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LABORATORY INDUSTRY REPORT®

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HIGHLIGHTS

WASHINGTON G-2 REPORTS

What's The Payback For Lab Automation?

Long touted as the key to increased efficiencies, automation in the clinical diagnostic laboratory is becoming more pervasive throughout the industry. As of September 2002, seven leading IVD vendors have installed automation systems at 201 U.S. hospital and commercial lab facilities, according to a survey by Washington G-2 Reports. And various levels of automation are being installed at 30 more labs per year—from front-end only all the way up to total lab automation.

Still, many lab managers remain confused about the economics behind investing in lab automation. And with budgets still tight, lab directors must prepare a well-thought-out automation proposal that highlights the anticipated return on investment before gaining approval from hospital CEOs and boards.

For some pointers on how best to analyze the financial implications, we turned to **Rodney Markin**, MD, PhD, chairman and founder of Lab InterLink (Omaha, NE), which has completed 20 installations in the U.S. and another four outside the U.S.

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Quest-Unilab Transaction Delayed

Quest Diagnostics (Teterboro, NJ) says it remains in discussions with the Federal Trade Commission regarding its planned acquisition of Unilab Corp. (Tarzana, CA). As a result, the deal did not close by Sept. 30, as Quest had hoped. Sources tell *Laboratory Industry Report (LIR)* that the Quest-FTC talks are centered on laboratory divestitures in northern California where the FTC has raised antitrust concerns.

Though Quest continues to maintain that the deal is not anti-competitive, sources tell *LIR* that Quest has offered to divest its major lab facility in Dublin (just east of San Francisco), along with 23 patient service centers, a stat lab and three capitated IPA contracts, in order to get the deal done. But the FTC may demand more, and there are still questions as to who is ready, willing and able to acquire the Dublin lab assets.

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Quest-Unilab Transaction, *from p. 1*

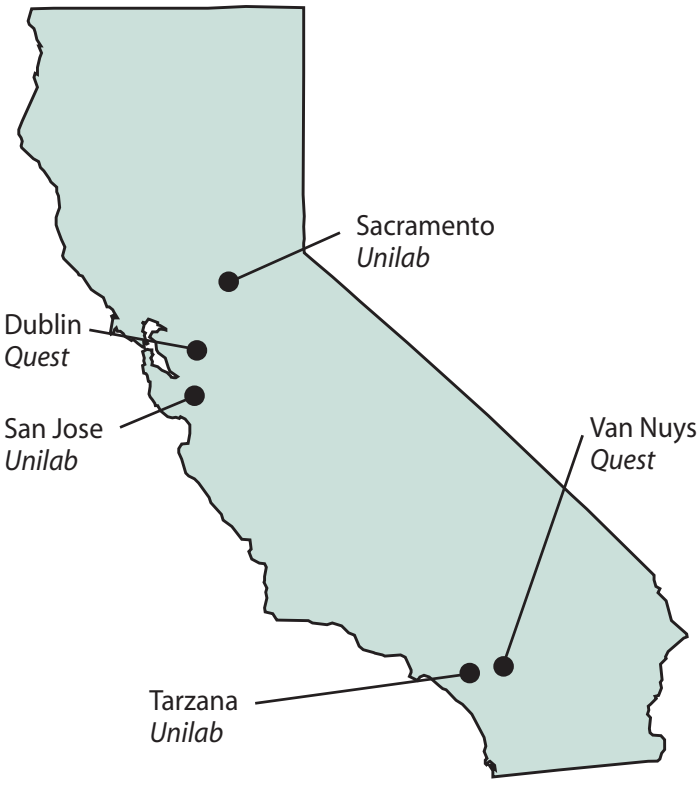
The most likely potential buyer would be Laboratory Corp. of America (Burlington, NC). It had initially made a bid to acquire all of Unilab, but that was topped by Quest. Sources say other potential buyers could include Catholic Healthcare West (San Francisco) and Health Line Clinical Laboratories (Burbank).

