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LABORATORY INDUSTRY REPORT®

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HIGHLIGHTS

WASHINGTON G-2 REPORTS

New Medicare Law Includes 5-Year Lab Freeze

At press time, President Bush is preparing to sign a Medicare reform bill containing prescription drug coverage, which excludes a 20% lab co-pay, but includes a provision to freeze the Part B lab fee schedule from any CPI updates for five years. Lab interests view the fee freeze as a much less damaging alternative to a co-pay proposal that had been on the table at the conference committee level.

Nonetheless, the freeze will still hurt. Medicare currently spends about $5.1 billion per year on Part B lab services and the fee freeze cancels a scheduled 2.6% update that was to go into effect on Jan. 1, 2004. In total, the General Accounting Office projects that the five-year fee freeze will save $7.8 billion versus the $18.6 million that a 20% lab co-pay would have saved over 10 years.

The final bill contains a number of other key policy changes for labs, including a requirement for Medicare to institute a competitive bidding pilot for lab tests in a yet-to-be-determined region. On a more positive note, Medicare will now cover screening blood tests for cholesterol and diabetes. In addition, rural hospitals with less than 50 beds will be reimbursed at 100% of their reasonable costs for performing clinical lab tests to outpatients.

Furthermore, the "grandfather" provision that lets labs bill directly for pathology technical component services for hospital inpatients and outpatients (if they did so as of July 22, 1999) has been extended into 2005 and 2006. It had previously been scheduled to run out at year-end 2004.

Separately, the Centers for Medicare & Medicaid Services has just announced plans to cover immunoassay-based fecal occult blood tests at an attractive reimbursement rate. *For more details, see page 10.*

Freeman To Step Down As Quest CEO; Mohapatra Named As Successor

Quest Diagnostics (Teterboro, NJ) has announced that Ken Freeman, age 53, will step down as chief executive at the company's next annual shareholders' meeting in May 2004. Although Freeman is giving up the title of chief executive, he will retain his position as chairman of Quest and will remain involved in corporate strategy decisions and Washington lobbying efforts. His replacement is Surya Mohapatra, Ph.D., age 54, who is currently president and chief operating officer at Quest.

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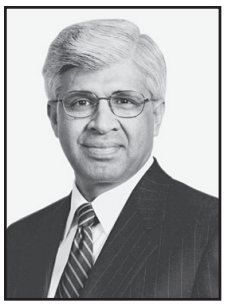


Surya Mohapatra, Ph.D.

FREEMAN/MOHAPATRA, *from page 1*

Mohapatra, who holds a Ph.D. in medical physics from the University of London, joined Quest in February 1999 as senior vice president and chief operating officer and was appointed president in June 1999. Prior to joining Quest, Mohapatra served as senior vice president and a member of the executive committee of Picker International, a manufacturer of medical imaging technologies now part of Philips Medical Systems (Andover, MA and The Netherlands).

Mohapatra tells *LIR* that over the past four-and-a-half years he has worked closely with Freeman on nearly every major initiative at the company including the acquisitions of SmithKline Beecham Clinical Labs (SBCL), American Medical Laboratories (AML), and Unilab. He says that after nearly tripling its size through these acquisitions, Quest is now shifting its focus to raising its internal growth rate. Nevertheless, Mohapatra says there are still opportunities for Quest to make small and mid-sized acquisitions.

In the nine months ended Sept. 30, 2003, Quest reported a 15% increase in revenue to $3.534 billion. However, after adjusting for the acquisitions of Unilab and AML, the pro forma growth rate was only 3.7%, comprising a 1.6% decline in test volume, a 4.7% increase in average revenue per requisition, and a 0.5% gain from the company's clinical trials business.

Quest has stated that next year it is aiming to increase revenue by 3.5% (after adjustments for the Unilab acquisition), driven by continued improvement in revenue per requisition and a modest improvement in test volume.

