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LABORATORY INDUSTRY REPORT®

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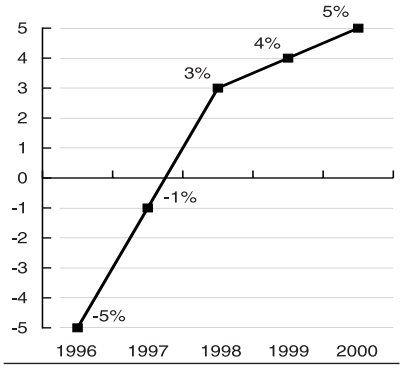
Has Pricing Really Improved In The Lab Industry?

To the delight of Wall Street analysts and investors, the Nation's largest commercial laboratories have been reporting 3+% increases in their average revenue per requisition over the past few years. For example, in the fourth quarter of 2000, Quest Diagnostics (Teterboro, NJ) reports that its revenue per requisition grew approximately 9% compared to the prior year. News like this comes much to the chagrin of hospital lab directors who have seen little, if any, improvement in pricing.

However, hospital lab directors can take solace in the fact that a large part of the reported price rise has come as a result of the termination of exclusive capitated contracts for lab services. This has opened up large pieces of physician office business to competition from hospital outreach programs and smaller independent labs. For more on pricing trends, see *Inside The Lab Industry*, pp. 5-7.

Avg Price Change Per Requisition At Major Commercial Labs



Source: *LIR* estimates based on data from LabCorp, Quest Diagnostics, and Unilab

Quest Ready To Raise $500+ Million To Fund Potential Acquisitions

Quest Diagnostics (Teterboro, NJ) has filed a shelf registration statement with the Securities & Exchange Commission, allowing it to sell as much as $750 million in stocks and bonds. Under the registration statement, SmithKline Beecham would be permitted to sell as many as 1.5 million shares (currently worth about $165 million) of the 12.564 million Quest shares that it owns. That leaves Quest with the ability to raise up to roughly $585 million for itself. In a press statement, Robert Hagemann, chief financial officer at Quest, said: "While we currently have no specific plans to issue securities, the shelf registration positions us to act quickly to take advantage of growth opportunities and favorable market conditions." News of the registration has many industry insiders speculating that Quest may be eyeing a major acquisition and that Dianon Systems (Stratford, CT) may be a target. *Continued on page 2*

■ **QUEST READY TO RAISE**, *from page 1*

News that Quest may be hunting for acquisitions got LIR pounding the phone lines to discover which other lab companies are up for sale. For what we found out, see Industry Buzz, *p. 12*

Reliable sources tell *Laboratory Industry Report* that Quest has negotiated with Dianon over the past year and that Quest executives went so far as to conduct actual site visits for due diligence at Dianon's corporate headquarters in Connecticut last year. In fact, the only thing that may be holding up a potential deal is Dianon's asking price. As of the close on Jan. 26, Dianon was trading at $33 per share for a market value of $262 million. At this price Dianon is valued at nearly three times the $91 million in revenue it generated in the 12 months ended Sept. 30, 2000 and 43 times its net income of $0.76 per share.

Despite the buzz over a potential deal, Kevin Johnson, president of Dianon, tells *LIR* that rumors that Dianon is up for sale are false. "We're independent and intend to stay that way." Even so, substantial increases in Medicare reimbursement for the technical component (slide preparation) of anatomic pathology services handled by independent pathology labs like Dianon have made this line of business extremely attractive (*see related story, p. 7*).

Also, several top executives at Dianon have strong connections with Quest and its predecessor, Corning Clinical Laboratories. Kevin Johnson, president and chief executive of Dianon, was employed at Corning for 18 years. Just prior to joining Dianon in May 1996, he was general manager of Corning Clinical Laboratories' eastern region. David Schreiber, chief financial officer at Dianon, served for 10 years as general manager for Corning's labs in the Midwest before joining Dianon in November 1996.

Gary Samuels, spokesman for Quest, would not comment on speculation that Quest might acquire Dianon. But in a Jan. 30 conference call with analysts and investors, Quest chairman Kenneth Freeman did say that any potential acquisition would need to meet three criteria: 1) the company must have no compliance problems; 2) it must be well run; and 3) the deal must add to Quest's earnings. Freeman said that Quest was looking for acquisitions that would expand its network and access across the country. Quest, he added, might consider acquisitions that would expand its esoteric testing business or information technology capabilities.

