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LABORATORY INDUSTRY REPORT®

Dennis W. Weissman, Publisher

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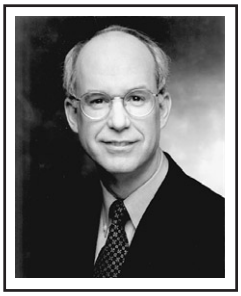
HIGHLIGHTS

WASHINGTON G-2 REPORTS

Quest's Freeman Calls For Lab Interests To Work Together On Common Goals

In an Oct. 24 keynote presentation at Lab Institute 2002, Kenneth Freeman, chairman and CEO of Quest Diagnostics (Teterboro, NJ), urged the laboratory industry to speak with a unified voice when lobbying policymakers and regulators for appropriate reimbursement rates and for prompt introduction of new tests and technologies.



Kenneth Freeman

"With budget surpluses turning into deficits virtually overnight at federal, state and local levels, labs face renewed pressures on both reimbursement and regulatory fronts," he warned. "As we all know, our industry is incredibly fragmented and intensely competitive, but within the patchwork quilt that characterizes our industry—one where many are viewed by the same institutions as both suppliers and competitors—it's imperative that we collaborate to continue to strengthen and improve our industry."

Freeman's call for more coordinated lobbying by labs and industry trade groups was echoed by several other prominent speakers at the Lab Institute, which is sponsored annually by Washington G-2 Reports. For details, see *Inside The Laboratory Industry*, pp. 5-7.

Spectrum Takes Bite Out Of LabCorp's Market Share

Laboratory Corp. of America (Burlington, NC) recently announced a revenue and profit shortfall for its third-quarter financial results, mainly due to increased competition in its own backyard. LabCorp says that Spectrum Laboratory Network (Greensboro, NC), a hospital-owned lab venture run by CEO Nate Headley, has taken a bite out of its growth in North Carolina, South Carolina and southern Virginia.

At a recent investor conference in New York City, Tom Mac Mahon, LabCorp chairman and CEO, said, "For this to happen right around our own territory is unacceptable, and we plan to correct it."

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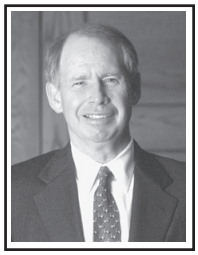
■ SPECTRUM, *from page 1*



Tom Mac Mahon

Prior to Headley's arrival at Spectrum [in April 2000], Mac Mahon noted, there had not been heavy competition in the North Carolina market, where LabCorp generates approximately $350 million of "high-margin" revenue annually. "Hospital [laboratory] networks have been around for awhile. What makes this one [Spectrum] unique is the quality of its chief executive, the quality of its laboratory and the high profits in the region."

Spectrum has been able to eat into LabCorp's market share, Mac Mahon continued, through a combination of fast turnaround time, an expansive network of patient service centers and on-site phlebotomy services at some physician offices. Spectrum also has been using lower pricing to win physician accounts, he claimed. In North Carolina, he noted, laboratories often bill physicians directly for lab tests; physicians then mark up the test services and bill them to patients. As a result, physicians can profit from the spread between what they pay labs and what they bill patients.

Mac Mahon said that to address the growing competition in North Carolina, LabCorp:

- ❑ Put in place a new management team for this region earlier this year as well as a new sales team.
- ❑ Is adding sales representatives and increasing the frequency of sales and service visits to physician offices.
- ❑ Is expanding its phlebotomy services and adding patient service centers.

LabCorp may lower prices in isolated cases to win back physician clients, he added. "We have been very reluctant to get into a pricing situation … We may need to use it *[i.e.,* lower prices] periodically."

Service, Not Price-Cutting, Fuels Market Inroads, Says Spectrum CEO

Nate Headley

Nate Headley tells *Laboratory Industry Report* (*LIR*) that Spectrum is not lowering prices to win business. North Carolina is not a price-sensitive part of the country, he contends, because there is so little managed care business. Further, Spectrum derives only 11% of its revenue from billing the physician client, he says. Spectrum's average revenue per billable test from outreach, he notes, is $16 with 2.35 tests per accession for average revenue of $37.50 per accession. Headley anticipates that Spectrum will generate $47 million of net collected revenue from outreach this year, with a pretax profit margin of approximately 20%.