Quest's Dublin lab facility and related assets generate roughly $15-20 million per year in revenue, according to sources. The main facility lies directly between Unilab's major labs in Sacramento and San Jose. "Offering to divest the Dublin facility was an absolute genius move on the part of Quest," observes one source. "The move allows Quest to get cash for a facility that probably would have been closed anyway."

Sources also tell *LIR* that Quest's prospects of closing the deal with Unilab have greatly increased since it hired Richard Parker of O'Melveny & Myers (Los Angeles) to handle discussions with the FTC. Parker is head of the law firm's antitrust and trade regulation group. He began his career at O'Melveny & Myers in 1975 and left the firm in February 1998 to join the staff at the FTC where he worked for almost three years—most recently as director of the Bureau of Competition. He left the FTC in December 2001 to rejoin O'Melveny & Myers. "Obviously, Parker's intimate knowledge and contacts at the FTC should help smooth Quest's dealing with the agency," a source tells *LIR*.

Meanwhile, on Sept. 26, Quest and Unilab announced they have extended the termination date of their merger agreement to Nov. 30 and all other provisions in their original agreement remain in effect. Previously, the merger agreement could have been terminated by either party at any time after Sept. 30, 2002, if the deal had not been completed on or before that date.

Key Facilities In Quest-Unilab Transaction



Terms of the deal call for Unilab shareholders to exchange up to 30% of their shares for $26.50 in cash and 70% of their shares for 0.3256 shares of Quest. At the time the deal was first announced last Apr. 2, it had been valued at $1.14 billion (including $200 million of assumed Unilab debt). At current prices, the deal is valued at approximately $950 million. This amount is equal to 2.2 times Unilab's annual revenue of $426.1 million (based on annualized results for the first half of 2002).

A Quest spokesman was not available for comment on the company's discussions with the FTC and the possible need for divestitures.

Lab Automation, *from p. 1*

Markin says an investment in automation makes sense for almost any hospital laboratory handling an average 200-300 specimens or more per hour. With an investment of $350,000-500,000, such a lab can purchase an automated system that includes centrifugation, sorting and decapping as well as a track system to one chemistry analyzer. Setting up the interface with the laboratory information system should cost an additional $80,000-90,000, according to Markin. Thus, the total investment for this simplified example would be $430,000-590,000.

The productivity increase resulting from automation under this example would allow the lab to reduce or redeploy approximately four FTEs, Markin says. Assuming an average annual salary and benefits package of roughly $45,000 per FTE, total employee savings would be $180,000 per year (4 times $45,000). Thus, a return on the lab's initial outlay of $430,000-590,000 would occur in about three years ($590,000 divided by $180,000=3.3 years).

Lab automation has the ability to provide efficiencies beyond just labor savings, Markin asserts. A research study published in the May 2000 issue of *Clinical Chemistry* showed that a Lab InterLink automation system (including chemistry, hematology and immunoassay) that was installed at Aultman Hospital (Canton, OH) reduced turnaround time by 30%, while instrument capacity increased by 45% and reagent/supply savings totaled 10%.

The majority of the 20 installations that Lab InterLink has completed in the U.S. include front-end automation, connection to at least one analyzer and back-end functions, Markin says. The average sales price for a Lab InterLink system is approximately $950,000, but he notes that the company has arranged lending deals with Lease Source (Atlanta, GA) and GE Medical (Waukesha, WI), so it can now offer reagent rental programs. Lab InterLink recently signed its biggest contract ever, he adds—an agreement to install an automation system at Kaiser Permanente's major laboratory facility (2,400 specimens per hour) in Berkeley, CA.

On a separate topic, Markin tells *LIR* he expects hospital outreach programs to continue to score market share gains against the major commercial labs. As hospital systems get bigger and bigger and offer more and more services (acute care, outpatient surgery, nursing homes, physician offices, etc.), he points out, they will be able to create a complete electronic medical record that will give them a competitive edge in attracting physician clients. "Large reference labs will not be as profitable as they were in the past," he predicts.

