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LABORATORY INDUSTRY REPORT®

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Specialty Labs' Founder Resigns Under Fire

Specialty Laboratories (Santa Monica, CA) announced April 22 that James Peter, MD, PhD, had resigned as the company's chairman and chief executive, effective immediately. Though he will remain on the board of directors and maintains a 66% stake, his departure marks a sudden end to his day-to-day management of the company he founded 27 years ago.

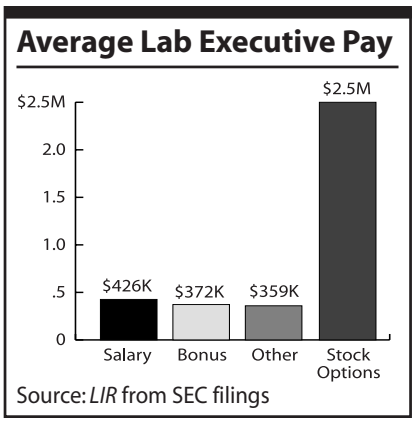
Peter's resignation came just one week after Specialty revealed that the Centers for Medicare & Medicaid Services had taken steps to revoke its license, cancel its approval for federal reimbursement and impose a fine of $3,000 per day for non-compliance with federal rules under CLIA (Clinical Laboratory Improvement Amendments). CMS and the California Department of Health allege that Specialty allowed employees to perform and supervise clinical diagnostic testing without the proper licenses required under state law.

The regulatory dispute has already scared off one major customer—Novation, the group purchasing organization based in Irving, TX—which says it is terminating its contract with Specialty, effective July 29, 2002. For a full analysis of the regulatory and business issues now facing Specialty, see *Inside The Laboratory Industry*, pp. 5-7.

Top Lab Execs Paid An Average $3.6M Each Last Year

Top executives at 16 publicly traded laboratory testing companies received total compensation (including options) of $58.2 million last year for an average of about $3.6 million per executive, according to an analysis by *Laboratory Industry Report (LIR)* of proxy reports filed with the Securities & Exchange Commission. For these executives, the average salary in 2001 was $425,673; the average bonus, $372,254; and the average "other" compensation, $358,523 (*e.g.*, restricted stock awards, automobile allowances, country club memberships, etc.). Stock options were the biggest component of compensation, averaging $2.5 million in value per executive.

Continued on p. 2



Top Lab Execs, *from page 1*

CEOs at the publicly traded labs earn 65 times more than the average medical technologist

The average total compensation of $3.6 million for the 16 executives equates to an hourly rate of $1,165, assuming each executive worked an average 60 hours per week for all 52 weeks in the year with no vacations or time off. In contrast, median pay for staff medical technologists is $17.90 per hour, according to data from the American Society of Clinical Pathologists.

The highest paid lab executive in 2001 was Ken Freeman, chairman of Quest Diagnostics (Teterboro, NJ), who received a total of $19 million. His compensation included a salary of $784,523, a bonus of $1.2 million and other compensation of $385,269. Freeman's 2001 compensation also included 10-year options to purchase 200,000 shares of Quest stock at a base price of $52.15 per share. These options could be worth $16.6 million, were the stock price to appreciate 10% annually until their expiration date in January 2011. Quest's net income rose to $162.3 million in 2001 from $102.1 million in 2000. Its stock price rose 1% last year to $71.71 per share.

Tom Mac Mahon, chairman of Laboratory Corp. of America (Burlington, NC), got total compensation of $16.4 million last year, including a salary of $812,500, a bonus of $1.9 million and $4.9 million in other compensation. He also received options to purchase 222,800 shares of LabCorp stock at a base price of $66.13 per share and a grant date present value of $8.8 million. The company's net income rose to $179.5 million in 2001 from $112.1 million in 2000. Its stock price fell 8% last year to $80.85 per share.

Peter Meldrum, president of Myriad Genetics (Salt Lake City, UT), received a total of $6.1 million, including a salary of $350,562, a bonus of $110,761, other compensation of $5,572 and options valued at $5.6 million. In the fiscal year ended June 30, 2001, Myriad reported a net loss of $7.174 million vs. a net loss of $8.722 million for the same period a year earlier; its stock was down 36%.