Spectrum Laboratory Network is a consolidated lab venture owned by Moses Cone Health System (Greensboro), High Point Regional Health System (High Point) and Novant Health System (Charlotte). It manages six inpatient labs, plus a freestanding core lab in Greensboro. The venture currently operates 30 patient service centers throughout all of North Carolina and parts of South Carolina and Virginia. Annual billable testing from outreach is 2.6 million and has grown 40% annually for the past three years, according to Headley.

Headley says Spectrum is competing on service. He claims the venture gets 99.3% of lab test results back to physicians the next day and has done so for the

PROFILE: Spectrum Laboratory Network

Chief executive: Nate Headley
Medical director: M. C. Steuderman, MD
Director, central lab operations: Taylor McKeeman
Participating hospitals (total 2,500 beds): Moses Cone Memorial, Women's Hospital, Wesley Long, Annie Penn, High Point Regional, Forsyth Memorial
Core lab: Greensboro, NC
Patient service centers: 30
Employees: 735 (including 215 at inpatient labs)
Inpatient test volume: 2.5 million
Outpatient test volume: 2.6 million
Average revenue per outreach test: $16
Average revenue per outreach accession: $37.50
Projected 2002 outreach revenue: $47 million
Source: Spectrum Laboratory Network

past two years. He notes that the venture employs 17 sales representatives and 15 field service employees. He also points out that Spectrum has invested more than $12 million back into the company to keep its laboratories and information systems ahead of its growth rate.

Spectrum is somewhat unique, Headley says: "Think of us as a true 'hybrid laboratory network organization' that includes a complete and separate independent reference lab and six inpatient hospital labs." In his view, the biggest mistake that many hospital outreach efforts make is to view outreach simply as a way to fill excess capacity. Failure to recognize that the laboratory organizational disciplines needed for outreach are totally different from those needed for inpatient testing "is a recipe for failure," he contends. Hospitals that have ventured into outreach merely to fill excess capacity have been "notoriously unsuccessful," he asserts. If a hospital system wants to create a successful outreach program, it must be willing to establish a new organization with separate management and facilities, he advises.

Barry Portugal, president of the lab consulting firm, Health Care Development Services (Northbrook, IL), tells *LIR* that Spectrum is not an isolated case. "There are many other hospital outreach programs across the country that are successful in terms of gaining market share." But achieving profit success has been another story, he adds. "Many hospitals are unaware of the actual bottom-line results."

Another Venture Eyes The Market

Meanwhile, it looks like the North Carolina lab market will soon get even more competitive. Earl Buck, executive director of clinical laboratories at Duke University Health System (DUHS-Durham), tells *LIR* that DUHS plans to launch an outreach program within the next 12 months. DUHS will form a for-profit joint venture with MDS Inc. (Toronto, Ontario, Canada) to provide lab outreach services throughout the Raleigh-Durham area, he says. Under a separate long-term management agreement signed earlier this year, MDS is helping DUHS integrate lab services at its three hospitals and numerous outpatient clinics (*LIR, Jan. 02, pp. 1-2*). The transition of non-time-sensitive testing services to a new 40,000 square-foot core lab facility will begin in a few weeks, according to Buck.

Quest Sets The Record Straight On "Waiver-Of-Charges" Forms

Recently, Quest Diagnostics (Teterboro, NJ) has been accused by competitors of using "waiver-of-charges" forms with physician office clients in Michigan as a means to gain or maintain market share. Such forms, which have been around for nearly a decade, are typically used after one laboratory loses an exclusive managed care contract to a competing lab. The losing lab will sometimes continue to provide services free of charge to physicians for those patients

who had been covered under the old managed care contract. The losing lab will often ask the physician client to sign a waiver-of-charges form—more formally known as a "Physician Acknowledgement of Non-Interest"—declaring that the physician gains no financial benefit from the free lab tests.

Certain lab industry pundits have suggested that use of these forms is a sign that Quest may be abandoning the pricing discipline strategy it has embraced for the past few years. To get to the bottom of this, *LIR* contacted Quest spokesman Gary Samuels.

LIR: *Is Quest using "waiver-of-charges" forms with physician clients in Michigan?*

QUEST: In certain exceptional circumstances, Quest Diagnostics may decide to waive payment when we have lost a managed care agreement and a physician nonetheless wishes to continue using Quest. This practice is currently being used on an extremely limited basis and in full compliance with both the October 1994 guidance from the HHS Office of Inspector General and our contractual obligations.

