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LABORATORY INDUSTRY REPORT®

Dennis W. Weissman, Publisher

Vol. XI, No. 12/December 2002

HIGHLIGHTS

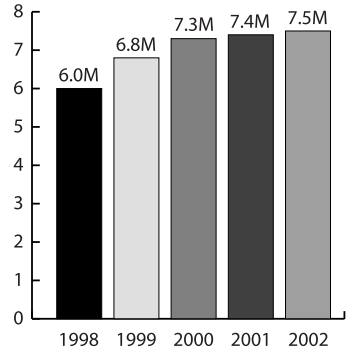
For Sale: Alliance Laboratory Services

The Health Alliance, an integrated delivery system with six hospitals in the greater Cincinnati, OH area, has put its laboratory testing business—Alliance Laboratory Services (ALS)—up for sale. Formed in 1997, ALS is one of the nation's largest hospital-owned laboratories. It has 800 employees and performs 7.5 million billable tests per year, nearly 50% of which comes from outreach.

The Health Alliance has put ALS up for sale because the system is anticipating significant capital needs in the near future, says spokeswoman Gail Myers. She also notes that it appears to be a good time to sell, given the high valuations that the major commercial labs are now willing to pay for lab assets (*see story below*).

To Chris Jahnle, managing director at Haverford Healthcare Advisors (Paoli, PA), the planned sale of ALS could be the start of a larger trend of hospitals selling lab assets to raise cash. This trend could really take hold if, after several years of relative calm, cost-containment pressures from Medicare and managed care intensify, he says. For more on ALS, see *Inside The Laboratory Industry*, pp. 5-7.

Test Volume Growth At ALS
(for fiscal years ended June 30)



Source: *LIR* from Alliance Laboratory Services

LabCorp To Buy Dianon For $598 Million

In the latest sign that consolidation in the laboratory industry continues at a rapid pace, Laboratory Corp. of America (Burlington, NC) has reached a definitive agreement to acquire Dianon Systems (Stratford, CT) for $47.50 per share in cash, or approximately $598 million. The price tag is equal to 3.3 times Dianon's annual revenue of $182.1 million and 50 times Dianon's net income of $11.9 million (based on reported results for the 12 months ended Sept. 30, 2002). LabCorp believes the acquisition will not raise antitrust concerns with the Federal Trade Commission and expects the deal to close in January 2003.

Continued on p. 2

LabCorp To Buy Dianon, *from p. 1*

Dianon owns a main testing facility in Stratford—plus four regional labs in Long Island and Rockland County, NY; Tampa, FL; and Oklahoma City—and is in the process of opening a new laboratory in Plano, TX. The company has approximately 1,100 employees, including 48 pathologists, who process more than 8,000 tissue samples per day.

Dianon has more than 14,500 physician customers, including 5,000 of the country's urologists. The company gained its leading position in uropathology through the acquisition of UroCor (Oklahoma City) in late 2001 for $202 million.

Dianon At A Glance

Total annual revenue*	$182.1M
—Anatomic pathology	$126.9M
—Genetic testing	$23.5M
—Clinical chemistry	31.7M
Pretax income	23.3M
Net income	11.9M
Total employees	1,100
Pathologists	48
Tissue samples per day	8,000
Central laboratory	Stratford, CT
Regional labs	
—Long Island, NY	
—Rockland County, NY	
—Tampa, FL	
—Oklahoma City, OK	
—Plano, TX**	

*For 12 months ending Sept. 30, 2002
**Facility under development
Source: Dianon, Banc of America Securities estimates

