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LABORATORY INDUSTRY REPORT®

Dennis W. Weissman, Publisher

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HIGHLIGHTS

Outlook For 2002: Volume Growth, Stable Prices, Greater Emphasis On Molecular Testing

As business gets underway in the New Year, *Laboratory Industry Report (LIR)* interviewed top executives at 11 large hospital and commercial labs for their insights on the outlook for the industry in 2002. Hospital execs say inpatient volume is growing in the 2-4% range, while commercial lab execs cite outpatient volume gains of 4-9%. Most labs report moderate reimbursement increases—or at least no further declines. Pharmaceutical firms appear to be benefiting most from the double-digit premium hikes that managed care companies are obtaining from employers.

Meanwhile, the largest commercial labs are seeking to lock up access to molecular testing technologies, either by acquiring niche esoteric testing labs or by signing exclusive marketing agreements with IVD manufacturers for new genetic tests. Hospital labs appear to be stepping up efforts to keep more specialty testing in-house. Tests frequently cited for addition to in-house menus include hereditary hemochromatosis gene analysis, Factor V Leiden and viral load testing for HIV and hepatitis C.

What potential roadblocks do these executives see to widespread use of new genetic tests? Reimbursement issues, lab workforce shortages, and the need for much greater education of physicians and consumers. For specific comments and opinions from the 11 top execs interviewed, see *Inside The Laboratory Industry*, pp. 3-9.

MDS Completes Agreement To Manage Duke Labs

After more than 18 months of negotiations, MDS Inc. (Toronto, Canada) has finalized a multi-year management services contract to consolidate and manage the laboratories at Duke University Health System (Durham, NC). Under the agreement, MDS will manage rapid response labs at Duke University Medical Center, Raleigh Community Hospital, and Durham Regional Hospital. Non-time-sensitive tests from the three hospitals will be managed by MDS at a new 40,000 square-foot lab facility in north Durham; esoteric testing will be consolidated at the DUMC campus.

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The Duke hospital laboratories currently employ a combined 552 full-time employees and perform 3.8 million billable tests annually. Under the management services agreement, Duke's laboratory employees will remain employed by Duke. Capital and resource allocation decisions for the labs will also remain under Duke's control. MDS will employ a small management team at Duke to oversee integration of laboratory testing and information services as well as day-to-day management at the Duke facilities. Duke and MDS are in the process of selecting a CEO for the new Duke-MDS Laboratories.

