Your Independent Source for Business & Financial News

LABORATORY INDUSTRY REPORT®

Dennis W. Weissman, Publisher

Vol. XII, No. 3/March 2003

HIGHLIGHTS

WASHINGTON G-2 REPORTS

FTC Clears Quest-Unilab Merger; LabCorp Gets Bargain Deal For N. California PSCs

On February 21, the U.S. Federal Trade Commission (FTC) cleared Quest Diagnostics' agreement to acquire Unilab, California's largest independent laboratory company, thereby allowing the long-delayed transaction to close on February 26.

As a condition for FTC clearance, Quest has agreed to sell 46 patient service centers, including five rapid response labs, located in northern California plus four associated IPA contracts. LabCorp will pay $4.5 million in cash for these assets which generate a total of $27 million per year in revenue, indicating a purchase price equal to only 0.2 times sales (i.e., $4.5M divided by $27M=0.2).

What LabCorp Gets For $4.5M

- ❑ 46 Patient Service Centers
- ❑ 5 Rapid Response Labs
- ❑ 4 IPA Contracts
- ❑ Annual Revenue of $27M

Source: LabCorp

The sale to LabCorp is intended to satisfy anti-competitive concerns raised by the FTC regarding the Quest-Unilab merger. "Quest and Unilab are the predominant independent clinical laboratories serving IPAs in Northern California. In the absence of this strong consent order, their combination would have decreased competition and increased healthcare costs to the detriment of IPAs and, ultimately, to the detriment of consumers," said Joe Simons, director of the FTC's Bureau of Competition, in a press statement.

For more details, see *Inside The Laboratory Industry*, pp. 5-7.

Impath CEO Resigns After Expense Review

Anu D. Saad, Ph.D., chairman and chief executive of Impath Inc. (New York City), has resigned effective immediately following a company review of expenses she submitted over the last three years that revealed "a lapse of corporate integrity." Following a review of expenses this past January, which was led by Impath's audit committee, Saad and the board agreed the resignation was "in the best interests of the company," and she has agreed to reimburse the company $250,000, Impath said in a February 10 press release.

Continued on p. 2

IMPATH CEO RESIGNS, *from page 1*

The company says that board member Carter Eckert has replaced Saad effective immediately and during a hastily arranged conference call that followed the announcement, he said, "Our board and management have zero tolerance for activities related to a lapse in corporate integrity at any level." However, the new chief executive repeatedly refused to divulge any details on the nature of the expenses in question. Eckert did say that the $250,000 Saad would repay was the figure the board felt was appropriate, although he would not say if it was more or less than the audit found to be questionable. He said that no further resignations at the company were expected.

This incident puts a big blemish on Saad's otherwise distinguished career. Saad, age 46, joined Impath in 1990 as scientific director and director of business development. She was appointed chief executive of Impath in 1993 and became chairman in 2001. Prior to joining Impath, Saad had been assistant professor of cell biology and anatomy at Cornell University Medical College (Ithaca, NY).

The latest data available from the Securities and Exchange Commission shows that in 2001 Saad earned a salary of $315,000, a bonus of $294,500, and stock options potentially worth $2.6 million. A spokeswoman for Impath says the company is currently negotiating with Saad regarding her severance package.

"It's astounding to me why an executive will let small dollars ruin their reputation and career. You'd think they'd be smarter than that," observes one lab executive who wishes to remain anonymous.

The ousting of Saad comes on the heels of another embarrassing episode for Impath. A full-page advertisement that the company placed in the *New York Times Magazine* in September set off a major controversy with the College of American Pathologists (CAP—Northfield, IL), which thought the ad was derogatory toward the skills of community-based pathologists (*see LIR, November 2002, p. 8*). Under pressure from CAP, Impath placed new ads in the December 8 and 22 issues of the *New York Times Magazine* that highlighted the importance of community-based pathologists.

Regional Hospital Labs Meet Again To Discuss Strategy

A dozen of the nation's largest hospital laboratory systems held a private meeting on February 1 in Naples, Florida to share best practices and discuss strategies for competing against Quest Diagnostics and LabCorp. The meeting was the second held by this informal group. The first was held in mid-September last year in Long Island, New York. Attendees included some of the largest hospital-owned lab programs in the country, including North Shore Long Island Jewish Hospital (New Hyde Park, NY), Pathology Associates Medical Labs (Spokane, WA), and ACL Laboratories (Chicago, IL).