On Feb. 1, Quest announced that it had acquired the assets of Clinical Laboratories of Colorado, LLC (Denver), which was partly owned by Centura Health. Samuels says the facility will be consolidated into Quest's regional lab in Denver over time. In connection with the transaction, Quest also entered into an agreement to manage rapid turnaround labs at five Centura Health hospitals in the Denver area. In total, this transaction is expected to provide Quest with approximately $30 million in annual revenue.

Dianon At A Glance

Headquarters/primary lab:	Stratford, CT
Satellite facilities:	Tampa, FL; Denver, CO; Woodbury and New City, NY; Plano, TX*
Employees:	680+
Latest 12 months, ended 09/30/00	
Revenue:	$91M
*Cash earnings**:*	$6.66M
Net income:	$5.86M
Earnings per share:	$0.76

*Facility under construction.
**Cash earnings=net income plus amortization expense.

Source: Dianon

Dynacare To Buy Medical Arts For $7.5 Million

Assuming a sale to Dynacare is completed, MAL will operate as a division of Dynacare, with jobs and operations in Oklahoma remaining intact, says Robert Savasten, president of SMACI. SMAL facilities in Louisiana and Mississippi are expected to be folded into Dynacare's existing operations in the southeastern U.S.

Dynacare Inc. (Toronto, Canada and Dallas, TX) has signed an asset purchase agreement to acquire the laboratory operations and assets of Oklahoma City-based Medical Arts Laboratory (MAL) and Southern Medical Arts Laboratory (SMAL) for $7.5 million in cash. The agreement is subject to the approval of the Bankruptcy Court for the Western District of Oklahoma and an over-bid process, according to Ruston Welch, senior vice president and general counsel for Southern Medical Arts Companies Inc. (SMACI—Oklahoma City), the parent company of MAL and SMAL. The deadline for other qualified bids is Feb. 19.

Under the weight of more than $15 million in debt, all three Medical Arts units filed for Chapter 11 bankruptcy protection on Oct. 26 (*LIR, Dec.'00, p. 4*). The filing has allowed the company to move forward with the sale of its laboratory operations.

Based on post-bankruptcy petition results for Oct. 26-Dec. 31, 2000, MAL and SMAL generated combined pretax income of $297,537 on revenue of $4.374 million. On an annualized basis, this equates to $1.7 million of pretax income on $24.995 million of revenue.

Welch says that proceeds from any sale, combined with approximately $7-8 million in collectible receivables, will be used to pay creditors. Southern Medical Arts Companies Inc. and its two subsidiaries owe approximately $7.4 million to secured creditors and another $7.6 million to unsecured creditors. In addition, dissident shareholders (including Daniel Keller, MD; Jack Stephenson, MD; Willard Aronson, MD; John Rogers, MD; and Aaron Korngold) claim the company owes them approximately $5 million—SMACI disputes these claims.

Medical Arts, Southern Medical Arts Labs: Combined Operating Results

	Post Bankruptcy 10/26/00 to 12/31/00	Percent of Revenue
Net revenue	$4,374,066	
Expenses		
–Salaries, wages, fringe benefits	1,542,264	35.3
–Material and supply costs	561,687	12.8
–Purchased services	150,084	3.4
–Equipment/supply rental	69,639	1.6
–Building rent	155,699	3.6
–Bad-debt expense	588,468	13.5
–Ad Valorem/sales/use tax	29,593	0.7
–Insurance expense	33,128	0.8
–Interest expense	166,925	3.8
–Communication expense	114,485	2.6
–Fees to reference labs	214,622	4.9
–Parent company management fee	169,568	3.9
–Depreciation	39,896	0.9
–Other expenses	240,471	5.5
Total expenses	4,076,529	93.2
Pretax income	297,537	6.8

Source: Monthly operating reports, as filed with U.S. Bankruptcy Court, Western District of Oklahoma

AmeriPath Acquires 19-Pathologist Practice In Oklahoma

AmeriPath (Riviera Beach, FL) has acquired Dr. Tommy L. Hewett's Diagnostic Pathology Services Inc. (Oklahoma City and Tulsa, OK), a group of five pathology practices with 19 pathologists that is owned by Dr. Hewett. Terms of the acquisition were not disclosed. Hewitt's Oklahoma City operations are hospital-based and serve six hospitals in the area. Tulsa operations serve 10 hospitals in Tulsa and northeast Oklahoma and also provide outpatient pathology services through an outpatient diagnostic laboratory and relationships with two outpatient surgery centers. Hewitt will remain as managing director. The transaction marks AmeriPath's entrance into Oklahoma. The company now manages 426 physicians (including 67 dermatopathologists) in 21 states.

