Your Independent Source for Business & Financial News

LABORATORY INDUSTRY REPORT®

Dennis W. Weissman, Publisher

Vol. X, No. 4/April 2001

HIGHLIGHTS

Empire Calls Off Quest Deal After NY Labs Protest

Empire Blue Cross Blue Shield (New York City) has canceled plans for an exclusive laboratory service contract with Quest Diagnostics (Teterboro, NJ) following strong protest from the New York State Clinical Laboratory Association, which claimed the contract would be anti-competitive and harmful to New York-based labs and their employees. The uproar started with a letter Empire sent to its lab providers dated Dec. 12, 2000. In the letter, a copy of which *Laboratory Industry Report* (*LIR*) has obtained, Empire served notice that it was restructuring its clinical laboratory network and terminating all lab provider agreements, effective March 12, 2001.

Executives at several New York labs tell *LIR* that Quest and Empire had worked out an agreement late last year under which Quest would become the exclusive administrator of lab services to Empire's HealthChoice HMO (300,000+ members) via its QuestNet product. The agreement would have given Quest, which operates the largest lab in the New York City area, a near stranglehold on the local physician office market, say competing executives. *Continued on page 8.*

Top 8 Commercial Lab Facilities, NYC Area

Name (Location)	*Test Volume (MM)*
Quest (Teterboro, NJ)	36.262
LabCorp (Uniondale, NY)	27.093
LabCorp (Raritan, NJ)	22.682
Quest (Wallingford, CT)*	22.406
Quest (Syosset, NY)	13.574
Spectra East (Rockleigh, NJ)	11.847
Centralized Lab Srv (Long Island City, NY)	6.394
Clinical Diagnostic Srv (Englewood, NJ)	5.571

*Includes volume from Branford, CT lab.
Source: CLIA Provider Files (April 2000)

Nate Headley Making Comeback With Spectrum

Nate Headley, who served as president and chief executive of Sacramento-based Physicians' Clinical Laboratories (PCL) during its rise and fall from 1989 to 1997, is making a comeback at Spectrum Laboratory Network in Greensboro, NC. Headley, who became its chief executive in April 2000, says that newly instituted management and financial controls have helped the consolidated lab venture reduce its cost per test to $7.50-$8 from more than $10 in 1999. Headley claims the improvements saved Spectrum's hospital owners— *Continued on page 2*

■ NATE HEADLEY, *from page 1*

Moses Cone Health System (Greensboro), High Point Regional Health System (Greensboro), and Novant Health System (Charlotte)—a combined $3.95 million last year.

Spectrum manages three hospital labs for the Moses Cone Health System in Greensboro, including Moses Cone Memorial Hospital, Wesley Long Community Hospital, and Women's Hospital. In addition, Spectrum manages the labs at High Point Regional Hospital (High Point) and Novant's Forsyth Memorial Hospital (Winston-Salem). It also operates a 40,000 square-foot freestanding core lab in Greensboro that serves the five hospitals, which have a combined 2,500 beds.

Along with reducing cost-per-test, Headley says Spectrum has lowered its days in accounts receivable to 61 from 88 at year-end 1999. Factors contributing to Spectrum's financial and operating improvements include rescheduling and modest workforce reductions, a reorganization of senior management, core laboratory volume growth, and greater financial controls and monitoring in the billing department.

Spectrum currently has approximately 1,500 outreach clients in the Triad region of North Carolina, which includes Winston-Salem, Greensboro, and High Point. The outreach staff includes 12 salespeople and 15 service representatives. The largest contract is a capitated agreement to provide laboratory services to Partners National Health Plans of North Carolina (PNHP—Winston-Salem), a regional managed care company owned by Novant with nearly 400,000 members throughout North Carolina. Spectrum opened four patient service centers in Raleigh to expand its service to PNHP members and may expand into Charlotte next, says Headley. He expects Spectrum's total test volume (inpatient and outreach) to climb 18% this year to 4.446 million.

Spectrum's largest competitor is Laboratory Corp. of America (Burlington, NC), which operates major testing facilities in Burlington and Charlotte. In addition, Quest Diagnostics services North Carolina from its mega-lab in Atlanta, GA.

