-quarter sales of items that were known to be unshippable within the quarter; and (d) adjusted reserves without any factual basis in order to increase earnings.

30. RICHARD P. ADELSON, the defendant, and others known and unknown, falsely inflated Impath's revenue knowing, understanding, and intending that: (a) such inflated levels would be reflected in Impath's consolidated financial statements, public filings with the SEC, and other public disclosures; (b) as a result of recording inflated revenue, Impath's financial statements and other public disclosures and filings would falsely overstate Impath's revenues, earnings and assets; and (c) the market price of Impath's stock would be artificially inflated.

31. Additionally, in furtherance of this scheme to defraud, RICHARD P. ADELSON, the defendant, along with his co-

conspirators: (a) caused others to make statements about Impath's financial condition which, as they well knew, reflected the above-described fraudulent adjustments to Impath's revenues, receivables, and earnings; and (b) failed to disclose that they had manipulated, and caused others to manipulate, Impath's revenues, receivables, and earnings.

32. By increasing revenue artificially, RICHARD P. ADELSON, the defendant, along with his co-conspirators, falsely inflated Impath's earnings, making it appear that Impath had met or approximated budgeted goals, thereby enabling ADELSON and others to keep their executive positions, obtain significant bonuses, increase their salaries and/or place themselves in a position to do so, and increase the value of the Impath stock and stock options they held.

Impath's Apparent Rapid Growth

33. During the years following its initial public offering in or about 1996, Impath positioned itself as a rapidly growing small company and frequently reported double-digit annual growth rates in its earnings and revenues. Impath frequently touted these growth rates to investors through statements in its public filings, press releases, and other public statements. For example, in its Form 10-K for fiscal year 1999, Impath stated: "The Company's revenues . . . have increased an average of approximately 55% annually since 1995." From time to time, such

statements prompted significant increases in the market price for Impath's common stock. However, as Impath's business matured, annual growth targets for revenue and earnings became more and more difficult to achieve. As set forth more fully below, beginning with the 1999 10-K, RICHARD P. ADELSON, the defendant, and his co-conspirators devised and perpetuated a fraudulent scheme through which they inflated Impath's publicly reported financial results in order to maintain a false appearance of continuing high growth rates.

34. The filing of false financial statements and issuance of false public announcements to maintain the appearance of high growth rates continued into and throughout 2000. For example, on or about July 24, 2000, Impath announced its financial results for the second quarter of 2000 in a press release, which stated in part: "IMPATH Inc. today announced record results for the second quarter ended June 30, 2000, marking the Company's twenty-sixth consecutive quarter of record revenue." Impath also announced that revenues had increased 60% and income had increased 71% over the results for the previous year's second quarter. Additionally, Impath announced that net income had increased 34% over the previous year's second quarter and that earnings per diluted share had increased 34% over the second quarter of 1999.

Formation of the Conspiracy

35. As noted above, Impath tracked its accounts receivables and other results of operations for the Physician Services division through the Impulse System. In order to maintain its general ledger and to prepare its financial statements, Impath employees were required to retrieve data from the Impulse System and then manually input that data, through various journal entries, into Impath's general ledger. In or about late 1999 or early 2000, while preparing for the coming audit for Impath's fiscal year 1999, Torres noticed that the accounts receivable balance and revenue recorded in Impath's general ledger was significantly higher than the corresponding data in the Impulse System. Subsequently, Torres approached Cammarata and recommended that Impath write off an amount of accounts receivable sufficient to eliminate this variance and to make Impath's general ledger entries and publicly reported financial statements consistent with Impath's actual revenue data. After discussing the impact of such a write-off on, among other things, the market price for Impath's stock, Cammarata and Torres agreed not to correct Impath's general ledger and, later, further agreed to take certain steps to conceal this revenue variance from Impath's auditors. As set forth below, the variance in accounts receivable and revenue reflected in the Impulse System versus Impath's general ledger (generally, the "Revenue Variance") continued to increase through in or about 2003.