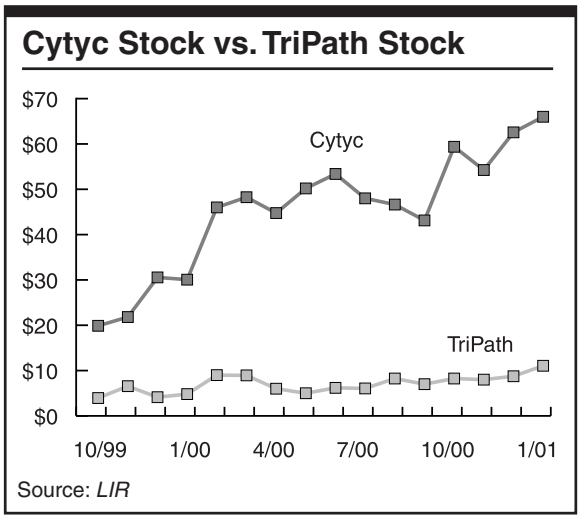
Separately, AmeriPath announced that it has divided its 40-person sales team into two separate divisions. Annette Bell, vice president and general manager, will lead the dermatopathology division; Ed Dooling, vice president and general manager, will continue to focus on building outpatient anatomic pathology business. Both Bell and Dooling will report to Bruce Walton, vice president of marketing.

AmeriPath says Robert Wynn, executive vice president and chief financial officer, is leaving the company. Gregory Marsh, vice president and controller, has been promoted to replace Wynn.

Cytyc, TriPath Settle Lawsuits

Cytyc Corp. (Boxborough, MA) and TriPath Imaging (Burlington, NC) have settled all litigation between the two companies without either admitting any liability. Initial litigation was kicked off in late 1999 when Cytyc sued TriPath, claiming patent infringement of Cytyc's proprietary preservation solution, PreservCyt, which is used with Cytyc's ThinPrep Pap test.

Cytyc recently reported fourth-quarter 2000 net income of $14.787 million vs. $2.863 million for the comparable prior-year period; revenue was up 72% to $42.553 million. The company says its share of the U.S. Pap testing market has reached 36%. Cytyc also announced plans to split its stock 3-for-1. Cytyc currently trades at $66 per share, more than double its share price a year ago, giving the company a market capitalization of $2.614 billion. At this price, Cytyc is trading at 68 times its full-year 2000 net income of $38.163 million and 20 times its $142.065 million of revenue.



TriPath reported a fourth-quarter 2000 net loss of $6.653 million vs. a year-ago loss of $3.044 million; revenue was up 41% to $9.011 million. For full-year 2000, the net loss was $17.37 million on revenue of $32.652 million. At $11.06 per share, TriPath has a market cap of $348 million.

Big Labs Seek Higher Average Revenue Per Requisition

The Nation's two largest independent laboratory companies, Quest Diagnostics and Laboratory Corp. of America, have all but stopped accepting capitation in exchange for exclusive contracts with managed care companies. And existing capitated contracts are either being renegotiated at substantially higher rates or being transformed into non-exclusive fee-for-service arrangements. Both companies also are aiming to get a larger share of high-priced esoteric testing. With these strategies the companies are raising the average revenue they receive per requisition.

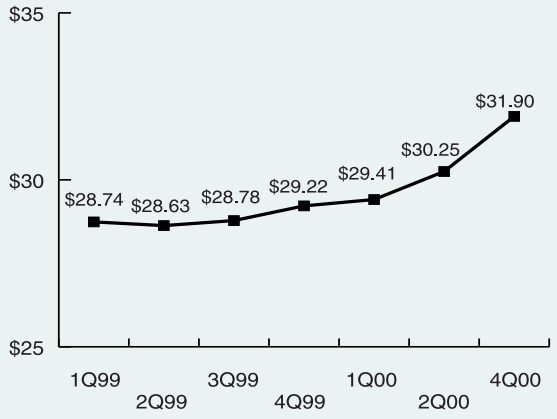
Capitation represents about 10% of the revenue and 20% of the volume at these two companies, but has a big impact on reported revenue per requisition and bottom-line results. To illustrate this effect, assume a laboratory company receives 10% of its revenue from capitated contracts that pay $0.75 per member per month (PMPM). If the company renegotiates all of its capitated contracts to $1.25 PMPM and there is no change in the pricing for its non-capitated contracts, the overall revenue per requisition goes up by 7%.