Spectrum At A Glance

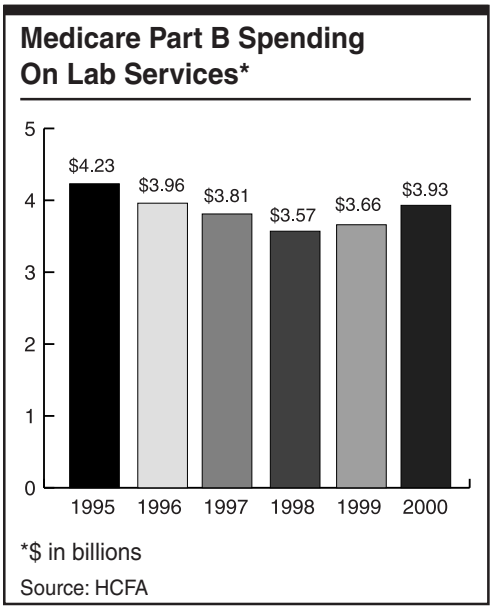
Headquarters:	Greensboro, NC
Chief executive:	Nate Headley
Participating hospitals:	Moses Cone Memorial, Wesley Long Community, Women's, High Point Regional, Forsyth Memorial
Employees:	553 FTEs (315 at inpatient labs/ 238 at core lab)
Calendar 2000 revenue:	$45-50M
Billable test volume for 2000:	3.764M
Cost per test:	$7.50-$8
Days Sales Outstanding:	61
Reference labs:	ARUP, Specialty Labs, American Medical Labs

Source: Spectrum Laboratory Network

During his tenure at PCL, Headley presided over the acquisition of 27 labs and internal growth that took PCL from $14 million in revenue in 1990 to $111 million by 1994. However, managed care pricing pressures, failure to effectively integrate the California lab operations of Damon (acquired in 1994), and a debt load of $120 million forced PCL to file for Chapter 11 bankruptcy in November 1996. PCL was ultimately acquired by Unilab in 1999. Of the hard lessons learned at PCL, Headley says, "There can be absolutely no tendency to fail to maintain required pricing discipline, even in a substantially improving business climate for clinical labs."

Medicare Part B Lab Spending Rises 7.4% To $3.9B

In calendar 2000, Medicare Part B spending on clinical laboratory services rose 7.4% to $3.93 billion, according to preliminary data from the Health Care Financing Administration. Furthermore, revised data from HCFA show that such spending actually increased in calendar 1999 by 2.5% to $3.66 billion vs. the small decline initially reported by the agency (*LIR, Oct.'00, p. 2*). The increases of the past two years represent a reversal of the downward pattern for such services during most of the last 10 years.



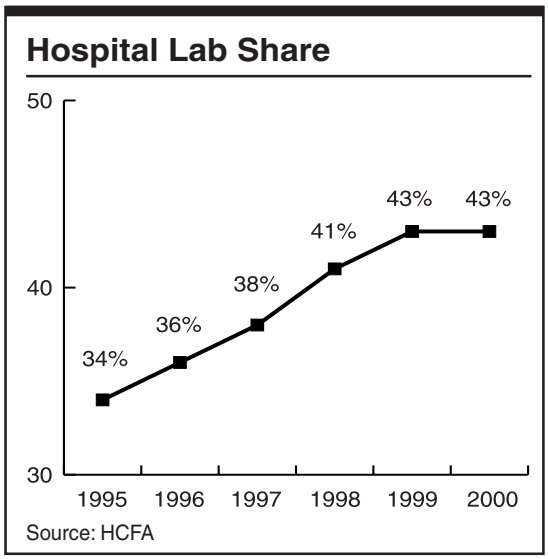
The sudden uptick in Part B lab spending likely results from several factors. One obvious factor is an overall increase in the number of Medicare beneficiaries. The Medicare program provides health insurance for people 65 years of age and older, certain disabled people, and people with renal disease. Between 1996 and 1999, the total Medicare population grew by 0.9% per year to 39.14 million. The over-65 category grew by 0.5% per year to 33.929 million, while the number of disabled/renal disease beneficiaries grew by 3.9% to 5.21 million.

Another contributing factor was the hike in reimbursement for Pap smears from $7.15 to a national minimum payment of $14.60, effective Jan. 1, 2000. Part B provides reimbursement for more than one million Pap smears per year. Currently, Medicare covers an annual Pap test every three years, but effective this July 1, that will change to once every two years, as required by last year's Medicare provider relief legislation.

