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LABORATORY INDUSTRY REPORT®

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HIGHLIGHTS

WASHINGTON G-2 REPORTS

Molecular Diagnostics Cited As 'Hottest" Business For Laboratories In Coming Years

Forty-two percent of the 190 participants in an on-site survey at Washington G-2 Reports' recent Lab Institute said molecular diagnostics would be the "hottest" business line for their lab over the next few years. The next most frequently cited area for growth was outreach testing, which was cited by 27% of participants, followed by point-of-care testing at 13%, and direct-access testing at 8%.

With these survey results in hand and the New Year upon us, this issue of *Laboratory Industry Report* presents some insights on the outlook for the industry via interviews with chief executives from a diverse group of 10 hospital and independent labs across the country. The majority tell *LIR* that they are making a concerted effort to expand their molecular testing capabilities so that they can participate in the growth of this line of testing.

Highlights of these efforts plus other initiatives being launched by these 10 labs in the New Year are outlined in *Inside the Lab Industry*, pp. 3-9.

What is the "hottest" business line you envision for your lab over the next few years?

Molecular diagnostics	41.6%
Outreach testing	26.8%
Point-of-care testing	12.6%
Direct-access testing	7.9%
Anatomic pathology	6.3%
Other	4.7%

N=190 (69% hospital lab directors and managers; 25% independent labs; 6% other)
Source: Lab Institute Survey, October 2002

AmeriPath Being Taken Private In $839M Deal

AmeriPath (Riviera Beach, FL), the nation's largest pathology company, has agreed to be acquired by the multi-billion dollar investment management firm Welsh, Carson, Anderson & Stowe (New York City). Welsh Carson already owns 5% of AmeriPath and it will pay $21.25 per share for the remaining 95% it does not already own. That represents a premium of nearly 30% over the AmeriPath's closing share price of $16.45 on December 6—prior to announcement of the deal. The transaction is valued at $839.4 million, including about $172 million of assumed debt, and is expected to close by April 30, 2002. Close of the deal will make AmeriPath a privately held company and it will leave just one publicly traded pathology company left—Impath (New York City).

➡ *p. 2*

AMERIPATH, *from page 1*

Although the purchase price of $21.25 per share is 30% higher than where AmeriPath stock was trading prior to announcement of the deal, it is significantly below the $32.26 that AmeriPath traded at only a year ago. The company was hammered by investors last summer after the Centers for Medicare & Medicaid Services released its proposed Medicare physician fee schedule for 2003. The proposal, which was finalized under a final rule scheduled to be published December 31, would cut the conversion factor applied to all physician services by 4.4%, effective March 1, 2003. It would also impose a 7% reduction in the relative value units (RVUs) for CPT 88305 (surgical biopsy), the most commonly billed code for anatomic pathology. More bad news followed shortly thereafter when AmeriPath announced that it was unable to get traditional malpractice insurance and forced to shift to a self-insured program at significantly higher costs.

The combination of these two pieces of bad news pushed shares of AmeriPath to a low of $15.95 per share in July 2002. The stock price dip caught the attention of Welsh Carson and a partner from the investment firm telephoned executives at AmeriPath in August to discuss a possible takeover.

AmeriPath at a Glance

Total annual revenue*	$477M
Pretax income*	83M
Net income*	50M
Total employees	2,515
Pathologists	425
Tissue samples per year	4.0M
Pap smears per year	2.1M

*Based on annualized results for the nine months ended Sept. 30, 2002

Source: *Laboratory Industry Report* from AmeriPath

At $839.4 million, Welsh Carson is paying approximately 17 times AmeriPath's annual net income of $50 million and 1.8 times its annual revenue of $477 million (based on annualized results for the nine months ended Sept. 30, 2002). This price seems reasonable when compared with, for example, LabCorp's agreement to buy Dianon for $598 million, which equates to approximately 50 times net income and 3.3 times revenue. *LIR* anticipates that Welsh Carson will operate AmeriPath as a private company for a few years and then try to take it public again at a significantly higher price.