Executives who attended the most recent meeting were required to sign confidentiality agreements, and several whom *LIR* contacted would only say that the group "shared subjects of mutual interest."

At the first meeting, *LIR* learned, there was talk about the development of a national or regional network(s) of hospital labs that could compete against Quest and LabCorp for managed care contracts. The increased secrecy surrounding the second meeting suggests to *LIR* that network development discussions were likely once again part of the agenda.

Mistaken Mastectomy Thrusts AP Group Into National Spotlight

In May 2002, Linda McDougal, a 46-year-old accountant, was diagnosed with cancer after Hospital Pathology Associates (HPA-St. Paul, MN) mistakenly switched her tissue sample with another woman's sample. Based on this error, McDougal elected to have a double mastectomy at United Hospital (St. Paul). She was told of the mistake two days later, after no malignancy was found in the amputated tissue.

Prior to the error, HPA had followed national standards as determined by the American College of Pathologists, including matching paperwork and slides by patient name and identification number. Immediately following discovery of the error, HPA changed procedures to guard against making a similar mistake in the future (*see table*), Laurel Krause, M.D., senior pathologist at the group, tells *LIR*. Krause says the woman whose tissue sample was switched with McDougal's has been successfully treated.

"The McDougal case is a real tragedy, but the reality is we're all human beings and make mistakes," notes Krause. She says that HPA, which has 25 pathologists and is the largest pathology group in the Minneapolis-St. Paul area, has performed approximately 1.5 million patient diagnoses over the past eight years and been involved in only four lawsuits. "But one mistake is too many," adds Krause.

New procedures at Hospital Pathology Associates

1) Only one patient breast needle biopsy and paperwork per tray
2) All specimen slides are color-coded and coordinated with color-coded paperwork
3) Each slide still contains the patient name and identification number, which corresponds to the paperwork
4) Two pathologists must confirm the patient name, identification number, and color code for the specimen slides and paperwork, as well as confirm diagnosis
5) Both pathologists must sign paperwork to document that all of the above procedures have been performed

Source: Hospital Pathology Associates

As would be expected, McDougal hired a law firm shortly after leaving the hospital to evaluate a potential malpractice lawsuit. The whole incident was kept out of the press until late last year when President Bush announced his push for tort reform, which includes placing a ceiling of $250,000 on non-economic damage awards (i.e., pain and suffering) for medical malpractice lawsuits.

Shortly thereafter, McDougal and her law firm made public her mistaken mastectomy. McDougal is being represented by the high-powered, 200-lawyer firm of Robins, Kaplan, Miller & Ciresi (Minneapolis, MN), which helped the state of Minnesota win a multi-billion dollar settlement from tobacco companies. McDougal and her lawyers have made it clear on national TV appearances and newspaper interviews that they oppose tort reform. Furthermore, McDougal recently embarked on a 13-state bus tour to promote opposition to Bush's proposal and testified to Congress on the issue as well.

In regard to the national attention the McDougal case has gotten, Krause would say only, "I've gotten a real education on how the media works." Beyond that, she notes that pathologists from around the country having been calling and e-mailing her to find out more about the changes HPA has made to ensure proper specimen identity. She says that most have indicated that they plan to implement at least some of the same changes HPA has made.

Jury Awards $14.5 Million To Family For Pap Smear Mistake

A jury has awarded $14.5 million to the family of a Long Island, New York woman who died of cervical cancer after MetPath Laboratory (now part of Quest Diagnostics) failed to detect the disease on a Pap smear. Karen Pedone, 35, died in March 1997 after a three-year battle with cancer. Her family sued her gynecologist, Richard Halpert, M.D., and MetPath. On January 16, a jury cleared Halpert, but found MetPath responsible for the woman's death. Gary Samuels, spokesman from Quest, says that Quest had conceded its liability in this tragic case and apologized to the family.