An additional factor contributing to growth may be the continuing shift from inpatient to outpatient care. For example, between 1996 and 1999, the total number of inpatient admissions rose by 1.3% per year to 32.359 million, according to data from the American Hospital Association (Chicago, IL). Over the same period, total outpatient visits grew by 4% per year to 495.346 million.

Meanwhile, hospital labs' share of overall Medicare Part B spending on lab services was $1.696 billion, or 43%, last year, according to HCFA data. LIR estimates that commercial labs got $1.376 billion, or 35%, and physician office labs got $858 million, or 22%.

Total Medicare spending (including Part A and Part B) rose by 6.3% to $227 billion in calendar 2000, according to HCFA projections. Part B lab services represented 1.7% of the total amount.



Quest's Freeman Earns Total Of $11M In 2000

Quest Diagnostics (Teterboro, NJ) awarded its chairman and chief executive, Kenneth Freeman, total compensation of $11.296 million last year, according to the company's latest shareholder proxy statement. Freeman's compensation included 10-year options to purchase 150,000 shares of Quest stock at an exercise price of $35.72 per share. These options have a potential value of $8.539 million if Quest's stock price appreciates by 10% annually until the options' expiration date in March 2010. Freeman also received a salary of $747,116, plus a bonus of $1.623 million, restricted stock worth $257,176, and other compensation totaling $128,946.

For full-year 2000, Quest reported net income of $102.1 million vs. a net loss of $3.4 million in 1999; revenue was $3.421 billion vs. $2.205 billion. Quest's stock rose 365% last year to $142 per share. During 2000, the company's market capitalization (total shares outstanding times share price) soared from $1.4 billion to $6.8 billion.

Surya Mohapatra, PhD, president and chief operating officer at Quest, received total compensation of $3.813 million last year. Mohapatra's compensation included receipt of company stock worth $2.605 million (as of year-end 2000) for meeting certain performance goals. Quest also paid him a salary of $498,077, a bonus of $618,400, and other compensation totaling $91,508.

James Chambers, who resigned as president of business services last December, received total 2000 compensation of $5.947 million, including $2.074 million worth of stock and options plus a severance payment of $3.094 million. He also got a salary of $372,067, a bonus of $345,531, and other compensation totaling $61,015.

Quest Diagnostics At A Glance ($MM)

	2000	1999
Revenue	$3,421.2	$2,205.2
Pretax income	201.0	14.4
Net income	102.1	-3.4
Cash holdings	171.0	27.0
Total debt	1,026.0	1,216.0
Market capitalization	6,830.2	1,366.0

Source: Quest Diagnostics

UnitedHealth's McGuire Got $32M Last Year

While it's difficult to argue that laboratory executives like Quest's Kenneth Freeman are underpaid, their compensation does pale in comparison to what some managed care executives earn. Take, for example, William McGuire, MD, chairman and chief executive of UnitedHealth Group (Minnetonka, MN), one of the country's largest managed care companies, with 6.5 million HMO members as of year-end 2000. McGuire received total compensation of $32.349 million last year, according to the company's latest shareholder proxy statement.

McGuire's package included 10-year options to purchase 650,000 shares of UnitedHealth stock at an exercise price of $23.81 per share. These options have a potential value of $24.668 million if the company's stock price appreciates by 10% annually until the options' expiration date in March 2010. McGuire also got a salary of $1.696 million, a bonus of $3.053 million, and other compensation totaling $2.932 million, including company contributions for 401(k) savings and an executive savings plan. UnitedHealth earned $705 million in 2000 vs. $563 million in 1999; revenue was up 8% to $21.1 billion. Its stock rose 131% to $61.38 last year.

Case Studies Help Lab Execs Evaluate Partnership Options

Successful laboratory partnerships, whether between a hospital and a commercial lab or among competing hospital labs, are rarely pulled off without a hitch. At the first of two programs on the theme, *Time For Change: Emerging Business Models For Hospital & Health System Laboratories*, held March 29-30 in Chicago, IL, keynote speaker James Winkelman, MD, vice president and director of clinical labs at Brigham & Women's Hospital (Boston, MA), defined "successful partnership" as one in which both partners gain a "satisfactory new income stream."

To Winkelman, the biggest stumbling block to success often is the failure of partnership constituents—hospital lab employees, pathologists, and commercial lab staff, for example—to communicate effectively. "Different constituents have different cultures, different boards, and different objectives …You need a lot of contact [between partners] … Everyone must feel tied into the success of the partnership."