Mohapatra says Quest plans to accelerate its "organic" growth rate by raising the quality of its service and adding new testing technologies. Quality improvement initiatives are focused on lowering turnaround times, improving client service, and making Quest's 300 M.D.'s and Ph.D.'s more accessible for consulting with physician clients, according to Mohapatra.

He also notes that Quest now performs more than 500,000 lab tests each day and has some 220,000 physician clients across the country. A challenge for Quest is to leverage its physician client base by bringing them more information technology and testing services. For example, Mohapatra says Quest's Internet-based physician portal, eMaxx, allows for the creation of an electronic medical record that can include lab test results as well as radiology reports, hospital discharge records, and medication history.

He says Quest's huge distribution network also makes it an ideal partner for IVD companies seeking to introduce new tests into the market. He cites the company's recent agreement with Enterix Inc. (Falmouth, ME), which has developed an immunoassay-based fecal occult blood test called InSure (*see separate story, p. 10*).

A Quick Review Of The Freeman Era

Ken Freeman became chief executive of Corning Clinical Laboratories, the predecessor company to Quest, in May 1995. He added chairman to his title at the end of 1996, when Quest was spun off to Corning's shareholders.

The hand he was dealt was not pretty. Between 1990 and 1995 his predecessors, E. Martin Gibson and Randy Thurman, went on an acquisition binge that tripled the size of the company. In addition to integration issues, Freeman took over a company with a raft of regulatory issues for charging Medicare for unnecessary tests.

One of Freeman's first courses of action was to suspend the company's acquisition program to focus on core operations. He reorganized Quest's management team and replaced half of the company's existing lab facility managers.

In October 1996, Freeman also agreed to the largest lab settlement with the U.S. Department of Justice to that date, as Quest paid $119 million on behalf of subsidiary Damon Clinical Labs for false claims submitted prior to Quest's takeover in 1993.

In the late 1990s, Freeman also led the charge to move away from the irrational pricing competition for managed care contracts that had hurt the lab industry throughout most of the decade. He also weeded out Quest's unprofitable accounts, including a large number of nursing home clients.

Then in August 1999, he executed the biggest transaction ever in the lab industry by paying $1.2 billion, or 0.75 times revenue, to acquire SBCL. The deal knocked the most aggressive price competitor out of the market and set off a new wave of lab consolidation. Quest bought AML in March 2002 for $500 million and then Unilab in February 2003 for $887 million.

In his eight years as CEO, Freeman helped Quest turn the corner from a money-losing laboratory plagued by regulatory problems to a company that is on track to generate a profit of $438 million this year on revenue of $4.7 billion. During Freeman's tenure the stock price of Quest grew at an average annual rate of more than 35%.

Of course, Freeman has been richly rewarded for his accomplishments at Quest. Last year, for example, he earned a total of $25.1 million, including salary, bonus, and stock options. And, when he steps down next May, Freeman will walk away with 1.577 million shares of Quest valued at more than $100 million plus an annual pension benefit of $1.12 million.

The Freeman Era by the Numbers

	1995	2003	8-year CAGR
Revenue	$1,629,388,000	$4,711,937,000	14%
Cash flow from operations	85,828,000	534,017,000	26%
Capital expenditures	74,045,000	162,253,000	10%
Free cash flow	11,783,000	371,764,000	54%
Net income	-52,052,000	437,963,000	NM
Earnings per share	-1.81	4.09	NM
Days in accounts receivable	71	48	-5%
Bad-debt expense	9.4%	4.7%	-8%
Requisitions	60,000,000	130,000,000	10%
Employees (FTEs)	16,700	37,000	10%
Revenue per employee	$97,568	$127,350	3%
Revenue per requisition	$27.16	$35.48	3%
Stock price	$7.57	$71.01	38%

*Stock price gain is tabulated from closing price on Dec. 31, 1996, through Nov. 19, 2003.
Source: *LIR* from Quest financial statements (figures for 2003 are estimated based on annualizing reported results for the nine months ended September 30)

Small Independent Labs Growing By 10%

An exclusive mail-in survey compiled by Washington G-2 Reports shows that 119 small independent labs are on track to grow their revenue by 10% in 2003 to a combined $378.2 million. These results compare with a separate survey (*see LIR, October 2003, p. 1*) that showed that 11 of the nation's mid-sized independent labs were growing by 15%, while Quest and LabCorp are each growing by roughly 2% to 4% (excluding acquisitions).