Switching a capitated contract to a fee-for-service contract can also have a dramatic impact on average revenue per requisition. For example, the average commercial HMO member gets roughly 2.2 lab tests per year (excluding inpatient testing). A capitated contract that pays $0.75 PMPM is equal to a total payment of $9 per year, or $4.09 per test ($9 divided by 2.2 tests per year=$4.09 per test). This compares to average reimbursement of roughly $10-15 per test from Medicare and third party fee-for-service payers.

Over the past few years, Quest has been negotiating better rates for capitated contracts, shifting them to fee-for-service, or walking away from them. In addition, Quest's acquisition of SmithKline Beecham Clinical Labs (SBCL) in August 1999 knocked one of the least disciplined contract negotiators out of the market. These developments have helped Quest increase its average revenue per requisition from $28.74 in first-quarter 1999 to $31.90 in fourth-quarter 2000. Quest says that as of year-end 2000, all major national contracts had been renegotiated since the purchase of SBCL. Only about 15% of the company's business, mostly involving smaller, local contracts, remains to be renegotiated, according to Quest.

So, with most of the benefit of more rational capitated contracting behind it, Quest will need to either secure higher prices on fee-for-service business or greatly expand its share of higher-paying esoteric tests in order to keep reporting higher revenue per requisition figures in the future.

Revenue Per Requisition At Quest



Source: *LIR* based on data from Quest and Deutsche Bank Alex. Brown

An inside look at LabCorp's esoteric testing operations—at its Center for Esoteric Testing in the Powell Lab Complex in Burlington, NC and its Center for Molecular Biology and Pathology (CMBP) in Research Triangle Park—shows how a shift toward higher-priced testing can increase average revenue per requisition.

LabCorp Revenue Analysis By Business Area

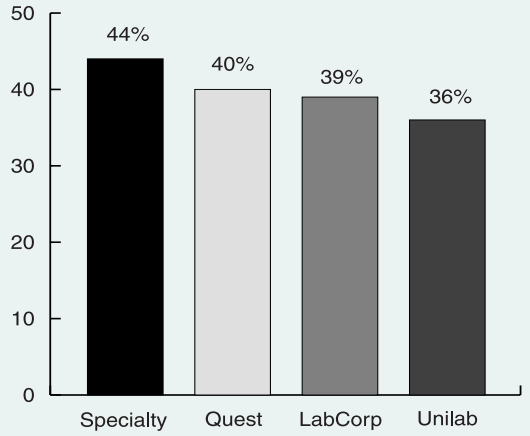
	First-Half 1999 Revenue ($MM)	First-Half 1999 Rev/Req	First-Half 2000 Revenue ($MM)	First-Half 2000 Rev/Req
CMBP	$51.2	$99.32	$60.6	$109.64
Powell	77.0	44.60	89.4	46.15
Routine testing	719.2	25.34	795.1	25.86
Total	847.4	27.67	945.1	28.44

Source: LabCorp

In the six months ended June 30, 2000, LabCorp reported a 2.8% increase in average revenue per requisition to $28.44. This increase was driven, in part, by an 18% rise in revenue at CMBP to $60.6 million and a 16% rise at Powell to $89.4 million. Average revenue per requisition at CMBP was up 10.4% in the first half of 2000 to $109.64 and up 3.5% at Powell to $46.15.

In contrast, LabCorp's revenue from routine testing rose by 11% in the first half of 2000 to $795.1 million; average price per requisition was up 2.1% to $25.86. Routine testing revenue dipped to 84% of the company's total revenue in first-half 2000 from 85% in the same period a year earlier.

Gross Profit Margins At Four Labs



Source: *LIR* from companies. Note: Gross profit=net revenue minus labor and supply costs and depreciation. Gross profit margin=gross profit divided by net revenue.

Overall, LabCorp's revenue was up 12% to $945.1 million in first-half 2000. The increase in esoteric testing business helped raise LabCorp's operating margin to 13.6% from 9%.

Of course, the lucrative esoteric testing business hasn't escaped the attention of LabCorp's competitors.

Quest reports that it now generates $225 million from gene-based testing. Dynacare has set up a new division to focus on esoteric testing, and the Southern California Permanente Medical Group in North Hollywood, along with dozens of other major hospital lab facilities, are beginning to market their specialty testing services to outside customers. The end result may be overcapacity and decreasing margins for esoteric tests.