The next highest paid lab executive was James New, chairman of AmeriPath (Riviera Beach, FL), who received a total of $3.7 million, including a salary of $425,000, a bonus of $255,000 and options valued at $3 million. The company's net income rose to $23.4 million in 2001 from $11.5 million in 2000; its stock price was up 26% last year.

The lowest paid lab executive was Raymond Kubacki, Jr., president of Psychemedics Corp. (Cambridge, MA), who earned a salary of $234,327 with no bonus, options or other compensation. Psychemedics, which performs drugs-of-abuse lab testing on hair samples, reported net income of $233,000 in 2001 vs. $1.699 million in the prior year; its stock was down 20%.

The only other lab executives to earn total compensation of less than $500,000 last year were W. Thomas Grant II, chairman of Lab*One* (Lenexa, KS), whose package totaled $357,794, and Joseph Halligan, president of PharmChem (Haltom City, TX), who received $405,948.

Specialty Laboratories paid its former chairman and CEO, James Peter, MD, PhD, total compensation of $1.2 million, including a salary of $600,000, a bonus of $480,000, other compensation of $76,864 and zero options. Paul Beyer, president

and chief operating officer, received a total of $2.4 million, including a salary of $286,000, a bonus of $228,800, other compensation of $17,409 and options potentially worth $1.8 million. Albert Rabinovich, MD, PhD, chief medical officer and laboratory director, was paid a total of $387,522, including a salary of $310,000, a bonus of $7,750, other compensation of $69,772 and zero options.

Laboratory Executives: Total Compensation, 2001

Company/Executive	*Salary*	*Bonus*	*Other Comp**	*Options Value***	*2001 Total Comp*	*2001 Company Net Income*	*2001 Stock Price % Chg*
AmeriPath							
James New, Chmn	$425,000	$255,000	$0	$2,982,291	$3,662,291	$23,352,000	26%
Athena Diagnostics[1]							
Robert Flaherty, Pres	312,654	137,475	6,750	485,730	942,609	6,907	NA
Bio-Reference[2]							
Marc Grodman, MD, Chmn	415,921	125,000	0	0	540,921	2,362	221%
Dianon							
Kevin Johnson, Chmn	340,000	480,993	43,734	0	864,727	6,193,000	39%
Dynacare							
Harvey Shapiro, Chmn	603,750	300,000	44,716	600,000	1,548,466	11,717,000	55%
Enzo Biochem[3]							
Elazar Rabbani, PhD, Chmn	344,307	245,000	0	1,667,453	2,256,760	6,813,000	-3%
Impath							
Anu Saad, PhD, Chmn	315,000	294,500	3,400	2,632,065	3,244,965	10,991,000	-33%
LabCorp							
Tom Mac Mahon, Chmn	812,500	1,850,295	4,906,475	8,787,433	16,356,703	179,500,000	-8%
Lab*One*							
W. Thomas Grant II, Chmn	249,000	86,447	22,347	0	357,794	-1,043,000	168%
Medtox							
Richard Braun, Chmn	250,000	0	93,761	233,081	576,842	2,498,000	97%
Myriad Genetics[4]							
Peter Meldrum, Pres	350,562	110,761	5,572	5,611,448	6,078,343	-7,174,493	-36%
PharmChem							
Joseph Halligan, Pres	341,231	0	14,967	49,750	405,948	-8,476,000	-70%
Psychemedics							
Raymond Kubacki, Jr., Pres	234,327	0	0	0	234,327	233,000	-20%
Quest Diagnostics							
Ken Freeman, Chmn	784,523	1,158,600	385,269	16,622,734	18,951,126	162,300,000	1%
Specialty Laboratories							
J. Peter, MD, PhD, Chmn	600,000	480,000	76,864	0	1,156,864	13,079,000	-17%
Unilab							
Robert Whalen, Chmn	432,000	432,000	132,516	0	996,516	-2,920,000	9%
Total, 16 execs	6,810,775	5,956,071	5,736,371	39,671,985	58,175,202		
Average, 16 execs	$425,673	$372,254	$358,523	$2,479,499	$3,635,950		