The average size of the 119 independent labs that participated in our mail-in survey was $3.2 million and the median was $1.1 million. The survey questionnaire was sent to 4,000 independent labs, representing nearly every CLIA-certified independent lab in the nation. The response rate for completed surveys was 3%.

Fifty-one percent of independent labs said the biggest challenge to growing their revenue is exclusion from managed care contracts held by the national labs. The next biggest challenge was competition from Quest and LabCorp, cited by 26%, followed by competition from hospital outreach, cited by 9%.

What is the biggest challenge your lab faces in terms of growing revenue?

Exclusion from managed care contracts	51%
Competition from Quest and/or LabCorp	26%
Competition from hospital outreach programs	9%
Difficulty in finding and hiring qualified lab employees	8%
Difficulty in adding new testing technologies	4%
Other*	2%

*Included lack of capital, competition from other independent labs, and billing and collection problems

Source: Washington G-2 Reports First National Independent Laboratory Survey, October 2003

Mick Raich, president of the consulting firm Vachette Services (Palmyra, MI), tells *LIR* that there are no easy answers for smaller independent labs seeking to break into the exclusive contracts held by Quest and LabCorp. He is working with several labs in the Midwest that are contacting the medical directors at managed care companies to try to get exemptions that would allow referring physicians to send tests to the lab provider of their choice. "It's an uphill battle," says Raich. He adds that even when an exemption is granted, labs often run into billing problems with the managed care company.

Meanwhile, 42% of independent labs reported that their fastest-growing expense is employee salaries and benefits. The next fastest-growing cost is malpractice insurance, cited by 20%, followed by reagent costs, cited by 19%.

What is the fastest-growing expense in your budget?

Employee salaries and benefits	42%
Malpractice insurance	20%
Reagent costs	19%
Reference lab expenses	13%
Other*	6%

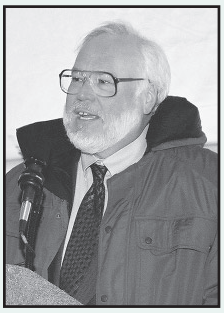
*Included courier services, instruments, professional consulting, and general supplies

Source: Washington G-2 Reports First National Independent Laboratory Survey, October 2003

Clarian Breaks Ground On New $65 Million Core Laboratory

Clarian Health Partners (Indianapolis) has begun construction of a 150,000 square-foot laboratory that will consolidate testing from three hospitals in downtown Indianapolis. The new lab, which is expected to be ready for occupation by early 2006, will become one of the largest hospital-owned lab facilities in the nation in terms of square footage. And, with a price tag of $65 million, it will also be one of the most expensive lab projects ever undertaken by a hospital system.

The new facility will be located between Methodist Hospital and the two adjacent hospitals (Indiana University Medical Center and Riley Hospital for Children) that comprise Clarian Health Partners. Methodist and Indiana University/Riley hospitals are located approximately one mile apart and are connected by a "people mover" conveyor belt system (similar to those used at big airports).



John Eble, M.D.

With the people mover, the new lab will be only about a five- or six-minute walk away from any of the three hospitals, according to John Eble, M.D., chief pathologist and chairman of the pathology and laboratory medicine departments at Clarian. In addition, Eble says the project will include a pneumatic tube system built along the elevated tracks of the people mover for whisking samples to the lab.

The lab facility, which was designed by BSA LifeStructures and Blackburn Architects of Indianapolis, will be built atop a three-floor parking garage with room for more than 300 cars. The lab and administrative offices will take up the next three stories (each 50,000 square feet).