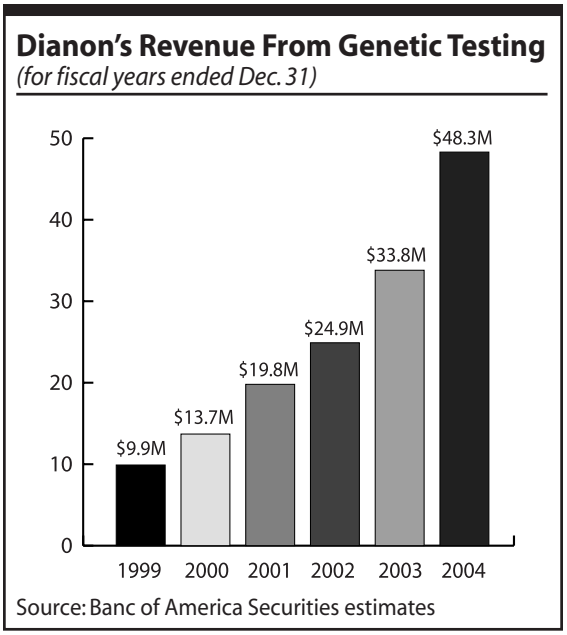
During a conference call on Nov. 11, Tom Mac Mahon, chairman and CEO of LabCorp, said that LabCorp has identified cancer testing as its most important growth opportunity for the next three to five years, and that's why it's buying Dianon. "I really believe that cancer diagnostics will impact profoundly on the way cancer patients are treated in the next three to five years."

Mac Mahon expects to achieve annual cost savings of $35 million at Dianon by year-end 2005 from: (1) supply cost reductions, (2) reduced logistics expense, (3) reducing overlapping personnel and (4) eliminating redundant facilities. As part of LabCorp, Dianon will keep its name and many of its top executives, including chairman and CEO Kevin Johnson, Mac Mahon said.

David Nichols, president of the Nichols Management Group (York Harbor, ME) notes that the acquisition of Dianon will greatly expand LabCorp's anatomic pathology capabilities, but could complicate many of its existing relationships with pathologists. In many regions of the country, including the Northeast and the Southwest, he points out, LabCorp outsources some of its routine tissue exams to local pathology groups. In total, LabCorp generates nearly $300 million annually from anatomic pathology and a good portion of this is outsourced. Nichols believes that LabCorp is now likely to redirect at least some of that work to Dianon facilities.

But *Laboratory Industry Report (LIR)* notes that any efforts to redirect anatomic pathology business to Dianon could backfire on LabCorp. That's because pathologists often influence where their local hospitals send their reference business. So, by redirecting pathology business away from local pathologists, LabCorp could lose some of the esoteric testing referrals it receives from hospitals.

Pam Sherry, spokeswoman for LabCorp, confirmed that Dianon will become LabCorp's national anatomic pathology lab. She says that, over time, LabCorp will migrate its anatomic pathology business to Dianon. But LabCorp will seek to



maintain "business relationships that are important to us," she adds. "Decisions will be made on a case-by-case basis."

Joe Plandoswki, president of Lakewood Consulting Group (Lake Forest, IL), believes the principal reason why LabCorp is acquiring Dianon is to get better positioned for an anticipated boom in genetic testing. Dianon's genetic testing business currently generates about $23.5 million in annual revenue, or about 13% of the company's overall revenue. But it's growing by roughly 30% annually, and Dianon is expected to take in nearly $50 million of genetic testing revenue in 2004, according to estimates from Banc of America Securities.

David Schreiber, chief financial officer for Dianon, tells *LIR* that the fastest-growing component of the company's genetic testing business is for difficult-to-diagnose cancers such as lymphoma/leukemia.

Plandowski notes that Dianon is well positioned to take advantage of emerging opportunities for highly reimbursed tests like HER-2/neu, which detects amplification of the HER-2 gene in breast cancer patients and has a maximum Medicare reimbursement of approximately $216 per test under CPT codes 88271 (x2), 88274 and 88365. Other high-margin opportunities include testing for EGFR oncoprotein, which has been found to be overexpressed in several forms of cancer, and the C-kit oncogene, which has also been found to be overexpressed in a number of cancers.

"Most local pathologists are unaware of the significant volume of lucrative molecular pathology work that is being sent out of their communities to national reference labs like Dianon, Impath and AmeriPath. Pathologists who don't get involved in this type of work stand to lose their position in the marketplace in the coming years as these test become widely used," Plandowski warns.

Will New Vaccine Eliminate Need For Pap Testing?

An experimental vaccine that prevents infection by a virus that causes cervical cancer is effective in virtually every case, according to test results published in the Nov. 21, 2002 issue of *The New England Journal of Medicine*. The vaccine, made by Merck & Co., is designed to block infection by papillomavirus type 16, the sexually transmitted virus that is believed to be responsible for about half of all cervical cancer cases. About 13,000 cervical cancer cases are diagnosed each year, with 4,100 deaths, according to the American Cancer Society.