*Other compensation includes the value of restricted stock awards, plus company contributions to retirement plans and life insurance policies, forgiven loans, company cars, country club memberships, etc.
**Options value assumes 10% annual stock appreciation, except for LabCorp which is based on grant date present value.
1) Athena Diagnostics has filed for an IPO, but is not yet publicly traded.
2) Bio-Reference executive compensation and net income figures are for the fiscal year ended Oct. 31, 2001.
3) Enzo Biochem executive compensation and net income figures are for the fiscal year ended July 31, 2001.
4) Myriad Genetics executive compensation and net income figures are for the fiscal year ended June 30, 2001.
Source: *LIR* from company proxy statements filed with the Securities & Exchange Commission

Sunquest, Triple G, Cerner Rank High In KLAS Surveys

Laboratories rank laboratory information systems (LIS) products and services from Sunquest (Tucson, AZ), now named Misys Healthcare Systems, Triple G Corp. (Markham, Ontario), and Cerner Corp. (Kansas City, MO) highly, according to various survey data collected by the research and consulting firm KLAS Enterprises (Draper, UT), in the fall of 2001.

KLAS monitors more than 400 laboratory facilities and their experience with LIS vendors on the basis of 39 performance indicators. Overall, Sunquest's FlexiLab system received the highest average ranking of 6.56 on a scale of 1 to 9. Recent contract wins for Sunquest include the Daughters of Charity Health System in California.

Triple G Corp.'s Ultra system received the second-best average rating. Recent contract wins for Triple G include St. Joseph's Hospital (Atlanta, GA) and St. Luke's Episcopal Hospital (Houston, TX).

LIS Comparison Report From KLAS

Company/product	*Average Ranking**	*% Rated as Best Vendor*	*Buy Again*	*Keeps Promises*	*Support Costs As Expected*
Sunquest FlexiLab	6.56	29%	B	B	B
Triple G Ultra	6.45	36%	C	B	B
Cerner Classic Lab	6.39	27%	A	B	C
SCC SoftLab	6.24	22%	B	C	N
DHT/Cerner PremierLab	5.98	9%	C	N	C
Cerner Millenium PathNet	5.97	19%	B	N	N
Cerner Citation Lab	5.84	5%	N	B	B
McKesson Horizon Lab	5.69	20%	C	C	N
Siemens Open Lab	5.34	0%	N	N	N

*Based on rating scale of 1-9 (with 9 being excellent)
Note: N=needs improvement

Source: KLAS Enterprises

Cerner Corp.'s Classic Lab received the third best average rating and a grade "A" rating on the specific question: "Would you buy from this vendor again?" Recent contract wins for Cerner include St. Joseph's Hospital (Atlanta, GA) and St. Luke's Episcopal Hospital (Houston, TX).

Siemens Open Lab received the worst average rating and a grade of "N" (for needs improvement) in the following areas: Would you buy from this vendor again? Has vendor kept all promises? and Were support costs as expected with no surprises?"

ProxyMed Acquires KenCom Communications & Services

For an undisclosed sum, ProxyMed, Inc. (Fort Lauderdale, FL) has acquired KenCom Communications & Services, Inc. (Moorestown, NJ), a privately-held provider of laboratory test result communication services founded in 1987 by Deborah Kennedy and Colleen Norton. ProxyMed says that KenCom's operations will be integrated into ProxyMed's laboratory services unit, Key Communications (New Albany, IN).

Trouble At Specialty Labs Should Be "Heads Up" For Other Labs

Specialty Labs has appealed sanctions imposed by the government, initiating an administrative process that could take up to 12 months to complete. Meantime, the company continues to hold full and valid CLIA certification, though its right to receive Medicare/Medicaid payments has been suspended since Feb. 22

Are the personnel licensing problems at Specialty Laboratories (Santa Monica, CA) an isolated incident, or is this a compliance area where other labs in California and beyond are at risk? For answers, *LIR* contacted Karen Nickel, PhD, chief of laboratory field services at the California Department of Health Services (CDHS). Her response follows:

"I am concerned that other labs may be using unlicensed persons inappropriately, also. We are getting unsolicited and anonymous complaints about other labs. While we can't investigate every complaint, this should be a 'heads up' for all laboratories in California that they should strictly control the activities of their unlicensed employees."

National data support the notion that labs may be finding it hard to maintain appropriate staffing levels. Survey findings from the American Society of Clinical Pathologists (Chicago, IL) show that average vacancy rates for lab personnel range from 11% for medical technologists to 22% for histotechnologists. Meanwhile, after a decade of contraction, lab testing volume is increasing, but the number of new medical technologists entering the workforce is rapidly shrinking (*LIR, Feb. '02, p. 8*).