Since Clarian was formed in the 1997 merger of the three hospitals, lab functions have been kept separate. But Eble says the number of tests at Clarian, which now total 7 million reportable results per year, has climbed by an average of 5% annually since the merger and is straining existing lab capacity. In addition, Eble says Clarian has two hospitals in the suburbs under construction that will also be served by the new lab.

Clarian Health Partners In Brief

Total admissions	55,655
Total staffed beds	1,334
Methodist	775
Indiana University	329
Riley	230
Lab budget	$45M
Lab employees	420
Inpatient test volume*	4.7M
Outpatient test volume*	2.3M

*On a reportable test result basis
Source: Clarian Health Partners

Clarian is planning on moving 75% of its test volume to the new facility. Eble says downsized labs at the hospitals will perform only those tests that need to be done for very rapid patient management decisions, for example, blood gases, electrolytes, hemoglobin, and troponin. He adds that some of these will be performed by point-of-care methods.

Eble says the new lab will include automated systems for at least the front end (e.g., specimen accessioning, decapping, aliquoting, and sorting) and possibly more. Clarian has not made a final decision on which IVD vendor to go with yet. However, he notes that the three Clarian hospitals have already standardized their laboratory information systems to Cerner Millennium.

Clarian also plans to move nearly all of its anatomic pathology services to the new facility, including administrative offices for pathologists and lab space for histology, anatomic pathology, cytology, and autopsy work. Eble notes that a single group of pathologists provides service to Clarian. He adds that histology procedures have been standardized and Cytyc's ThinPrep is used for thin-layer cytology testing.

Eble estimates that the consolidated lab will save Clarian approximately $500,000 per year in lab costs. Although he anticipates no layoffs as a result of the new lab, Eble anticipates savings from employee attrition, elimination of duplicate instruments, and increased efficiency from automation.

LIR observes that $500,000 per year in cost savings seems like a small amount in relation to the $65 million investment Clarian is making to build and equip the new lab. But Eble notes that the current labs at Indiana University and Riley hospitals are more than 30 years old and in need of modernization. Furthermore, he says the downsized rapid response labs at each of the three hospitals will create needed extra space for inpatient and emergency room services.

Finally, Eble says that although Clarian has a minimal presence in outreach testing today, it plans to expand this business in the future. The new facility will include a substantial molecular diagnostics laboratory. Clarian currently has a focus on molecular diagnostics for infectious disease and has plans to expand into cancer diagnostics, according to Eble. The new molecular diagnostics lab will be marketed to hospitals and physician offices throughout Indiana, he adds.

Below we provide snapshots of some of the established laboratories that Clarian is likely to bump up against as it works to expand its presence in the outreach market.

Quest Diagnostics competes directly for lab business in northern Indiana and southern Indiana. In the middle part of the state, Quest competes through **Mid America Clinical Laboratories** (MACL—Indianapolis). MACL is a joint venture lab formed in 1997 and owned 44% by Quest. Other owners include Community Hospitals of Indiana, Seton Health Corp. (St. Vincent hospitals), and Colab LLC (a local pathology group). Mid America, which has 500 employees, operates two separately licensed central labs in Indianapolis and 30 patient service centers.

LabCorp operates six patient service centers in Indianapolis and serves the area from its regional lab in Columbus, Ohio.

Alverno Clinical Laboratories (Hammond), which employs about 480 people, is a 50,000-square-foot core lab serving six hospitals in northwest Indiana and south suburban Chicago that are owned by Sisters of St. Francis Health Services. In regard to Clarian's plans, James Sparks, president of Alverno, observes, "They are investing a lot of money and could have a hard time getting a return on their investment."

Pathologists Associated (Muncie) is a joint venture lab owned by Cardinal Health Partners and East Central Indiana Pathologists (a local pathology group). Pathologists Associated operates as a for-profit independent company that leases lab space from Ball Memorial Hospital, which is the main hospital at Cardinal Health.

Pathologists Associated, which covers northeastern Indiana, has 390 employees, roughly 750 hospital, physician office, and nursing home clients and generates some $30 million per year in collected revenue.