AD PathLabs Raises $8.9 Million In Venture Capital Funding

AD PathLabs plans to open labs in three more cities within the next three years

AD PathLabs Corp. (Newport Beach, CA) has raised $8.9 million from the sale of a 51% equity stake in the company to a group of investors led by Pacific Venture Group (Irvine, CA), Blue Chip Venture Company (Cincinnati, OH), and Forrest Binkley & Brown Capital Partners (Newport Beach).

AD PathLabs provides technical services for anatomic pathology to hospital-based pathologists in southern California. Services provided include technical work for general anatomic pathology, cytology, immunohistochemistry, and flow cytometry. The company has already gained a total of 30 hospital clients in southern California, including an exclusive agreement with eight Catholic Healthcare West hospitals.

AD PathLabs was founded by its president and chief executive, Charles Madden, in 1999 and opened a 10,000-square-foot CLIA-certified laboratory in El Monte (greater Los Angeles) in September 2001. Previously, Madden had founded Orange Coast Managed Care, an IPA management company that is now called Heritage Foundation.

AD PathLabs, which has a total of 65 employees, is currently generating approximately $5 million per year in annual revenue with a goal of reaching $12 million by year's end, according to Madden. AD PathLabs bills hospitals directly for inpatient histology services and it bills outpatient and esoteric sample preparation work to third-party payers, according to Madden.

Madden says that hospitals have been eager to outsource their technical services. He says that AD PathLabs offers 24-hour turnaround and consistency of slide preparation gained through its automated staining capabilities. He also says that because of the company's large volumes it is able to significantly lower costs for its hospital clients.

Quest Completes Unilab Acquisition, Creating $4.6B Behemoth

Quest's lab in Dublin, CA was not part of the package sold to LabCorp. The Dublin lab, which stands between Unilab facilities in Sacramento and San Jose, is likely to be consolidated, LIR *observes*

The lab industry's 800-pound gorilla just got heavier. With the addition of Unilab, Quest Diagnostics now generates a total of $4.6 billion in annual revenue and employs more than 35,000 people. Meanwhile, to assuage FTC concerns, it looks like LabCorp has gotten a sweetheart deal that will give it an immediate competitive position in the San Francisco region of California.

The cash-and-stock Quest-Unilab deal, announced last April, was initially valued at $1.1 billion, including $200 million in assumed debt. It wound up being approximately $850 million because of a drop in Quest's stock price and an agreement last month cutting the price Quest will pay. Nonetheless, the $850 million price tag equates to nearly two times Unilab's annualized sales of $440 million. On the other hand, Quest was willing to sell certain of its northern California assets to LabCorp for only 0.2x annual revenues (*see p. 1 for details*).

This deal between Quest and LabCorp has a number of smaller independent labs and hospitals up in arms. These labs tell *LIR* that they would have loved to have made a bid on the northern California assets and might have paid substantially more than LabCorp. But they say that they were never allowed into the bidding process and that a Quest-LabCorp deal became a fait accompli as soon as it became apparent that divestitures would need to be made before Quest could close on Unilab. LabCorp's ability to close a deal quickly combined with its weight with the FTC as a serious competitor to Quest may have led to the closed nature of the deal making, *LIR* observes.

Gary Burkhartsmeier, chief executive of Health Line Clinical Laboratories (Burbank, CA), says that Health Line had been interested in acquiring the Quest-Unilab assets. He says that in addition to the "bargain basement price," the Quest/Unilab PSCs that LabCorp is buying are generally located in very attractive physician office complexes. Regardless, Burkhartsmeier says that Health Line will continue its own internal growth efforts in northern California. Health Line, which employs more than 400 FTEs and generates annual revenue of approximately $50 million, currently operates a total of more than 50 PSCs throughout California, including eight PSCs in the San Francisco area.

Richard Nicholson, president of Westcliff Medical Laboratories (Newport Beach, CA), says his lab had also been interested in acquiring the Quest-Unilab assets. However, Nicholson says Westcliff would have needed to secure a bank loan to fund such a purchase. This would have taken at least several months and conflicted with Quest's desire to close on a deal as quickly as possible. As a result, Nicholson says Westcliff, which employs 282 FTEs and generates annual revenue of about $25 million, will remain focused on the southern California market.