Clinical Lab Automation:
Predicted & Observed Operating Characteristics

Category	*Predicted* [1,2]	*Observed* [3]
Labor savings	30%	30%
Turnaround time (loaded)	40% decrease	30% decrease
Instrument capacity	48% increase	45% increase
Reagent/supply savings	Not predicted	10%

[1]Markin RS. University of Nebraska Medical Center Robotics Project 1990, unpublished work
[2]Markin RS. Clinical laboratory automation systems. Concepts, designs and future directions. *American Pathology Review*, Winter 1994/5
[3]Markin RS, Whalen S. Laboratory automation: Trajectory, technology and tactics. *Clinical Chemistry* 46 (5): 764-771, May 2000

Genetic Testing: Aetna CEO Tackles Public "Misconceptions"

Aetna's top executive also backs industry guidelines on test coverage, test results interpretation

In testimony before the House Judiciary Subcommittee on the Constitution on Sept. 12, John Rowe, MD, chairman and CEO of Aetna Inc. (Hartford, CT), sought to dispel some misconceptions he believes the general public has about genetic testing. He stressed too that there is a pressing need for the health insurance industry to establish guidelines for covering genetic testing and the interpretation of test results.

Despite strong public concern, Rowe said, the record does not appear to include any identifiable cases in which people have been discriminated against in health insurance based on genetic information. He cited a research paper in the *American Journal of Human Genetics* (Laws Restricting Health Insurers' Use of Genetic Information: Impact on Genetic Discrimination: 66:293-307, 2000) which stated: "… there are almost no well-documented cases of health insurers either asking for or using presymptomatic genetic test results in their underwriting decisions."

Another misconception, according to Rowe, is that health insurance coverage decisions for genetic tests are arbitrary. To the contrary, he said: Aetna has a comprehensive process for deciding whether or not a specific genetic test should be covered, based on the assumption that use of the genetic information will positively affect the course of treatment of Aetna members. Further, the company conducts an extensive coverage policy analysis that includes evaluation of peer-reviewed medical literature, guidance from expert physicians in the Aetna network and review by practicing physicians.

Another misconception Rowe cited: genetic testing will break the bank. "The reality is, I believe, that genetic testing of individuals with pronounced susceptibility to a treatable or preventable disease is cost-effective." The key to appropriate screening, in his view: the person being screened has to be in a high-risk group, and there has to be something you would do clinically, based on the test results.

To encourage appropriate use of genetic testing, Rowe offered a number of guidelines, which he hopes will serve as a benchmark for the health insurance industry:

Health plans should:

1. Cover genetic testing in individuals shown to be at risk, where results may affect the course of treatment of the insured.
2. Cover genetic testing for a family member where the family member is not otherwise insured and the test results may affect the course of treatment of an at-risk insured member.
3. Cover consultation with qualified counselors and physicians and facilitate the appropriate interpretation of genetic testing results.
4. Support physician education in the appropriate interpretation and use of genetic tests.
5. Work with physicians to promote confidentiality.

Health plans should not:

1. Establish rules for health coverage eligibility based on genetic testing.
2. Request or require genetic testing results as a condition of providing health insurance coverage.
3. Use genetic testing for risk selection or risk classification purposes in providing health coverage.
4. Disclose genetic testing results without member authorization.

GPO Troubles May Spawn More Choices For Hospital Labs

Reforms in group purchasing practices aim to give medical suppliers equal access to member hospitals. For labs in these settings, the changes could usher in a wider array of choices for reference labs and for lab instrument and supply vendors

Increased scrutiny of their business practices is prompting operating reforms at the nation's two largest group purchasing organizations—Novation and Premier Inc. Both GPOs have agreed to new operating principles and commitments to ensure that medical suppliers have equal access to member hospitals. Principles to which the two companies have each agreed include:

- Limiting the initial length of contracts to three years or less, re-bidding or adding suppliers to contracts when new technology becomes available
- Awarding multi-source contracts for physician-preference products
- Not accepting advance payments or "up-front fees" as part of a contract award and limiting administrative fees on clinical-preference items to 3%

Unlike other purchasing agents, buying groups for hospitals are paid by the medical supply companies whose products they are supposed to evaluate objectively. Under a special congressional exemption from federal anti-kickback law, GPOs are permitted to receive sales fees from manufacturers.