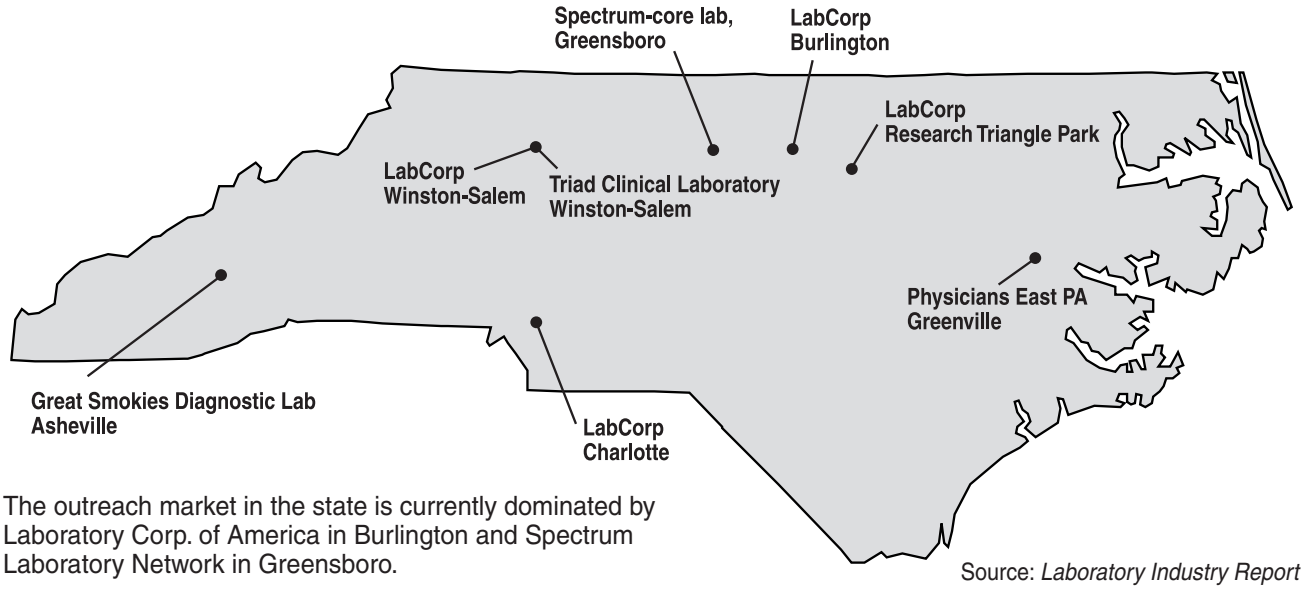
The Duke Laboratories

Facility	*Lab FTEs*	*Billable Test Volume*
Duke University Medical Center	441	2,800,000
Durham Regional Hospital	87	500,000
Raleigh Community Hospital	24	200,000
Physician offices/outpatient facilities	NA	300,000
Total	552	3,800,000

Paul Mountain, senior vice president of science and technology at the MDS diagnostic sector, says Duke-MDS Laboratories will also focus on introducing new esoteric assays being developed at the Duke University Medical Center and School of Medicine. He also sees opportunities for Duke-MDS to provide contract research organization services to pharmaceutical companies.

Duke does not currently operate an outreach program, but Duke and MDS have signed a letter of understanding to form a for-profit joint venture corporation to provide outreach services throughout the Raleigh-Durham area. Duke owns more than 20 primary care practices throughout this area. Kevin Sowers, associate vice president of hospital and clinical facilities for the Duke University Health System, says the planned outreach program will focus on servicing a 150-200 mile radius around Durham. Completion of the joint venture accord is expected within the next few weeks, he adds.

Major Commercial Lab Facilities In North Carolina



The outreach market in the state is currently dominated by Laboratory Corp. of America in Burlington and Spectrum Laboratory Network in Greensboro.

Source: *Laboratory Industry Report*

Outlook For Labs In 2002: *Top CEO Perspectives*

What's in store for the clinical laboratory industry this year? To get an informed forecast, we talked to top executives at 11 of the largest U.S. commercial and hospital laboratories. Here are highlights from our exclusive interviews:

Stephen Geller, MD, chairman of pathology at Cedars-Sinai Medical Center (Los Angeles), says his outreach lab and the hospital's pathology group are going into 2002 with successfully renegotiated contracts with several large managed care plans. Geller suggests that before beginning negotiations, labs survey what managed care plans are paying other hospital and commercial labs in their region. Cedars-Sinai never accepts any contract that pays below Medicare rates, Geller says. Labs in California need to get capitated contracts for clinical lab services at a minimum of $1.25-$1.30 (with significant exclusions) to break-even, he estimates. "HMOs are generally pretty reasonable when you have data that support your case for higher reimbursement, but be prepared to walk away from money-losing contracts."

Common initiatives cited by lab execs:

- *More negotiations with HMOs for higher reimbursement*
- *Expansion of molecular testing capabilities*
- *Continuing efforts to connect with physicians via the Internet*
- *More consolidation of smaller independent labs*
- *Greater efforts to promote the value of laboratory testing*

Geller says managed care companies will resist as long as possible before covering new, expensive genetic tests, "but inevitably they will pay for these services." He believes a lack of laboratory staff skilled in genetic testing may be a bigger obstacle to the spread of molecular diagnostics. The lab staffing shortage led Cedars-Sinai to reopen a School of Medical Technology in collaboration with California State University (Dominguez Hills Campus) that had been closed for five years. The enrolling class for September 2001 had two students; six have applied for the next school year.

Cedars-Sinai uses a number of reference labs, including Quest Diagnostics, Specialty Laboratories and ARUP Laboratories. Tests that Cedars-Sinai has recently brought in-house include testosterone, parathyroid hormone, Factor V Leiden, hepatitis C and HIV genotyping, and hemochromatosis gene analysis.

Geller says Cedars-Sinai has point-of-care (POC) testing devices for blood gas/electrolytes, coagulation and glucose monitoring throughout the hospital, including the operating rooms. The hospital plans to replace its 25-year-old pneumatic tube system with a modern tube system from Swisslog Translogic (Denver, CO) that should bring central lab turnaround time to speeds comparable to POC devices.

In other initiatives, Cedars-Sinai recently introduced Internet lab test order entry and results reporting for outreach clients. The product is made by LabPortal.com (Chantilly, VA). On the hospital side, Cedars-Sinai is installing a PCX system that will make clinical care almost paperless, with complete order entry and reporting functions.