Of the publicly traded clinical laboratory testing companies, Specialty Laboratories (Santa Monica, CA) has the greatest focus on esoteric testing. Based on financial data for the 12 months ended Sept. 30, 2000, Specialty had a gross profit margin of 44%. This compares to gross profit margins of between 36-40% at Quest, LabCorp, and Unilab.

If competition for esoteric testing does, in fact, heat up and pricing declines, Specialty's higher-than-average gross profit margin could be vulnerable.

Independent Pathology Labs Enjoy Technical Fee Bonanza

Commercial laboratories and pathologists who own their own anatomic labs are enjoying a bonanza of increased Medicare payment because of outsized increases in technical fee reimbursement for their most commonly performed procedures. In contrast, hospital-based pathologists, who bill only for the professional component, "have been left holding the bag," notes Joe Plandowski of Lakewood Consulting Group (Lake Forest, IL).

As the table below shows, global fee increases for commonly performed CPT codes such as 88304, 88305, and 88307—which represent about 75% of the procedures billed by pathologists to Medicare—have each been raised by more than 30% over the past two years. The change in the professional fees for these three codes ranges from a decline of 11% to an increase of only 7%. In contrast, technical fees for CPT codes such as 88304, 88305, and 88307 have each been raised more than 100%.

The same kind of dynamic has occurred only more so with CPT codes 88312 (technical fee up 797%) and 88313 (technical fee up 691%); these procedures are done in a hospital or at a commercial lab, depending on the stain ordered. Commercial labs have also done well from technical fee increases for CPT 88342, 88346, and 88365, each of which has been raised by 148% or more. Commercial labs generally do the testing for these codes as referenced, send-out tests from a hospital, says Plandowski.

As a result of these technical fee increases, Plandowski believes the larger commercial laboratories and pathology companies "will be pounding on doors to get all of the anatomic pathology work that can be done outside the hospital." He says this could lead to a shakeout of smaller pathologist-owned labs, which can be devastated by the loss of even just one hospital contract.

Plandowski adds that competition for cytology work is also heating up, given the recent doubling in traditional Pap test reimbursement from Medicare to $14.60.

Medicare Reimbursement For Common Pathology Procedures

		2001 Fees			% Change 1999 to 2001		
Code	*Procedure*	*Prof.*	*Tech.*	*Global*	*Prof.*	*Tech.*	*Global*
88304	Gross & Micro, Level III	$14.16	$26.78	$40.94	-11%	103%	40%
88305	Gross & Micro, Level IV	44.38	44.00	88.38	-2	122	36
88307	Gross & Micro, Level V	91.05	60.07	151.12	7	103	32
88312	Special Stains, Microorg	29.46	40.55	70.01	18	797	137
88313	Special Stains, Others	13.77	30.22	44.00	7	691	164
88342	Immunocytochemistry	47.82	30.99	78.81	12	148	43
88346	Immunofluorescent Study	47.82	30.61	78.43	13	184	48
88365	Tissue In Situ Hybridization	52.03	39.41	91.44	11	170	49

Source: *LIR* from the Medicare physician fee schedule, *Federal Register*, Nov. 1, 2000. Fees above are "pure" fees, unadjusted for geographic practice cost differences.

Medtox Shifts Focus From Lab Services To Test Kit Sales

Medtox Scientific (St. Paul, MN) says it is shifting its focus to its on-site testing device business, rather than laboratory-based screening for drugs of abuse. In conjunction with this reorganization, Harry McCoy, PhD, has resigned as chairman, president, and laboratory director at Medtox. Richard Braun, currently chief executive, is now also chairman and president. Medtox's decision to shift gears is a striking indication of how fast point-of-care testing is encroaching on traditional lab-based services.

Jim Schoonover, vice president for marketing at Medtox, tells *LIR* that the company is converting as rapidly as possible its drugs-of-abuse laboratory clients to its Profile-II System for on-site screening. "It's a recognition of where we think the market is going," he says. He notes that the traditional lab-based workplace drug testing market has been and remains extremely competitive. For example, Schoonover points out that average prices in that market now stand at $12-$14 per sample, down from $25-$28 per sample 10 years ago. "Nobody has shown pricing discipline in this industry."