Welsh Carson says that nearly all current management at AmeriPath will stay on board, including James New, who will continue as chief executive of AmeriPath. Upon close of the transaction, New will get a $1.5 million lump sum payment plus several million dollars more from vested stock options, according to statements filed with the Securities and Exchange Commission. And then, under a new three-year employment agreement, New will earn an annual base salary of $500,000, plus a performance-based bonus of up to $500,000 per year.

Pathology Company Takeovers ($ millions)

Date	Target	Buyer	Purchase Price	Acquired Revenue*	Price/ Revenue
Nov-00	Path Consultants of Amer	AmeriPath	$56	$38	1.5
Nov-01	UroCor	Dianon	170	63	2.7
Pending	Dianon	LabCorp	598	182	3.3
Pending	AmeriPath	Welsh Carson	839	477	1.8

*Annual revenue at time of takeover

Source: *Laboratory Industry Report*

Outlook For Labs In 2003: Perspectives Of 10 CEOs

To get a firsthand picture of what may be in store for the clinical laboratory industry this year, LIR interviewed top executives at 10 major commercial and hospital laboratories around the country. Here are highlights from our exclusive interviews:

Douglas Harrington, M.D., chief executive of Specialty Laboratories (Santa Monica, CA), believes that the greatest advances in molecular diagnostics will come in the form of tests that help physicians tailor drug therapies for each patient. As examples, he cites genotyping tests for HIV and hepatitis C patients, and HER-2/NEU testing for breast cancer patients. The next wave of molecular tests tied to drug therapies will come in the areas of cardiovascular disease and cancer, according to Harrington. And, he believes that high reimbursement levels for new "pharmacogenomic" tests will be justified because they will improve outcomes, eliminate futile therapies and reduce adverse drug reactions. "I expect more partnerships between laboratories and pharma companies in the future," adds Harrington.

Meanwhile, Harrington says that Specialty has "survived a year that would have killed most companies." In addition to temporarily losing its right to directly bill Medicare and Medicaid, Specialty lost a number of key clients last year due to consolidation in the lab industry [including Unilab, Clinical Diagnostic Services, and American Medical Laboratories]. Harrington says that Specialty was in survival mode last year, but he now expects the company's test volume, revenue, and profitability to stabilize in the first half of 2003 and then begin growing again in the second half.

Harrington says the company's top priority for the New Year is improving customer service levels. He notes, "Specialty has always been well known for its high level of technical expertise, but service has not been rated highly enough." As compared with Quest and LabCorp, Harrington says, "We are a smaller company and ought to be able to provide more personal service." Efforts to improve service will focus on reducing turnaround times, but won't stop there, according to Harrington. He says that Specialty also plans to make its pathologists more available to provide consultative services on problem cases. And, he says that the company is aiming for better coordination of test result reporting for patients that receive multiple test results.

Harrington says that Specialty will continue to focus its sales and marketing efforts on gaining hospital clients, which currently represent about 61% of Specialty's overall revenue of some $145 million per year (based on annualized results for the first nine months of 2002). "We anticipate getting some of our old customers back," says Harrington.

Harrington notes that Specialty does not compete with hospital labs that operate outreach programs. He believes this distinction is becoming more and more important to potential hospital clients as Quest and LabCorp continue to rapidly expand their marketshare via acquisitions.

Harrington believes that hospital outreach programs have the potential to compete effectively with a Quest or LabCorp if they: 1) are located in a market that is not heavily penetrated with managed care; 2) have the right management team in place; and 3) compete based on service and not price. Nonetheless, he notes that he has seen no dramatic activity in the number of hospitals launching new outreach programs.

Meanwhile, Harrington tells LIR that while Jim Peter, M.D., PhD is no longer involved in the day-to-day operations at Specialty, he remains an active board member. "I consult with him frequently," adds Harrington. Peter founded Specialty and ran the company for 27 years before resigning as chief executive in April 2002.