Cedars-Sinai operates one of the largest hospital-based laboratories in California, employing 493 FTEs (including pathologists and house staff) and performing 3.3 million billable tests per year (40-45% from outpatient/outreach).

Kenneth Freeman, chairman of Quest Diagnostics (Teterboro, NJ), expects commercial labs to gradually increase their share of the overall laboratory testing

market over the next few years. "Many hospitals have begun questioning the economic value of their lab outreach programs." He believes that cash collection problems are often at the source of this trend.

Meanwhile, Freeman says, growth at commercial labs will be driven by increases in esoteric testing, especially gene-based testing. "Labs must stay current with the full range of new tests being developed, or risk getting left behind.... Gene-based tests could become the predominant form of testing in our lifetime."

Of Quest's overall $3.4 billion in revenue for 2000, roughly 12% ($400 million) was derived from esoteric testing. More than half of Quest's esoteric testing revenue comes from gene-based testing, which is growing in excess of 25% annually, according to Freeman.

To expand its gene-based testing business, Quest is seeking to work more closely with IVD manufacturers to commercialize their genomics-based tests, Freeman says. For example, Quest recently obtained exclusive rights from diaDexus Inc. (Santa Clara, CA) to commercialize genomics-based tests made by diaDexus for osteoporosis and colorectal cancer. Last October, Quest signed an agreement with Roche Diagnostics to collaborate on commercialization of genomics-based tests which may be developed from Roche's alliance with Decode Genetics (Reykjavik, Iceland) and other firms.

Another Quest initiative is connecting to hospital and physician office clients via the Internet. To enhance its own efforts, Quest acquired MedPlus (Cincinnati, OH) last November (*LIR, Nov.'01, p. 4*). MedPlus products include OptiMaxx, a document management system for patient records storage and retrieval; ChartMaxx, an electronic patient records system; and eMaxx, an Internet portal that allows office-based physicians to access comprehensive patient data via the Web.

Freeman points out, however, "The trend toward physician use of the Internet has been moving slower than anyone anticipated." But the new generation of physicians is more prone to adopt the Internet, he thinks. Internet products combining a broad menu of services (not just lab transactions) will gain the greatest use over time, he believes.

Direct-to-consumer testing is an emerging market that Freeman sees developing over the next 5-10 years. Last June, Quest officially launched its "QuestDirect" program under which consumers can walk into one of any 23 outlets that Quest has opened in Colorado, Utah, Missouri and Kansas and directly order lab tests (*LIR, July '01, pp. 5-7*). Educating consumers, many of whom have never seen their lab results, will be crucial to developing this market, he says. Quest will be using a number of venues to connect to consumers, he adds, including its new Internet site "QuesTest.com."

Overall, Freeman says Quest's long-term financial goals include revenue growth of 10% per year. He anticipates that annual volume growth will contribute 4-6%, price increases another 2-3%, and acquisitions 2-3%.

Laurence Demers, MD, director of clinical chemistry at Penn State Hershey Medical Center (Hershey, PA), says one roadblock to greater use of new molecular tests is limited knowledge of genetic testing among primary care physicians. "Many physicians don't have the foggiest idea how to pronounce or spell some of these tests, let alone interpret them."

Hershey Medical Center only performs a limited number of molecular tests in-house because of their high expense, Demers says.

Even so, Penn State is considering bringing Factor V Leiden, hepatitis C genotyping, hemochromatosis and cystic fibrosis tests in-house. Hershey uses a number of reference labs, including Genzyme Genetics, American Medical Laboratories and Genetics/IVF Institute (Fairfax, VA).

Demers says his lab has been slow to introduce POC testing to the hospital because of quality control concerns. In recent years, POC devices for glucose and blood gases have been introduced; placement and regulation are under the control of the lab. In addition, the lab employs two full-time medical technologists to oversee POC testing at all Hershey's 15+ physician practices.

The hospital has hired an individual devoted to renegotiating higher rates for all contracts with managed care companies and third-party payers, Demers says. "The competition of the 1990s lowered rates beyond insanity."

The lab at Hershey Medical Center employs 215 FTEs and performs 1.8 million billable tests per year, including 60-65% from outpatient/outreach sources. Hershey provides outreach testing to nearly all of the 600 physicians on its staff.

Thomas Mac Mahon, chairman of Laboratory Corp. of America (Burlington, NC), says LabCorp is installing PCR technology at more of its labs across the country. Some molecular tests, including hepatitis C and HIV viral load testing, are being decentralized to make room for anticipated increases in genetic testing for cystic fibrosis and colorectal cancer.