36. Among other causes, the Revenue Variance was caused by a promotional program related to lymphoma/leukemia testing provided by Impath to its clients. Beginning at least in or about 2000, in an effort to boost its market share for testing for suspected lymphoma/leukemia, Impath began offering lymphoma/leukemia testing services to its clients at significantly reduced rates or, in many instances, at no charge. The Impulse System nevertheless recorded each such case as among the total of Cases Billed even though Impath typically told its customers they were not obligated to pay for such services and Impath made little or no effort to send out bills or collect payment for such services.

37. In order to conceal the Revenue Variance from Impath's auditors, Torres caused Jugan to create, starting in or about 2000 and continuing through in or about the first quarter of 2003, false documents that appeared to be data printouts based on the Impulse System, but which were in fact simply spreadsheets prepared by Jugan that contained revenue data consistent with data in Impath's general ledger (the "Phony Impulse Reports"). During each quarterly review by KPMG, Torres gave a Phony Impulse Report to Impath's auditors for that quarter. As a result, as Cammarata, Torres, Jugan and others well knew, Impath's publicly filed financial statements for fiscal year 1999 contained false and misleading revenue and earnings numbers which were not

consistent with Impath's internal data from its operations.

Adelson Joins the Conspiracy

38. At least in or about early 2001, shortly after RICHARD P. ADELSON, the defendant, became President and Chief Operating Officer of Impath, ADELSON learned of the Revenue Variance from Cammarata and learned that Impath was unlikely to meet its revenue and earnings forecasts for fiscal year 2000. At or around the same time, ADELSON directed Cammarata to begin calculating revenue to be reported publicly based on the Impulse System's Cases Received data rather than, as Impath had previously done, its Cases Billed data. As noted above, and as ADELSON well knew, the Cases Received data tracked all incoming cases, including cases such as the promotional lymphoma/leukemia cases and quality control cases, whether or not Impath intended to bill and collect fees for such cases. As ADELSON, Cammarata and others well knew, this change from employing Cases Billed to Cases Received (the "Recognition Change") meant that Impath's revenue and case volume data, as publicly reported for fiscal year 2000, would be falsely and materially overstated. Moreover, at all times relevant to this Indictment, the Recognition Change was never disclosed to Impath's auditors or shareholders.

39. In or about early 2001, in his continuing capacity as Impath's President and Chief Operating Officer, RICHARD P. ADELSON, the defendant, directed Cammarata to include in Impath's

SEC filings for the fiscal year 2000 the purported revenue from lymphoma/leukemia tests that Impath did not intend to collect because of its promotional programs. In fact, with ADELSON's knowledge and at his direction, Impath was significantly underbilling customers in the lymphoma/leukemia area in order to increase its market share in that area, but recording the full amount of the bills as receivables and recognizing the full amount of the bills as revenue on its general ledger. Impath's inflation of the amount of revenue it collected from customers in the lymphoma/leukemia category falsely increased Impath's reported revenues and earnings per share.

40. The issuance of false statements and public announcements to create the impression of high growth rates persisted into and throughout 2001. On or about February 21, 2001, Impath announced its financial results for the fourth quarter and full year of 2000 in a press release, the headline of which stated: "Earnings Per Share Increase to $.23, 109% Over Year Ago Quarter Revenues and Net Income Increase 62% and 57%, Respectively, Over Full Year '99 Figures." Additionally, Impath stated that the fourth quarter of 2000 was "the Company's twenty-eighth consecutive quarter of record revenues."

False Financial Results: Fiscal Year 2001

41. In or about 2001, at the direction of RICHARD P. ADELSON, the defendant, Impath continued to significantly

underbill customers in the lymphoma/leukemia area in order to increase its market share in that area. As he had done for fiscal year 2000, ADELSON continued to direct that Impath record the full amount of these bills as receivables on its general ledger in order to inflate Impath's revenues and other financial results.

42. In addition, both in connection with Impath's preparations for KPMG's 2001 year-end audit of Impath and quarterly SEC filings by Impath for the fiscal year 2001, RICHARD P. ADELSON, the defendant, and others continued to conceal the existence of the Revenue Variance from Impath's independent auditors by, among other things, providing to its auditors at or near the end of each fiscal quarter both the Phony Impulse Report and a CD-Rom that contained inflated receivables balances in an electronic format. In addition, throughout 2001, ADELSON and others continued to conceal the Recognition Change from Impath's auditors and shareholders.