How Regulatory Problems Escalated

The seeds of Specialty's current regulatory problems go back to June 1999, when the Centers for Medicare & Medicaid Services cited the lab for "deficiencies relating to persons unlicensed in California being involved in clinical laboratory practice." Specialty submitted an allegation of compliance dated Oct. 12, 1999, in which it said it had implemented a corrective action by Sept. 24, 1999. After a CMS resurvey in June 2000, Specialty was found to be back in compliance and settled the matter by paying CMS a fine of $87,400.

Sources tell *LIR* that Specialty's most recent regulatory woes began in early 2001, when two other labs in California complained to regulators that Specialty was using employees who did not have required state licenses to perform and supervise testing. These labs became aware of Specialty's alleged non-compliance when unlicensed Specialty employees applied for jobs with them.

These complaints prompted the California health department, representing both the State of California and acting as an agent for CMS, to conduct an unannounced inspection of Specialty's lab facilities in Santa Monica on June 25-26, 2001. Deficiencies discovered during this inspection were confirmed in a follow-up inspection on Oct. 9-10, 2001. The majority of the alleged deficiencies related to lab personnel licensing and supervision and included, according to an April 12 letter from CMS to the lab:

- Previously cited deficiencies related to the 1999 survey "were found still to exist."
- Persons unlicensed in California were observed in all sections performing laboratory activities not permitted [under California law]. "While performing these clinical laboratory activities, the unlicensed personnel were not subject to the required direct and constant supervision."

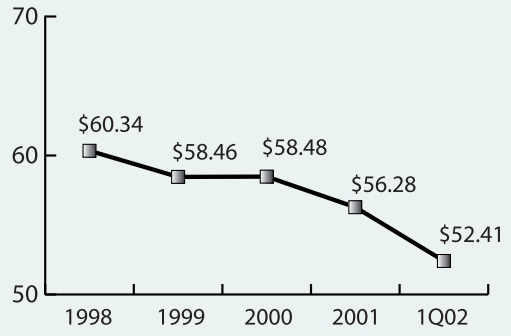
- In several instances, the Clinical Laboratory Scientist (CLS) was reviewing and signing out work performed by unlicensed technicians during previous shifts. The examiners were repeatedly told that the CLS had the primary responsibility for the previously performed testing and the records being reviewed.

The April 12 letter showed that as of early this year, Specialty employed 349 individuals at its lab, of which two directors and 142 other personnel were licensed under California law. Among the 205 unlicensed employees, two were listed as technical consultants, four as lead technicians, nine as technicians III, seven as senior technicians, three operations coordinators as testing persons, and three technicians classified as medical technologist II. In addition, two unlicensed persons in the cytogenetics and genotyping sections were listed as technical directors.

Specialty submitted a corrective action plan to the state in December 2001 and a more detailed one to CMS in February 2002. The judgement of both authorities was that Specialty's response was not a "credible allegation of compliance."

In April of this year, California notified Specialty that it would impose a directed plan of correction, random on-site monitoring and a fine. CMS went further in deciding to revoke the company's CLIA certification, suspend federal reimbursement, fine the lab $3,000 per day for each day of non-compliance and impose a directed plan of correction whereby CMS may notify the lab's customers of its non-compliance and the nature and effective date of any sanctions.

Specialty's Avg. Price Per Accession



Source: Merrill Lynch

Since the most recent CMS action, Specialty has filed a supplement to the February corrective action plan that company officials believe will prove it is now in full compliance. Dan Angress, vice president of marketing, tells *LIR* that Specialty has stepped up efforts to find and hire licensed employees, discontinued lower volume tests in order to shift personnel to higher volume areas, encouraged unlicensed employees to take the state licensing exam, and shut down its cytogenetic testing division.

Angress says that finding licensed medical technologists is "a challenge that the entire industry faces." A "help wanted" ad in the April 22, 2002 issue of *Advance for Medical Laboratory Professionals* shows that Specialty is seeking to fill positions in automated chemistry, molecular biology, special chemistry, EIA, oncology, coagulation, genotyping and protein chemistry.