Meanwhile, Tom MacMahon, chairman and chief executive of LabCorp, says that when combined with the recent acquisition of Immunodiagnostic Laboratories (San Leandro, CA—in greater San Francisco) plus LabCorp's existing

facilities in northern California, the company will now have a total of 65 PSCs in the region.

MacMahon said that the biggest benefit from the acquisition will be the ability to gain esoteric testing work from physician offices in San Francisco—a market in which LabCorp has not yet established a meaningful position. He said that Immunodiagnostic Laboratories and LabCorp's major testing facility in San Diego will serve as the main labs for the company's new northern California business, but noted that LabCorp may need to add esoteric testing capacity there in 2004.

Meanwhile, Gary Samuels, spokesman for Quest, confirms that the deal was made to satisfy FTC concerns regarding Quest's planned purchase of Unilab. He tells *LIR* that the sale to LabCorp includes a mix of PSCs and IPA contracts held by both Quest and Unilab. He notes that the deal will not restrict Quest from competing for fee-for-service business served by the PSCs. "We plan to compete aggressively for that business," he adds.

Regulatory Speed Bumps At Unilab Were Not Deal Breakers

LIR has learned that Unilab has recently had two run-ins with regulatory authorities in California. Regarding these issues, a Quest spokesman would only tell *LIR* that "Quest is fully aware of everything that's happened at Unilab."

The first and potentially most serious is a recent inspection by the California Department of Health Services (CDHS) of the company's laboratory in Tarzana (just outside of Los Angeles). Sources tell *LIR* that the inspection revealed numerous deficiencies related to the inappropriate use of unlicensed persons in the lab.

A spokeswoman from CDHS confirmed that the agency did conduct an inspection of Unilab that began on Oct. 9, 2002 and ended on Nov. 12, 2002. However, she would not provide any details regarding what prompted the inspection or what deficiencies were found. She said that CDHS is now reviewing Unilab's plan of correction and will soon send back its response.

The second regulatory run-in has to do with recent inspections of Unilab facilities conducted by the Los Angeles County Fire Department's Health Hazmat Division. Based on these inspections, the Los Angeles City Attorney's Office has charged Unilab with dumping flammable liquids into the sewer system.

More specifically, City Attorney Rocky Delgadillo has filed a nine-count complaint against Unilab alleging it dumped alcohol solutions into laboratory sinks at the end of each shift. The complaint also named Unilab's vice president of lab operations, Robert Moverly, and cytology preparation unit night shift supervisor Johnson Okunnuga. Arraignment has been set for March 13. "Companies that illegally dump waste of any kind will be prosecuted to the fullest extent of the law," said Delgadillo.

Unilab executives would not comment directly on the CDHS inspection or charges from the Los Angeles City Attorney's Office. However, in a prepared statement, a Unilab spokesman told *LIR* the following:

"Unilab continues to work hard to keep pace with the state's ever-changing laboratory regulations and we believe our lab operations are well run and attentive to regulatory compliance.

"Although the company does not comment on the specifics of regulatory matters such as these, I can confirm that in such matters the laboratory and its lab director work to expeditiously and comprehensively correct any deficiencies identified.

"Unilab has worked over the years to build a positive relationship with lab field services and other regulatory bodies in California. We appreciate their continued guidance and will continue to work directly with them to implement the corrective actions as requested."

Quest Seeking To Add Share In The South

Now that Quest has completed its acquisition of Unilab, the company appears to be turning its attention to raising its internal growth rate via expansion into new geographic markets. The push for internal growth seems to be driven at least in part by increasing pressure from investors who are questioning why Quest is growing its test volumes by only about 1% per year (excluding acquisitions) while the lab industry as a whole is growing by some 4% to 7%.

At a recent U.S. Bancorp Piper Jaffray investors' conference in New York City, Quest chairman and CEO Ken Freeman said the company is constructing new patient service centers and adding salespeople and couriers in certain markets in the South. Freeman would not specify exactly where the expansion was targeted, but said, "Assume we are looking at geographies where we don't already have a presence."

Freeman also noted that Quest was seeking to expand its presence in markets surrounding its major testing facilities. *LIR* observes that Quest has major labs in Atlanta, GA and Chantilly, VA (from its acquisition of AML). While Quest was unwilling to divulge where exactly it is expanding, several competing labs in North Carolina and Virginia tell *LIR* that they have noticed increased activity on the part of Quest.