43. As RICHARD P. ADELSON, the defendant, well knew, moreover, Impath's repeated announcements of record growth still generated considerable attention from investment analysts in 2001. Thus, at various times relevant to this Indictment, ADELSON caused Impath to make public statements supporting the analysts' earnings estimates. For example, on or about May 1, 2001, Impath made the following statements in a press release:

> Impath Inc. today reiterated its confidence in its April 25, 2001 earnings announcement and in its prospects for continued growth. Compared with the first quarter of last year, the Company reported a 38% increase in revenues and a 33% increase in diluted earnings per share (EPS). While the Company's days sales outstanding (DSOs) were flat with the year ago period, the Company generated approximately $1.9 million in operating cash flow on $4 million of net income with cash collections increasing 41% (versus first quarter 2000), a faster rate than its revenue growth. . . . The Company also states its comfort with analysts' consensus diluted EPS estimate of $1.05 in 2001.

Recording Fictitious Revenues To Meet EPS Goals

44. In or about early 2001, it also became apparent to RICHARD P. ADELSON, the defendant, and other members of the conspiracy that, notwithstanding the change from Cases Billed to Cases Received described above, and even though it continued to record the full amount of bills for lymphoma/leukemia cases as receivables on its general ledger, Impath was unlikely to meet its projected financial results for the first quarter of 2001. As a result, at ADELSON's direction, Cammarata, Torres, Gardner, Jugan and others made various topside revenue and accounts receivable adjustments in Impath's books and records. These adjustments included making false manual entries in Impath's general ledger that had the effect of inflating the revenue that Impath reported to the investing public to levels that were consistent with budgeted revenues and projected EPS levels.

45. RICHARD P. ADELSON, the defendant, among others, well knew that there was no basis in fact for these topside revenue and accounts receivable adjustments and manual general ledger entries, and that they were made with the sole purpose of inflating Impath's publicly reported revenues and other financial results, closing the gap between actual and budgeted revenues, and allowing Impath to generally report to the investing public that it had met or would come close to meeting its projected EPS levels and analysts' expectations.

46. At the direction of RICHARD P. ADELSON, the defendant, Cammarata, Torres, Gardner, Jugan and others continued to make and caused to be made these fraudulent topside adjustments to Impath's general ledger in each subsequent quarter of 2001. The total approximate amounts of these adjustments in Impath's topside revenues for the Physician Services division were as follows for each fiscal quarter of 2001:

	Approximate Actual Physician Services Revenue	**Approximate Adjusted and Reported Physician Services Revenue**	**Amount That Physician Services Reported Revenues Were Overstated As Result Of Inflated Revenues (Approximate)**
Quarter 1	$33,557,211	$38,004,353	$4,447,142
Quarter 2	$37,011,118	$42,420,401	$5,409,283
Quarter 3	$37,013,936	$43,187,982	$6,174,046
Quarter 4	$36,165,831	$45,158,363	$8,992,532

47. By recording falsely increased revenues at the same

time that Impath's Cases Billed and corresponding revenues declined relative to projected EPS, RICHARD P. ADELSON, the defendant, along with others, caused the accounts receivable balance and revenues entered in Impath's general ledger to match or exceed Impath's projected revenues for 2001. In response to KPMG's requests for information, with ADELSON's knowledge and at his direction, Cammarata, Torres and others also continued to: (a) conceal the fact that Impath's reported revenues were driven by the amount of revenue needed to meet or approximate EPS goals; and (b) give false explanations for the increases in Impath's revenues and accounts receivable balance by, among other things, providing the auditors with Phony Impulse Reports.

48. In keeping with the efforts of RICHARD P. ADELSON, the defendant, and others to maintain the false appearance of high revenue growth rates, on or about February 14, 2002, Impath announced its financial results for the fourth quarter and full year of 2001 in a press release, which stated in part: "IMPATH Inc. today announced its 32nd consecutive quarter of record revenues, net earnings per diluted share of $.29 and a decline in days sales outstanding (DSOs) to 110 days from 115 days in Q3." Impath also announced that revenues had increased 34% and operating income had increased 147% over the results for the previous year's fourth quarter. Additionally, Impath announced that net income had increased 28% over the previous year's fourth

quarter and that earnings per diluted share had increased 26% over the fourth quarter of 2000.