MARC GRODMAN, M.D., chairman and CEO of **Bio-Reference Laboratories** (Elmwood Park, NJ), believes that the biggest issue facing the laboratory industry has been and will continue to be getting adequate reimbursement from Medicare and managed care. Grodman notes that over the past few years, Quest and LabCorp have been pricing their services at rational levels in the New York City area. "We [the lab industry] need to be careful not to fall back into the trap of devaluing lab services....It [cut throat pricing] happened in the mid-1990s and it remains the greatest threat in the coming years."

Grodman says that the growth-through-acquisition strategies of Quest and LabCorp have created opportunities for regional hospital and independent labs, such as Bio-Reference, to differentiate themselves by providing higher levels of service. He notes that Bio-Reference grew its revenue by approximately 20% to $97 million in the fiscal year ended October 31 and did not make a single acquisition.

For 2003, Grodman says Bio-Reference will expand its routine testing services in the New York City area as well as upstate New York. Other avenues for growth include continued efforts to win more lab testing service contracts with prisons and correctional facilities in New York, New Jersey, Pennsylvania and Maine.

Grodman says that Bio-Reference is also expanding its esoteric testing capabilities in the areas of infectious disease, oncology and coagulation. He notes that Bio-Reference is broadening the marketing of its esoteric testing capabilities beyond its geographic region and into Florida, Texas and the Midwest. Esoteric testing currently comprises about 25% of Bio-Reference's total annual revenue.

Bio-Reference has also developed a Web-based information system named CareEvolve that allows physicians to order and receive lab test results over the Internet. In early 2002, Roche Diagnostics agreed to advance $1 million to fund CareEvolve's ongoing operating expenses, and to provide ongoing sales and marketing support under a five-year agreement. Roche also has the right to acquire a 50% equity stake in CareEvolve. Full-service subscriptions of CareEvolve are being offered to existing Bio-Reference clients as well as non-customers.

JIM FANTUS, president and CEO of **SED Medical Laboratories** (Albuquerque, NM), says SED has embarked on a major plan to bring more tests in-house. Among the tests scheduled to be

added to SED's menu in the coming months are parathyroid hormone, HIV-1 viral load and genotyping, and homocysteine.

SED and its parent St. Joseph Healthcare System (Albuquerque) were acquired by Ardent Health Services in September 2002. Ardent Health Services is a for-profit hospital management company that currently owns 28 hospitals in 13 states, the majority of which are psychiatric hospitals. In addition, Ardent has an agreement to acquire Lovelace Health Systems (Albuquerque, NM), which includes a 225-bed hospital and an HMO that cover approximately 200,000 members.

Ardent is in the process of transferring all of the reference testing services for all of its hospitals to SED. Ardent had previously used several other national reference labs for its send-out work. Currently, SED performs about two million billable tests per year and the addition of the tests from the other Ardent hospitals will add approximately 200,000 more million billable tests per year.

Fantus says that other initiatives at SED include the introduction of an Internet-based system for lab order entry and results reporting from CareEvolve (Elmwood Park, NJ). "We had lost some big clients because we didn't offer it [Internet connectivity]. Our larger physician groups all want this service," according to Fantus.

JOHN LEE, M.D., PHD, chairman of pathology, **Loyola University Hospital** (Maywood, IL), says he is still waiting for the molecular diagnostics revolution to occur. "We keep investing and investing in our molecular testing capabilities and we're burning up money. The big question with molecular diagnostics continues to be: 'When does tomorrow become today?" Lee says that he is becoming more convinced that the "molecular revolution" will be more of an evolutionary change with new tests entering the market on a case-by-case basis.

Lee says that the biggest challenge for molecular testing will be reimbursement. "There is only a finite pot of money out there to cover the expensive new tests that are being developed....Each new test will need to stand on its own merits," he adds.

Lee believes that the real opportunities for academic medical center laboratories may be in the development of new molecular tests that can then be licensed to other laboratories. "Performing 10 tests per year makes no sense for us. It may make more sense for us to develop a test and then license it to a national reference lab," says Lee.