Measuring The Financial Impact

Even before Specialty revealed its most recent regulatory problems, the company was hurting from lab industry consolidation that was causing it to lose some of its top customers. For example, in the three months ended March 31 of this year, Specialty reported that its revenue had declined to $43.614 million from $43.822 million in the same period a year earlier; net income plummeted to $1.993 million from $3.402 million.

The revenue decline was attributed to the loss of business from independent lab customers, including Clinical Diagnostic

Specialty's GPO Contracts

Organization	Hospitals	Contract Expiration
AmeriNet	2,000	May 2004
Health Services Corp.	800	July 2004
Novation	800	Terminated
Shared Services Healthcare	550	June 2003
Managed Healthcare Assoc.	300	May 2003

Source: Specialty Laboratories

Services (CDS-Englewood, NJ) and American Medical Laboratories (AML-Chantilly, VA). Both of these labs were recently acquired by Quest Diagnostics, which is in the process of shifting esoteric tests that these labs once sent to Specialty to Quest labs. In addition, Quest has announced plans to acquire Unilab, another big customer of Specialty.

Altogether, these clients accounted for 14% of Specialty's 2001 revenue base—Unilab 8-9%, CDS 4% and AML 1-2%, according to estimates from Merrill Lynch. "While we anticipated the possibility of losing testing from independent laboratories, the rate at which these clients were acquired or shut down is unprecedented," said former chairman James Peter, MD, PhD, in an April 11 press release.

At the same time, Specialty has been struggling with a decline in its average price per accession due to increased competition for esoteric testing work throughout the lab industry. For example, in first-quarter 2002, Specialty received an average $52.41 of revenue per accession, down 9.5% from $57.91 in first-quarter 2001.

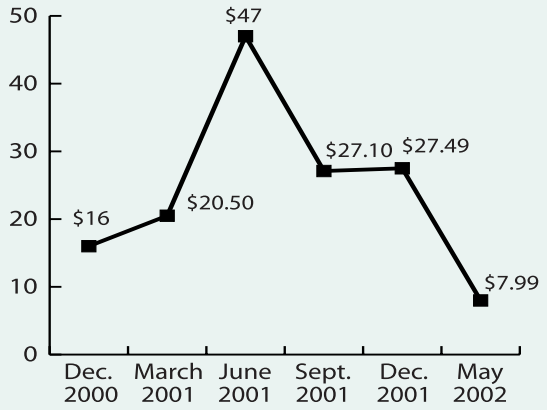
And now Specialty has to contend with jittery hospital customers that may switch to other reference labs as a result of its regulatory problems. In total, hospitals represent 56% of revenue at Specialty, which provides at least some amount of esoteric testing services to approximately 2,300 hospitals nationwide and is a primary provider to 340 of them.

A major loss came on May 1 when Specialty announced that Novation, a group purchasing organization (GPO) representing 800 hospitals, was terminating its contract, effective July 29, 2002. The contract was supposed to run until April 2004. In 2001, sales to hospitals which utilize the pricing structures under the Novation GPO contract comprised approximately $40 million, or 24%, of Specialty's overall revenue.

Wall Street analysts tell *LIR* that calculating a good estimate of the total amount of business Specialty will lose because of its regulatory problems is an impossible task. However, in even the most optimistic scenarios, analysts predict the company's revenue will fall by at least 9% to $160 million in 2002 from $175.2 million in 2001.

Meanwhile, the stock price of Specialty has plunged 70% since the start of the year to $7.99 per share as of May 3. The company, which went public in December 2000 at $16 per share, had reached as high as $47 per share in June 2001 for a market capitalization of some $1 billion. Since that peak, shares of Specialty have lost nearly 90% of their value.

Specialty Stock's Rise & Fall



Source: *LIR*

Quest Buys Independent Lab In Puerto Rico

Quest Diagnostics (Teterboro, NJ) has purchased Las Marias Reference Lab and Laboratorio Clinico Las Marias Inc. in Puerto Rico. The lab company operates two testing facilities in Rio Piedras, just south of the capital, San Juan.

Quest paid $18.5 million in cash for Las Marias, which is one of the largest independent lab companies in Puerto Rico and generates some $10 million per year in revenue. The acquisition marks Quest's first move into the U.S. commonwealth, which has a population of 3.9 million (about the same as Kentucky or South Carolina).