George Branam, M.D., chief executive and lab director at Pathologists Associated, tells *LIR* that the biggest challenge Clarian may face in entering the outreach market is developing the service culture demanded by physician office clients. "It's not like an inpatient setting where you've got a captive audience. Physician offices have choices and if they think you're giving them second-tier service, they'll move to another lab," observes Branam.

South Bend Medical Foundation (South Bend) is a not-for-profit independent lab with about 800 employees operating a central lab as well as the labs located in Memorial Hospital, Saint Joseph Regional Medical Center, and Elkhart General Hospital. It also provides reference laboratory services to more than 40 hospitals and has 1,500 physician office clients throughout Indiana, according to Luis Galup, M.D., president. He says competing in the outreach market in Indiana is no cakewalk given the aggressive pricing from the two big commercial labs.

Terre Haute Medical Lab (THML—Terre Haute) is a pathologist-owned lab that serves western Indiana and eastern Illinois. The company, which has 260 employees, operates a central lab at Union Hospital and manages the inpatient lab at West Central Community Hospital. Mary Lou Albert, chief operating officer at THML, notes that because of limited HMO penetration in Indiana (i.e., less than 15%), lab competition in the state is based largely on service levels and turnaround times.

Follas Laboratories (Indianapolis), which specializes in infertility and OB/GYN-related testing, is an independent for-profit lab with about 65 employees and $7 million per year in revenue. Dan Follas, president, says the key to winning business is good service. And, as simple as it may sound, he says that having a live person on the phone to help answer client questions is a key.

DCL Medical Laboratories (Indianapolis), an independent lab with 150 employees and about $15 million in annual revenue, specializes in anatomic and molecular pathology, but recently expanded into the routine clinical lab testing market.

The Indiana Lab Market

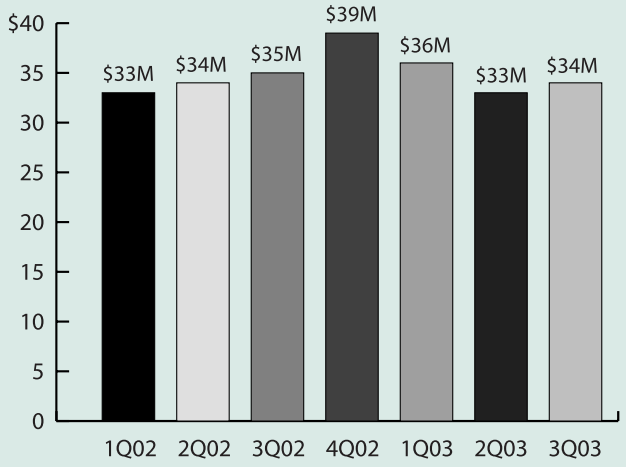
MDS Says U.S. Lab Operations Not Meeting Expectations

MDS Inc. (Toronto, Canada) says its U.S. laboratory management business, once viewed as a significant source of growth, is not meeting expectations for growth and profitability and that the company is now "taking steps to improve margins while examining the best way to participate in this market."

In the nine months ended July 31, 2003, MDS reports that its U.S. laboratory operations generated revenue of $103 million Canadian (US $78.4 million), up slightly from $102 million Canadian (US $77.7 million) in the same period a year earlier. MDS does not release figures for the profitability of its lab business.

Cam Crawford, president of MDS Diagnostic Services, tells *LIR* that some of the MDS partnerships in the United States are very strong, including Memphis Pathology Laboratory, while others are underperforming. Crawford says that the biggest challenges are related to aligning the interests of four different groups involved with each partnership—hospital administration, pathology groups, lab managers, and MDS—given the ever-present reimbursement pressures.

Quarterly Revenue at MDS U.S. Laboratory Operations *(Canadian dollars)*



Source: MDS

Crawford says MDS is taking a number of steps to improve the profitability of its U.S. lab operations including: 1) restructuring its management teams; 2) reducing supply chain costs; and 3) placing greater emphasis on the profitability of the outreach business at each partnership.