LabCorp "has a concentrated effort underway to commercialize molecular tests," Mac Mahon says. The company is adding new testing technologies by acquiring esoteric testing labs (for example, ViroMed in Minneapolis and National Genetics Institute in Los Angeles). LabCorp also has struck exclusive agreements to market molecular tests developed by Myriad Genetics (Salt Lake City, UT) and Exact Sciences (Maynard, MA). Mac Mahon notes that the cost of performing molecular testing is "escalating rather quickly," and LabCorp is seeking to exert more pressure on IVD manufacturers for better pricing.

Mac Mahon says LabCorp had been planning to consolidate its 24 major testing facilities into 22 facilities, but volume growth may require that all 24 remain in operation. In the nine months ended Sept. 30, 2001, LabCorp received 53.5 million accessions, up 7% from 50 million in the same period a year earlier.

For full-year 2002, Mac Mahon anticipates that LabCorp will increase its revenue by 11-12%, including 7-9% from volume growth and 2-4% from increases in average price per accession. Higher average pricing will come from client-side pricing increases, pre-negotiated annual price hikes from third-party payers and a mix shift toward more esoteric testing. Mac Mahon also notes that LabCorp is likely to complete several acquisitions this year which will add to the company's revenue growth as well.

Jay Schamberg, MD, general manager for ACL Laboratories (Chicago, IL and Milwaukee, WI), says ACL recently installed a reference lab interface between its two Sunquest systems. The goal is to keep more specialty tests within the network. Among the tests targeted: Factor V Leiden, electrophoresis, tuberculosis, virology and lead testing.

ACL Laboratories was formed in May 2000 when Advocate Health Care (Chicago) and Aurora Health Care (Milwaukee) signed a contract to combine their laboratory operations under a single management team in an effort to reduce costs and build outreach services in the Chicago area. ACL currently includes 22 hospital labs with core labs at

West Allis Memorial Hospital (West Allis, WI) and Lutheran General Hospital (Park Ridge, IL). ACL has a combined annual operating budget of $160 million, with 1,800 FTEs and 15 million billable tests annually.

ACL already has an established outreach business in the greater Milwaukee area that generated approximately $50 million in gross billings in 2001. Schamberg notes that days in accounts receivable for ACL's outreach business had been as high as 150 days in 1999 and 2000; this figure has been lowered to 82 days. Creating a management team focused on billing and collections, plus additional experience with a Sunquest/Antrim billing system installed in late 1999, made the difference.

In the Chicago area, ACL outreach efforts have recently been focused on establishing lab services with several large physician groups owned by Advocate, including Advocate Medical Group (260 physicians) and Dreyer Clinic (90 physicians). These groups were formerly served by Quest Diagnostics.

Schamberg's biggest concern about the laboratory industry is the trend toward licensing and exclusivity of new technologies. "My fear is that laboratory testing will start to resemble the patent-heavy pharmaceutical business and drive up the cost of care.

Robert Whalen, president of Unilab (Tarzana, CA), says his company is expanding into Arizona via the acquisition (effective Jan. 1, 2002) of a small commercial lab in Phoenix. Previously, Unilab had focused on the California market, where it operates three major testing facilities--in Tarzana (just north of Los Angeles), in San Jose and in Sacramento. Whalen says Arizona is an attractive market because it is contiguous to California and has a fast-growing population.

Unilab will also open a new retail-oriented laboratory facility in Beverly Hills in early 2002, Whalen says. It will offer direct access testing to patients. Depending on its success, Unilab would then open similar facilities in other parts of California (for more on this, see *LIR, Sept.'01, pp. 2-3*).

Unilab has achieved some success, Whalen notes, in securing payment (generally $3-$6 per blood draw) from fee-for-service health plans for phlebotomy services that it provides. Unilab is also looking into the collection of lab co-pays (generally $5-$20) from managed care members it serves. Many managed care companies have existing contracts with employers that call for collection of lab co-pays, Whalen points out, but these contract terms are rarely enforced.

Unilab is continuing its conversion from traditional Pap testing to Cytyc's ThinPrep system. Unilab performs approximately 1.5 million Pap tests per year, and 40% were done using ThinPrep as of Sept. 30, 2001.

Whalen says that Unilab, with expected revenue of roughly $391 million for 2001, is growing internally by roughly 9% per year, including 2-3% from price increases and 5-6% from volume growth. Acquisitions are pushing the company's annual revenue growth rate into the double digits.