LIR: *Is the form a new type of marketing technique? How long have these types of forms been around?*

QUEST: At Quest Diagnostics, the practice of waiving payment is extremely limited and has been for the past several years, particularly as managed care contracts have shifted from exclusive to non-exclusive. Waiving payment is certainly not part of any corporate-wide policy.

LIR: *Doesn't waiver of charges fly in the face of Quest's avowed commitment to pricing discipline and getting paid appropriately for lab work?*

QUEST: It may appear that way, which is one reason why occurrences are very limited.

LIR: *Why would Quest or any other lab use a waiver-of-charges form in the first place? Doesn't it de-value lab services even if used in isolated cases?*

QUEST: Actually, the practice generally occurs in response to the physician valuing our service and wanting that service for all of his or her patients, regardless of their insurance coverage.

For further clarification, *LIR* contacted attorney Hope Foster, the managing partner at Mintz Levin (Washington, DC). According to Foster, managed care companies sometimes pay physicians financial incentives for meeting certain utilization targets. Under these types of contracts, a physician who is able to reduce his/her lab test utilization could benefit financially if he/she were receiving free lab tests. But so-called "waiver-of-charges" forms are not contracts, she points out; they are merely statements whereby a physician acknowledges that he or she will not receive any type of financial incentive as a result of getting free lab tests.

According to Foster, these forms resulted from guidance issued in 1994 by the HHS Office of Inspector General. "They are not some sort of new aggressive marketing tactic, but rather a defensive measure. I have seen no proliferation in their use ... [nor] increased interest on the part of labs seeking advice about these types of compliance forms."

Lab Execs Seek Stronger Industry Clout With Government

In the opening session of Lab Institute 2002, the top executives of Quest Diagnostics and LabCorp, along with a senior Wall Street venture capitalist, tackled the major strategic issues and market trends reshaping the U.S. clinical lab industry. The annual Institute program, sponsored by Washington G-2 Reports, was held this year on Oct. 23-26 in Arlington, VA

Kenneth Freeman, chairman and CEO of Quest Diagnostics, which has dramatically altered the landscape of the U.S. commercial laboratory sector through a series of acquisitions, is pushing now for greater cooperation and coordination among the industry's various trade and other interest groups. The aim? To strengthen lab lobbying clout in government decision-making circles.

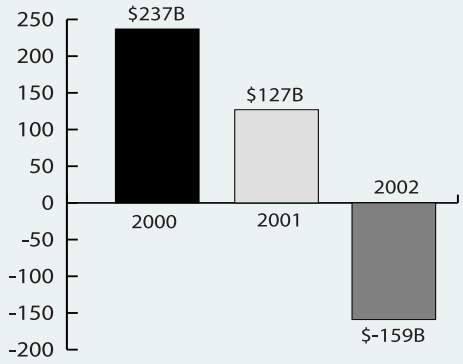
Freeman's push for a more unified lab lobbying voice comes amid warning signs that pressures to curtail Medicare spending will intensify in the coming years. One sign of trouble is the Federal Government's recent announcement of a $159 billion budget deficit for the last fiscal year. The budget gap for FY 2002, which ended last Sept. 30, is the first since the $22 billion deficit for 1997 and the largest since the $164 billion imbalance in 1995.

Another major warning sign is the partisan jockeying over a Medicare outpatient prescription drug benefit for seniors as part of larger Medicare reform. The nation's return to deficit spending, combined with the prospect of adding an expensive new drug benefit, is sure to provoke politicians and policymakers to search for federal spending cuts—and if history is any guide, the lab industry is sure to be among the targets, even though lab services are a relatively small component of the annual Medicare budget (l.6%, according to an Institute of Medicine report).

Speaking to an audience of more than 500 at Lab Institute 2002, Freeman pointed to the Biotechnology Industry Organization (BIO-Washington, DC) as an example of what the laboratory industry can achieve. BIO is a trade association representing a diverse group of large and small biotech companies as well as university research programs. "That's my vision for what we can become if we chose to do so," he said.

"If this industry does not get its act together and work together—and I'm saying this to you with an olive branch [in my hand], let's do it together—we're going to go down in flames. This is virtually the only part of healthcare that doesn't have a unified industry association that goes to Washington and state governments to fight for what's needed. It's insanity. We must pull together and I'm asking that we all do that."