Concern about possible anti-competitive activities by GPOs was raised earlier this year in a series of articles in the *New York Times,* which suggested that large GPOs discouraged competition among medical suppliers and slowed adoption of new medical technologies. The articles sparked hearings by the Senate Judiciary Subcommittee on Antitrust Competition and Business & Consumer Rights, which in turn have motivated GPOs to come up with ethical principles governing potential conflicts of interest with vendors.

For hospital laboratories that make purchases under GPO contracts, the changes could mean a greater number of choices for lab instrument and supply vendors and for reference labs. "I would think that GPOs would learn from this and add more reference labs and IVD reagent vendors," says Praful Shah, vice president for ancillary services and e-commerce at Joint Purchasing Corp. in New York City.

Hospitals purchase some $60 billion per year via GPOs, including an estimated $1-2 billion for lab instruments, supplies and reference lab services. The average hospital sends out $390,602 worth of esoteric testing to reference labs each year, according to survey data from Park City Solutions' Laboratory Services Group (Ann Arbor, MI). About half of these send-outs are purchased using GPO contracts, *LIR* estimates.

Here's an overview of the latest news in reference lab contracting at 10 of the nation's largest GPOs:

Novation (Irving, TX), the group purchasing arm of VHA hospitals and the University HealthSystem Consortium, terminated its contract with Specialty Laboratories (Santa Monica, CA) earlier this year. 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.

Novation's two remaining reference lab choices are ARUP Laboratories (Salt Lake City, UT) and Mayo Medical Laboratories (Rochester, MN). Angie Boliver, a spokeswoman for Novation, says the company has no plans to add a third choice to fill the hole left by the removal of Specialty. Boliver says that recent changes in Novation's operating policies will probably have the greatest impact on its contracting for medical products.

Novation, which has drawn the most criticism from recent media and government scrutiny, is the largest GPO in the U.S. It represents about 1,600 hospitals and $19 billion in annual purchasing volume. Among the criticisms leveled: Novation executives own investment stakes in medical product companies that hold Novation contracts. Novation says it will limit these investments.

Premier Inc. (San Diego, CA), which provides group purchasing services to 1,600 hospitals and represents $13 billion in annual purchasing volume, added Laboratory Corp. of America (Burlington, NC) to its list of reference lab choices, effective last July 1. Existing contracts with Quest Diagnostics (Teterboro, NJ) and ARUP were renewed, effective last March 1. All three contracts will expire in March 2004. Robert Hamon, vice president at Premier, notes that the company negotiated lower prices for its members under its newest round of reference lab contracts.

Premier is working to make its reference lab bidding process more open, Hamon says, through simpler, more uniform contracts that come up for bid every two years. In addition, the company has eliminated its requirement that hospital members send 80% of their reference lab work to preferred labs. Instead, hospitals may send any percentage they choose, with test pricing determined on a tiered scale according to volume.

Price remains a key determinant in Premier's selection of reference labs, Hamon notes. But breadth of the testing menu, ease and accuracy of billing, courier service, and level of sophistication of laboratory information system (LIS) interfaces also play a role, he points out.

MedAssets HSCA (St. Louis, MO) has preferred provider contracts with LabCorp,

Preferred Lab Vendors For 10 Big GPOs

GPO	*Hospital Members*	*Purchasing Volume*	*Preferred Labs*
Novation	1,600	$19.0B	ARUP, Mayo
Premier	1,600	$13.0B	Quest, ARUP, LabCorp
MedAssets HSCA	1,500	$6.0B	Quest, LabCorp, Specialty
AmeriNet	1,924	$4.6B	Quest, LabCorp, Specialty
HealthTrust	600	$4.2B	Quest, LabCorp, Amer. Med. Labs
Managed Healthcare Assoc.	732	$4.0B	Quest, LabCorp, Specialty
Broadlane	465	$3.9B	Quest
Consorta	425	$2.5B	Quest, Amer. Med. Labs
Joint Purchasing Corp.	601	$0.9B	LabCorp
Nat'l Purchasing Alliance	130	NA	Esoterix

Source: *LIR* from companies

Quest and Specialty, according to Mary Ellen Kimmeth, director of the laboratory program. MedAssets' general policy, she says, is to contract with two or three vendors in every category of service, supplies and equipment. She also notes that the company and its executives do not own investment stakes in any of the vendors MedAssets contracts with. The company was formed by the merger of MedAssets InSource and Health Services Corp. of America in November 2001. The combined GPO provides purchasing services to 1,500 hospitals and represents $6 billion in annual purchasing volume.