New partnerships need explicit baseline figures and clearly understood analytical processes for determining these figures, he said. "Data [such as cost per test, test mix, test volume, etc.] for building a new relationship must be completely accurate and upfront."

The conference, sponsored by Health Care Development Services (Northbrook, IL) and Washington G-2 Reports (Washington, DC), featured case studies of four different partnership models. A summary of each follows.

Hospital/ National Lab Joint Venture

On Dec. 3, 2000, Dynacare Inc. (Dallas, TX and Toronto, Canada) commenced a new partnership with Allegheny General Hospital (AGH—Pittsburgh, PA), a 700-bed member of the West Penn Allegheny Health System. The 50/50 partnership was structured as a for-profit independent lab doing business as Dynacare/ Allegheny Laboratories (DAL). The partnership has a 10-year agreement with AGH to provide inpatient testing services and to expand outreach business in eastern Pennsylvania, parts of Ohio, and West Virginia.

Dynacare's initial capital contribution to the partnership was approximately $2.4 million in cash. AGH contributed its lab equipment and the value of its existing outreach business. The DAL partnership will be based at the existing 35,000 square-foot lab at AGH. The hospital will receive rent from the partnership, and Dynacare will get a fee for managing the partnership. Future capital expenditures for the lab and potential acquisitions will be funded by the partnership. AGH's lab employees are now employed by DAL.

AGH benefits from this arrangement by reducing and controlling the cost of testing for inpatients and registered outpatients through a long-term capitated contract with DAL (based on the number of discharges each month). AGH also received the $2.4 million from Dynacare and will share in any profit generated by the joint venture.

The governing board for the DAL partnership has six members—three Dynacare executives, plus three representatives from AGH, including Connie Cibrone, chief executive; Jan Silverman, MD, chairman of pathology; and Dawn Javersack, chief financial officer.

John Mazzei, regional vice president/NE for Dynacare/Allegheny Laboratories, told conference attendees that financial expectations for the partnership include an 11% reduction in the cost per test by the end of this year. DAL expects to add 100,000 new accessions this year from outreach growth; 260,000 in 2002; and 420,000 in 2003.

DAL's largest competitor in Pittsburgh is Quest Diagnostics Venture LLC, a joint venture between Quest Diagnostics and UPMC Health System (formerly known as the University of Pittsburgh Medical Center).

Javersack said that AGH and Dynacare negotiated for about 10 months before signing the agreement. AGH's due diligence included site visits to several Dynacare/hospital joint ventures and a market analysis of potential outreach opportunities in the Pittsburgh area.

Dynacare has joint ventures with Ellis Hospital (Schenectady, NY), University Health System (Knoxville, TN), and United Regional/ Froedtert (Milwaukee, WI). It also operates a joint venture in Houston, TX with Hermann Hospital. Hermann recently merged with the Memorial System (Houston), which has a policy of operating its own hospital labs, rather than contracting out lab services. As a result, the Dynacare/Hermann partnership's contract to manage the inpatient lab at Memorial Hermann Hospital, which expired last Sept. 30, was not renewed. The operations of the partnership have moved to a new 66,800 square-foot off-site lab and are focused on building outreach business.

Shared Services: Hospital Lab & A National Reference Lab

Columbus Regional Healthcare System (CRHS—Columbus, GA) and Laboratory Corp. of America (Burlington, NC) have operated under a shared services contract for the past five years. Under the agreement (named "The Alliance"), LabCorp manages marketing, courier and customer service, phlebotomy, and billing for outreach services to nursing homes and physician offices affiliated with CRHS.

CRHS is located in central Georgia and includes Columbus Regional Medical Center and Phenix Regional Hospital (combined 703 beds). CRHS is designated as the contract lab for outreach business for The Alliance and performs 95% of the outreach tests. LabCorp employs 12 couriers in Columbus who collect outreach work and deliver it to CRHS' labs. LabCorp assumes outreach billing liability and pays CRHS a negotiated fee-per-test under a three-year contract.

LabCorp provides esoteric reference services to CRHS' hospitals, physician practices, and managed care contracts through its laboratories in Birmingham, AL and Burlington. Anatomic pathology is not part of the contract.

Stevan Stark, executive vice president at LabCorp, said the company has similar shared service agreements with a total of 10 hospitals in the U.S.