The Federal Budget: Fade From Black To Red



Source: Office of Management & Budget

The chairman and CEO of Laboratory Corp. of America, Tom Mac Mahon, echoed Freeman when he noted that Quest and LabCorp are fierce competitors, but still have been able to work together to advance industry issues. "There's no reason why we can't all come together, because the issues are basically the same and it's in [our] best interest."

Lab Trade Associations	Main Constituency
Amer. Assn. of Bioanalysts	Small independent/rural labs
Amer. Assn. for Clinical Chemistry	Lab scientists
Amer. Clinical Laboratory Assn.	Large commercial labs
Amer. Society for Clinical Laboratory Science	Clinical lab scientists
Clinical Laboratory Management Assn.	Lab managers, directors
College of American Pathologists	Pathologists
Amer. Society for Clinical Pathology	Pathologists, lab workers

Source: *LIR*

To date, the various lab associations have been unwilling to sacrifice some autonomy and come together to form a single political action committee (PAC). At present, laboratories and pathologists are represented by no less than seven different trade associations, four of which have their own PAC—the American Society for Clinical Laboratory Science, American Association of Bioanalysts, College of American Pathologists and Clinical Laboratory Management Association.

A telling reminder that the industry needs greater Capitol Hill clout is the fact that despite lab lobbying efforts, key House and Senate committees have authorized competitive bidding demonstrations that include Medicare Part B lab services, even though competitive bidding has long been anathema to the lab community and even though a usually influential voice like the Institute of Medicine has rejected it as an alternative payment method. Surprisingly, some congressional staff who worked up the bills reportedly had no inkling of IOM's contrary stand. The legislation has passed the House; a Senate counterpart has cleared the Finance Committee.

Further, some in the lab community point with dismay to the fact that lab trade groups are trumpeting next year's scheduled update to the Part B lab fee schedule as a major victory. "It really is pitiful," one lab trade group executive told *LIR*. The update is based on the Consumer Price Index (CPI). Assuming the update occurs on Jan. 1, this will be the first time since 1997 that the lab fee schedule has been adjusted for inflation. Under current law, the five-year lab fee freeze will end this Dec. 31, and a full update will occur automatically as of Jan. 1, if Congress takes no action to prevent it. In fairness, though, some could argue that lab lobbying efforts may have helped avert any continuance of the freeze next year.

According to data from the U.S. Labor Department, the CPI rose by 1.5% in the 12 months ended September 2002. Assuming this is the level at which Medicare lab fees will be hiked next year, it would only mean, for example, that reimbursement for a comprehensive metabolic panel (CPT 80053) would rise from $14.61 to $14.83, a prostate-specific antigen test (84153) from $25.42 to $25.80 and an electrolyte panel (80051) from $9.69 to $9.84. Obviously, these modest increases will not have much impact on laboratory budgets, especially when salaries for lab personnel are rising by some 4%-8% each year.

In his presentation at the Institute's opening session, L. John Wilkerson, PhD, the founding general partner at the investment firm of Galen Partners (New York City), noted: "It strikes me that this industry is not getting fairly paid for the value you are providing ... How do you get your fair shake? This may be an area where greater momentum and mass are required."

Wilkerson answered his own question when he cited BIO as a case study of how the consolidation of two trade groups raised the voice of the biotechnology industry in the Nation's Capital. BIO was formed by the merger in 1993 of the Industrial Biotechnology Association, which had primarily represented larger, established companies, and the Association of Biotechnology Companies, which had represented

smaller companies and universities.

"Before the merger, the biotechnology industry had two trade groups representing it and spoke with a split voice. The people in Washington would welcome both groups for meetings, and after each group left, they [the politicians] weren't clear on what the industry wanted. They [the two trade groups] had zero impact. They finally came together and, after a couple years of indigestion, are now [one of] the most power"§l lobbying organizations in Washington. They [BIO] represent the voice of the industry and are fighting for their fair share."

Meanwhile, Mark Birenbaum, administrator of the American Association of Bioanalysts (St. Louis, MO), tells *LIR* that the lab industry is too diverse to ever be represented by a single large trade association. For example, the top national legislative priority at AAB, which represents small independent and rural labs, is to get an increase in the Medicare specimen collection fee, which has been stuck at $3 since 1984. In contrast, Birenbaum says, the big commercial labs are more interested in the CPI update to Medicare lab fees and higher reimbursement for new tests, while the College of American Pathologists is focused on Medicare reimbursement for Pap smears, more frequent screening mammograms and higher fees under the physician fee schedule.