AmeriNet (St. Louis, MO), which provides group purchasing services to 1,924 hospitals and represents $4.6 billion in yearly purchasing volume, has reference lab contracts with Quest, LabCorp and Specialty.

Company spokesman Mark Moyer claims that AmeriNet is immune to much of the criticism directed at the GPO industry because it has contracts with at least two vendors for nearly every product and service it offers to its members. AmeriNet operates through three shareholder healthcare organizations: Hospital Shared Services, Intermountain Health Care Inc. and Vector.

HealthTrust Purchasing Group (Nashville, TN) has reference lab contracts with LabCorp, Quest and American Medical Labs (located in Chantilly, VA, and now part of Quest). Hospital systems that are members of this purchasing group include HCA, Lifepoint, Vanguard and Ardent. HealthTrust serves 600 member hospitals and represents $4.2 billion in yearly purchasing volume.

Managed Healthcare Associates (Florham Park, NJ), which provides group purchasing services to 732 hospitals and represents $4 billion a year in purchasing volume, has reference lab contracts with Quest, LabCorp and Specialty.

Broadlane (Dallas, TX) has a sole-source agreement with Quest that runs until 2007. A company spokesman says Broadlane has no plans to add more reference lab choices. Broadlane negotiates pricing on behalf of 465 hospitals, including Tenet Healthcare, Kaiser Permanente, Universal Health Services and the Cleveland Clinic Foundation. Annual purchasing volume: $3.9 billion.

Consorta Catholic Healthcare Resource Partners (Rolling Meadows, IL) has 12 Catholic shareholder systems representing approximately 425 hospitals and $2.5 billion in annual purchasing volume. Consorta has preferred provider contracts with Quest and American Medical Labs. An executive at Consorta tells *LIR* that it may add another reference lab to its list, now that AML has been acquired by Quest.

Joint Purchasing Corp. (New York City), a not-for-profit GPO with 601 hospital members and $900 million in annual purchasing volume, has a reference lab contract with LabCorp. It had a second reference lab vendor, Specialty, but this contract was terminated earlier this year. JPC is considering adding back a second vendor, possibly ARUP or Esoterix (Austin, TX), according to vice president Praful Shah.

Cost savings remain the primary objective of JPC's contracting efforts, he says. He also notes that the willingness of reference labs to answer questions quickly and clearly is a consideration.

National Purchasing Alliance (Knoxville, TN), which represents roughly 130 hospitals (mainly in Tennessee), has a reference lab contract with Esoterix.

Reimbursement Change Could Make BNP Testing Lucrative

The Centers for Medicare & Medicaid Services has released a tentative payment determination for B-type natriuretic peptide (BNP) testing that could provide a big profit opportunity for labs. Starting Jan. 1, 2003, Medicare will cover the testing, used to help diagnose chronic heart failure (CHF), under a new CPT code (8388X—natriuretic peptide). In its tentative payment decision, CMS plans to cross-walk the new code to CPT 84588, whose current national fee cap is $46.91. Previously, BNP testing had been reimbursed under CPT 83520 (immunoassay, not otherwise specified) at a national cap of $17.89. A final payment determination is expected to be announced by CMS in early November when the 2003 lab fee schedule is released.

BNP testing measures enzymes associated with CHF, a chronic, progressive disease in which heart muscle weakens, impeding the heart's ability to pump enough blood to accommodate the body's needs. As a result, body fluids may accumulate in the lungs and heart. Symptoms include shortness of breath and overwhelming edema (swelling) in the feet, legs, liver and abdomen. Approximately 550,000 new cases of CHF are identified each year in the U.S., and 70% die of the disease with 10 years, according to the American Heart Association. Early-stage diagnosis permits early intervention with dietary change, drug therapies or surgery.