Nate Headley, chief executive of Spectrum Laboratory Network (Greensboro, NC), notes that Quest recently opened two new patient service centers in Charlotte, and he hears that another in the Goldsboro area (about 40 miles southeast of Raleigh) will open soon. Regardless, Headley says Spectrum is on track to grow its outreach business by some 35% this year to more than $60 million.

Meanwhile, several hospital labs in Virginia tell *LIR* that Quest appears to be intensifying its hospital-client sales efforts throughout the state. Lab managers say Quest representative are touting Quest's service levels and its Internet-based order entry and results reporting capabilities. Quest is also touting AML to potential hospital clients as "Nichols Institute East."

Furthermore, *LIR* speculates that Quest may be negotiating a major joint venture with a hospital system in Virginia that would be designed to go after the outreach market. A Quest spokesman would only tell *LIR* that the company is pursuing a number of different areas for growth for certain markets in the South as well as other geographic areas where the company does not have a major presence.

Finally, Pam Sherry, spokeswoman for LabCorp (Burlington, NC), notes that LabCorp has noticed "a little more activity" from Quest in these markets, including efforts to hire more salespeople and a greater willingness to place phlebotomists in high-volume doctors' offices.

Faced with competition from Spectrum Laboratory Network and now Quest as well, Sherry says that LabCorp is stepping up its investments in North Carolina and Virginia, including adding phlebotomists, opening new PSCs, and increasing the speed at which it hooks up new clients to electronic and Internet-based results reporting systems. LabCorp is also hiring more salespeople and requiring existing staff to increase the frequency of visits to physician-office clients. LabCorp is anticipating that it will return to growth in the North Carolina market in the first quarter of this year, according to Sherry.

Specialty Hits Bottom In Fourth Quarter, Sees Rebound In 2003

Specialty Laboratories (Santa Monica, CA) says that the fourth quarter of 2002 represented the bottom of the fallout it has suffered related to its regulatory issues and loss of its biggest client (i.e., Unilab, which is now sending its reference work to Quest). Specialty recently reported a fourth-quarter net loss of $3.9 million versus a gain of $3.5 million in the same period a year earlier; revenue declined by 31% to $29.9 million (including a 22% decline in accessions and an 11% drop in average price per accession).

On a February 12 conference call, Douglas Harrington, M.D., chief executive of Specialty, said the company salespeople were increasing the frequency of their sales calls and stressing the fact that Specialty does not compete with hospitals in the outreach market. He anticipates that Specialty's testing volume will rebound to 620,000 accessions in first-quarter 2003 from 614,000 in fourth-quarter 2002.

Specialty At A Glance ($000)

	4Q02	*4Q01*	*Change*
Revenue	$29,884	$43,348	-31%
Operating income	-5,684	5,174	NA
Net income	-3,917	3,519	NA
Cash & investments	40,874	75,063	-46%
Accessions	614,000	790,000	-22%
Revenue per accession	48.67	54.87	-11%
Employees	700	844	-17%

Source: Specialty Labs

LIR observes that one major step for Specialty toward regaining growth would be winning back the Novation (Irving, TX) group purchasing organization (GPO) contract that it lost last year after its regulatory issues with the California Department of Health Services and Centers for Medicare & Medicaid Services were revealed. In 2001, sales to hospitals that utilize the pricing structures under the Novation GPO contract comprised approximately 24% of Specialty's overall revenue.

Asked for comment, a spokesman from Specialty would only tell *LIR* that "the rebuilding of relationships with business partners and clients has been a top priority at Specialty. This push certainly includes GPOs. We want all parties, Novation included, to understand the changes and enhancements Specialty is making."

FDA Approves New Heart Attack Test

Ischemia Technologies (Denver, CO) has received clearance from the U.S. Food and Drug Administration to market its Albumin Cobalt Binding (ACB) blood test as an aid in determining which patients suffering from chest pain aren't really having a heart attack. The test uses the metal cobalt to detect changes in a blood protein that occur during a heart attack. The test will be sold to labs for approximately $30 per reportable result, according to Robin Daigh, vice president at Ischemia. She says the company is currently working toward getting a unique CPT code for the test so it can be added to the Medicare fee schedule.