"It's wishful thinking on his [Freeman's] part to ask that the whole lab industry get behind Quest's philosophy and priorities," says Birenbaum.

To Birenbaum, cooperation among lab associations has never been greater than it is today. He cites the creation of the Clinical Laboratory Coalition as a major step forward. Though not a PAC, it has articulated common goals for the various trade groups that include (1) assuring a CPI update to lab fees; (2) opposing lab competitive bidding; and (3) getting higher reimbursement for specimen collection. "Ten years ago, different lab groups were unwilling even to sit in the same room together, and now we're meeting on a monthly basis."

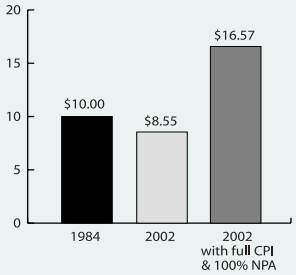
In Birenbaum's view, the lab industry may never be able to attain the Washington visibility and clout of groups like the American Hospital Association or the American Medical Association. "We're a small player on the stage. It will never be easy for the labs. We have to be smarter about what we go after and how we go after it."

But in a sign that more cooperation and coordination may be on the way, Elissa Passiment, executive vice president of the American Society for Clinical Laboratory Science (Bethesda, MD), tells *LIR* that at the Lab Institute, representatives of all the major lab trade and professional groups met to discuss the possible formation of a new lab coalition. It would include direct participation of the presidents of the various lab trade groups, commercial and hospital labs. Passiment says that a list of priorities is being developed, and there are plans to meet again in mid-December. "Unfortunately, it often takes a certain level of pain to force an industry to come together, and right now we're not at that point," she observes.

18 Years Of Being Pushed Around In Washington

The laboratory industry's various trade organizations have been unable to protect the lab community from Medicare payment cuts since the mid-1980s. For example, a test paid at $10 in 1984 receives only $8.55 today. In 2002, the same test—without having suffered any reduction in its national limitation amount (NLA)—would have been paid at $16.57 if every CPI increase had been applied over the last 18 years. (In fact, the update has been applied in only nine of the last 18 years.)

Medicare Reimbursement Of $10 Lab Test



Source: Clinical Laboratory Coalition

New York Times Advertising Backfires On Impath

A full-page advertisement that Impath (New York City) placed in the September 8 *New York Times Magazine* to highlight its testing prowess set off a major controversy with the College of American Pathologists (CAP-Northfield, IL).

The Impath ad presents a real-life case study of a woman named Artemis P., who wakes up one morning with a pain in her right hip. According to the ad, she has a biopsy analyzed by a community-based laboratory and results reveal a cancer of unknown origin. Subsequent radiation and chemotherapy do not help, so Artemis is faced with failed treatment and the probability that her cancer would spread.

A friend recommends that Artemis have her biopsy specimen analyzed by Impath. And Impath is able to quickly pinpoint the cancer as medullary carcinoma of the thyroid—the cancer in her thyroid had spread to her hip. Impath's interpretation is confirmed by her doctor, the tumor is removed and Artemis' life is saved, according to the ad. "Our specialized analyses helped her get the right treatment at the right time," the ad proclaims.

Gene Herbek, MD, a practicing pathologist and chair of the council on public affairs at CAP, tells *LIR* that the College has been inundated with complaints from its members, who said the ad undermines patients' confidence in local pathologists. "The ad sent a negative message about the quality of local pathologists," says Herbek.

CAP president Paul Raslavicus, MD, wrote to Impath, demanding that the company place a corrective ad in the *New York Times Magazine*, emphasizing the skills of community-based pathologists and laboratories.

Impath, which relies on local pathologists as a major referral source, has agreed to CAP's demand. In a reply to Raslavicus, Impath chairwoman Anu Saad, PhD, said the company will run advertisements in two upcoming *New York Times Magazine* editions, demonstrating Impath's dedication to community-based pathologists. Further, Saad said, CAP will have the opportunity to review the ads prior to publication.

"Impath has been very cooperative and very understanding of our concerns," concludes Herbek.