None of the 1,194 sexually active women from 16 U.S. medical centers who received the vaccine developed a persistent infection from the virus. But 3.8% of the 1,198

women who received placebo injections did become infected, according to the research team led by Laura Koutsky, PhD, of the University of Washington in Seattle.

Though the vaccine is still in clinical trials, Merck has indicated that it could have a vaccine available by 2006. Christopher Crum, a pathologist at Brigham and Women's Hospital (Boston, MA), believes the vaccine could greatly reduce the need for Pap testing in the future. In an editorial accompanying the Journal article, Crum said the cost of the vaccine would probably be offset by savings derived from not having to perform so many Pap smears. About 50 million are performed in the U.S. each year. *LIR* estimates that nearly $1 billion is spent annually in the U.S. on Pap smears. Medicare currently reimburses traditional Pap smears at $15, while thin-layer methods are reimbursed at $28.

Because papillomavirus types 16 and 18 are responsible for the deadliest tumors, a vaccine against those two varieties would probably slash the death rate from cervical cancer by 95%, according to Crum. Kevin Ault of the University of Iowa, a co-author of the study, says that when a vaccine secures approval from the Food & Drug Administration, it will probably protect against several types of human papillomavirus (HPV). (It should also be noted that GlaxoSmithKline and the National Cancer Institute are each working to develop competing vaccines.)

Gary Gill, senior science advisor at Diagnostic Cytology Laboratories (Indianapolis, IN), the lab that processed and analyzed all of the specimens for the study, says development of the Merck vaccine is a major accomplishment. Even so, he believes it's more likely that HPV DNA testing will replace the Pap smear before a vaccine eliminates the need for testing. Still, doctors and labs have been using the Pap test for more than 50 years, and changing practice patterns could prove to be difficult, he points out. Further, the higher cost for DNA HPV testing, currently reimbursed by Medicare at $48.50 per high-risk test (CPT 87621), may slow any potential transition, he notes.

Alan Kaye, president of PathNet Esoteric Laboratory Institute (Van Nuys, CA) and executive director of the National Cervical Cancer Coalition, says the study represents an exciting step forward in eradicating cervical cancer, but cautions that it may be too optimistic to assume that a vaccine will be on the market within five years. He believes 10 years is a more reasonable estimate. Even then, Kaye says that getting the U.S. government to pay for the vaccine will be highly controversial. That's because HPV viruses are mostly passed from person to person during sex. Kaye says conservative politicians are likely to challenge the use of tax dollars for a vaccine that would essentially make sex safer.

Patrick Sullivan, chairman of Cytyc Corp. (Boxborough, MA), which makes the ThinPrep Pap test, says that even if a vaccine did come on the market in a few years, it would potentially be effective only for those women and girls who had yet to become sexually active. It would not help any woman or girl who had already been infected with HPV. Thus, all women/girls who had begun sexual activity would still need to have periodic Pap tests. "An HPV vaccine could reduce the need for Pap testing, but it won't happen in my lifetime," he concludes.

Health Alliance To Sell Lab Business
Will More Hospitals/Health Systems Follow Suit?

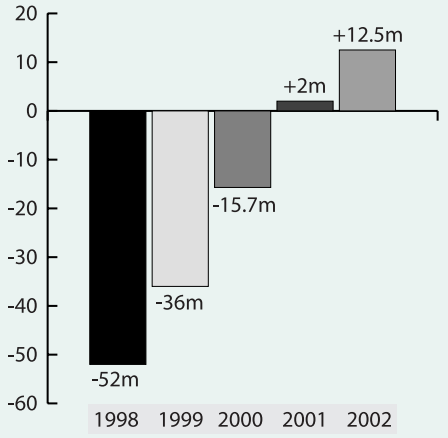
The Health Alliance—a six-hospital integrated delivery system based in Cincinnati, OH—intends to move fast on its recently announced decision to sell its lab testing business, Alliance Laboratory Services (ALS; *overview, p. 6*). The deal is expected to include sale of the ALS core lab and outreach business, coupled with a long-term agreement to manage inpatient labs at Health Alliance's member hospitals.