Medtox's sales of on-site testing devices were up roughly 90% to $7.6 million last year, with a gross margin of approximately 62%, Schoonover says.

In contrast, the company's lab-based business was up 13% to $35 million, with a gross margin of only 32%. The growth in Medtox's lab-based business is coming primarily from tests on patients entering pharmaceutical clinical trials, rather than drugs-of-abuse screening, says Schoonover.

Medtox recently received 510(k) pre-market clearance from the U.S. Food & Drug Administration for its newly developed Profile-ER product and for 10 configurations of its Verdict-II product line. The Profile-ER device is an on-site, nine drugs-of-abuse panel, targeted at hospital labs for emergency response screening in overdose situations. The screen is a one-step process that provides qualitative results in seven minutes for nine commonly abused drugs—cocaine, amphetamines, marijuana, opiates, PCP, benzodiazapine, barbiturates, tricyclic antidepressants, and methadone.

Verdict-II was developed for the prison and parole markets and consists of 13 different configurations to detect from one to five drugs of abuse. Schoonover says the company just entered this market last year and sold 696,000 devices.

According to Schoonover, Medtox is typically able to sell its diagnostic test kit services (including confirmation, forms, and data management) for $12-$14 per specimen, with immediate results for negatives. Traditional lab testing is similarly priced, but has a one- to two-day turnaround.

The company also is seeking private label manufacturing contracts. Last year, for example, Medtox agreed to supply a minimum of 75,000 five-panel devices annually to Drugtest.com (Houston, TX).

Medtox Revenue Mix ($MM)

	1998	1999	2000E
Lab services	$27.1	$31.0	$35.0
Diagnostic kits	2.5	4.0	7.6
Total	29.6	35.0	42.6

Source: Medtox. E=Estimated

Quest To Pay $13 Million To Resolve Claims Against Nichols

Quest Diagnostics (Teterboro, NJ) has agreed to refund $13.08 million to federal and certain state government healthcare programs to settle fraud allegations against Nichols Institute (San Juan Capistrano, CA), which Quest acquired in 1994. The government accused Nichols of routinely billing for laboratory tests that were not medically necessary. These billing practices began in 1989 and ended in 1995, according to the government, which launched its formal investigation of Nichols in August 1993.

Surya Mohapatra, president and chief operating officer at Quest, says Quest strongly denies the government's allegations and settled the case to put the matter behind it. He adds that the practices in dispute were ended soon after Quest purchased Nichols. The cost of the settlement is covered in an indemnification agreement with Corning Inc., which spun off Quest in December 1996.

Settlement of the Nichols case brings to a close the last of the original "LabScam" investigations into Medicare billing and marketing practices launched more than 10 years ago. Operation LabScam targeted lab unbundling, or separate billings for groups of lab tests performed together, in order to receive higher reimbursement. All together, the government has pulled in more than $850 million in fines and settlements from the Nation's largest independent labs.

LabScam Settlements ($MM)

Company (on behalf of)	*Year*	*Amount*
LabCorp (National Health Labs)	1992	$111
Quest Diagnostics (MetPath)	1993	36
LabCorp (Allied)	1994	5
Quest Diagnostics (Damon)*	1996	119
Unilab	1996	4
LabCorp (Roche Biomedical/Allied)	1996	187
Unilab (Meris)	1997	5
Quest Diagnostics (SmithKline Beecham)	1997	325
Quest Diagnostics (Damon)*	1998	15
Quest Diagnostics	various**	31
Quest Diagnostics (Nichols)*	2001	13
Total		$851

*Indemnified by Corning Inc. **Since 1992, Quest Diagnostics has settled eight other federal and state billing-related cases for a total of about $31 million.

Source: LIR from companies

Over-The-Counter Test Sales Are A Growing Market

Sales of over-the-counter diagnostic test kits and collection devices to U.S. consumers are growing by 5-10% per year and reached $1.14 billion in 2000, according to an analysis in the February issue of *Diagnostic Testing & Technology Report*, published monthly by Washington G-2 Reports.

Blood glucose monitoring is far and away the largest segment of the OTC market for home testing, representing 77% or $880 million in annual U.S. sales. The next largest segment is pregnancy/fertility testing, with nearly $200 million in annual sales. Traditional laboratory-based assays with the potential to shift to the OTC market include Prothrombin Time blood tests. For a free copy of the February issue of *DTTR*, call 1-800-522-7347.