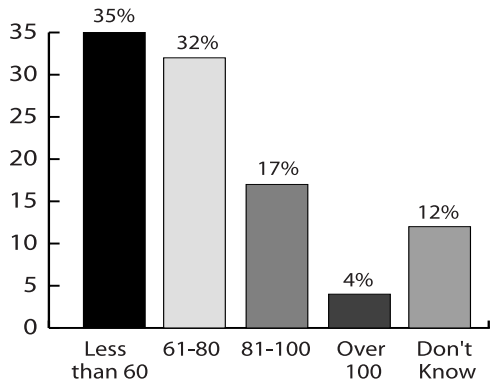
Up to five million people go to U.S. emergency rooms each year complaining of chest pain, but only about one in five is actually having a heart attack, according to data from the FDA. When used in conjunction with standard heart attack tests (EKG and troponin test), clinical trials showed the Ischemia test could rule out heart attack in up to 40% of chest pain patients.

Survey Shows Many Labs Have Respectable Debt Collection Rates

In a telephone call-in survey conducted at the 20th annual Lab Institute, sponsored by Washington G-2 Reports on October 23-26 in Arlington, VA, 35% of laboratory managers and administrators said that the average number of days in accounts receivable (DAR) at their laboratory was less than 60 days. *LIR* notes that this level of DAR is comparable to those posted by commercial lab heavyweights, Quest and LabCorp.

Quest reports that in the fourth quarter of 2002, its DAR fell to 49 days, compared to 54 days at the end of 2001. For the full year, Quest's bad debt expense totaled $217.4 million, or 5.3% of revenue, compared with 6% for 2001. Quest attributes part of the improvements to the introduction of an Internet-based test ordering and results reporting system launched in the middle of last year. Quest says that as of year-end 2002, approximately 10% of all test orders it was receiving and 15% of results were being transmitted via the Internet.

What is the average number of days in accounts receivable at your laboratory?



N=190 (69% hospital lab directors and managers; 25% independent labs; 6% other)
Source: Lab Institute Survey, October 2002

LabCorp reports that in the fourth quarter of 2002, its DAR was 54 days with bad debt expense of 8.4% of sales.

Meanwhile, another 32% participants in the Lab Institute survey said their DAR averaged within a range of 61 to 80 days. Falling under the heading of "needs improvement," 17% of survey participants said their DAR was between 81 to 100 days, 4% said it was over 100 days, and 12% didn't know their DAR.

John Leskiw, chief executive of accounts receivable services at Quadax Inc. (Cleveland, OH), which provides A/R management services to about 50 labs across the country, believes that any laboratory with a DAR of 80 days or less is doing a good job. Those falling below 60 days are doing an outstanding job, according to Leskiw.

However, Leskiw notes that many laboratories are understating their DAR because they don't add performed lab tests to their accounts receivable total until after the test has been input into their billing system. He says the proper accounting method is to include the lab test charge in the accounts receivable total as soon as the result is reported to the client. The gap between reporting the test result and then inputting it into the billing system can understate a laboratory's DAR by 10 days or more, according to Leskiw.

He observes that one of the biggest improvements that a laboratory can make toward reducing its DAR is the installation of an Internet-based test order entry system at physician office clients. "These systems put billing compliance in the hands of doctors' offices and stop errors at the point of service." He says that Internet-based lab system vendors have worked out the kinks that riddled the first generation of their products introduced a few years ago. He estimates that only about 5% of all lab test orders are input via the Internet today, but predicts usage will reach 95% within the next three years.

AmeriPath Adds Three More Pathology Groups

AmeriPath (Riviera Beach, FL), which itself has agreed to be acquired by venture firm Welsh Carson (New York City), has recently announced acquisitions of three pathology groups. They include:

Dermatopathology of Wisconsin (Brookfield, WI), an independent dermatopathology laboratory located in a western suburb of Milwaukee. The group, which employs a staff of 12, including two dermatopathologists, was founded by James Troy, Ph.D., 13 years ago.