Lance Duke, president and chief executive of the hospital division at CRHS, said The Alliance now has 154 outreach clients, and it accounts for 30% of CRHS' total lab volume. "We view LabCorp as one very large and prompt payer … We never did outreach very well anyway, so this is a win-win for both organizations."

Non-Competing Health Systems Form New Lab Company

In May 2000, Aurora Health Care (Milwaukee, WI) and Advocate Health Care (Chicago, IL) signed a contract to combine their laboratory operations under a single management team in an effort to reduce costs and build outreach services in the Chicago area.

Aurora's core lab, located in the Milwaukee area, serves 11 hospitals covering the eastern third of Wisconsin and runs an outreach program that generates $30 million per year in revenue. John Schwartz, chief executive of Advocate Trinity Hospital and a former executive vice president at Aurora, said Aurora had been seeking to expand into Chicago. At the same time, Advocate was seeking to further develop its outreach program.

With both Aurora and Advocate wanting to expand their outreach in Chicago, the pair began discussing partnership opportunities in mid-1998. The resulting joint management contract has created a single lab operation named ACL Laboratories, headed by Jay Schamberg, MD. A six-member oversight committee governs ACL, with three members coming from each hospital system. The agreement does not involve a merger of current assets between the two systems; however, all new capital investments will be owned by the new organization. In addition, a new for-profit company has been formed to manage and expand outreach testing.

Shared Services: A Regional Lab & A National Reference Lab

Quest Diagnostics (Teterboro, NJ) and SED Medical Laboratories (Albuquerque, NM) signed a contract to share laboratory services in New Mexico, beginning Jan. 1, 2001. Terms call for SED—a for-profit joint venture lab owned by St. Joseph Healthcare System (Albuquerque) and five local pathologists—to provide all phlebotomy and drug test collection services to Quest customers in the Albuquerque area. All time-sensitive testing for Quest's Albuquerque customers will be conducted at the SED lab. Non-time sensitive and esoteric tests will be shipped to either Quest's Nichols Institute (San Juan Capistrano, CA) or the company's regional testing lab in Denver, CO. SED now uses Quest as its primary reference testing company.

Jim Fantus, president and chief executive of SED, says the agreement helps SED fill excess capacity at its two-year-old, 35,000 square-foot core lab in Albuquerque. Earl Buck, director of hospital laboratory solutions for Quest, says the agreement solves specimen transport problems and allowed Quest to close its stat lab and four phlebotomy sites in Albuquerque.

Get The Word Firsthand: There's still time for lab executives, pathologists, consultants, and analysts to hear all about the four case studies summarized here. The second and final conference in the "Time for Change" program series will be held in Atlanta, GA on May 3-4, 2001. For the agenda, call Washington G-2 Reports at 202-789-1034.

Empire Calls Off Quest Deal, *from page 1*

An exclusive contract with Empire would have given Quest a preferred provider or exclusive capitated agreement with six of the seven largest HMOs in the New York City area. Tom Rafalsky, president of the New York State Clinical Laboratory Association (NYSCLA), says that news that Empire might award Quest such an exclusive contract caused him to consider contacting the State Attorney General's office to raise possible antitrust concerns.

Executives at several New York labs claim that it is nearly impossible to earn a profit as a subcontractor to Quest through its QuestNet product. Under QuestNet, Quest contracts to manage all laboratory services to an HMO and its members in exchange for a fixed monthly fee. Quest then contracts with other labs to fill gaps in its network. Quest keeps an administrative fee, then pays its subcontracted labs a fee based on the volume and complexity of the tests they perform as part of the network. Executives at Quest said they could not comment on any potential contract with Empire until after a definitive agreement is reached.

Rafalsky says he contacted Empire in March on behalf of NYSCLA, which represents 60 New York-based labs, "to express our very serious concerns that it might award an exclusive contract to a single, out-of-state laboratory to provide services to its members who are New York State residents." Rafalsky says Empire took NYSCLA's concerns seriously and is currently re-evaluating its proposed lab network reconfiguration and has rescinded the notice of contract cancellation that was sent to participating laboratories.

A spokeswoman for Empire tells *LIR* that Empire is now reviewing all of its laboratory contracts for all of its products, with the aim of consolidating its lab network and lowering costs. In addition to covering about 341,000 HMO members, Empire covers more than 3.5 million enrollees in traditional indemnity and preferred provider plans throughout eastern New York. The spokeswoman says that any new contracts are likely to include a combination of several labs and that a final decision will be made sometime in the next few months.