The laboratory at Loyola employs 200 people and performs approximately two million billable tests per year. Outreach efforts are focused on specialty coagulation testing. The lab performs about 1,000 tests per year for rare coagulation disorders and Heparin-induced complications for hospital clients located throughout the Midwest.

Lee says that Loyola will soon add cytogenetic testing services to the outreach services it provides. New tests that Loyola has recently added to its inpatient menu include BNP, fetal fibronectin, and ultrasensitive HBV. Tests expected to be added to the menu in the coming months include high-sensitivity CRP, DNA-based HPV testing, and HER-2/NEU testing for breast cancer.

ED DOUCETTE, chief executive of **CompuNet Clinical Labs** (Moraine, OH), says CompuNet is expanding toward Cincinnati into Butler and Warren counties. Other initiatives include the purchase of a Roche LightCycler analyzer for PCR-based testing, the introduction of an Internet-based system (developed by Quest Diagnostics) for test order entry and results reporting, and the installation of a front-end automation system from Beckman Coulter.

CompuNet is a for-profit joint venture laboratory owned 33% each by Quest Diagnostics, Miami Valley Hospital (Dayton, OH) and a local pathology group named Valley Pathologists (Dayton). CompuNet operates a reference lab in Moraine (just outside of Dayton) plus 22 patient service centers. In addition, CompuNet manages a stat lab at Miami Valley Hospital. CompuNet employs 450 people who currently perform about 3.5 million billable tests per year, with one third of test volume from inpatient work and two thirds from outreach. CompuNet grew by 10% in 2002, according to Doucette.

CompuNet was formed in 1985 and Doucette attributes its longevity to the benefits each partner has derived from the joint venture. CompuNet provides lab services to Miami Valley Hospital based on a fee schedule and CompuNet has helped the hospital save millions of dollars by reducing over-utilization of testing, according to Doucette. He says that this has been achieved by training and monitoring the hospital unit clerks who enter lab orders.

Doucette says that hospital unit clerks tend to err on the side of caution when inputting lab orders. For example, ordering a CBC with differential when only a CBC is needed, or placing an order for daily repeated testing for a patient when only one initial test is needed. "The unit clerk is a high turnover job and most don't get a lot of training, but this job is the key to helping control inpatient testing costs," notes Doucette.

Doucette says that CompuNet has an average days sales outstanding (DSO) of approximately 50-55 days. The first step to maintaining a low DSO for hospital outreach is having a separate lab billing system. "You may not realize the money you're losing if your bills are going through the hospital accounts receivable system. There is so much opportunity for money to fall through the cracks."

Doucette says that the nationwide medical technologist shortage has not severely impacted CompuNet's operations yet. But, he notes that many of CompuNet's MT's are nearing retirement age. To help alleviate potential future staffing problems, Doucette says that CompuNet has established three annual scholarships for MT students that enroll in local universities. CompuNet pays 80% of each student's tuition and offers them internships at its labs. Graduating students are encouraged, but not required, to go to work for CompuNet.

Finally, Doucette says that he has become involved in Quest Diagnostic's six sigma initiative to raise quality and reduce errors. His first project at CompuNet is to lower average waiting times at patient service centers. "Usually, the only direct contact a patient has with a lab is at a patient service center. We want to make sure they are seen right away and have a positive experience."

JOE HALLIGAN, president and CEO of **PharmChem** (Haltom City, TX), which provides drugs of abuse (DOA) testing services to corporations and the criminal justice system, says the DOA market continues to be weak. Test volumes are down by double-digit percentages from a year ago and pricing for new contracts and renewals continues to be very competitive.

Halligan says that the most aggressive price competitors are third-party-administrators, which handle the administrative aspects of DOA testing programs for corporations and then ship the specimens to a DOA lab for testing. He also notes that the weak general economy means that employers are not hiring as much and that there is less employee turnover. This combination results in lower demand for DOA testing. "In order to add a new account, you've got to take it away from someone else, and there's little differentiation between [DOA] labs," adds Halligan.