Nuclear Medicine and Pathology Associates (Augusta, GA), a four-physician anatomic pathology laboratory co-founded by Kailash Sharma, Ph.D., that has an exclusive contract with University Hospital (Augusta, GA).

Reference Pathology Services (RPS—Sandy, UT), an independent laboratory with 57 employees, founded by David Bolick, M.D. RPS has been a leader in developing new molecular assays from liquid-based Pap specimens.

Meanwhile, AmeriPath says that it's moving forward with an agreement to be taken private by Welsh Carson for $839 million, including about $172 million of assumed debt. AmeriPath shareholders are expected to vote on the deal within weeks.

New Anatomic Pathology Company Formed In Western Pennsylvania

Albert Kovatich, former director of immunopathology at Thomas Jefferson University Hospital (Philadelphia, PA), has launched a new anatomic pathology company named MDR Global Systems, LLC (Windber, PA—about 80 miles east of Pittsburgh). A $1.5 million opportunities grant from the state Department of Community and Economic Development jump-started the company.

MDR, which stands for molecular detection and retrieval, was formed as a joint venture between company management and the Windber Research Institute, a not-for-profit research organization focused on breast and prostate cancer. Kovatich is serving as president and chief scientific officer of MDR.

Kovatich says the company will initially focus on providing contract testing services to pharmaceutical and biotechnology companies. He notes that the company has submitted an application for CLIA certification and will soon begin marketing clinical diagnostic services as well. Ultimately, Kovatich says the goal is for MDR to bring new cancer diagnostics being developed by Windber Research Institute to the clinical market.

Lab Stocks Fall 12%, Myriad Tumbles 27%, Quest Drops 16%

So far this year, lab stocks have fallen 12%, while the S&P 500 is also down 5% and the Nasdaq is down 2%

Stock prices for the 13 companies in the G-2 Laboratory Index moved down an unweighted average of 12% in the six weeks ended Feb. 14, 2003, with 11 stocks falling in price and only two rising.

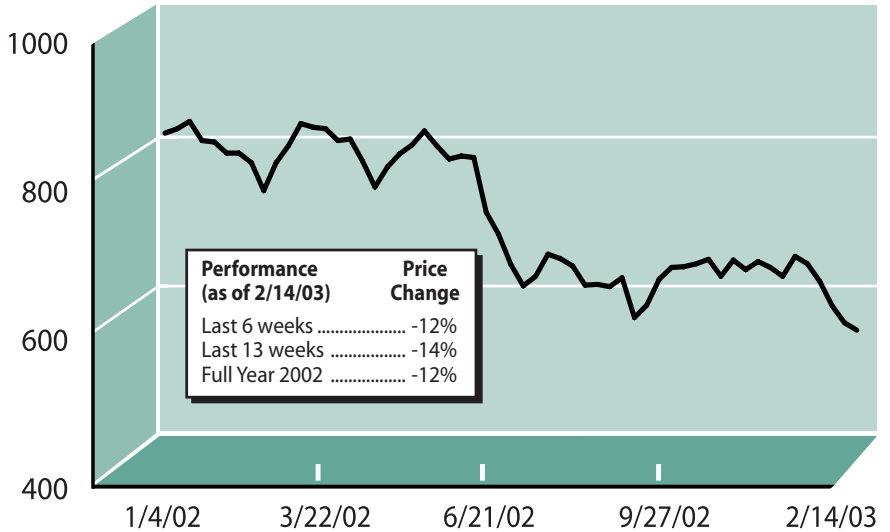
Myriad Genetics (Salt Lake City, UT) dropped 27% to $10.64 per share for a market cap of $267 million. The stock drop comes as the controversy over the company's patented BRACAnalysis test continues to heat up.

Most recently, Ontario's Ministry of Health and Long-Term Care announced that it would ignore Myriad's patents and perform hereditary breast and ovarian cancer screening tests for high-risk women at seven hospital laboratories in the Canadian province. Myriad holds U.S. and Canadian patents on the BRCA1 and BRCA2 genes where mutations indicate a higher risk for developing breast and ovarian cancer. The company has threatened to take the Canadian province to court if it moves forward with the screening program. Note: For more on this topic, see *LIR*'s sister publication *Diagnostic Testing & Technology Report* (March 2003 issue, pp. 1-2).