New York Area's Largest HMOs

Name	*Members*	*Primary Lab*
Oxford	1,268,954	Quest
Aetna	1,199,000	Quest, LabCorp
HIP	762,503	Centralized Lab Services
UnitedHealth Group	381,828	Quest, LabCorp
Cigna	366,182	Quest
Empire BCBS	341,822	Various labs
Physicians Health Services	276,268	Quest

Sources: New York State Insurance Dept., Crain's New York Business, and Laboratory Industry Report

LIR believes that Empire may have been particularly sensitive to NYSCLA because it is trying to move from a not-for-profit corporation to a for-profit entity.

Empire's for-profit conversion proposal, which failed to move in the state legislature last year, is under debate again this year. To compensate for the benefits it has reaped as a tax-exempt organization since 1934, Empire has proposed giving $1 billion to create a new foundation to extend the state's healthcare services for children and the elderly.

WebMD Records Loss Of $3B, Fires 900 Employees

WebMD (Elmwood Park, NJ), once the wunderkind of the touted "e-health revolution," reported a net loss of $3.086 billion for full-year 2000 vs. a net loss of $287.992 million in full-year 1999. Revenue increased (largely from acquisitions) to $517.153 million from $102.149 million. Last year's loss included $2.187 billion in depreciation and intangible asset write-offs and $452.919 million in restructuring charges. From Jan. 1, 2000 to the present, WebMD shares have lost more than 86% of their value and now trade at $5.25 per share.

In a conference call with analysts on March 22, Marv Rich, president of WebMD, noted that over the past several months the company's cost-cutting measures have included laying off 900 employees to reduce its total workforce to 4,900. One ex-employee tells *LIR* that the purge has swept away the entire marketing and support team (roughly 50 employees) for the company's personal computer-based product for Internet lab test ordering and results reporting. Despite non-exclusive contracts with Quest Diagnostics, Laboratory Corp. of America, and Unilab, WebMD has not been able to gain meaningful physician adoption of its Internet-based lab service products. In fact, several former WebMD salespeople have told *LIR* that at year-end 2000, the company was processing less than 5,000 lab transactions via the Internet each month.

During the conference call, chief executive Martin Wygod said the company continues "paring down" its unprofitable operations, while focusing on its Medical Manager unit (physician practice management software) and its Envoy unit (which handles electronic medical claims). Rich said that WebMD is aiming to reach profitability on a cash basis (excluding write-offs, depreciation, and amortization expenses) in the fourth quarter of this year.

WebMD At A Glance ($MM)

	2000	*1999*
Revenue	$517.2	$102.1
Net loss	-3,085.6	-288.0
Cash & securities	710.5	285.6
Long-term debt	25.3	2.7
Stock market capitalization	$2,852.5	$4,436.2

Source: WebMD

Meanwhile, WebMD is beta-testing a wireless handheld system that physicians can use to access Medical Manager's clinical and financial software applications and to order lab tests as well as write prescriptions. The system runs on the iPAQ Pocket PC made by Compaq (Houston, TX) and will be rolled out by year's end. "The biggest challenge we are going to have is physician adoption. There's no question about that," Wygod said.

Dynamic Healthcare Technologies Earns $700K

Dynamic Healthcare Technologies Inc. (DHTI—Lake Mary, FL) recorded a net profit of $694,368 in full-year 2000 vs. a net loss of $8.781 million in full-year 1999; revenue was up 37% to $35.143 million. DHTI makes the CoPathPlus practice management system for anatomic pathology, which is distributed by Sunquest Information Systems (Tucson, AZ). In addition, DHTI makes the "CoMed for Results" system for pathology results reporting via the Internet. In total, DHTI systems are installed at more than 640 hospital and pathology practice locations nationwide.

AmeriPath's New Gets $1.3M Compensation Package In 2000

AmeriPath (Riviera Beach, FL) awarded its chairman and chief executive, James New, total compensation of $1.342 million last year, according to the company's latest shareholder proxy statement. New's compensation included 10-year options to purchase 61,000 shares of AmeriPath stock at an exercise price of $7.63 per share. These options have a potential realizable value of $741,776, assuming that the company's stock price appreciates by 10% annually until the options expire in May 2010. New also received a salary of $375,000, plus a bonus of $225,000.