Florida Pathologists Seek Supreme Court Review Of Payment Dispute

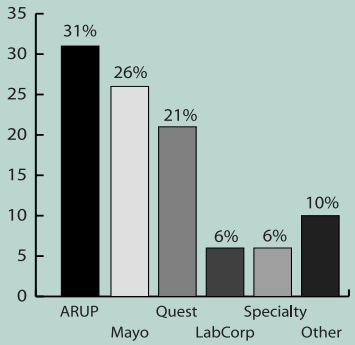
The Florida Society of Pathologists has petitioned the Florida Supreme Court (Tallahassee) to review a decision by the Florida District Court of Appeal, Fifth District (Daytona Beach), which determined that health plan members are not required to pay professional component charges for clinical laboratory tests that pathologists did not personally review (*LIR, Aug. 02, pp. 1-2*).

Attorney Jack Bierig at Sidley, Austin, Brown & Wood (Chicago, IL), which is representing the pathologists, expects the Florida high court to decide by early

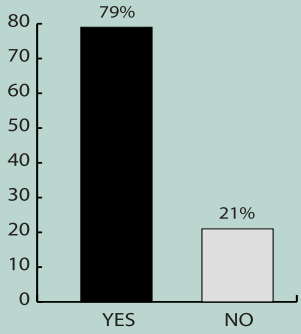
next year whether it will review the lower court ruling. If the high court refuses to review the ruling or upholds it, pathologists nationwide could find it difficult to collect on professional component billing that is intended to cover their services for supervising clinical laboratories.

ARUP Has Best Service, According To Lab Institute Survey

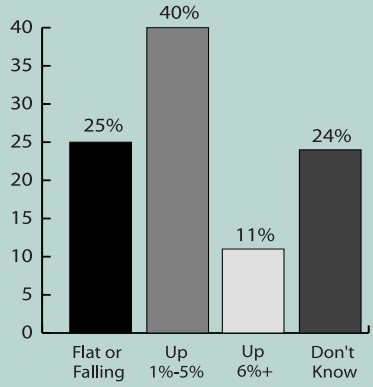
Which national esoteric testing lab provides the best level of service?



Is your lab actively seeking to broaden its esoteric test menu?



How is pricing for specialty/esoteric reagents trending?



Source: Lab Institute survey, n=190

In a telephone call-in survey conducted at the 20th annual Lab Institute, sponsored by Washington G-2 Reports on Oct. 23-26 in Arlington, VA, 31% of laboratory managers and administrators selected ARUP Laboratories (Salt Lake City, UT) as the national esoteric testing facility that provides the best level of service. Of the 190 participants in the survey, 130 were from hospital labs, 48 were from independent labs and 12 were from physician office or other lab settings.

ARUP, which is owned by the department of pathology at the University of Utah Health Sciences Center, is among the nation's faster-growing esoteric testing labs and posted a 13% increase in revenue to $160 million in the fiscal year ended June 30, 2002.

Mayo Laboratories (Rochester, MN) was ranked in second place in the survey, with 26% of respondents choosing it for the best level of service. Next was Quest Diagnostics (Teterboro, NJ), which got 21%. Specialty Laboratories (Santa Monica, CA) and Laboratory Corp. of America (Burlington, NC) each received 6%.

Seventy-nine percent of the survey participants said their lab was actively seeking to broaden its esoteric test menu. The remaining 21% said they were either maintaining their current level of send-out tests or seeking to outsource more.

In terms of pricing for specialty/esoteric reagents, 40% said pricing was rising in the range of 1%-5%; 11% cited a rise of 6% or more. Twenty-five percent said pricing was either flat or falling, and 24% were uncertain of the price trend for these reagents.

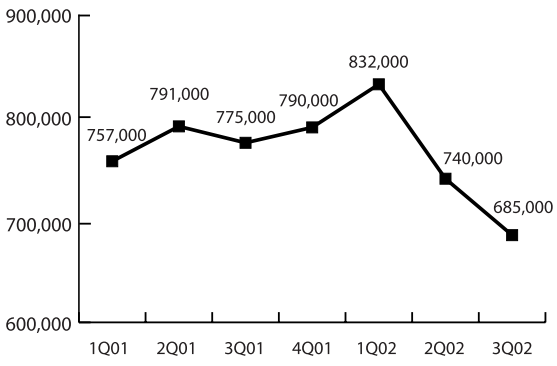
Separately, in a survey of the general audience at Lab Institute, an overwhelming 94% of 324 respondents, polled using hand-held wireless devices, said they expect genomic and proteomic testing to dominate laboratories in the future.