False Financial Results: Fiscal Year 2002

49. As RICHARD P. ADELSON, the defendant, and his co-conspirators knew, by no later than in or about March 2002, Impath's true operating performance and financial results were in decline and had fallen materially below Impath's projections and analysts' expectations. ADELSON nevertheless insisted that Impath publicly report financial results that met its projections and analysts' expectations. As a result, rather than disclosing Impath's true condition and suffer the ensuing decline in the price of Impath's common stock, Cammarata, with the knowledge and approval of ADELSON, continued to direct co-conspirators to make false and fraudulent topside adjustments to Impath's general ledger, conceal the Revenue Variance from Impath's auditors, and make false statements to the investing public and in Impath's publicly filed reports regarding Impath's revenues and other financial results.

50. Concerned that the steep decline in actual versus projected revenue would increase the Revenue Variance, in or about early 2002 Cammarata asked Torres to create a document (the "Revenue Variance Schedule") that set forth the amount and rate of increase of the Revenue Variance through the fourth fiscal quarter of 2001. In or about March 2002, Cammarata provided the

Revenue Variance Schedule to ADELSON for his review and explained that the variation between Impath's actual revenues and the revenues that it reported to the investing public for the fiscal year 2001 was approximately $25 million.

51. Rather than disclosing Impath's true financial condition and operating performance, ADELSON and Cammarata instructed subordinates, in substance and in part, to continue to falsely and fraudulently book certain entries in Impath's general ledger, which were designed to increase artificially Impath's reported revenue and to decrease artificially Impath's reported expenses, resulting in, among other things, artificially inflated figures for Impath's EPS and revenue growth rate for the first quarter of fiscal year 2002. The adjustments included (a) reductions made to expense accounts by debiting certain reserve accounts, which reductions lacked any business justification or supporting documentation, and (b) continued topside revenue adjustments solely in an effort to report results that would meet, or come close to meeting, Impath's projections and analysts' expectations, even though ADELSON, Cammarata and other co-conspirators knew that Impath's true results in fact failed significantly to meet those expectations.

52. Additionally, to perpetuate the scheme throughout 2002, ADELSON instructed his subordinates to, among other things: (a) continue to inflate Impath's revenues in the lymphoma/leukemia

area by recording revenues in its general ledger for certain lymphoma/leukemia cases that ADELSON and others knew were not collectible; and (b) continue to report accounts receivable balances and revenues based on Cases Received rather than Cases Billed without disclosing this fact to Impath's independent auditors or the investing public.

53. Starting at least in or about May 2002, ADELSON was again provided with, and discussed with other Impath employees, the Revenue Variance Schedule and the continued existence of the Revenue Variance. As ADELSON well knew based on those and prior discussions as well as internal documents that had been provided to him, the Revenue Variance had increased substantially, to approximately $25 million, by in or about May 2002.

54. Nevertheless, in or about May and June 2002, RICHARD P. ADELSON, the defendant, concerned that a steep decline in actual versus projected revenues in 2002 would increase the Revenue Variance, cause a decline in the market price of Impath's common stock, decrease the value of Impath stock and stock options owned by ADELSON, and potentially cause ADELSON's termination, directed that Torres and other employees in Impath's finance department continue to inflate revenue numbers.

55. Among other things, at the direction of RICHARD P. ADELSON, the defendant, starting in or about the second fiscal quarter of 2002, Torres, Gardner, Jugan and others continued to

create Phony Impulse Reports to confirm falsely inflated revenues and receivable balances, which perpetuated the scheme to inflate revenues at Impath by concealing the existence of the Revenue Variance from KPMG and the investing public and to generate higher EPS.

56. In addition, at the direction of RICHARD P. ADELSON, the defendant, starting in or about the second fiscal quarter of 2002, Torres, Gardner, Jugan and others continued to make fraudulent topside adjustments to Impath's general ledger in each subsequent quarter of 2002.