Ken Freeman, chairman of Quest, tells *LIR* that Las Marias has been renamed Quest Diagnostics in Puerto Rico and represents an entry point for further expansion in the Caribbean. Freeman says the new lab will coordinate its activities with Quest's larger testing facilities in south Florida.

AmeriPath Enters Southern California With Purchase Of Empire

AmeriPath Inc. (Riviera Beach, FL) has acquired Empire Pathology (Irvine, CA), a full-service anatomic pathology laboratory with more than 50 employees, including eight pathologists. The lab has been in operation for more than 15 years and specializes in providing cytology and anatomic pathology (including dermatopathology) services throughout southern California. It has a national subcontract arrangement with Quest Diagnostics.

The acquisition represents AmeriPath's first presence in southern California. Company chairman James New says AmeriPath will invest in marketing and information technology to expand Empire's physician office business, thereby reducing dependence on subcontract work from Quest. AmeriPath has completed 51 acquisitions since 1996 and now operates 41 outpatient labs, employs 400 pathologists, and has 200 hospital contracts.

Separately, AmeriPath reports that it earned net income of $12.648 million in the three months ended March 31, 2002 vs. $3.241 million in the same period a year ago; revenue increased by 14% to $112.892 million, including 12% growth from existing lab operations and 2% from acquisitions.

LabCorp Seeks To Add $100M Of Acquisition Revenue

During a recent conference call with analysts, Tom Mac Mahon, chairman of Laboratory Corp. of America (Burlington, NC), said his goal is to complete acquisitions this year that add $100 million of annual revenue to LabCorp. Mac Mahon sees opportunities to acquire labs with annual revenue of $20-$30 million. He also noted that LabCorp is seeking to expand its infrastructure in the New York City/northern New Jersey area to take advantage of a new expanded contract with Aetna Inc. (Hartford, CT). In February, LabCorp announced that its contract to provide lab services to Aetna indemnity and PPO members in New York and New Jersey had been expanded to include commercial HMO and POS members as well.

US Wellness To Offer Lab Tests In Supermarkets

US Wellness Inc. (Gaithersburg, MD) has announced an agreement with Giant Food Supermarkets (Landover, MD) to open "wellness centers" at 40 Giant stores within the next 18 months. These centers will offer consumers a choice of more than 25 laboratory tests, including liver health panels for $40, thyroid panels for $40, prostate-specific antigen testing for $45, and blood typing for $25.

The centers will take up about 200 square feet each and will be located adjacent to the pharmacy departments at Giant stores in Maryland and Virginia. Tori Tomlinson, chief executive of US Wellness, tells *LIR* that eight centers are already in operation. They are staffed by nurse practitioners, physician assistants or registered nurses employed by US Wellness. Specimens drawn at the centers are sent to Quest Diagnostics for actual testing. Quest will provide necessary physician oversight and send results to patients via the Internet or regular mail.

Patients who test outside normal ranges will be advised to contact their physician, Tomlinson says. US Wellness, she adds, will offer patients who have tested positive for high cholesterol, high blood pressure or diabetes, or who are overweight, weekly consultations with the company's staff for additional fees.

US Wellness is a privately held company co-founded in 1997 by Tomlinson and Christopher Cresswell, president. Prior to the agreement with Giant, it had focused on providing marketing and management consulting services to some 300 other independent wellness centers.

HealthScreen America Closes Retail Testing Center

HealthScreen America (Jacksonville, FL) shut down its 9,000 square-foot retail health screening facility in Jacksonville, FL, on April 12 and laid off some 80 employees. The facility had been operating since January 2000 and had offered a combination of CT (computed tomography) screening and laboratory tests for self-paying consumers (*LIR, July '01, p. 1*). The company had marketed screening packages priced as high as $2,295 for a combination of 30 lab tests and a full body CT scan.

After spending $20 million raised from a group of individual investors, the company was unable to garner additional funds to stay in operation. Frederick Fey, president of HealthScreen, tells *LIR* he had planned to open screening facilities in Atlanta and Boston. The company had received commitments from several larger investors for $35 million in early September 2001, he notes, but these deals fell apart after the Sept. 11 terrorist attacks.