As a result, he says that PharmChem plans to add certain clinical and/or esoteric tests to its menu and begin marketing clinical laboratory testing services on a regional basis within the next several months. PharmChem is certified by the federal Substance Abuse and Mental Health Services Administration (SAMHSA) to test the workforce for such drugs as marijuana, cocaine, and amphetamines. In addition, PharmChem holds a CLIA-license that allows it to perform clinical testing.

Halligan notes that PharmChem was also challenged by a recent move of its laboratory operations from Menlo Park, California to Haltom City, Texas. Halligan says the move was made because employee costs in the Silicon Valley area of northern California were extremely high. The new lab facility is located in the Dallas/Fort Worth area. The transition, which took place in mid-2001, required PharmChem to hire and train a whole new set of lab employees. Halligan says that the disruption caused by the move is now behind PharmChem.

WILLIAM KOSS, M.D., director of clinical pathology at **Scott and White Clinic Hospital** (Temple, TX), believes that the key challenge facing the laboratory industry in the coming years will be flat or declining reimbursement coupled with a workforce shortage that will "get much worse before it gets better." Koss says that additional pressures will mount with the advent of molecular diagnostics, which will require higher levels of skill and service from laboratories and their employees.

Koss says that hospital labs closely affiliated with medical technologist schools have a key competitive advantage. The medical technology program at Scott and White currently has eight students and Koss says that the Scott and White lab is typically able to recruit 30% to 50% of each graduating class.

Which labs—hospital or commercial—are best suited to perform specialty testing? Koss says that sending low-volume/complex tests to a distant reference lab often seems to save money when looked at simply on a cost per test basis. However, he adds that sometimes delays in getting test results back from a reference lab may delay treatment decisions and require an extra patient day in the hospital.

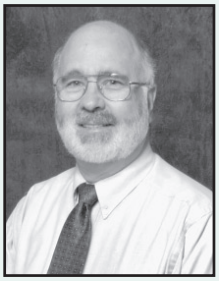
"The complexity and sickness of inpatients has increased over the past few years. Hospital must have the resources to do more testing at their labs if the availability

of the test locally may change the outcome of the episode of care. The global healthcare savings often exceed the higher expenses of performing a complex or simple test locally," according to Koss.

Tests that the Scott and White lab has recently brought in-house include Factor V Leiden, Prothrombin G20210A, and BNP testing, and Koss says that high-sensitivity CRP testing will soon be added as well.

Koss believes that the rate of adoption of molecular/genetic diagnostics will accelerate in the coming years. In preparation, Scott and White has formed a genetic testing task force, composed of a mix of physicians and laboratory scientists, to create standards of care for molecular / genetics diagnostics throughout the Scott and White health system.

The core laboratory at Scott and White employs 250 people and performs approximately 1.2 million billable tests per year. In addition to the Scott and White Clinic Hospital, the core lab serves 18 physician office locations owned by Scott and White and 150,000 members of the Scott and White HMO plan.



RON HARBECK, PHD, medical director, and **JEFF DANLEY**, director, clinical labs, at **National Jewish Medical and Research Center** (Denver, CO), say that they are stepping up marketing efforts for their lab's esoteric testing services. The lab at National Jewish employs 60 people and performs approximately 275,000 billable tests per year—75% of which are esoteric tests. National Jewish is best known for its immunology lab, especially Tuberculosis testing. And, it also offers specialized testing in the areas of infectious disease, immunopharmacology, and complement protein testing primarily for the clinical trials market.

Harbeck says that National Jewish currently gets most of its work from the national reference labs, which get their work from hospital clients. But, National Jewish is now trying to raise its visibility so that it can receive more work directly from hospitals. Marketing efforts include advertising at booths at tradeshows and a direct mail marketing program.