57. RICHARD P. ADELSON, the defendant, among others, well knew that there was no basis in fact for these revenue and accounts receivable adjustments and manual general ledger entries, and that they were made with the sole purpose of inflating Impath's publicly reported revenues and other financial results, closing the gap between actual and budgeted revenues, and allowing Impath to report to the investing public that it had met or nearly met its projected EPS levels and analysts' expectations.

58. In addition, RICHARD P. ADELSON, the defendant, and others caused the issuance of public announcements in or about 2002 that made it appear that Impath's rapid growth continued unabated. On or about July 17, 2002, Impath announced its financial results for the second quarter of 2002 in a press

release, which stated in part:

> Impath, Inc. today reported its results for the second quarter ended June 30, 2002. Net revenues of $56,613,000 represented a 20% increase over 2001 second quarter net revenues. . . . Earnings per diluted share ("EPS") were $.30, a 15% increase over $.26 in the year ago period. . . . Days sales outstanding ("DSOs") for the quarter were 114 days, flat sequentially net of one time events in Q1. . . . Richard P. Adelson, President and Chief Operating Officer, added, "While we continued to see growth across each of our businesses, our cash collections kept pace with overall revenue growth and DSOs remained flat sequentially, net of one time events in Q1."

59. Additionally, in furtherance of this scheme to defraud and throughout fiscal year 2002, RICHARD P. ADELSON, the defendant, along with his co-conspirators: (a) caused others to make statements about Impath's financial condition which, as they well knew, reflected the above-described fraudulent adjustments to Impath's revenues, receivables, and earnings; and (b) failed to disclose that they had manipulated, and caused others to manipulate, Impath's revenues, receivables, and earnings.

Fraudulent Revenue Recognition Of GlaxoSmithKline Order

60. At all times relevant to this Indictment, according to GAAP, Impath's Predictive Oncology division could not properly recognize revenue associated with a sale of tissue samples to a customer until after (a) an agreement for a sale had been reached, (b) an invoice for such sale had been issued, and (c) the tissue samples were actually shipped to the customer. The

full value of the invoiced amount could be recorded as revenue on the books of Impath only after all three conditions were met.

61. In or about late 2002 and early 2003, RICHARD P. ADELSON, the defendant, was informed that an invoice in the total approximate amount of $566,000 had been issued by the Predictive Oncology division to one of its customers, GlaxoSmithKline, in connection with the purported sale of certain tissue samples to that customer. As ADELSON well knew by in or about February 2003, however, there was no firm customer agreement to purchase - and the Predictive Oncology division had not shipped - the full amount of the invoiced tissue samples to GlaxoSmithKline by the end of the fiscal year 2002, and the actual amount of the proposed purchase by GlaxoSmithKline was for substantially less than $566,000.

62. RICHARD P. ADELSON, the defendant, and others, nevertheless caused Impath to recognize and publicly report the full amount of the invoice as revenue for the fourth fiscal quarter 2002 and for the year ended 2002. The total approximate amount of the invoice, $566,000, that ADELSON and others caused to be recognized in 2002 constituted approximately ten percent of the revenue associated with the Predictive Oncology division in the fourth quarter of 2002.

63. In total, by fraudulently increasing the topside revenues recorded at Impath throughout 2002, and falsely

recognizing revenue that they knew should not be recognized in 2002, among other things, RICHARD P. ADELSON, the defendant, and others, made it appear that Impath had achieved annual net revenues of approximately $226 million, when in fact its annual revenues for fiscal year 2002 were not more than approximately $165 million.

The Fraud Is Revealed And The
Price Of Impath's Securities Plummet

64. In or about May 2003, RICHARD P. ADELSON, the defendant, was fired by Impath.

65. In or about July 2003, Impath announced that the audit committee of its board of directors had initiated an internal investigation into "possible accounting irregularities" involving, among other things, the overstatement of accounts receivable. In the approximately two months following this announcement, the price of Impath's securities plummeted more than approximately 88 percent, resulting in an aggregate decline in shareholder value of more than approximately $260 million. In or about September 2003, Impath filed for bankruptcy protection.