Meanwhile, the company's facility in Jacksonville was never able to bring in enough cash to offset the costs associated with running it. Fey's advice to other retail screening companies: "You must direct your marketing resources at upper-income individuals. Blue-collar workers won't get any testing unless their insurance pays for it." He says what works best are direct mail, seminars and

infomercials on cable TV targeted at the affluent. "Mass marketing to consumers through radio advertisements is a waste of money."

HealthScreen America has been renamed HealthScreen International, and Fey says the trimmed-down company will now concentrate on selling an internally developed software program, along with management consulting services, to other direct-to-consumer screening companies.

Health Line Clinical Labs Expands Into Molecular Testing

Health Line Clinical Laboratories (Burbank, CA) has constructed a new 2,000 square-foot molecular testing facility at its existing 12,000 square-foot full-service laboratory in Burbank (just north of Los Angeles). Gary Burkhartsmeier, lab operations director, says Health Line invested approximately $150,000 to renovate existing space and gain certification from Roche for PCR testing. The biggest difficulty was finding licensed personnel with expertise in molecular testing, he notes.

Health Line is initially offering qualitative and quantitative molecular tests for hepatitis B and C and for HIV. Plans call for the addition of genotyping for hepatitis C and HIV, genetic testing for cystic fibrosis and human papillomavirus (HPV) DNA probes. "We believe molecular testing is the future of lab testing, and we must develop an expertise in this area," Burkhartsmeier says.

Health Line At A Glance

President: Natella Lalabekyan
Medical Director: William Temple, MD
Main Lab: Burbank, CA
Patient Service Centers: 52
Employees: 420
Revenue (2001): $40M
Reference Lab: American Medical Laboratories

Health Line is a privately held company founded in 1994 by its president, Natella Lalabekyan. In addition to its main lab in Burbank, Health Line operates more than 50 patient service centers throughout California and recently expanded into Phoenix, AZ, and Las Vegas, NV. In 2001, the company recorded revenue of $40 million, up from $27 million in 2000.

Roche Diagnostics Developing Wide Range Of Gene-Based Tests

Speaking at a recent investors' conference in New York City, Heino von Prondzynski, global head of Roche Diagnostics (Basel, Switzerland), outlined the company's extensive development efforts in gene-based testing. Prondzynski said Roche recently began marketing a home-brew genetic test for cystic fibrosis, with the aim of having it cleared by the Food & Drug Administration for wide-spread test kit sales within the next 18 months. Roche also plans to bring to market early next year a gene-based test (P450) to guide warfarin dosage levels.

Prondzynski tells *LIR* that Roche should have a home-brew test for colorectal cancer on the U.S. market later next year. Looking farther out, Roche will begin introducing gene-based tests in the 2004-2006 timeframe for a wide variety of complex diseases, including myocardial infarction, hypertension, stroke, prostate cancer, osteoporosis, asthma and diabetes, according to Prondzynski.

Lab Stocks Tumble 10% In Latest Four Weeks

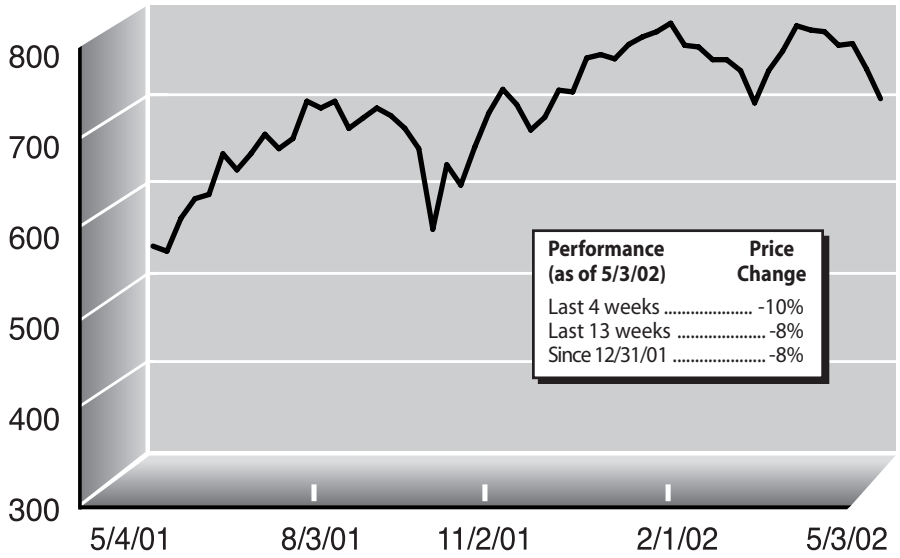
Stock prices for the 15 companies in the G-2 Laboratory Index fell an unweighted average of 10% in the four weeks ended May 3, 2002, with eight stocks dropping in price and seven rising. So far this year, lab stocks have fallen 8%, while the S&P 500 is down 7% and the Nasdaq is down 17%.