U.S. Home Testing Market, 2000

Segment	*Sales ($MM)*
Blood glucose monitoring	$880
Pregnancy	150
Fertility	40
Occult blood	35
Urinary tract infection	20
Cholesterol	5
HIV-1, hepatitis	5
Drugs of abuse	5
Total	$1,140

Source: Data from manufacturers and Biotechnology Associates

Days In Accounts Receivable Average 83 Days At Big Labs

Thirteen major clinical laboratory and pathology companies are getting their claims paid in 83 days on average, according to a *LIR* analysis of financial results for the nine months ended Sept. 30, 2000. This is an improvement over the average days in accounts receivable (DAR) of 91 days for full-year 1999. Despite the progress, DAR averages for laboratory and pathology companies are still high, compared to other healthcare service companies. For example, UnitedHealth Group (Minneapolis, MN) gets its bills paid in 16 days on average, while HCA-The Healthcare Company (Nashville, TN) gets paid in 45 days.

The lengthy collection cycle at laboratory and pathology companies results in many bills never being paid at all. To illustrate: Impath (New York City), which specializes in cancer pathology, had a DAR of 128 days for the nine months ended Sept. 30, 2000 and reserves 14% for doubtful accounts. The company suffered a setback in the third quarter of 1999 when it converted to a new billing system.

Among the 13 companies analyzed by *LIR*, bad-debt expense ranges from 7.2% at Quest Diagnostics to 14% at Impath, with an estimated overall average of approximately 10%.

Mick Raich, a marketing executive at APS Medical Billing (Toledo, OH), says he is seeing more and more managed care companies impose medical claim filing limits of 30 or 60 days in their contracts with laboratories and pathology groups. He advises pathologists not to give in to such limits, even if it means losing a contract. "It's almost impossible to get a correct claim to an HMO in 30 days," says Raich. APS provides billing services to 90 pathology groups, located primarily in the Midwest.

How Many Days Does It Take To Get Paid?

	Days In Accounts Receivable		
Pathology Companies	***12/31/98***	***12/31/99***	***9/30/00***
AmeriPath	74	72	66
Dianon	71	93	84
Impath	127	152	128
UroCor	122	88	83
Unweighted average (4 cos.)	99	101	90
Clinical Laboratory Companies			
American Medical Labs	77	132	83*
Bio-Reference Labs	163	126	125**
Dynacare***	77	106	90
LabCorp	83	74	72
Lab*One*	67	80	67
Medtox	74	73	84
Quest Diagnostics	58	51	54
Specialty Labs	71	75	78
Unilab Corp.	68	65	68
Unweighted average (9 cos.)	82	87	80
Total, unweighted avg. (13 cos.)	87	91	83

Source: *LIR* from company reports. Note: DAR=Accounts receivable divided by average net sales per day. *For six months ended June 30, 2000. **For nine months ended July 31, 2000. ***Dynacare data are based on financial results under U.S. GAAP.

Lab Stocks Kick Off The Year With An 8% Decline

Laboratory stocks fell 8% in the four weeks ended Jan. 26, 2001, according to the G-2 Laboratory Stock Index which tracks the average percentage price change of 14 lab testing service companies. Four stocks rose in price during the period and 10 fell.

Shares of **Impath** (New York City) posted the biggest drop in the latest four weeks, declining 34% to $44 per share. Impath was the best performing stock in the G-2 Index last year, with a 422% gain.

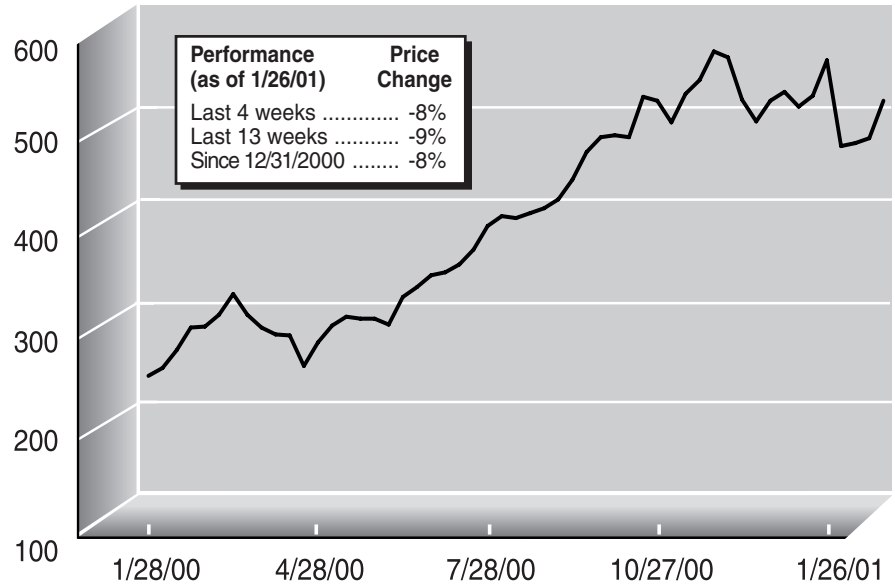
Other stocks recording losses of 20% or more in the latest four weeks included: **Dianon** (Stratford, CT), down 25% to $33 per share; **Quest Diagnostics** (Teterboro, NJ), off 22% to $110.38 per share; **Dynacare** (Toronto, Canada and Dallas, TX), down 22% to $8.50 per share; and **Specialty Labs** (Santa Monica, CA), off 20% to $26.56 per share.