AmeriPath At A Glance ($000)

	2000	1999
Revenue	$330,094	$257,432
Pretax income	27,160	40,185
Net income	11,488	22,580
Cash holdings	2,418	1,713
Long-term debt	200,692	167,684
Market capitalization	641,100	186,400

Source: AmeriPath

For full-year 2000, AmeriPath reported net income of $11.488 million (after $15.8 million in write-offs) vs. $22.58 million in 1999; revenue was up 28% to $330.094 million. Its stock price rose 205% last year to $25 per share. AmeriPath completed eight acquisitions in 2000, adding a total of $75 million in annualized revenue and 115 physicians. Its largest transaction was the acquisition of Inform Dx (Nashville, TN) on Nov. 30 for about $54 million in stock and assumed debt.

UniPath Grows With Rocky Mountain Merger

Rocky Mountain Pathology Services PC (Denver, CO), a seven-pathologist group that serves four local hospitals, has merged with UniPath LLC (Denver), effective last Jan. 1. The merger gives UniPath a total of 25 pathologists and 120 employees serving nine hospitals in the Denver area. UniPath was created in January 1998 by the merger of Denver Aurora Pathology Associates and Pathology Services PC. President Jeff Danley says UniPath is in the process of constructing a 42,000 square-foot outpatient pathology lab in Denver at a cost of more than $5 million.

UroCor To Distribute Bioniche Product In U.S.

UroCor currently provides prostate histology, bladder cytology, and kidney tests to some 2,500 urologists' offices in the U.S.

UroCor Inc. (Oklahoma City) and the Canadian biopharmaceutical firm, Bioniche Life Sciences Inc. (Belleville, Ontario), have signed an agreement giving UroCor exclusive rights to distribute Bioniche's Cystistat product in the U.S. UroCor says it will work with Bioniche to seek U.S. Food & Drug Administration approval of Cystistat (sodium hyaluronate) for treatment of interstitial cystitis, a chronic bladder disease whose symptoms include increased urgency and frequency of urination. Cystistat entered the Canadian market in 1995 and was registered with the European Union in 1999 and with China in 2000.

Under the agreement, UroCor will pay an initial $750,000 to Bioniche, with a series of milestone payments up to an additional $2.275 million during the development and product launch of Cystistat in the U.S. UroCor president Michael George says that upon FDA approval, UroCor's salesforce will sell Cystistat directly to urologists who can then administer the treatment to their patients in-office.

Lab Stocks Fall 10% In Latest 5 Weeks

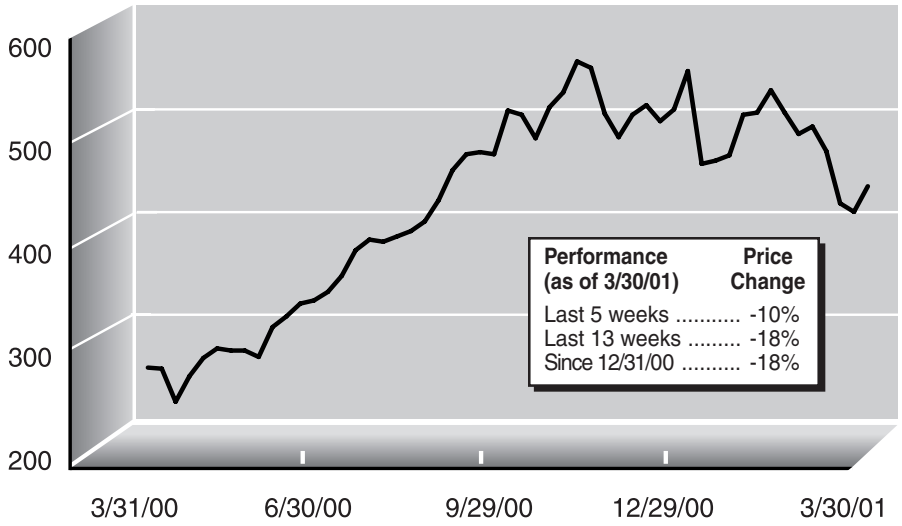
Laboratory stocks fell 10% in the five weeks ended March 30, 2001, according to the G-2 Laboratory Stock Index, which tracks the average percentage price change of 14 lab testing service companies. Three stocks rose in price, 11 fell. Year-to-date, the G-2 Lab Index has dropped 18%. In comparison, the S&P 500 is down 12% and the Nasdaq is 26% lower.