Specialty Laboratories (Santa Monica, CA) fell 57% to $7.99 per share for a market capitalization of $180 million (*see pp. 5-7 for more on Specialty*).

PharmChem (Haltom City, TX) dropped 49% to $0.33 per share for a market capitalization of $2 million. The company recently reported a net loss of $549,000 for the three months ended Dec. 31, 2001 vs. net income of $302,000 in the same period a year earlier; revenue fell 21% to $10.029 million. PharmChem, which specializes in drugs-of-abuse testing, has struggled with the relocation of its main laboratory from northern California to the Fort Worth, TX area. At the same time, PharmChem has had to contend with a slow economy which has resulted in less pre-employment testing. In November 2001, PharmChem laid off 30% of its U.S. workforce.

Impath (New York City) fell 40% to $22.74 per share for a market capitalization of $383 million. Shares have suffered as some investors have raised concern that the company may be overestimating the amount of money it can collect for tests billed to its physician office clients. In the three months ended March 31, 2002, Impath reported net income of $1.449 million, down from $4.032 million in the comparable period a year earlier; revenue was up 17% to $44.335 million. For the latest quarter, Impath's days-sales-outstanding was 113; bad debt expense exceeded 18% of total revenue.

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 15 laboratory testing service stocks.

% Price Change, 4 weeks ended 5/3/02

UP	*Price*	*% Chg*
LabCorp	102.62	8
Lab*One*	19.00	2
Medtox	12.65	12
Quest	94.91	15
Unilab	30.69	14
AmeriPath	29.43	10
Dynacare	17.65	12
DOWN		
Bio-Reference	8.00	-14
Dianon	65.76	-2
Enzo Biochem	17.69	-11
Impath	22.74	-40
MDS	13.76	-3
Myriad	22.35	-26
PharmChem	0.33	-49
Specialty	7.99	-57

INDUSTRY buzz

The regulatory calamity at Specialty Laboratories in Santa Monica, CA, has already forced its founder, chairman and CEO, James Peter, MD, PhD, to relinquish official daily management duties, and *LIR* speculates that more executives are likely to follow suit.

Much of the blame for Specialty's personnel issues that have triggered federal and state enforcement action is likely to fall on the head of its laboratory director, Albert Rabinovitch, MD, PhD. The California Department of Health Services and the federal Centers for Medicare & Medicaid Services have already singled him out. In an April 12 letter notifying the lab of sanctions to be imposed, CMS said: "The laboratory director failed to provide adequate overall administration and failed to provide overall technical and scientific supervision by persons licensed under [California law]."

Meanwhile, Specialty says two board members have assumed the duties of Dr. Peter. Thomas Testman, a former managing partner at Ernst & Young, has become chairman. Douglas Harrington, MD, a former president of Nichols Institute (San Juan Capistrano, CA), has been named interim chief executive. While at Nichols from 1992-95, Harrington was deeply involved with resolving Operation LabScam allegations of Medicaid fraud and false claims, including overseeing implementation of a company-wide quality assurance and regulatory program. Despite the shuffle of titles at the top, Peter must still be considered a critical player in the company's future, since he retains a seat on the board and controls two-thirds of the company's stock.

Wall Street analysts tell *LIR* that once Specialty resolves its regulatory problems, the company will likely become a takeover target of private investors, Quest or Laboratory Corp. of America.

References in this issue

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HealthLine Clinical Labs 818-954-0202

HealthScreenAmerica 904-346-4400

Impath 212-698-0300

KLAS 877-273-4369

LabCorp 336-584-5171

PharmChem 817-605-5300

ProxyMed954-473-1001

QuestDiagnostics 201-393-5000

RocheDiagnostics 317-849-9350

SpecialtyLaboratories 310-828-6543

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