Medtox Scientific (St. Paul, MN) had the best performing stock in the latest four weeks, up 27% to $8 per share. The company recently announced plans to redirect its sales and marketing efforts from laboratory-based drugs-of-abuse screening to its diagnostic devices business (*see story on p. 8*).

Other stocks rising in price in the latest four weeks were: **Lab*One*** (Lenexa, KS), up 20% to $6.88 per share; **Bio-Reference Labs** (Elmwood Park, NJ), up 20% to $2.25 per share; and **MDS Inc.** (Toronto, Canada), up 15% to $16.63 per share.

Note: With the start of this year we subtracted Cytyc Corp. from the Index and added Specialty Labs and Dynacare.

G-2 Laboratory Stock Index



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

Avg. % Price Change, 4 weeks ended 1/26/01

UP

Bio-Reference Labs	+20%
Lab*One*	+20%
MDS	+15%
Medtox	+27%

DOWN

AmeriPath	-3%
Dianon	-25%
Dynacare	–22%
Impath	-34%
LabCorp	-19%
Myriad	-22%
PharmChem	–6%
Quest Diagnostics	-22%
Specialty	–20%
UroCor	-9%

INDUSTRY buzz

Despite recent setbacks, the stock prices of Quest Diagnostics and LabCorp are each up by more than 200% in the last 12 months alone. At current prices, both companies trade at roughly 50 times their reported earnings for the trailing 12 months. As a result, according to reliable industry sources, chief executives at Quest and LabCorp may be contemplating the use of their shares to fund major acquisitions.

These same sources have told us that a number of independent lab companies (in addition to Dianon—*see pp. 1-2*) may be up for sale. Among these may be Clinical Pathology Labs (Austin, TX), one of the largest privately held labs in the country; Path Lab Holdings Inc. (Portsmouth, NH); and Home Access Health (Hoffman Estates, IL), which markets HIV testing services via the Internet and is already partly owned by Quest.

In terms of the publicly traded labs, the big question is what will happen to Unilab (Tarzana, CA). Wall Street analysts tell us that the company may be mulling an initial public offering or a sale to Quest or LabCorp.

Other publicly traded labs that could wind up being acquired include Bio-Reference Labs (Elmwood Park, NJ) and Lab*One* (Lenexa, KS). In addition, Psychemedics (Cambridge, MA), which provides workplace drug testing using hair analysis, has hired investment bank Downer & Co. (Boston, MA) to pursue "partnerships, strategic alliances and/or transactions" to increase shareholder value.

Potential Takeover Targets

Company	*Est'd Annual Revenue ($MM)*
Bio-Reference Labs	$70
Clinical Pathology Labs	100
Dianon	95
Home Access Health	5
Lab*One*	175
Path Lab	50
Psychemedics	20
Unilab	350

Source: *LIR*

References in this issue

AmeriPath 561-845-1850
APS Medical Billing 800-288-8325
Clinical Pathology Labs 512-873-1630
Cytyc Corp. 978-263-8000
Dianon 203-381-4000
Dynacare 416-487-1100
Home Access Health 847-781-2500
Impath 212-698-0300
Lakewood Consulting 847-295-8805
Medical Arts 405-278-2717
MedPlus 513-583-0500
Medtox 651-636-7466
Path Lab 603-431-2310
Psychemedics 617-868-7455
Quest Diagnostics 201-393-5000
Sunquest 520-570-2000
TriPath 336-222-9707
Unilab 818-996-7300

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