Detailed financial information regarding ALS will soon be sent to potential buyers, who will then have until Dec. 31 to submit bids, says Health Alliance spokeswoman Gail Myers. The Alliance will decide on bids in early February, and the transaction could be completed as early as April. The investment banking firm of Shattuck Hammond Partners (New York City) has been hired for advisory services. According to Myers, the Alliance has already been approached by several potential buyers. *Laboratory Industry Report (LIR)* speculates that potential buyers could include Quest Diagnostics, Laboratory Corp. of America and MDS Inc.

Why sell now? Myers says The Health Alliance needs to raise money to fund capital expenditures in areas such as catheterization labs, diagnostic imaging services, information system updates and facility renovations. The average age of Alliance facilities, she notes, is 10.5 years vs. the national average nine years for all hospitals.

According to Myers, substantial cost cuts and improvements in collections over the past few years allowed The Health Alliance to record a $12.5 million profit on revenue of $1.2 billion for the fiscal year ended June 30, 2002. In the years ahead, however, the health system is projecting significant budget pressures, she says. Expenses are projected to rise approximately 5% annually over the next few years, led in part by higher salaries for physicians, nurses and radiology technologists. And reimbursement levels are not expected to keep up with these increases. The need for major capital investments, together with projected budget deficits, led the Alliance to review potential assets it could sell. "The laboratory was the logical choice," Myers says.

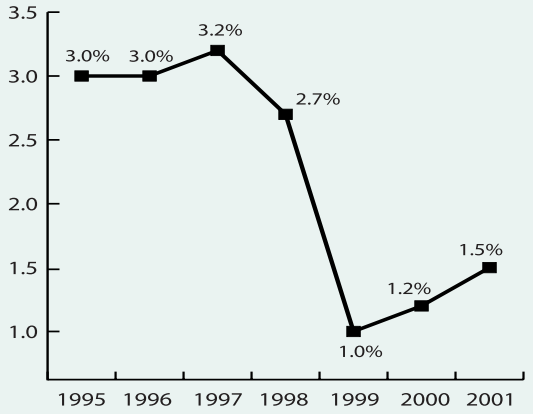
Health Alliance Profits, Losses
(for fiscal years ended June 30)



Source: Health Alliance

The Health Alliance's budget concerns aren't unique. A recent hospital industry analysis by the bond-rating agency, FitchRatings (New York City), shows that operating profits at 176 hospitals edged up an average 1.5% last year, but could be depressed in coming years from rising labor and insurance costs as well as poor investment returns. FitchRatings also notes that many hospitals have put off needed capital expenditures for facility renovations—the average age of facilities increased to nine years in 2001 from 8.7 years in 2000.

Hospital Operating Profit Margins



Source: FitchRatings

Chris Jahnle of Haverford Healthcare Advisors (Paoli, PA) thinks the trends identified above may force other hospitals to sell their lab assets to raise cash. He believes the major commercial labs would welcome this development, since they are running out of independent labs to acquire and thus maintain growth.

A Closer Look At Alliance Laboratory Services

Alliance Laboratory Services, which operates as a distinct unit of The Health Alliance, runs a core laboratory at the former Jewish Hospital in downtown Cincinnati.

Alliance Laboratory Services In Brief

Headquarters: Cincinnati, OH

Participating hospitals:
- —Jewish Hospital (suburban Cincinnati)
- —Christ Hospital and University Hospital (both in Cincinnati)
- —St. Luke Hospital East (Fort Thomas, KY)
- —St. Luke Hospital West (Florence, KY)
- —Fort Hamilton Hospital (Hamilton, OH)

Employees: 800 FTEs

Annual budget: $60+ million

Annual billable test volume: 7.5 million (almost 50% from outreach)

Reference lab: ARUP Labs (Salt Lake City, UT)

The core lab serves six hospitals (see box). It performs all non-emergency tests for these hospitals. Microbiology is consolidated at the core lab as well. ALS also manages stat labs at the six hospitals. These labs perform all tests that require a turnaround time of four hours or less.

Alliance Laboratory Services also operates a thriving outreach business from its core lab, serving more than 1,200 physicians and 115 nursing homes in the greater Cincinnati area. This business has net collected revenue of more than $30 million per year and accounts for almost 50% of the 7.5 million billable tests that ALS performs annually. The ALS outreach infrastructure includes approximately 20 draw stations, 70 courier vehicles and four full-time salespeople.