66. The overstatement of accounts receivable, and the corresponding overstatement of revenue, had the following impact on Impath's publicly disclosed net revenues for all its divisions in or about 2000, 2001 and 2002:

	FY 2000	FY 2001	FY 2002
Impath's Reported Net Revenues (Approximate)	$138 million	$189 Million	$188 Million
Impath's Actual Net Revenues (Approximate)	$123 Million	$163 Million	$165 Million
Amount That Impath's Reported Revenues Were Overstated As Result Of Inflated Revenues (Approximate)	$15 Million	$26 Million	$23 Million

STATUTORY ALLEGATIONS
The Conspiracy

67. From in or about December 1999 through in or about July 2003, in the Southern District of New York and elsewhere, RICHARD P. ADELSON, the defendant, along with others known and unknown, unlawfully, willfully and knowingly did combine, conspire, confederate, and agree together and with each other to commit offenses against the United States, namely: (a) to commit fraud in connection with the purchase and sale of securities issued by Impath, in violation of Title 15, United States Code Sections 78j(b) and 78ff, and Title 17, Code of Federal Regulations, Section 240.10b-5; (b) to make and cause to be made false and misleading statements of material fact in reports and documents required to be filed with the SEC under the Exchange Act, and the rules and regulations promulgated thereunder, in violation of Title 15, United States Code, Sections 78m(a) and 78ff; and (c) to falsify books, records, and accounts of Impath, in violation of Title 15, United States Code, Sections 78m(b)(2)(A), 78m(b)(5) and 78ff, and Title 17, Code of Federal Regulations, Section

240.13b2-1.

The Objects Of The Conspiracy

Fraud In Connection With The Purchase And Sale Of Securities

68. It was a part and an object of the conspiracy that RICHARD P. ADELSON, the defendant, and others known and unknown, unlawfully, willfully, and knowingly, directly and indirectly, by use of the means and instrumentalities of interstate commerce, the mails, and the facilities of national securities exchanges, would and did use and employ manipulative and deceptive devices and contrivances in connection with the purchase and sale of securities issued by Impath, in violation of Title 17, Code of Federal Regulations, Section 240.10b-5, by: (a) employing devices, schemes, and artifices to defraud; (b) making and causing others, including Impath, to make false and misleading statements of material facts and omitting to state material facts necessary in order to make the statements made, in the light of the circumstances under which they were made, not misleading; and (c) engaging in acts, practices, and courses of business which operated and would operate as a fraud and deceit upon the purchasers and sellers of Impath securities, in violation of Title 15, United States Code, Sections 78j(b) and 78ff.

False Statements In SEC Filings

69. It was further a part and an object of the conspiracy that RICHARD P. ADELSON, the defendant, and others known and un-

known, unlawfully, willfully, and knowingly, in reports and documents required to be filed with the SEC under the Exchange Act, and the rules and regulations promulgated thereunder, would and did make and cause to be made statements which were false and misleading with respect to material facts, in violation of Title 15, United States Code, Sections 78m(a) and 78ff.

False Books And Records

70. It was further a part and an object of the conspiracy that RICHARD P. ADELSON, the defendant, and others known and unknown, unlawfully, willfully, and knowingly would and did, directly and indirectly, falsify and cause to be falsified books, records, and accounts subject to Section 13(b)(2) of the Exchange Act, namely books, records, and accounts of Impath, an issuer with a class of securities registered pursuant to the Exchange Act, which Impath was required to make and keep in reasonable detail, accurately and fairly reflecting the transactions and dispositions of the assets of Impath, in violation of Title 15, United States Code, Sections 78m(b)(2)(A), 78m(b)(5) and 78ff, and Title 17, Code of Federal Regulations, Section 240.13b2-1.

Means And Methods Of The Conspiracy

71. Among the means and methods by which RICHARD P. ADELSON, the defendant, and his co-conspirators, would and did carry out the conspiracy were the following:

a. ADELSON and his co-conspirators, through various

means, recorded and caused others to record falsely inflated Physician Services revenue and Predictive Oncology assets in Impath's books and records;

b. ADELSON and his co-conspirators thwarted attempts by auditors to determine accurate levels of Impath's revenues and related receivables by fraudulently interfering with quarterly reviews and year-end audits and/or creating and causing others to create false books and records;

c. ADELSON and his co-conspirators made false, fraudulent and deceptive representations to auditors, and omitted and concealed material facts that rendered representations to auditors fraudulent;

d. ADELSON and his co-conspirators caused and attempted to cause Impath and its representatives to make false, fraudulent and misleading statements to the investing public that materially misstated, among other things, Impath's revenues and/or assets; and

e. ADELSON and his co-conspirators used facilities of interstate and foreign commerce in furtherance of the objects of the conspiracy.