MDS has also become more particular about the new partnerships it will enter into and passed on three or four opportunities within the past year because they didn't have sustainable business models, according to Crawford.

An Overview of MDS's Laboratory Operations in the United States

MDS Hudson Valley Labs (Poughkeepsie, NY), located about 60 miles north of New York City, was formed in 1988 as a joint venture between three local hospitals and MDS. For more than 10 years, MDS Hudson Valley Labs provided lab management and testing services to the hospitals and built an outreach business. In 2001, the hospitals sold their equity stake in the joint venture to MDS, which now operates the venture as an independent lab that still provides test services to the three hospitals.

MDS Laboratories Georgia (Snellville—located in suburban Atlanta) was formed in 1997 as a joint venture between MDS and the hospital management company, HCA (Nashville, TN). But the joint venture has been dissolved and MDS Laboratories Georgia now functions as a wholly owned subsidiary of MDS that operates a 16,000-square-foot freestanding lab that provides reference testing

services, including microbiology, to a dozen HCA hospitals in Georgia and competes for physician office business.

In 1998, MDS formed another joint venture with HCA called **Integrated Regional Laboratories** (Fort Lauderdale, FL). This JV owns a 27,000-square-foot freestanding lab in Fort Lauderdale that serves about 15 HCA hospitals in Florida and outreach testing services to regional physicians.

Memphis Pathology Lab (MPL) was formed in 1998 as a joint venture between MDS and Baptist Memorial HealthCare (Memphis). MDS says MPL has been its most successful JV to date (for more details, see *LIR*, October 2003, p. 3).

At year-end 2001, MDS signed an agreement to manage three hospital labs at **Duke University Health System** (Durham, NC) and a new 40,000 square-foot core lab in north Durham. At the same time, Duke and MDS signed a letter of understanding to form a joint venture to provide outreach laboratory services for the region. However, after two years the planned outreach program still has not been launched.

Former MEDex Chief Executive Going To Jail

On November 17, Michael Eugene Ladd, 50, the former head of MEDex Regional Laboratories LLC (Kingsport, TN), was sentenced in federal court to 41 months in prison after securing $8.5 million in false loans. He also must serve five years of probation and was ordered to pay $2.07 million in restitution to SunTrust Bank for making false statements to the bank and forging the signatures of MEDex officials to secure loans.

In September, Ladd pleaded guilty to one count of making false statements to a federally insured bank. He had faced eight counts, but the remaining charges have been dismissed.

Dean Farmer, a lawyer at Hodges, Doughty, and Carson (Knoxville, TN), which is handling MEDex's bankruptcy, says it appears that most of the unauthorized loans taken out by Ladd were used to pay for ill-advised expansion of MEDex and to fund the company's operating losses. But Farmer notes that court testimony revealed that Ladd used at least $150,000 for personal use, including the purchase of a car for his daughter. It has also been revealed that Ladd had a criminal record with previous convictions of forgery prior to taking the job at MEDex.

The revelation that Ladd had secretly obtained $8.5 million for MEDex forced the company into Chapter 11 bankruptcy protection in April (see *LIR*, June 2003, p. 1-2). MEDex had been run as a partnership between six pathologists and Wellmont Health System (Kingsport).

As part of its bankruptcy reorganization MEDex has cut about 150 of 450 employees and closed several labs and administrative offices. Farmer says the company is now determining whether it can remain in operation as an independent lab, be sold in pieces, or be sold in whole.

5-YEAR LAB FEE FREEZE, *from page 1*

Removal of the dreaded lab co-pay proposal from the Medicare reform package was not the only positive news for the lab industry in recent weeks. Many labs will also benefit greatly from a new decision from the Centers for Medicare & Medicaid Services (CMS) to cover immunoassay-based fecal occult blood tests for colorectal cancer screening for Medicare beneficiaries aged 50 years and older. Coverage will become effective Jan. 1, 2004.

CMS says the test should be billed using HCPCS code G0328. It is to be reimbursed at the same rate as CPT code 86318, which currently stands at $18.09.