Specialty Labs To Delay Move To New Lab Facility

Specialty Laboratories (Santa Monica, CA) is postponing its planned move to a new laboratory and administrative facility now under construction in Valencia, about 35 miles north of its current headquarters. The move, originally scheduled for the second half of 2003, is now targeted for the first half of 2004, according to the company's chief executive officer, Douglas Harrington, MD. The delay, Specialty says, will avoid any unnecessary risk of service disruption to clients.

During an Oct. 24 conference call with investors, Harrington stated: "In speaking with clients, one thing is loud and clear—they are not going to cut Specialty any breaks on the service side. We have already caused them enough inconvenience with our regulatory issues and test de-activations … We are being held to a higher standard [by clients] and we intend to meet that standard." Last April, the government revoked the national reference lab's CLIA license and suspended its Medicare/Medicaid payments over failure to satisfy state lab personnel licensure requirements (*LIR, May 02, pp. 1, 5-7*). These issues have since been resolved; in July, the company was found to be back in compliance.

Specialty's Accession Volume



Source: Specialty Laboratories

Specialty is now using properly licensed personnel for all testing operations, Harrington said, and he is serving as the company's lab director in addition to his role as CEO. The company is incurring $350,000 per quarter in added expense from the hiring and training of additional licensed personnel, he noted. To ease labor-capacity restraints, he added, Specialty is eliminating approximately 700 low-volume tests from its menu, which will be reduced to 2,500 tests by year's end.

Harrington said he is beginning to see a bottoming-out of the loss of test volume that Specialty sustained because of the CLIA issues. In the three months ended last Sept. 30, the company reported 685,000 accessions, down 13% from 775,000 for the same period a year earlier.

Attorney Jeffrey Sherrin, a partner at O'Connell & Aronowitz (Albany, NY), cites Specialty as an example that "even the most reputable labs can get into trouble." In his presentation at a CLIA workshop at the recent Lab Institute 2002, sponsored by Washington G-2 Reports, Sherrin said one crucial lesson for other labs is the need to work aggressively to address regulatory problems once they become evident. Because the odds of winning an administrative hearing with the government are remote, he advises, "Do everything possible to avoid [it] … If present lab personnel have got you into a [regulatory] problem, they might not know how to get you out."

Brenda Kohn, assistant regional counsel for the HHS Region IX Office of General Counsel (San Francisco, CA) and a co-presenter at the CLIA workshop, said that efforts by Specialty's new management, led by Harrington, were the key to the company getting back into compliance in relatively short order.

LabCorp Plunges 38% On News Of Increased Competition

The 38% stock price decline knocked nearly $2 billion off LabCorp's market capitalization, lowering it to $3.1 billion

Stock of **Laboratory Corp. of America** (Burlington, NC) sank 38% to $21.20 per share in the four weeks ended Oct. 25, 2002, on news that it was experiencing increased competition in the routine testing market. The spoiler is Spectrum Laboratory Network, which has been eating into LabCorp's market share in the Carolinas (*see pp. 1-3*). LabCorp also has cited inroads by other competitors in Texas markets. As a result, the company has lowered its forecast of long-term test volume growth to about 4% vs. previous expectations of 6%.

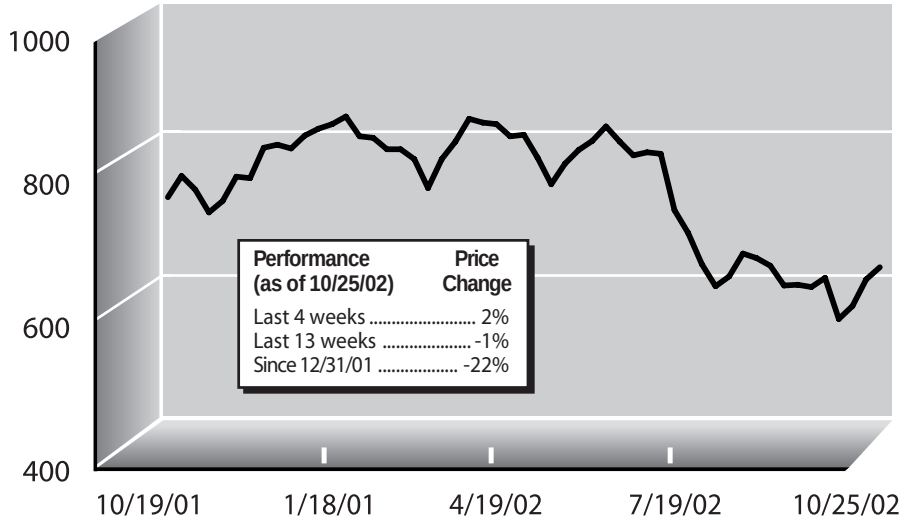
Overall, stock prices for the 14 companies in the G-2 Laboratory Index moved up an unweighted average of 2% in the four weeks ended last Oct. 25, with nine stocks gaining in price and five declining. So far this year, the G-2 Index is down 22%, while the S&P 500 is also down 22% and the Nasdaq is down 32%.