David Kennedy, PhD, director of laboratories at Excell Clinical Laboratories (Boston, MA), is a major proponent of outreach testing. "Hospital labs need to get outside their four walls and compete with the commercial labs." Hospitals without successful outreach programs will face continuous pressure to cut staff and service, Kennedy believes, and won't have the volume needed to introduce the new genetic tests that are being developed. The key to business success in outreach includes effective billing, he stresses. "The amount of

money that labs don't get paid for because of ineffective billing is an atrocity." Excell outsourced its billing to Quadax Inc. (Cleveland, OH) about two years ago and has since seen a vast improvement in collections, according to Kennedy.

Excell is a not-for-profit reference lab owned by St. Elizabeth's Medical Center in Boston (400 inpatient beds). Excell, which employs 123 FTEs, operates on the campus of St. Elizabeth's with six patient service centers throughout the Boston area. Excell performs 1.2 million billable tests per year, including 42% from outpatient/outreach—primarily from physicians on staff at St. Elizabeth's. St. Elizabeth's is part of the Caritas Christi Health Care System (Boston), which includes five other hospitals in Massachusetts.

Kennedy says the six hospitals which are part of Caritas Christi are developing a test exchange program so that more esoteric tests are kept within the system instead of being sent to reference labs. Tests to be brought within the network include lead testing and molecular pathology testing. The whole Caritas Christi system recently selected Mayo Laboratories as its primary reference lab.

Growth in new molecular testing techniques could be limited by lack of reimbursement from Medicare and managed care, Kennedy believes. "There's a wide gap between the advances being made by laboratory scientists and the understanding and willingness on the part of payers to reimburse for new technologies. Laboratories must work much more prodigiously in terms of educating payers."

On the question of POC testing, Kennedy says, "It's unarguable that it is better for the patient, so we are very much moving in that direction." In particular, he notes that St. Elizabeth's Medical Center is implementing POC tests for pregnancy, blood in urine, white cells in stool, and influenza A and B in its emergency department to improve turnaround time and reduce crowding.

Howard Robin, MD, medical director for the clinical laboratory at Sharp Memorial Hospital (San Diego, CA), thinks much more education is needed about the benefits that lab testing offers: "Laboratorians need to get out of the lab and educate physicians and the public about the downstream healthcare benefits and savings that effective, appropriate laboratory testing can provide."

Robin, who is also medical director of the continuing professional education program at Sharp, says his institution regularly holds educational programs for its physicians, pharmacists and medical technologists to explain evidence-based test ordering for all areas of medicine. His team is developing a Web-based learning site for continuing laboratory education as an additional channel to ensure clear communication of these principles.

General lack of education and training on the part of physicians and patients regarding genetic testing could retard growth of this new market, Robin observes. Physicians may be reluctant to offer genetic tests, he explains, because doing so can require them to spend upwards of an hour with a patient to describe and explain the clinical and prognostic implications. More than 75% of primary care physicians in the San Diego area receive capitated payments and therefore are not reimbursed for their time spent counseling patients, he adds. According to Robin, widespread adoption of a new genetic test requires convincing evidence that it will improve patient outcomes, cut downstream costs and respond to public demand.

Despite the double-digit premium hikes that HMOs have gained over each of the past few years, very little has been passed on to

laboratories in the form of higher reimbursement, Robin contends. Some of the larger commercial labs doing business in California, he notes, continue to sign capitated contracts that pay as low as $0.60 per member per month for clinical lab services. Robin says his lab is continually looking for esoteric assays that it can economically bring in-house to improve patient care. Recent additions to the test menu: genetic tests for thrombophilia, including Factor V Leiden, MTHFR, and Prothrombin 20210A. Effective Jan. 28, 2002, Sharp will switch its reference lab from Quest Diagnostics to ARUP Laboratories. "ARUP may be out of town, but it is a truly quality organization run by committed pathologists who understand the needs of hospital laboratories and their physician clients."

Sharp is evaluating Quantech's FasTraq POC instrument for use in the hospital's extremely busy emergency department, Robin says. Quantech (based in St. Paul, MN) expects to have clearance for the instrument from the Food & Drug Administration by the end of 2002, plus approximately 20 stat tests (including cardiac markers, pregnancy testing, hematology testing, electrolytes, liver, pancreas and kidney function assays). FasTraq analyzes samples directly from whole blood and provides results in 3-15 minutes with a direct link to the ordering physician. "I am especially intrigued with this point-of-care instrument because of its broad menu, unique analytical technology and 'slick' post-analytic reporting mechanism," Robin says.