FOBT testing using the traditional guaiac-based methods has generally been a money loser for labs because of the low reimbursement (the current Medicare maximum is only $4.54). There are an estimated 11 million guaiac-based FOBTs performed each year in the United States. If all of these were to convert to the immunoassay-based method at $18.09 per test, the lab industry would generate an extra $149 million in revenue per year (*i.e.*, $18.09 - $4.54 multiplied by 11M tests = $149 million).

Colorectal cancer is the second-leading cause of cancer-related deaths in the United States. In 2003, approximately 147,500 new cases of colorectal cancer will be diagnosed, and an estimated 57,100 Americans will die from the disease. However, with regular screening, colorectal cancer can be found early, when treatment is most effective, increasing the survival rate to more than 90%.

Immunoassay-based FOBTs may lead to higher patient compliance with screening recommendations since the newer tests (unlike guaiac-based methods) do not require any dietary or prescription drug restrictions prior to sample collection. Today, most labs lose money from guaiac-based FOBTs because only about one out of every three patients who are given a sample collection package return it back to the lab for testing. And the expense of the unused collection package is borne by the labs.

Currently there are three IVD manufacturers with FDA-cleared immunoassay-based FOBT products. **Beckman Coulter's** FlexSure OBT was cleared in 1996, but the company took the product off the market in late 2001 because of low reimbursement levels. Given the new Medicare coverage and reimbursement level, Beckman is now expected to reintroduce FlexSure OBT.

Enterix Inc. (Falmouth, ME) gained FDA clearance for its immunoassay-based InSure test in 2001, and the product is marketed by Quest Diagnostics under an exclusive arrangement.

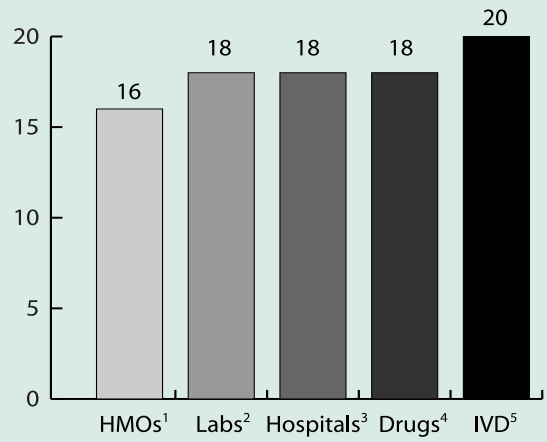
Finally, **Alfa Scientific Designs** (Poway, CA—just north of San Diego), a privately held IVD manufacturer, received FDA clearance for its Instant-View Fecal Occult Blood Test in 2002.

Of course, the new Medicare coverage could also entice Roche, Abbott, Dade, or Ortho-Clinical to develop or license an immunoassay-based FOBT for introduction into the United States.

Lab Stocks Up 6%; This Year's Big Gainer Is Bio-Reference

Stock prices for the 11 companies in the G-2 Laboratory Index rose an unweighted average of 6% in the four weeks ended Nov. 19, 2003, with seven stocks up in price and four down. So far this year, lab stocks have risen 44%, while the S&P 500 is up 18%, and the Nasdaq is up 42%.