ALS has an estimated 60% share of the physician office market in greater Cincinnati; the remainder is split between Quest Diagnostics and LabCorp. The nearest major lab operated by Quest is in Pittsburgh, PA, while the nearest major lab operated by LabCorp is in Louisville, KY. If Quest or LabCorp wind up buying ALS, a significant portion of testing could be routed to one of these facilities.

Is It "Smart" To Sell Alliance Laboratory Services?

For some perspectives on The Health Alliance's decision to put its lab assets on the seller's block, *LIR* contacted two leading laboratory consultants: Barry Portugal, president of Health Care Development Services (Northbrook, IL), and Jim Root, chief executive of Park City Solutions/ Laboratory Services Group (Ann Arbor, MI).

LIR: *Is this a smart move on the part of Health Alliance?*

Root: "Smart" depends on the situation. If there is a pressing need for cash, then liquidation of an asset may be a logical

requirement. Apart from some exigency like that, it would not be a smart move. Alliance Laboratory Services has a very substantial market position, the volume for economical performance and an academic medical center affiliation with esoteric testing resources. These advantages could be parlayed for further market penetration and profit achievement.

Portugal: The decision by Health Alliance management may be shortsighted. In my experience, health systems that have outsourced their laboratories have experienced higher unit costs, lost control of outreach markets and, most importantly, have experienced less sensitive service levels.

LIR: *Do you anticipate that more hospitals will put their labs and outreach programs up for sale in the future? Is this a new trend?*

Portugal: This is an unusual circumstance and does not appear to be the start of any new trend.

Root: This is a new trend pushed by necessity. The major commercial labs must grow, and since they have found it difficult to grow meaningfully on an internal basis, they must acquire business to satisfy shareholders. Since almost all notable independent labs have been acquired, that leaves the larger hospital-owned or healthcare system-owned labs or outreach programs as targets. Frankly, it won't so much be hospitals seeking buyers as it will be buyers seeking sellers.

LIR: *What is the biggest risk that Health Alliance faces if it sells its lab to Quest or LabCorp?*

Root: It's not likely that service levels will be maintained. The hospitals are likely getting same-day service now, even on complex testing. It seems that if one of these major acquirers succeeds with ALS, it will, of necessity, require that the ALS core lab be downsized, with testing transferred to the acquirer's larger existing labs elsewhere. Such a downsizing could be draconian, with up to 50%-60% of the testing being transferred.

In addition, we have seen over the years that the culture gap between hospital and commercial labs is enormous. Some joint ventures survive this, some are eventually destroyed by it. The shame is that service levels, sometimes critical to good patient care, often deteriorate as a result of this knowledge and priority gap between the hospital-minded players and the commercial lab-minded players.

Portugal: There is the risk of a dramatic displacement of laboratory personnel and jobs in Cincinnati. Some lab workers may find work at other local healthcare systems like Mercy Hospital or TriHealth, but a significant number will not.

LIR: *Can a commercial lab manage an inpatient hospital lab and core lab so that overall costs per test decline? Is a commercial lab that more efficient?*

Portugal: The potential shift of a great deal of testing to a distant lab means that turnaround time will necessarily be lengthened. As a result, the menus at the existing rapid response labs at Health Alliance hospitals will need to be expanded. The net result is that overall costs per test are not likely to decrease and may very well increase.

Root: The answer should be yes, but the eventual answer is no. The problem is that after the commercial lab achieves a new operating performance level, it must add back its margin above direct costs to cover overhead and profit margin requirements. We've seen that, over time, the charges to the hospital well exceed the cost of running a lab on its own.

Note: *For news on another hospital that's selling its lab, see p. 12.*

ACS Issues Preliminary Recommendation Supporting HPV Testing

In new cervical cancer screening guidelines, the American Cancer Society (ACS) makes a preliminary recommendation that DNA testing for high-risk types of human papillomavirus (HPV) be used, together with a Pap test, in primary screening of women age 30 and older as often as every three years. The guidelines were published in the November/December 2002 issue of *CA: A Cancer Journal for Clinicians.* They mark the first revision to guidelines in place since 1987. They also are the first by a major U.S. medical group to advocate testing for HPV, the primary causal factor in the development of cervical cancer, in routine cervical cancer screening.