Biosite Diagnostics (San Diego, CA) currently sells the only assay for BNP that has been cleared by the Food & Drug Administration (in November 2000). Biosite's Triage BNP Test is a point-of-care blood test that lists for $29 per kit, with an average selling price of roughly $20-23 per kit. Reimbursement to labs from managed care companies for BNP testing ranges from $25-50 per test, according to Nadine Padilla, vice president for corporate and investor relations at Biosite.

Last year, Biosite generated $3 million in revenue from its Triage BNP Test, and this year, Padilla says, revenue from the test is expected to grow to about $25 million. She notes that approximately one in eight U.S. hospitals currently uses the Biosite test.

Meanwhile, Bayer Diagnostics (Tarrytown, NY) is conducting clinical trials on its BNP test and expects to file with the FDA before year's end. In addition, Abbott Diagnostics (Abbott Park, IL) and Roche Diagnostics (Indianapolis, IN) are each developing BNP tests.

New York Labs Can Now Offer Limited Direct-Access Testing

New York Gov. George Pataki (R) signed legislation (S4946-A) on Sept. 25 that allows New York consumers to order tests at a licensed clinical laboratory without a doctor's permission for any analyte approved by the Food & Drug Administration for over-the-counter sale without a prescription. Previously, labs in New York were only allowed to do blood-type testing on a direct-access basis for patients.

The law, which takes effect immediately, also directs labs to send test results to the patient, rather than the physician, to prevent liability for physicians who

might otherwise have to track down patients with abnormal results. However, labs will be required to advise patients to contact their doctor about any test results that fall outside of the normal range.

Thomas Rafalsky, president of the New York State Clinical Laboratory Association, says the legislation was the group's top priority this year. He notes that the association has been trying to get a direct-access testing bill enacted into law for the past three years. The association has no plans of pushing for legislation to allow direct-access testing for all types of laboratory tests, he says, but simply had wanted clinical labs to be able to offer the same types of tests that consumers can buy over-the-counter at a drugstore or on the Internet. "For some tests, it really does make sense to first get approval from a doctor."

Since 1977, FDA has approved OTC sale for more than 450 in vitro diagnostic devices for 25 categories of OTC tests. The new law in New York State clearly includes test collection devices, which means that direct-access testing for HIV-1, hepatitis C and hemoglobin A1c has also become legal there. A similar law took effect in California last Jan. 1 (*LIR, Sept. 02, pp. 1-2*).

Below are the types of tests (and specimen collection devices) for which FDA has approved test kits for OTC sale without a prescription.

Bilirubin	HbA1c*	Nitrates
Catalase	Hepatitis C*	Occult blood
Chloride	High density lipoprotein	Ovulation prediction
Creatinine	HIV-1*	Ph
Drugs of abuse	Ketones	Pregnancy
Fructosamine	Lactate	Protein
Glucose	Male infertility	Total cholesterol
Glycosylated hemoglobin	Menopause	Triglycerides
		Urobilinogen

*FDA-approved at-home specimen collection devices
Source: Food & Drug Administration

LipoScience Postpones IPO

LipoScience Inc. (Raleigh, NC), which had hoped to raise as much as $80 million from an initial public offering last month, has postponed indefinitely its IPO plans, according to Merrill Lynch (New York City), the investment bank that was to manage the stock sale. A weak stock market and the recent loss of its largest client, Quest Diagnostics (Teterboro, NJ), probably contributed to the postponement, *LIR* surmises. LipoScience makes the NMR LipoProfile that gauges a person's risk of cardiovascular disease. The company's clinical laboratory in Raleigh is the only lab that performs the NMR LipoProfile, which is sold for an average $77 across all payers (including governmental, managed care and lab customers).

In its IPO filings, the company disclosed that Quest, which accounts for 27% of LipoScience's total revenue of $28 million, has chosen to stop offering the NMR LipoProfile and will switch to a competing test.