In terms of test menu expansion, Harbeck says that National Jewish plans to add cytokine expression testing, assays for hyper-sensitive lung diseases, CD40 ligand, and genetic testing for cystic fibrosis in the coming year.

Harbeck says that the biggest mistake that other hospitals make when trying to set up esoteric testing labs is that they "dabble in it" rather than making a full commitment. Challenges that esoteric testing labs face include finding medical technologists with appropriate training. As a result, Harbeck says National Jewish must invest a great deal of time and money toward providing medical technologists with on the job training.

FRANK TAYLOR, president and CEO of **Great Smokies Diagnostic Laboratory** (GSDL—Asheville, NC), believes that there is growing demand from baby boomers to seek out specialized tests and pay for them out of their own pockets. But, Taylor says that this market is best reached by marketing testing services to progressive physicians, acupuncturists, chiropractors, dietitians, etc., who can then integrate specialized test services into their practices.

GSDL is focused on functional medicine testing. Taylor explains that functional testing assesses the inter-relationship of physiological systems, as opposed to

traditional allopathic testing, which is focused on determining the pathology of disease. The test menu at GSDL includes more than 125 specialized test panels covering digestive, immune, nutritional, endocrine, and metabolic function. Providers use these tests to help create personalized treatment plans involving diet and exercise advice for self-paying patients. For the most part, GSDL testing services are not covered by Medicare or managed care plans, notes Taylor.

Taylor says that among GSDL's most frequently ordered tests is a comprehensive digestive stool analysis panel that evaluates digestion and absorption, bacterial balance and metabolism, yeast and immune status. GSDL sells this panel for $200-$300 and it is targeted at patients with irritable bowel syndrome, indigestion, malabsorption, and other gastrointestinal-related problems.

In early 2002, GSDL began marketing several predictive gene-based profiles designed to help identify patients that are at risk for developing heart disease, osteoporosis, and immune dysfunction. Taylor believes that demand for tests that identify genetic predisposition testing will explode in the coming years, driven by baby boomers seeking to take control of their health and extend their lives. GSDL will add five more gene-based test panels to its menu within the next 12 months, according to Taylor.

GSDL markets its services primarily through direct mail and special medical education conferences for physicians and other providers. Taylor says that over the past year, Great Smokies held about 20 conferences across the nation that attracted roughly 1,500 attendees. GSDL serves approximately 8,000 active physicians and other providers who order test kits from GSDL, collect samples from their patients, and then mail them to GSDL for testing.

The lab at GSDL is CLIA-licensed and the company employs about 235 people. GSDL generates revenue of more than $25 million per year and is jointly owned by the venture capital firms Navis Partners (Providence, RI) and Ferrer Freeman and Company (Greenwich, CT), and company management.

HILLARY MALLOW, president of **ProLab** (Fort Worth, TX), which is focused on the nursing home market, says her lab recently hired an employee whose sole job is to travel to nursing home clients and collect billing information in person. "We were getting so much resistance over the phone. This became a last resort for us," says Mallow. She says that adding this new position has been well worth it. For example, bad-debt writeoffs have been reduced from 16% to 5%.

Mallow purchased ProLab from a retiring owner in 1999. At the time of purchase, ProLab had five employees and about seven nursing home clients. Today, ProLab has 99 employees and 180 clients and serves a 50-mile radius around Dallas/Fort Worth. ProLab currently performs more than one million billable tests per year, according to Mallow.

Mallow attributes the growth to superior customer service that includes same-day turnaround for all clients. In addition, Mallow notes that she and her two partners—Holly Shields and Viva Pierson—are on site working side by side with employees everyday. This hands-on management style has helped create a tremendous amount of employee loyalty and dedication, according to Mallow.

Goals for 2003 include opening a second laboratory in a new geographic market in Texas (which Mallow would not reveal for competitive reasons), expansion of services to the home health market, and the introduction of an Internet-based system for test result reporting.