The biggest gainer in the four weeks ended Oct. 25 was **Impath** (New York City), whose stock jumped 24% to $15.90 per share for a market cap of about $265 million. The company recently reported net income of $5 million for the three months ended Sept. 30, 2002 vs. a net loss of $2.2 million in the same period a year earlier; revenue was up 18% to $57.3 million. In addition, Impath signed a deal with Bristol-Myers Squibb to provide laboratory testing to support clinical trials for Erbitux, a cancer drug being developed by Bristol-Myers and ImClone Systems.

Among the other stocks gaining:

- **Myriad Genetics** (Salt Lake City, UT), up 15% to $17.25 per share for a market cap of $405 million.
- **Bio-Reference Labs** (Elmwood Park, NJ), up 14% to $7.23 per share for a market cap of $84 million.
- **AmeriPath** (Riviera Beach, FL), up 9% to $15.79 per share for a market cap of $437 million.

G-2 Laboratory Stock Index



Source: The G-2 Laboratory Stock Index is tabulated weekly by *Laboratory Industry Report* from the average percentage change in the price of 14 laboratory testing service stocks.

% price change, 4 weeks ended 10/25/02

UP	Price	% Chg
AmeriPath	$15.79	+9
Bio-Reference	7.23	+14
Enzo Biochem	15.39	+9
Impath	15.90	+24
Lab*One*	17.45	+8
MDS	14.61	+5
Myriad	17.25	+15
Unilab	21.56	+4
Quest	64.14	+3
DOWN		
Dianon	42.84	-7
LabCorp	21.20	-38
Specialty	8.35	-11
Medtox	6.90	-5
PharmChem	0.46	-8

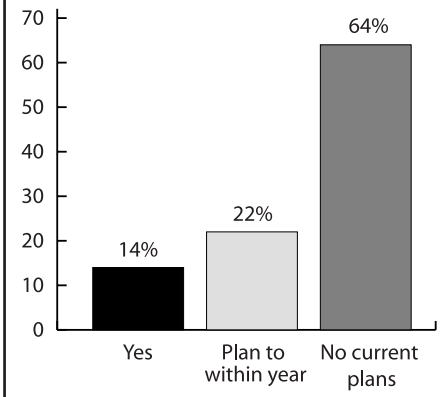
INDUSTRY buzz

How robust is the direct-access testing market? A poll of Lab Institute 2002 attendees showed that 14% of 190 respondents offer lab tests directly to consumers and another 22% plan to do so within the next year. Yet, despite lab industry enthusiasm at the prospect of a new revenue source that pays up-front cash (or credit card), early indications from hospitals and independent labs in this market are that response from consumers is tepid. Several lab executives we talked with say their direct-to-consumer programs are attracting only an average 2-3 patients per day.

To boost the effectiveness of direct-to-consumer programs, Tori Tomlinson, co-president and founder of US Wellness Inc. (Gaithersburg, MD), advises labs to seek health screening sponsorships with pharmaceutical companies. US Wellness is opening "wellness centers" in Giant Food supermarkets throughout Maryland and Virginia and has furnished consulting services to some 300 other independent pharmacies across the country that have opened wellness centers (*LIR, May 02, p. 9*).

These centers offer consumers laboratory testing services and attract 5-10 customers per day on average. Tomlinson notes, however, that on those days when free testing is provided (thanks to pharma company sponsorships) to screen for such factors as cholesterol or diabetes, demand can surge to more than 100 customers per location.

Does your lab offer testing services directly to consumers (without physician authorization)?



Source: Lab Institute telephone poll, n=190

References in this issue

American Assn. of Bioanalysts 314-241-1445

ARUP Labs 801-584-5157

College of American Pathologists 847-446-8800

Health Care Development Services 847-498-1122

Impath 212-698-0300

LabCorp 336-584-5171

Quest Diagnostics 201-393-5000

Spectrum Laboratory Network 336-664-6100

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