Overt Acts

72. In furtherance of the conspiracy and to effect its illegal objects, RICHARD P. ADELSON, the defendant, and his co-conspirators, committed the following overt acts, among others,

in the Southern District of New York and elsewhere:

a. In or about May 2002, ADELSON and Cammarata discussed the continued existence of the Revenue Variance in Impath's offices located in New York, New York.

b. In or about June 2002, ADELSON and Torres discussed the improper accounting adjustments required to meet analysts' expectations and projected revenue and EPS targets.

e. On or about April 15, 2003, ADELSON signed Impath's yearly Report on Form 10-K for the fiscal year ending December 31, 2002, which was substantially prepared and submitted for filing in New York, New York.

(Title 18, United States Code, Section 371.)

COUNT TWO

(Securities Fraud)

The Grand Jury further charges:

73. The allegations contained in Paragraphs 1 through 66, 71 and 72 of this Indictment are repeated and realleged as if fully set forth herein.

74. From at least in or about January 2001, up to and including in or about May 2003, in the Southern District of New York and elsewhere, RICHARD P. ADELSON, the defendant, unlawfully, willfully and knowingly, directly and indirectly, by the use of means and instrumentalities of interstate commerce, the mails, and of the facilities of national securities

exchanges, used and employed, in connection with the purchase and sale of securities, namely Impath's securities, manipulative and deceptive devices and contrivances in violation of Title 17, Code of Federal Regulations, Section 240.10b-5 by: (a) employing devices, schemes and artifices to defraud; (b) making untrue statements of material fact and omitting to state material facts necessary in order to make the statements made, in the light of the circumstances under which they were made, not misleading; and (c) engaging in acts, practices and courses of business which operated and would operate as a fraud and deceit upon purchasers and sellers of Impath's securities.

(Title 15, United States Code, Sections 78j(b) and 78ff; Title 17, Code of Federal Regulations, Section 240.10b-5; Title 18, United States Code, Section 2.)

COUNTS THREE THROUGH TEN

(False Filings With The SEC)

The Grand Jury further charges:

75. The allegations contained in Paragraphs 1 through 66, 71 and 72 of this Indictment are repeated and realleged as if fully set forth herein.

76. On or about the dates specified below, in the Southern District of New York and elsewhere, RICHARD P. ADELSON, the defendant, unlawfully, willfully, and knowingly, made and caused to be made statements in reports and documents required to be filed with the SEC under the Exchange Act, and the rules and

regulations promulgated thereunder, which statements were false and misleading with respect to material facts, to wit, ADELSON and others caused Impath to submit, and aided and abetted the submission of, in New York, New York, to the SEC in Washington, D.C., the following Forms for the following periods:

COUNT	APPROXIMATE DATE	FORM	PERIOD
3	5/15/01	10-Q	Quarter ending 3/31/01
4	8/1/01	10-Q	Quarter ending 6/30/01
5	11/14/01	10-Q	Quarter ending 9/30/01
6	4/1/02	10-K	Year ending 12/31/01
7	5/14/02	10-Q	Quarter ending 3/31/02
8	8/14/02	10-Q	Quarter ending 6/30/02
9	11/14/02	10-Q	Quarter ending 9/30/02
10	4/15/03	10-K	Year ending 12/31/02

(Title 15, United States Code, Sections 78m(a) and 78ff; Title 17, Code of Federal Regulations, Section 240.13a-1; and Title 18, United States Code, Section 2.)

COUNT ELEVEN

(Soliciting Proxies With False Proxy Statements)

The Grand Jury further charges:

77. The allegations contained in Paragraphs 1 through 66, 71 and 72 of this Indictment are repeated and realleged as if fully set forth herein.