According to the new guidelines, "HPV DNA testing has greater sensitivity than cytology for detecting clinically relevant lesions" and the "high negative predictive value resulting from concomitant screening with cytology and HPV DNA testing could safely permit increasing screening intervals, thus lowering costs … Should the Food & Drug Administration approve HPV DNA testing for this purpose, it would be reasonable to consider that for women aged 30 and over, as an alternative to cervical cytology testing alone, cervical screening may be performed every three years using conventional or liquid-based cytology, combined with a test for DNA from high-risk HPV types."

The ACS recommendations regarding HPV DNA testing were based solely on studies using the Hybrid Capture 2 HPV DNA Test made by Digene Corp. (Gaithersburg, MD). The Digene test is the only FDA-approved test for HPV. The test is currently approved by FDA for use as a follow-up to an abnormal Pap test result. But Digene has submitted an application to FDA for approval to use the test in combination with a Pap test for primary cervical cancer screening of women age 30 and older.

Digene charges laboratories about $20 per specimen tested using its "high-risk" HPV test. Medicare reimbursement is capped at $48.50 under CPT code 87621.

Missouri Pap Smear Lawsuit Settled For $4 Million

Relatives of a woman who died from cervical cancer have reached a $4 million settlement with a laboratory they accused of failing to detect signs of the disease on a Pap smear. Dr. Lynne Toombs-Datema, 37, died of cancer in 2000, six years after her Pap smear was sent to Metropolitan Reference Laboratory (St. Louis, MO). The Pap smear was screened by a cytotechnologist who found it to be normal, according to *Missouri Lawyers Weekly*, a legal journal that reported the settlement.

In their malpractice lawsuit, Toombs-Datema's family claimed the presence of abnormal cells should have been detected, a step that could have helped her chances of survival. Experts for the defendants claimed that the number of abnormal cells was very low and their presentation was unique. They contended that the failure to identify the presence of these cells was not negligence. Metropolitan Reference Laboratory is no longer in business.

US Labs Raises $13 Million To Support Expansion

Privately held US Labs Inc. (Irvine, CA) has raised $13 million from a group of investors led by its existing investors ABS Capital Partners (Baltimore, MD) and Highland Capital Partners (Boston, MA). The company says the funds will be used for working capital to support its growth plans, including expansion of its genetic testing capabilities and information systems.

US Labs was formed in 1996 to acquire and manage pathology practices. However, the company switched gears in late 2000/early 2001 and now operates a single laboratory in Irvine, focused on anatomic pathology and genetic testing. US Labs, which has approximately 300 employees, is on track to reach revenue of more than $35 million this year vs. approximately $18 million in 2001, according to R. Judd Jessup, chairman and CEO.

Debt & Equity Capital Raised By US Labs

Date	*Amount*
Mar 1998	$15M
Aug 2001	$9.5M
Oct 2001	$15M
Dec 2002	$13M
Total	$52.5M

Source: US Labs

Including the latest round of financing, US Labs has now raised a total of $52.5 million from debt and private equity investors since March 1998.

Advisory Panel Drops Objection To Prostate Cancer Screenings

About 189,000 men are diagnosed with prostate cancer each year. About 30,200 die of the disease, making it the second leading cancer killer for men, according to the American Cancer Society

The U.S. Preventive Services Task Force has dropped its objection to routine prostate cancer screening of millions of middle-aged and elderly men, saying it is possible that the tests save lives. However, the government advisory panel stopped short of recommending the exams, citing continuing uncertainty about their value. But it abandoned a 1996 opinion that said they are not effective enough to justify their cost.

Based on mixed findings from various studies performed over the past 10 years, the task force said there is not enough evidence to recommend either for or against routine prostate cancer screening. Some studies have indicated that when dangerous tumors do turn up, the death rates are generally the same among men who had regular screenings and those who didn't go to a doctor until they developed symptoms. Other studies have said that those who get the screening have a higher survival rate.

Doctors have been arguing over the pros and cons of prostate screening for more than 10 years. Some say prostate cancer caught early can be treated before it spreads. Others believe the testing has led to thousands of unnecessary operations with side effects that can include impotence and urinary leakage.