The laboratory at Sharp has 236 FTEs and performs approximately 854,000 billable tests per year (720,000 clinical/134,000 anatomic pathology). Almost 25% of the volume comes from outpatient/outreach, including testing for other Sharp hospitals and Sharp-affiliated medical group laboratories.

Kevin Johnson, chairman of Dianon Systems (Stratford, CT), believes that anatomic pathology labs have a head start in attracting any new work that will result from anticipated advances in molecular cancer diagnostics. "We already have established relationships with physician offices to perform traditional AP work, so it will be easy enough for us to do any additional genetic testing needed on the tissue samples we receive." Genetic testing currently accounts for about 15% of Dianon's overall revenue, he says, but is growing by more than 35% annually.

Dianon closed on its acquisition of UroCor (Oklahoma City) on Nov. 9, 2001. Dianon paid $190 million in stock for UroCor, which generates approximately $60 million in annual revenue. Johnson says the acquisition expands Dianon's business in the high-margin urology segment of the market. Dianon and UroCor each serve approximately 2,500 urologists with very little customer overlap.

Johnson says UroCor's laboratory will remain open in Oklahoma City, but all administrative and accounts-receivable functions will be consolidated at Dianon's corporate headquarters in Connecticut. In the end, Dianon will trim the combined company workforce from 1,200 employees to 1,000, according to Johnson. Cost savings from the cutbacks will amount to roughly $10 million in 2002.

The combined company has 70 direct-to-physician sales personnel (50 from Dianon, 20 from UroCor). Johnson says the UroCor laboratory and sales team are expanding services beyond urology disorders to include dermatology, gastroenterology, oncology and obstetrics-gynecology.

Dianon anticipates that it generated more than $115 million of revenue in 2001. Revenue is expected to grow by better than 60%

to $185-$190 million in 2002 from tests on about two million patient samples, according to Johnson.

Gary Roecker, administrator for Regional Medical Laboratories (Battle Creek, MI), says RML's #1 priority in 2002 is to reduce labor costs.

Recent initiatives have included interfacing RML's billing and laboratory information systems and installing a document imaging system to archive test requisition and Explanation of Benefits data. There also is an aggressive program to audit and reduce overtime. And future plans call for installing a pneumatic tube system to connect RML's rapid response lab to its central lab.

RML is working to corral more send-out tests in-house. Over the past year, RML has added insulin, Her-2/neu and high-sensitivity CRP to its in-house menu. RML's primary reference lab is Quest Diagnostics and secondarily Warde Laboratories (Ann Arbor, MI).

In general, Roecker believes that the market for the wave of new genetic tests being developed by the laboratory industry will be constrained by tight reimbursement policies on the part of Medicare and managed care. As Roecker pointly notes: "It took an act of Congress to get adequate reimbursement for Pap smears and [coverage for] thin-layer technology."

Recruiting medical technologists continues to be a challenge, Roecker acknowledges. "There simply aren't enough of them out there." As a result, RML is hiring biology and chemistry BS graduates without specific laboratory training, then giving them on-the-job training and tuition assistance for a medical lab technician program at nearby Kellogg Community College.

Roecker says RML is weighing options for Internet-based lab test ordering and results reporting, but concedes that persuading physician clients to use the Internet may be an uphill battle.

RML is a for-profit independent lab with 170 FTEs and about $12 million in annual revenue. It is owned by local pathologists and the Battle Creek Health System. RML operates a central lab which performs roughly 800,000 billable tests per year—primarily for physicians in southwestern Michigan who are affiliated with BCHS.

Test volume is growing by about 1-2% per year, according to Roecker. RML also manages a rapid-response lab on the campus of BCHS and a smaller lab at an on-campus oncology clinic.

Jerry Murphy, president of Gamma Healthcare Corp. (Poplar Bluff, MO), says his company will open a new 28,000 square-foot lab in Poplar Bluff (located in southeast Missouri) this August. The new facility will be double the size of Gamma's existing lab in Poplar Bluff and will offer direct access testing to walk-in patients.

Gamma is a privately held company that operates three labs in Missouri and a fourth in Memphis, TN. Gamma employs 120 FTEs and performs about two million billable tests per year.

The company currently gets about 80% of its business from nursing home clients, but Murphy is seeking to expand work for physician offices.