Myriad trades at 19 times its annualized revenue, based on the latest reported quarter

Shares of **Myriad Genetics** (Salt Lake City, UT) posted the biggest drop in the latest five weeks, with a 26% decline to $40.56 per share, giving the company a market capitalization (number of shares times share price) of $921 million. For the three-month period ended Dec. 31, 2000, the company reported a net loss of $1.189 million vs. a net loss of $1.877 million in the same period a year earlier; revenue was up 44% to $11.954 million. Myriad now sells three screening products: BracAnalysis for breast cancer, CardiaRisk for hypertension, and Colaris for colon cancer. The company is also developing pharmaceuticals, though its first potential product—a pill that may shrink cancer tumors—won't be on the market till at least 2004.

AmeriPath (Riviera Beach, FL) rose 2% to $20.56 per share for a market capitalization of $527 million. AmeriPath recently announced a strategic alliance with Ampersand Medical Corp. (Chicago, IL), a publicly traded manufacturer of laboratory-based and point-of-care screening tests with annual revenue of $1 million. The agreement calls for AmeriPath to help bring to market several of Ampersand's products, including its InPath In-Cell HPV Test for detecting human papillomavirus (now in the clinical trial phase). In addition, AmeriPath will help Ampersand develop several new InPath assays for detection of abnormal cells in urologic and other cancers and for endocervical cells in Pap test samples. AmeriPath will receive an undisclosed equity stake in Ampersand as compensation for this development work. AmeriPath will also be paid to provide laboratory services to Ampersand for continued R&D and clinical trials.

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.

Price & % Change, 5 weeks ended 3/30/01

	Price	% Chg
UP		
AmeriPath	$20.56	+2
Medtox	8.00	+1
UroCor	9.50	+1
DOWN		
Bio-Reference	1.13	-25
Dianon	29.88	-6
Dynacare	5.00	-11
Impath	46.38	-15
LabCorp	120.25	-18
Lab*One*	5.81	-3
MDS	12.02	-25
Myriad	40.56	-26
PharmChem	3.00	-24
Quest	88.87	-13
Specialty	24.50	-7

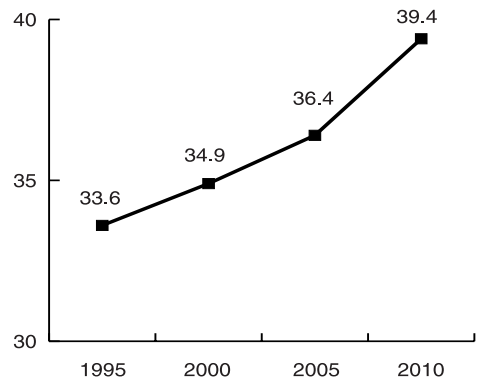
INDUSTRY buzz

Census Data Point To Growing Service Demand Later This Decade

The aging of the U.S. population is expected to increase demand for medical services, including laboratory testing services. That's because people over age 65 receive an average of roughly 4-5 times as many lab tests per year (8-12) as those under age 65 (2-3 tests per year).

However, data from the U.S. Census Bureau show that the effects of the "graying" of America won't begin to take hold for at least five years. For example, the Bureau estimates that between 1995-2000, the number of U.S. residents age 65 and older grew by 0.8% per year to 34.9 million. In contrast, the overall population grew by about 1.2% per year to 281.4 million. Between 2000-2005, the 65+ population will again grow by a projected 0.8% annually to 36.4 million. Not until 2005-2010 is the elderly population projected to outpace overall population growth, with an average gain of 1.6% per year to 39.4 million.

U.S. Population Over Age 65*



* In millions
Source: U.S. Census Bureau

References in this issue

Advocate Health Care 630-572-9393
Allegheny General Hospital 412-359-3131
AmeriPath 561-845-1850
Columbus Medical Center 706-571-1000
Dynacare Inc. 416-487-1100
Dynamic Healthcare 407-333-5300
Empire BCBS 212-476-6664
LabCorp 336-584-5171
NY State Clinical Lab Association 212-664-7999
Quest Diagnostics 201-393-5000
SED Medical Laboratories 800-999-5227
Spectrum Laboratory Network 336-664-6100
UnitedHealth 612-936-1300
UroCor 405-290-4000
UniPath 303-512-0888
WebMD 201-703-3400

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.washg2.com

Publisher: Dennis W. Weissman. Editor: D.J. Curren. Managing Editor: Jondavid Klipp, 914-788-3443.