Cytyc Gets FDA Approvable Letter For Automated Pap System

The U.S. Food and Drug Administration (FDA) has issued to Cytyc Corp. (Boxborough, MA) an approvable letter for the company's ThinPrep Imaging System, an automated imaging and review system for use in routine primary screening of ThinPrep Pap Test slides.

An approvable letter usually represents the final step before a product receives FDA clearance for marketing in the United States. In its letter to Cytyc, the FDA stated that the premarket approval application for the ThinPrep Imaging System is approvable subject to the FDA's inspection of Cytyc's manufacturing facility.

Patrick Sullivan, chairman and CEO of Cytyc, tells *Laboratory Industry Report* that the system will increase cytotech productivity by 50% and will also raise reimbursement to labs. Under the 2003 Medicare Part B lab fee schedule, manual thin-layer Pap testing is reimbursed at $28.31 per slide. New CPT codes have been assigned for automated Pap testing, effective Jan. 1, 2003, with reimbursement of $29.85 [CPT code 88174, thin-layer prep with screening by automated system] and $37.01 [CPT 88175, thin-layer prep with screening by automated system and manual rescreening].

Medicare Reimbursement Levels For Thin-Layer Pap Testing

Diagnostic (CPT code)	*Screening (HCPCS code)*	*Descriptor*	*2003 Natl Cap*
88142	G0123	Thin layer prep, manual screening	$28.31
88174	G0144	Thin layer prep with screening by auto system, under physician supervision	$29.85
88175	G0145	Thin layer prep with screening by auto system and manual rescreening, under physician supervision	$37.01

Source: CMS

Sullivan says that while Cytyc is planning to hold pricing steady for manual ThinPrep [list price is $11.25 per kit], but will charge $3-$4 more [i.e., $13.25-$14.25] for ThinPrep testing done on the company's automated system. "This system is adding value, and we should earn a little more," says Sullivan.

The anticipated FDA clearance of Cytyc's ThinPrep Imaging System will come more than a year after its competitor TriPath Imaging (Burlington, NC) got approval for its automated Pap system. TriPath's AutoPap Primary Screening System was cleared by FDA to screen AutoCyte Prep thin-layer slide preparations in October 2001.

Lab Stocks Dip 2%, But AmeriPath and Impath Surge Ahead

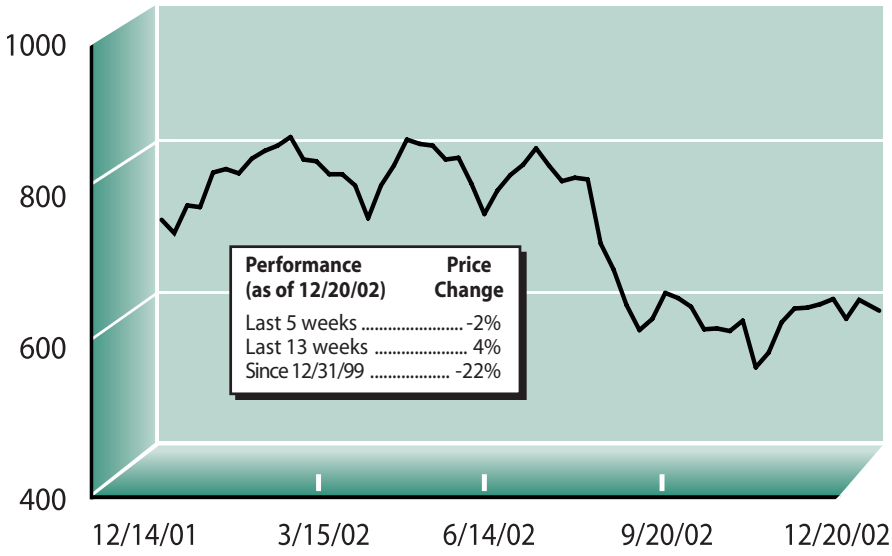
Stock prices for the 14 companies in the G-2 Laboratory Index moved down an unweighted average of 2% in the three weeks ended December 20, 2002, with nine stocks falling in price and five rising. So far this year, lab stocks have fallen 22%, while the S&P 500 is also down 22% and the Nasdaq is down 30%.