Comparative P/E Ratios



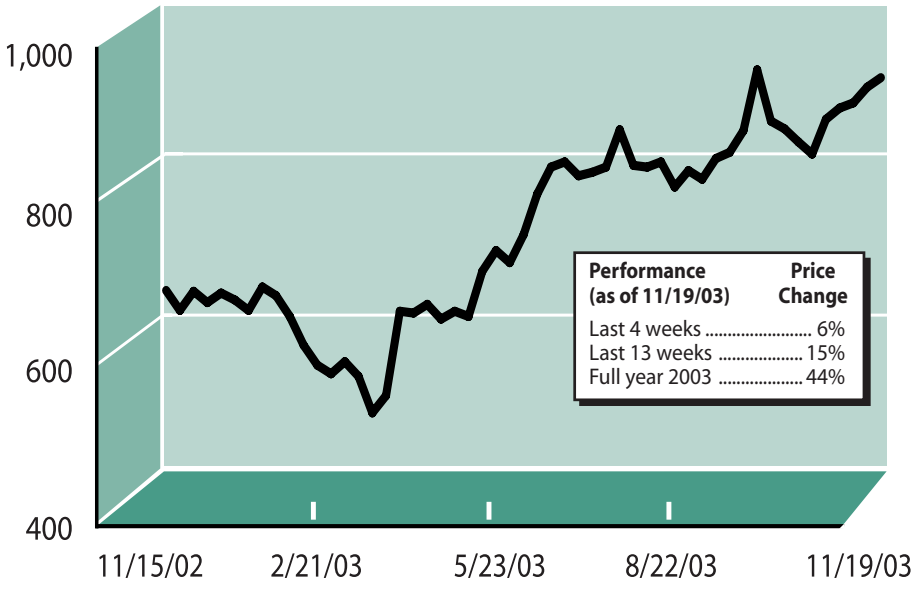
[1]Aetna, UnitedHealth, Wellpoint. [2]Quest, LabCorp.
[3]HCA, Triad, Universal Health. [4]Merck, J&J, Bristol-Myers
[5]Beckman Coulter, Diagnostic Products, Becton Dickinson
Source: *LIR*

Year to date, the best performing lab stock has been **Bio-Reference Labs** (Elmwood Park, NJ), which has vaulted 165% to $16.35. Other big gainers this year include **Specialty Labs** (Santa Monica, CA), up 63%, and **LabOne** (Lenexa, KS), up 61%.

In the latest four weeks, **Quest Diagnostics** (Teterboro, NJ) was up 4% to $71.01 per share for a market cap of $7.4 billion. Year to date, Quest is up 25%. **LabCorp** (Burlington, NC) was up 5% to $35.93 per share for a market cap of $5 billion. Year to date, LabCorp is up 55%.

Meanwhile, Quest and LabCorp now trade at a price-to-earnings multiple of 18 each (based on reported earnings for the trailing 12 months). This multiple is in line with those for other healthcare industries. For example, HMO stocks trade at a P/E of 16, hospitals and drug companies trade each trade at 18, and IVD manufacturers are at 20.

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 11 laboratory testing service stocks.

% price change, 4 weeks ended 11/19/03

UP	Price	% Chg
Bio-Reference	16.35	15
Impath	2.75	28
LabCorp	35.93	5
LabOne	28.47	17
PharmChem	0.37	3
Quest	71.01	4
Specialty	15.70	18
DOWN		
Enzo Biochem	17.32	-10
MDS	14.50	-3
Medtox	5.66	-9
Myriad	11.60	-11

INDUSTRY buzz

Big Labs To Launch Correlogic's Ovarian Cancer Test

Announcements from **Quest Diagnostics** and **LabCorp** about the launch of a new and expensive ovarian cancer test should be coming within the next month or so, *LIR* observes. The two big labs have licensed technology for the test, which uses a proprietary software program to analyze blood protein patterns generated by a mass spectrometer, from **Correlogic Systems** (Bethesda, MD). Correlogic developed the test in collaboration with the National Cancer Institute and FDA, and owns the underlying technology.

The Correlogic test will initially be used as a complement to the CA-125 test (formally known as cancer antigen 125). Quest and LabCorp, which perform a combined total of roughly 300,000 tests per year, are each in the final stages of validating homebrew versions of the Correlogic test. Although clinical studies have shown the test to be much more accurate than CA-125 for identifying ovarian cancer, it is also much more expensive.

Quest and LabCorp have not yet announced pricing for the test, but insiders tell *LIR* that it's likely to be in the same ballpark as genotyping tests, which generally sell for $200 to $400 each. This compares with maximum Medicare reimbursement of $29.07 for CA-125 under CPT code 86304.

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Enterix 207-781-4990
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MEDex Labs 423-723-2000
Mid America Clinical Laboratories 877-803-1010
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