Last year, about 57% of men over age 50 had a blood test for prostate cancer, and about 56% had a rectal exam for the disease, according to the federal Centers for Disease Control & Prevention. Men who test positive for cancer during a prostate-specific antigen (PSA) test or a rectal exam usually undergo a biopsy to confirm the diagnosis. A PSA test costs less than $50. But a biopsy and follow-up exams generally cost well over $1,000.

Quest, Unilab To Cut Value Of Deal, Seek Sale Of Lab Assets

Quest Diagnostics (Teterboro, NJ) and Unilab (Tarzana, CA) say they are in discussions to trim back the terms of their acquisition agreement in conjunction with efforts to sell certain lab assets in northern California to address Federal Trade Commission concerns about the transaction. The companies now expect the transaction to be completed in early 2003.

The proposed changes include reducing the value of the overall transaction by approximately $60 million, based on the closing price of Quest shares on Nov. 29. Unilab shareholders would have the right to exchange up to 42% of their shares for $19.10 in cash and 58% of their shares for 0.3424 shares of Quest stock. Previously, Unilab shareholders had the right to exchange up to 30% of their shares for $26.50 in cash and 70% of their shares for 0.3256 shares of Quest.

Under the proposed changes, Quest would pay a total of approximately $730 million to acquire Unilab, including $200 million in assumed debt. The deal had been valued at about $1.14 billion when first announced in April. However, a 33% decline in Quest's stock price since April, combined with the proposed $60 million adjustment, have lowered the value of the transaction.

A Quest spokesman declined to answer questions about which assets in northern California were up for sale. However, sources in California tell *LIR* that Quest is negotiating to sell its Dublin laboratory and associated assets to LabCorp in order to appease the FTC. Our sources say that Health Line Clinical Laboratories (Burbank, CA) had also expressed interest in the facility, but is now out of the running.

Behrman Capital To Buy Athena Diagnostics For $122 Million

Irish drugmaker Elan Corp. has announced plans to sell its majority-owned Athena Diagnostics Inc. (Worcester, MA) to the venture capital firm of Behrman Capital (New York City) for $122 million. The price tag is equal to 2.9 times Athena's annualized revenue of $41.6 million and nine times its annualized operating income of $12.9 million (based on results reported for the nine months ended Sept. 30, 2002).

In late 2001, Elan filed a registration statement with the Securities & Exchange Commission to spin-off Athena in an initial public offering (*LIR, Nov 01, p. 10*). However, the IPO was never completed. Closing of the deal with Behrman Capital is expected in the first quarter of 2003.

Athena markets approximately 70 esoteric tests in the field of neurology, including genetic tests for Huntington's disease and certain forms of mental retardation as well as tests to help diagnose Alzheimer's. The company, which has about 150 employees, performs all testing at a 20,000 square-foot lab and office facility in Worcester.

Quest Falls 13% As Unilab Deal Drags On

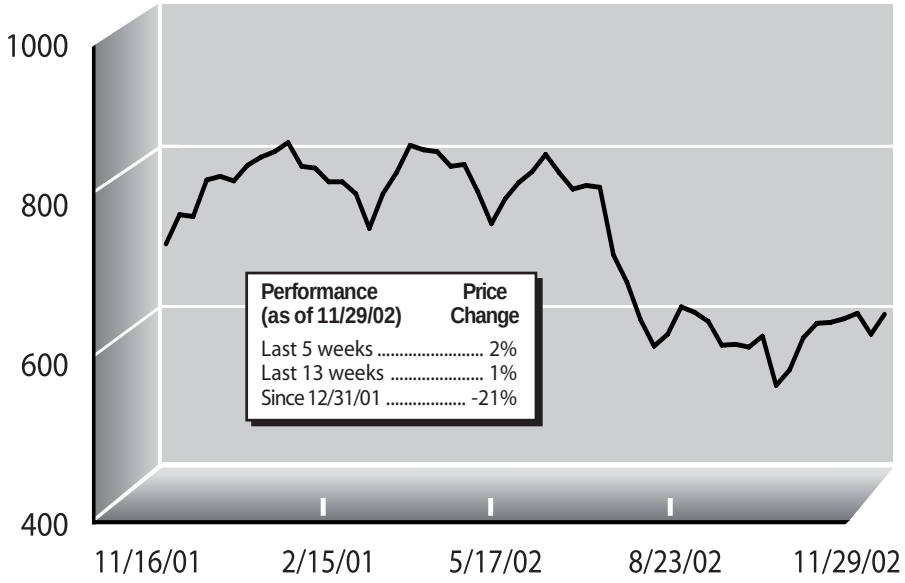
Shares of **Quest Diagnostics** (Teterboro, NJ) fell 13% to $55.79 per share in the five weeks ended Nov. 29 for a market capitalization of $5.4 billion, or approximately 1.3 times its annual revenue of $4.1 billion and 17 times its net income of $321 million (based on annualized results for the nine months ended Sept. 30, 2002). Year-to-date, Quest stock is down 22%. (The company recently announced revised terms for its planned acquisition of Unilab—see p. 10.)