Focus Technologies Appoints Harwood As President & CEO

Focus Technologies (Herndon, VA), an esoteric testing laboratory and test kit manufacturer, has named Charles Harwood as president and chief executive officer in an effort to strengthen its management team in preparation for expansion at the company. Laurence McCarthy, PhD, former president and CEO, has become chairman and chief technology officer.

Harwood was formerly senior vice president and chief financial officer, and later senior vice president of venture development, at Covance Inc. (Princeton, NJ), the largest provider of lab testing services in the clinical trials testing market. During his eight years at Covance, Harwood spearheaded acquisitions, joint ventures and divestitures.

McCarthy tells *LIR* that with Harwood's financial and management expertise, Focus Technologies is now looking to ramp up its growth rate through potential acquisitions and new product/service launches. The company is owned and backed by Sprout Group, a venture capital unit of Credit Suisse First Boston, and CSFB Merchant Banking.

Focus Technologies generates more than $50 million in annual revenue and will grow by nearly 20% this year, according to McCarthy. Approximately 60% of revenue comes from esoteric testing performed at the company's reference lab in Cypress, CA. This lab—formerly known as MRL Reference Laboratory—specializes in esoteric tests for infectious and immunological diseases. McCarthy notes that Focus Technologies is the leading independent lab performing testing for detection of West Nile virus in human specimens.

The remaining 40% of the company's revenue is generated by its pharmaceutical services unit in Herndon, VA, and diagnostic kit manufacturing. Test kits and analyte-specific reagents made by Focus Technologies include Herpes Simplex Virus, Rickettsia, Chlamydia, Dengue Fever Virus and Epstein-Barr Virus. The company's pharmaceutical services include research and discovery services, clinical trials lab testing and data management.

Focus Technologies At A Glance

Chairman & chief technology officer: Laurence McCarthy, PhD

President & CEO: Charles Harwood, Jr.

Lab Director: Richard Porshen, PhD

Clinical Lab: Cypress, CA

Diagnostic manufacturing & pharma services: Herndon, VA

Employees: 325

Annual revenue: $50+ million

Source: Focus Technologies

In addition, Focus Technologies manages The Surveillance Network (TSN), an electronic surveillance network and anti-microbial surveillance database that monitors anti-bacterial drug resistance trends by continuously collecting data from approximately 900 hospitals in 11 countries. Analysis of TSN information is provided to a variety of customers in the biopharmaceutical industry, healthcare and government. Institutions that contribute information to TSN receive access to institutional, regional and national TSN data. The continuous participation of institutions enables Focus Technologies to assess resistance trends over time and associate them with anti-infective usage and patient factors such as age, sex, treatment location and disease.

Lab Stocks Fall 3% In Latest Four Weeks

Stock prices for the 14 companies in the G-2 Laboratory Index fell an unweighted average of 3% in the four weeks ended Sept. 27, 2002, with seven stocks rising in price and seven declining. So far this year, lab stocks have fallen 24%, while the S&P 500 is down 28% and the Nasdaq is down 39%.

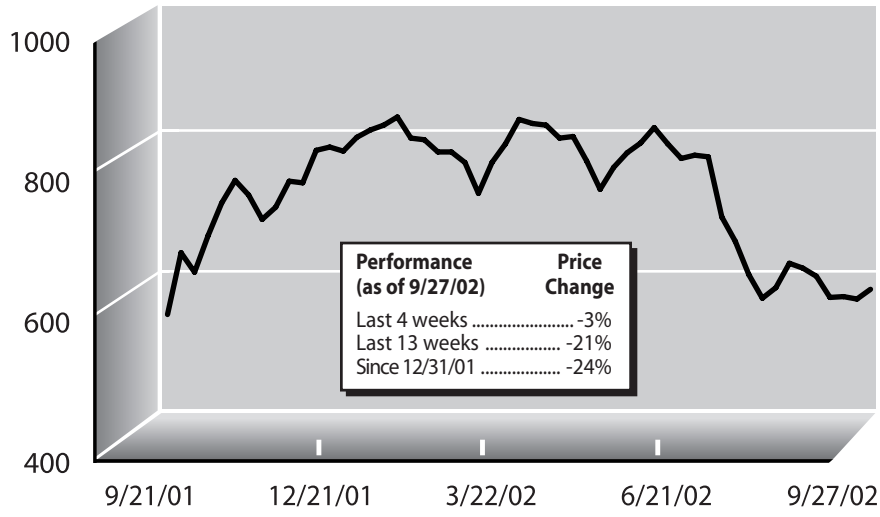
Lab*One* (Lenexa, KS) was down 23% to $16.17 per share for a market capitalization of $182 million. The company recently increased the size of its board of directors from seven to eight members and appointed Jake Mascotte as director. Mascotte was formerly president and chief executive officer of Blue Cross and Blue Shield of Kansas City and retired from this position on June 30, 2001.