Quest Diagnostics (Teterboro, NJ) slipped 16% to $47.97 per share for a market cap of $4.8 billion, an amount equal to 1.2 times the company's 2002 revenue of $4.1 billion and 15 times its net income of $322.2 million. The share price decline appears to be related to Quest's recently announced 2002 financial results, which showed that the company's test volumes rose by only about 1% for the year (excluding acquisitions).

Impath (New York City) shares fell 16% to $16.57 per share for a market cap of $272 million on the sudden resignation of the company's chairman and chief executive, Anu D. Saad, Ph.D. (*see pp. 1-2 of this issue*).

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 13 laboratory testing service stocks.

% price change, 6 weeks ended 2/14/03

UP	Price	% Chg
LabCorp	$24.00	3
MDS	14.53	4
DOWN		
AmeriPath	$19.69	-8
Bio-Reference	5.59	-9
Enzo Biochem	12.58	-10
Impath	16.57	-16
Lab*One*	17.84	-1
Medtox	5.10	-23
Myriad	10.64	-27
PharmChem	0.16	-30
Quest	47.97	-16
Specialty	7.22	-25
Unilab	17.34	-5

INDUSTRY buzz

In the February 2001 issue of *LIR* (*p. 12*), we provided a list of eight potential lab takeover candidates. From that list, three companies were subsequently acquired, including Unilab (now part of Quest) and Dianon and Path Lab (both bought by LabCorp).

So, who is next? We'll, my best guesses are provided in the table to the left. Keep in mind that this is just mere speculation and not based on any "inside information," but I'm willing to bet a dollar that at least three of the companies listed will wind up being swallowed by either Quest or LabCorp within the next two years.

Potential Takeover Targets

Company	Estimated Annual Revenue ($MM)
Alliance Lab Services (Cincinnati, OH)	$65
Clinical Pathology Labs (Austin, TX)	100
Esoterix (Austin, TX)	65
Great Smokies Diagnostic Lab (Ashville, NC)	30
Impath (New York City)	225
Specialty Laboratories (Santa Monica, CA)	140
Spectrum Laboratory Network (Greensboro, NC)	65

Source: *LIR*

The list includes two hospital-owned lab programs, Cincinnati-based Alliance Lab Services (formally up for sale) as well as Spectrum Laboratory Network of North Carolina, which Quest or LabCorp would undoubtedly love to absorb.

The three privately held companies (Clinical Pathology Labs, Esoterix, and Great Smokies Diagnostic Lab) are all backed by venture capital firms that will someday seek to cash out by selling. And, last but not least, are two publicly traded companies that have each suffered setbacks in the past year, Impath and Specialty Laboratories.

Think I'm nuts? You can write me at *labreporter@aol.com*

Jondavid Klipp, managing editor

References in this issue

AD PathLabs 626-443-2522
AmeriPath 561-845-1850
Hospital Pathology Associates 651-765-1367
Impath 212-698-0300
Ischemia 720-540-0200
LabCorp 336-584-5171
MDR Global Systems 814-467-9111
Myriad Genetics 801-584-3600
Quadax 440-777-6300
Quest Diagnostics 201-393-5000
Specialty Laboratories 310-828-6543

LIR Subscription Order or Renewal Form

❑ ***YES***, enter my one-year subscription to the ***Laboratory Industry Report (LIR)*** at the rate of $369/yr. Subscription includes the *LIR* newsletter, e-mail alerts, and yearly subject index. Subscribers outside the U.S. add $50 postal surcharge.

❑ Check enclosed (payable to Washington G-2 Reports)

❑ American Express ❑ VISA ❑ Mastercard

Card # _____ Exp. Date _____

Cardholder's Signature _____

Name As Appears On Card _____

Name/Title _____

Company/Institution _____

Address _____

City _____ State _____ Zip _____

Phone _____ Fax _____

e-mail address _____

Mail To: Washington G-2 Reports, 29 W. 35th St., 5th Floor, New York, NY 10001-2299. Or call 212-629-3679 and order via above credit cards or fax order to 212-564-0465. 3/03

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. Managing Editor: Jondavid Klipp, *labreporter@aol.com*