Overall, the stock prices for the 14 companies in the G-2 Laboratory Index moved up an unweighted average of 2% in the five weeks ended Nov. 29, 2002, with nine stocks rising in price and five declining. So far this year, lab stocks have fallen 21%, while the S&P 500 is down 18% and the Nasdaq is down 24%.

The biggest gainer in the five-week period ended Nov. 29 was **Medtox Scientific** (St. Paul, MN), whose stock rose 20% to $8.28 per share for a market cap of about $41 million. The company recently reported net income of $11.3 million (including a $10.8 million non-cash tax benefit) for the three months ended Sept. 30, 2002 vs. $790,000 in the same period a year earlier; revenue was up 8% to $13.6 million. Medtox generates most of its business from testing for drugs of abuse (DOA).

Meanwhile, **PharmChem** (Haltom City, TX), which also specializes in DOA testing, declined 26% to $0.34 per share for a market cap of $2 million. The company reported a net loss of $825,000 in the three months ended Sept. 30, 2002 vs. a net loss of $1.7 million in the same period last year; revenue was down 26% to $7.3 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, 5 weeks ended 11/29/02

UP	*Price*	*% Chg*
AmeriPath	$16.89	+7
Dianon	46.68	+9
Impath	16.62	+4
LabCorp	24.00	+13
Lab*One*	18.07	+4
MDS	14.80	+1
Medtox	8.28	+20
Myriad	19.02	+10
Specialty	9.60	+15
DOWN		
Bio-Reference	6.16	-15
Enzo Biochem	14.50	-6
PharmChem	0.34	-26
Unilab	19.67	-9
Quest	55.79	-13

INDUSTRY buzz

LabOne (Lenexa, KS) has acquired Central Plains Laboratories (CPL) from Hays Medical Center (Hays, KS-70% owner) and Park City Solutions (Midway, UT-30% owner) for $12.1 million, plus contingent payments based on future profit performance. CPL provides inpatient testing to Hays Medical Center and has a significant outreach business focused on western Kansas and surrounding states. The main lab is based at Hays Medical Center; satellite labs are located in Colby, KS, Amarillo and Plainview, TX. CPL employs approximately 150 people and generates an estimated $12.5 million in annual revenue. Hays Medical Center and Park City Solutions purchased CPL (formerly Hays Pathology Labs) in October 1999 from a local pathologist.

LabOne is expected to shift non-time sensitive tests to its lab in Lenexa (just outside Kansas City) and will manage a downsized lab at Hays Medical Center under a long-term services agreement.

This transaction is similar to the one that Health Alliance of Cincinnati, OH, is currently pursuing (*see pp. 5-7*). The temptation of getting cold hard cash for their lab programs may be irresistible for some hospitals facing budget pressures, despite the potential for reduced service levels and lab employee cutbacks.

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LabCorp 336-584-5171
LabOne 913-888-1770
Lakewood Consulting 847-295-8805
Park City Solutions 800-860-5454
Quest Diagnostics 201-393-5000
US Labs 888-450-0145

Laboratory Industry Report (ISSN 1060-5118) is published by Washington G-2 Reports, 1111 14th St NW, Ste 500, Washington, DC 20005-5663. Tel: 202-789-1034. Fax: 202-289-4062. Order line: 212-629-3679. Website: www.g2reports.com

Publisher: Dennis W. Weissman. Editor: D.J. Curren. Managing Editor: Jondavid Klipp, *labreporter@aol.com*