Bio-Reference Laboratories (Elmwood Park, NJ) fell 21% to $6.33 per share for a market cap of approximately $77 million. The company recently reported net income of $1.504 million for the three months ended July 31, 2002, up from $619,835 in the same period a year earlier; revenue was up 18% to $24.893 million. Days in accounts-receivable for the latest quarter were 104, and bad debt expense was 13.9%.

Quest Diagnostics (Teterboro, NJ) was up 12% to $62.53 million for a market cap of approximately $6 billion. Quest's stock rise may have been prompted by investor speculation that it will be able to work out a deal with the Federal Trade Commission to acquire Unilab (*see pp. 1-2*).

Dianon (Stratford, CT) was up 15% to $46.09 per share for a market cap of about $580 million. Other lab stocks moving up in price included **Enzo Biochem** (Farmingdale, NY), up 11% to $14.10 per share for a market cap of $405 million, and **LabCorp** (Burlington, NC), up 8% to $34 per share for a market cap of about $5 billion.

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 14 laboratory testing service stocks.

% price change, 4 weeks ended 9/27/02

UP	Price ($)	% Chg
Dianon	46.09	+15
Enzo Biochem	14.10	+11
Impath	12.86	+5
LabCorp	34.00	+8
Specialty	9.40	+4
Unilab	20.75	+8
Quest	62.53	+12
DOWN		
AmeriPath	14.55	-12
Bio-Reference	6.33	-21
Lab*One*	16.17	-23
MDS	13.86	-12
Medtox	7.25	-9
Myriad	15.06	-12
PharmChem	0.50	-9

INDUSTRY buzz

Regional hospital labs strategize on Long Island. A dozen of the nation's largest hospital laboratory systems held a private meeting in mid-September to pool ideas on how to compete effectively against Quest Diagnostics and LabCorp. North Shore Long Island Jewish Hospital (New Hyde Park, NY) and Park City Solutions' Lab Services Group (Ann Arbor, MI) helped organize the event, though executives at both organizations were unwilling to discuss the purpose of the get-together with *Laboratory Industry Report*.

However, sources who attended the meeting tell us the primary goal was to share ideas and develop "best practices" in anatomic pathology, information technology, billing & collections and sales & marketing. And there was talk about development of a national or regional network(s) of hospital labs that could compete against Quest Diagnostics and LabCorp for managed care contracts.

In addition to the meeting's organizers, executives and pathologists from the following hospital/lab systems were in attendance: ACL Laboratories (Chicago, IL and Milwaukee, WI), Carolina's Health System (Charlotte, NC), DMC Laboratories (Detroit, MI), DSI Laboratories (Fort Myers, FL), Intermountain Health Care (Salt Lake City, UT), NorDx Laboratories (Portland, ME), Pathology Associates Medical Labs (Spokane, WA), Regional Medical Labs (Tulsa, OK), St. Joseph Mercy Health System (Ann Arbor), Sutter Health (Sacramento, CA) and TriCore Reference Labs (Albuquerque, NM).

The meeting was prompted, a source said, by the wave of consolidation among commercial laboratories over the past year. "The bigger Quest and LabCorp get, the more opportunity there is for us to grow." The group has tentative plans to meet again in February 2003.

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LipoScience 877-547-6837

Novation 972-581-5000

NYS Clinical Lab Assn. 212-664-7999

Premier 858-481-2727

Quest Diagnostics 201-393-5000

Unilab 818-996-7300

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