78. In or about April 2002, in the Southern District of New York and elsewhere, RICHARD P. ADELSON, the defendant, unlawfully, willfully, and knowingly, directly and indirectly, by

the use of means and instrumentalities of interstate commerce, and of the mails, and of facilities of national securities exchanges, solicited and permitted the use of his name to solicit a proxy, consent and authorization of securities, namely, Impath's securities, in violation of Title 17, Code of Federal Regulations, Section 240.14a-9, which made untrue statements of material fact and omitted to state material facts necessary in order to make the statements made, in the light of the circumstances under which they were made, not false and misleading, to wit, ADELSON caused Impath to submit, in New York, New York, to the SEC in Washington D.C., a proxy statement that was false and misleading because it omitted to disclose that ADELSON received stock options in or about 2001 at an exercise price of approximately $33.03 per share, but failed to pay the amount due to Impath for exercising those stock options, which was approximately $176,000.

(Title 15, United States Code, Sections 78n(a) and 78ff; Title 17, Code of Federal Regulations, Section 240.14a-9; and Title 18, United States Code, Section 2.)

COUNT TWELVE

(Soliciting Proxies With False Proxy Statements)

The Grand Jury further charges:

79. The allegations contained in Paragraphs 1 through 66, 71 and 72 of this Indictment are repeated and realleged as if fully set forth herein.

80. In or about April 2003, in the Southern District of New York and elsewhere, RICHARD P. ADELSON, the defendant, unlawfully, willfully, and knowingly, directly and indirectly, by the use of means and instrumentalities of interstate commerce, and of the mails, and of facilities of national securities exchanges, solicited and permitted the use of his name to solicit a proxy, consent and authorization of securities, namely, Impath's securities, in violation of Title 17, Code of Federal Regulations, Section 240.14a-9, which made untrue statements of material fact and omitted to state material facts necessary in order to make the statements made, in the light of the circumstances under which they were made, not false and misleading, to wit, ADELSON caused Impath to submit, in New York, New York, to the SEC in Washington D.C., a proxy statement that was false and misleading because it omitted to disclose that ADELSON received stock options in or about 2002 at an exercise price of approximately $11.52 per share, but failed to pay the amount due to Impath for exercising those stock options, which was approximately $103,000.

(Title 15, United States Code, Sections 78n(a) and 78ff; Title 17, Code of Federal Regulations, Section 240.14a-9; and Title 18, United States Code, Section 2.)

FORFEITURE ALLEGATIONS

81. As a result of committing the offenses alleged in Counts One and Two of this Indictment, RICHARD P. ADELSON, the

defendant, shall forfeit to the United States pursuant to 18 U.S.C. § 981(a)(1)(C) and 28 U.S.C. § 2461, all property, real and personal, that constitutes or is derived from proceeds traceable to the commission of the offenses, including but not limited to, a sum of money representing the amount obtained as a result of the above-listed offenses.

Substitute Asset Provision

82. If any of the above-described forfeitable property, as a result of any act or omission of the defendant:

a. cannot be located upon the exercise of due diligence;

b. has been transferred or sold to, or deposited with, a third person;

c. has been placed beyond the jurisdiction of the Court;

d. has been substantially diminished in value; or

e. has been commingled with other property which cannot be subdivided without difficulty;

it is the intent of the United States, pursuant to 21 U.S.C. § 853(p), to seek forfeiture of any other property of said

defendant up to the value of the above forfeitable property.

(Title 18, United States Code, Section 981;
Title 28, United States Code, Section 2461.)

FOREPERSON

MICHAEL J. GARCIA
United States Attorney

Form No. USA-33s-274 (Ed. 9-25-58)

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

UNITED STATES OF AMERICA

- v. -

RICHARD P. ADELSON,

Defendant.

INDICTMENT

S2 05 Cr. 325 (JSR)

(Title 18, United States Code, Sections 2 and 371; Title 15, United States Code, Sections 78j(b), 78m(a), 78n(a), and 78ff; Title 17, Code of Federal Regulations, Sections 240.10b-5, 240.13a-1, and 240.14a-9)

MICHAEL J. GARCIA
United States Attorney.

A TRUE BILL

Foreperson.

9/28/05 Filed Indictment
WJO

Pitman
U.S.M.J.