Gamma has deals underway to assume management of laboratories at several large physician groups in Missouri. "Some physicians have decided that the revenue generated from their office labs is not worth the headache."

Test menu expansion is another initiative, including addition of hepatitis C viral loads and hepatitis panel tests.

Physician Fee Schedule Changes Favor Independent AP Labs

Commercial labs and pathologists who own their own anatomic laboratories are enjoying their third straight year of increased Medicare reimbursement, as a result of outsized increases in technical fee reimbursement for seven of the most commonly performed anatomic pathology procedures under the Medicare physician fee schedule for 2002. In contrast, hospital-based pathologists who bill only for the professional component will see Medicare fee declines ranging from 0.5% to 15.6% for the same seven common procedures (*see table below*).

The conversion factor for the 2002 Medicare physician fee schedule has been lowered by 5.4% from that set for 2001 (38.2581) down to 36.1992 (though legislation is pending in Congress to limit the CF reduction to –0.9%). However, upward changes in relative value units for the technical component of commonly billed anatomic pathology procedures means that independent labs are getting a net increase in global reimbursement from Medicare in 2002.

The most commonly billed CPT code for anatomic pathology is 88305, which represents more than half the total billable volume and allowed charges paid by Medicare for anatomic pathology services. The global fee for 88305 (unadjusted for geography) has been raised 5.7% to $93.39 in 2002, with the professional component lowered by 8.7% to $40.54 and the technical component raised by 20.1% to $52.85.

The same type of dynamic has occurred with other commonly billed CPT codes for anatomic pathology, including 88307 (professional fee down 5.0%; technical fee up 21.7%) and 88342 (professional fee down 3.9%; technical fee up 23.8%).

Medicare Reimbursement For Common Anatomic Pathology Procedures

		2002 Fees			*% Change From 2001*		
Code	*Procedure*	*Prof.*	*Tech.*	*Global*	*Prof.*	*Tech.*	*Global*
88305	Gross & Micro, Level IV	$40.54	$52.85	$93.39	-8.7	20.1	5.7
88307	Gross & Micro, Level V	86.52	73.12	159.64	-5.0	21.7	5.6
88342	Immunocytochemistry	45.97	38.37	84.34	-3.9	23.8	7.0
88304	Gross & Micro, Level III	11.95	31.49	43.44	-15.6	17.6	6.1
88312	Special Stains, Microorg	29.32	52.49	81.81	-0.5	29.4	16.9
88313	Special Stains, Others	13.03	49.59	62.62	-5.4	64.1	42.3
88346	Immunofluorescent Study	46.33	30.05	76.38	-3.1	-1.8	-2.6

Note: Fees above are "pure" fees, unadjusted for geographic practice cost differences.
Source: *LIR* from *Federal Register*, November 1, 2001

Impath To Acquire Tamtron Corp.

Impath (New York City) has agreed to acquire Tamtron Corp. (San Jose, CA) for an undisclosed amount in a deal expected to close by early February. Tamtron's flagship product, PowerPath, is an information management software system for anatomic pathology practices. PowerPath's customer base nationwide includes 350 hospitals and laboratories processing more than five million cases per year. Tamtron has 55 employees and generates annual revenue of approximately $10 million.

Lab Stocks Rise 35% In 2001, Beat S&P 500 For 3rd Straight Year

The 15 stocks in the G-2 Laboratory Index climbed an unweighted average of 35% in the 52 weeks ended Dec. 31, 2001, with nine stocks ending the year higher in price and six declining. In comparison, the S&P 500 was down 13% in 2001 and the Nasdaq was down 21%. The gains made by lab stocks last year mark their third straight year of outperformance, following a 155% gain in 2000 and a 105% gain in 1999.