AmeriPath (Riviera Beach, FL) jumped 25% to $21.10 per share on news that the investment firm Welsh Carson (New York City) was taking over the company at a price of $21.25 per share (see story on p. 1). News of the AmeriPath deal helped push up shares of another publicly traded pathology company, **Impath** (New York City), which rose 17% to $19.48 per share for a market cap of $325 million.

Meanwhile, **Myriad Genetics** (Salt Lake City, UT) dropped 20% to $15.31 per share for a market cap of $412 million. The company recently hired Richard Marsh as vice president, general counsel and secretary. Myriad says that Marsh will lead the management of all the company's legal activities including intellectual property. Previously, Marsh served in various legal counsel positions at the computer technology firm Iomega Corp. (San Diego, CA).

The hiring of Marsh comes as the controversy over gene patents intensifies. Myriad's BRACAnalysis test for identifying women at higher risk for developing breast cancer is covered by nine U.S. patents and is priced at $2,580. Medical institutions and government health ministries in Europe and Canada are battling to block Myriad's patents, claiming that Myriad is exploiting a monopoly position at a cost to both research and patients. Note: For more on this topic, see *LIR*'s sister publication *Diagnostic Testing & Technology Report (September 2002 issue, p. 1).*

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, 3 weeks ended 12/20/02

UP	Price	% Chg
AmeriPath	$21.10	25
Bio-Reference	6.20	1
Dianon	47.46	2
Impath	19.48	17
Quest	57.30	3
DOWN		
Enzo Biochem	14.25	-2
LabCorp	22.85	-5
LabOne	17.84	-1
MDS	14.17	-4
Medtox	7.15	-14
Myriad	15.31	-20
PharmChem	0.28	-18
Specialty	9.20	-4
Unilab	19.04	-3

INDUSTRY buzz

LabCorp's agreement to buy Dianon has not been challenged by the Federal Trade Commission (FTC) and looks like the $598 million deal will be completed without a hitch in a matter of weeks. Interestingly, documents filed with the Securities and Exchange Commission show that Quest Diagnostics had offered to pay $56-$57 per share, or approximately $712 million, for Dianon. That's over $100 million more than LabCorp is paying.

But, as negotiations were taking place in the Fall of 2002, Quest informed Dianon that it was focused on other initiatives that precluded it from being able to execute a transaction with Dianon. In a November letter to Dianon, Quest stated that it would be prepared to have further discussions in a month. However, despite the more generous offer from Quest, Dianon was apparently in a big hurry to get a deal done and chose LabCorp instead. In its SEC filings, Dianon said it needed to get a deal done quickly because of coming Medicare reimbursement rate cuts, as well as an expected significant increase in Dianon's medical malpractice insurance premiums.

Undoubtedly, Quest's inability to hammer out a deal with the FTC regarding its plans to buy Unilab prevented the nation's largest lab from moving forward on a transaction with Dianon. And, the latest news from Quest is more of the same. In a Dec. 20 press release, Quest said it is continuing settlement discussions with the FTC regarding the proposed transaction. And, as previously reported (*see LIR, December 2002, p. 10*), Quest says that it is in discussions with a third party (rumored to be LabCorp) regarding the sale of certain assets in Northern California to address the FTC's concerns about the proposed transaction.

References in this issue

AmeriPath 561-845-1850

Bio-Reference Labs 201-791-2600

CompuNet Clinical Labs 800-686-2252

Cytyc Corp. 978-263-8000

Dianon 203-381-4000

Great Smokies Diagnostic Laboratory 800-522-4762

LabCorp 336-584-5171

Loyola University Hospital 708-216-3250

National Jewish Med & Research Ctr 800-550-6227

PharmChem, 817-605-5300

ProLab 817-293-7010

SED Medical Laboratories 800-999-5227

Specialty Laboratories 310-828-6543

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