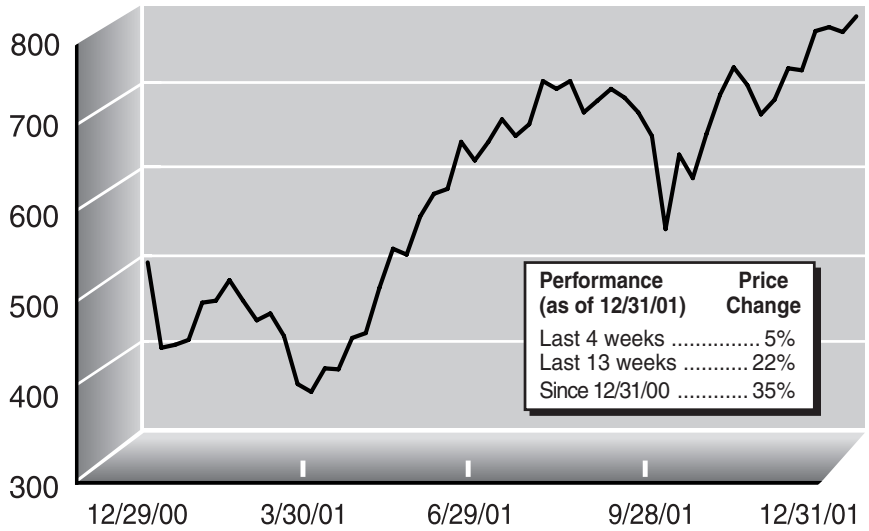
Bio-Reference Labs (Elmwood Park, NJ) was the best performing lab stock in 2001. Its shares rose 221% to $6.02 per share, giving the company a market capitalization of about $76 million. Despite the gain, Bio-Reference still trades at less than one times its annual revenue of $84.7 million (based on annualized results for the quarter ended July 31, 2001).

Lab*One* (Lenexa, KS) was the next best-performing lab stock, with a 168% price gain to $15.40 per share for a market capitalization of $177.1 million. Despite the gain, Lab*One* still trades at less than one times its annual revenue of $232.9 million (based on annualized results for the quarter ended Sept. 30, 2001).

The worst performing lab stock last year was **PharmChem** (Haltom City, TX), which declined 70% to $0.95 per share for a market capitalization of $5.6 million. The company suffered from costs associated with relocation of its headquarters and main laboratory from California to Texas. PharmChem currently trades at one-tenth its annual revenue of $46.4 million.

Quest Diagnostics (Teterboro, NJ) was up 1% to $71.71 per share for a market capitalization of $7.03 billion, or 1.9 times annual revenue of $3.61 billion. **Laboratory Corp. of America** (Burlington, NC) fell 8% to $80.85 per share for a market cap of $5.71 billion, or 2.5 times annual revenue of $2.24 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 of 15 laboratory testing service stocks.

% price change, 52 weeks ended 12/31/01

UP	Price	% Chg
AmeriPath	$32.26	26
Bio-Reference	6.02	221
Dianon	60.80	39
Dynacare	16.89	55
Lab*One*	15.40	168
Medtox	11.30	97
Unilab	25.10	9
UroCor*	16.90	93
Quest	71.71	1
DOWN		
Impath	44.51	-33
LabCorp	80.85	-8
MDS	11.90	-18
Myriad	52.64	-36
PharmChem	0.95	-70
Specialty	27.49	-17

*UroCor was acquired by Dianon in Nov. 2001. Reported price change is for the period 12/31/00 to 11/9/01.

INDUSTRY buzz

The January 2002 issue of *LIR's* sister publication, *Diagnostic Testing & Technology Report (DTTR)*, featured forward-looking interviews with top executives at 10 leading IVD manufacturing companies serving the clinical laboratory industry. Below are key perspectives gleaned from our talk with **Heino von Prondzynski**, head of the diagnostics division at Roche (Basel, Switzerland), the world's largest IVD company with $4+ billion in annual revenue.

For a free sample of the Jan. issue of DTTR *presenting interviews with leading IVD executives, call 202-789-1034*

von Prondzynski believes that molecular diagnostics will increasingly be linked to the introduction of pharmaceutical products tailored to individual patients. "Diagnostic tools will be used to avoid useless treatments and reduce adverse drug events." He cites Her-2/neu assays, used to determine Herceptin treatment for breast cancer patients, as the model for future pharmacogenomics products. "Reimbursement for this test was never an issue. The reimbursement for molecular tests will be there, and it may be quite large," he predicts.

In terms of point-of-care testing, von Prondzynski believes that POC testing for coagulation will accelerate over the next 12 months due to reimbursement changes in the U.S. and Europe. Over the next 5-10 years, he expects that POC testing advances which allow patients to self-monitor cancer therapies could become a bigger market than glucose monitoring (nearly $4 billion per year worldwide today).

Correction: In our previous issue (*Dec. '01, table on p. 3*), Unilab's cost of service (9 mos. Ended 9/30/01) was inaccurately reported. The correct figure is $173.06 million, indicating that the cost of service as a percentage of revenue is 59%, with an average cost of service of $15.88 per accession and $6.90 per billable test.

References in this issue

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